

CANADIAN NATIONAL RAILWAY CO  
Form 6-K  
April 23, 2012

FORM 6-K  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16  
of the Securities Exchange Act of 1934

For the month of April, 2012

Commission File Number: 001-02413

Canadian National Railway Company  
(Translation of registrant's name into English)

935 de la Gauchetiere Street West  
Montreal, Quebec  
Canada H3B 2M9  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes  No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes  No

Indicate by check mark whether by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A



Canadian National Railway Company

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Item

1. News Release dated April 23, 2012 entitled, "CN reports Q1-2012 net income of C\$775 million, or C\$1.75 per diluted share"

"Excluding gain on sale of rail line segments, adjusted Q1-2012 net income was C\$523 million, or C\$1.18 per diluted share (1)"

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Item 1

North America's Railroad

NEWS RELEASE

CN reports Q1-2012 net income of C\$775 million,  
or C\$1.75 per diluted share

Excluding gain on sale of rail line segments, adjusted Q1-2012 net income  
was C\$523 million, or C\$1.18 per diluted share (1)

MONTREAL, April 23, 2012 — CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the first quarter ended March 31, 2012.

First-quarter 2012 highlights

- Net income for the first quarter of 2012 was C\$775 million, or C\$1.75 per diluted share, versus first-quarter 2011 net income of C\$668 million, or C\$1.45 per diluted share. The first-quarter 2012 results included an after-tax gain of C\$252 million, or C\$0.57 per diluted share, and the first quarter of 2011 included an after-tax gain of C\$254 million, or C\$0.55 per diluted share, from the sale of rail line segments in the Toronto area to a public transit agency.
- Excluding the gain on the sale of the rail line segments, adjusted diluted earnings per share (EPS) for first-quarter 2012 was C\$1.18, an increase of 31 per cent over adjusted diluted EPS of C\$0.90 for the same period of 2011. (1)
- Revenues increased 13 per cent to C\$2,346 million, while revenue ton-miles rose six per cent and carloadings increased five per cent.
  - Operating income increased 23 per cent to C\$793 million.
- The operating ratio was 66.2 per cent, a 2.8-point improvement over the year-earlier first-quarter performance of 69.0 per cent.
- Free cash flow was C\$48 million, reflecting the impact of Q1-2012 voluntary pension plan contributions totalling C\$450 million, compared with free cash flow of C\$445 million for the same quarter of 2011. (1)

Claude Mongeau, president and chief executive officer, said: "While CN benefited from a milder winter and improving economic conditions, our very solid first-quarter results underscore that our strategy is working. The CN team executed well on all key fronts, delivering high-quality service while handling solid volume growth at low incremental cost.

"CN's commitment to operational and service excellence is the core driver of our strategy. It allows us to offer a more valuable transportation product that improves the supply chains we serve and helps our customers compete more effectively in their own markets."

Revised 2012 financial outlook (2)

CN's strong first-quarter results and assumption of continued improvement in economic conditions have prompted a positive revision to the Company's 2012 financial outlook, first issued on Jan. 24, 2012.

Under its revised 2012 outlook, CN is aiming to:

- Deliver a full 10 per cent growth in diluted EPS, on an adjusted basis, over diluted EPS of C\$4.84 in 2011 despite significant headwinds from additional pension expense of approximately C\$100 million versus 2011. This compares with CN's prior 2012 diluted EPS growth forecast of up to 10 per cent, including headwinds from additional pension expense of approximately C\$120 million.
- Generate free cash flow of approximately C\$950 million, compared with the previous guidance in the order of C\$875 million. (1)

Mongeau said: "We believe our solid first-quarter performance and our clear focus on helping our customers succeed position us well to achieve this improved financial outlook for the year."

Foreign currency impact on results

Although CN reports its earnings in Canadian dollars, a large portion of its revenues and expenses is denominated in U.S. dollars. As such, the Company's results are affected by exchange-rate fluctuations. On a constant currency basis that excludes the impact of fluctuations in foreign currency exchange rates, CN's first-quarter 2012 net income would have been lower by C\$4 million, or C\$0.01 per diluted share. (1)

First-quarter 2012 revenues, traffic volumes and expenses

The 13 per cent rise in first-quarter revenues mainly resulted from higher freight volumes, due in part to continuing improvements in North American and global economies, a milder winter, as well as the Company's performance above market conditions in a number of segments; the impact of a higher fuel surcharge resulting from year-over-year increases in applicable fuel prices and higher volumes; and freight rate increases.

Revenues increased for metals and minerals (31 per cent), coal (18 per cent), intermodal (17 per cent), petroleum and chemicals (15 per cent), automotive (13 per cent), and forest products (10 per cent). Grain and fertilizer revenues declined two per cent.

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, increased six per cent from the year-earlier period.

Rail freight revenue per revenue ton-mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, increased six per cent over the first quarter of 2011, driven by the impact of a higher fuel surcharge and freight rate increases, partly offset by an increase in the average length of haul.

Operating expenses for the first quarter increased by eight per cent to C\$1,553 million, mainly due to higher fuel costs as well as labor and fringe benefits expense. These factors were partly offset by lower casualty and other expense.

- (1) See discussion and reconciliation of non-GAAP adjusted performance-measures in the attached supplementary schedule, Non-GAAP Measures.
- (2) See Forward-Looking Statements for a summary of the key assumptions and risks regarding CN's 2012 outlook.

#### Forward-Looking Statements

Certain information included in this news release constitutes "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and under Canadian securities laws. CN cautions that, by their nature, these forward-looking statements involve risks, uncertainties and assumptions. The Company cautions that its assumptions may not materialize and that current economic conditions render such assumptions, although reasonable at the time they were made, subject to greater uncertainty. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Company or the rail industry to be materially different from the outlook or any future results or performance implied by such statements. To the extent that CN has provided guidance that are non-GAAP financial measures, the Company may not be able to provide a reconciliation to the GAAP measures, due to unknown variables and uncertainty related to future results. Key assumptions used in determining forward-looking information are set forth below.

#### Key assumptions

CN, as referenced earlier in this news release, is revising the 2012 financial outlook that was first issued on Jan. 24, 2012, in a news release announcing the Company's fourth-quarter and full-year 2011 financial results.

#### Current assumptions

CN's revised 2012 financial outlook is based on a number of economic and market assumptions. The Company is forecasting that North American industrial production for 2012 will increase by about 3.5 per cent (up from three per cent previously forecast). CN also expects U.S. housing starts to be approximately 750,000 units (compared with 700,000 units) and U.S. motor vehicles sales to be approximately 14.5 million units (up from 13.5 million units) for the year. In addition, CN is assuming the 2012/2013 grain crops in both Canada and the U.S. will be in line with five-year averages. With respect to the 2011/2012 crop, U.S. corn and soybean production is projected to be slightly below -- and exports are projected to be significantly below -- the prior year's crop. Canadian 2011/2012 grain production and export forecasts are projected to be moderately above the prior year's crop. With the assumptions above, CN also assumes carload growth in the mid-single digit range, along with continued pricing improvement above inflation. CN assumes the Canadian-U.S. exchange rate to be around parity for 2012, and that the price of crude oil (West Texas Intermediate) for the year to be in the range of US\$100 per barrel. In 2012, CN plans to invest approximately C\$1.8 billion in capital programs (up from C\$1.75 billion), of which more than C\$1 billion will be targeted on track infrastructure to maintain a safe and fluid railway network. In addition, the Company will invest in projects to support a number of productivity and growth initiatives.

#### Prior assumptions (as of Jan. 24, 2012)

The Company forecast that North American industrial production for 2012 would increase by about three per cent. CN also expected U.S. housing starts to be approximately 700,000 units and U.S. motor vehicles sales to be approximately 13.5 million units for the year. In addition, CN assumed the 2012/2013 grain crops in both Canada and the U.S. would be in line with five-year averages. With respect to the 2011/2012 crop, CN stated that U.S. corn and soybean production was slightly below -- and exports were projected to be significantly below -- the prior year's crop. Canadian 2011/2012 grain production and export forecasts were moderately above the prior year's crop. With the assumptions above, CN also assumed carload growth in the mid-single digit range, along with continued pricing improvement

above inflation. CN assumed the Canadian-U.S. exchange rate would be around parity for 2012, and that the price of crude oil (West Texas Intermediate) for the year would be in the range of US\$100 per barrel. In 2012, CN said it planned to invest approximately C\$1.75 billion in capital programs, of which more than C\$1 billion would be targeted on track infrastructure to maintain a safe and fluid railway network. In addition, the Company said it planned to invest in projects to support a number of productivity and growth initiatives.

Important risk factors that could affect the forward-looking statements include, but are not limited to, the effects of general economic and business conditions, industry competition, inflation, currency and interest rate fluctuations, changes in fuel prices, legislative and/or regulatory developments, compliance with environmental laws and regulations, actions by regulators, various events which could disrupt operations, including natural events such as severe weather, droughts, floods and earthquakes, labor negotiations and disruptions, environmental claims, uncertainties of investigations, proceedings or other types of claims and litigation, risks and liabilities arising from derailments, and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the United States. Reference should be made to “Management’s Discussion and Analysis” in CN’s annual and interim reports, Annual Information Form and Form 40-F filed with Canadian and U.S. securities regulators, available on CN’s website, for a summary of major risk factors.

CN assumes no obligation to update or revise forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs, unless required by applicable Canadian securities laws. In the event CN does update any forward-looking statement, no inference should be made that CN will make additional updates with respect to that statement, related matters, or any other forward-looking statement.

CN – Canadian National Railway Company and its operating railway subsidiaries – spans Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico, serving the ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans, and Mobile, Ala., and the key metropolitan areas of Toronto, Buffalo, Chicago, Detroit, Duluth, Minn./Superior, Wis., Green Bay, Wis., Minneapolis/St. Paul, Memphis, and Jackson, Miss., with connections to all points in North America. For more information on CN, visit the Company’s website at [www.cn.ca](http://www.cn.ca).

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CANADIAN NATIONAL RAILWAY COMPANY  
CONSOLIDATED STATEMENT OF INCOME (U.S. GAAP) - unaudited  
(In millions, except per share data)

|                                   | Three months ended<br>March 31 |          |
|-----------------------------------|--------------------------------|----------|
|                                   | 2012                           | 2011     |
| Revenues                          | \$ 2,346                       | \$ 2,084 |
| Operating expenses                |                                |          |
| Labor and fringe benefits         | 509                            | 473      |
| Purchased services and material   | 299                            | 286      |
| Fuel                              | 376                            | 327      |
| Depreciation and amortization     | 230                            | 218      |
| Equipment rents                   | 62                             | 51       |
| Casualty and other                | 77                             | 84       |
| Total operating expenses          | 1,553                          | 1,439    |
| Operating income                  | 793                            | 645      |
| Interest expense                  | (86)                           | (86)     |
| Other income (Note 3)             | 293                            | 300      |
| Income before income taxes        | 1,000                          | 859      |
| Income tax expense                | (225)                          | (191)    |
| Net income                        | \$ 775                         | \$ 668   |
| Earnings per share (Note 9)       |                                |          |
| Basic                             | \$ 1.76                        | \$ 1.46  |
| Diluted                           | \$ 1.75                        | \$ 1.45  |
| Weighted-average number of shares |                                |          |
| Basic                             | 441.0                          | 458.3    |
| Diluted                           | 443.5                          | 461.8    |

See accompanying notes to unaudited consolidated financial statements.

CANADIAN NATIONAL RAILWAY COMPANY  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (U.S. GAAP) - unaudited  
(In millions)

|  | Three months<br>ended March 31 |        |
|--|--------------------------------|--------|
|  | 2012                           | 2011   |
| Net income   | \$ 775                         | \$ 668 |
| Other comprehensive income (loss)  |                                |        |
| Foreign exchange gain (loss) on:   |                                |        |
| Translation of the net investment in foreign operations                              | (117)                          | (147)  |
| Translation of US dollar-denominated long-term debt<br>designated as                 |                                |        |
| a hedge of the net investment in U.S.<br>subsidiaries                                | 112                            | 140    |
| Pension and other postretirement benefit plans (Note 6)                              |                                |        |
| Amortization of net actuarial loss included in net periodic benefit cost<br>(income) | 31                             | 2      |
| Amortization of prior service cost included in net periodic<br>benefit cost (income) | 2                              | -      |
| Derivative instruments   | -                              | (1)    |
| Other comprehensive income (loss) before income taxes                                | 28                             | (6)    |
| Income tax expense   | (23)                           | (21)   |
| Other comprehensive income (loss)  | 5                              | (27)   |
| Comprehensive income   | \$ 780                         | \$ 641 |

See accompanying notes to unaudited consolidated financial statements.

CANADIAN NATIONAL RAILWAY COMPANY  
CONSOLIDATED BALANCE SHEET (U.S. GAAP) - unaudited  
(In millions)

|  | March 31<br>2012 | December 31<br>2011 | March 31<br>2011 |
|--|------------------|---------------------|------------------|
| Assets   |                  |                     |                  |
| Current assets:  |                  |                     |                  |
| Cash and cash equivalents  | \$ 182           | \$ 101              | \$ 593           |
| Restricted cash and cash equivalents<br>(Note 4)                     | 499              | 499                 | -                |
| Accounts receivable  | 769              | 820                 | 770              |
| Material and supplies  | 261              | 201                 | 228              |
| Deferred and receivable income taxes                                 | 80               | 122                 | 50               |
| Other  | 102              | 105                 | 73               |
| Total current assets   | 1,893            | 1,848               | 1,714            |
| Properties   | 23,681           | 23,917              | 22,677           |
| Intangible and other assets  | 299              | 261                 | 821              |
| Total assets   | \$ 25,873        | \$ 26,026           | \$ 25,212        |
| Liabilities and shareholders' equity                                 |                  |                     |                  |
| Current liabilities:   |                  |                     |                  |
| Accounts payable and other   | \$ 1,342         | \$ 1,580            | \$ 1,341         |
| Current portion of long-term debt (Note<br>4)                        | 895              | 135                 | 474              |
| Total current liabilities  | 2,237            | 1,715               | 1,815            |
| Deferred income taxes  | 5,494            | 5,333               | 5,201            |
| Pension and other postretirement benefits,<br>net of current portion | 569              | 1,095               | 508              |
| Other liabilities and deferred credits                               | 683              | 762                 | 779              |
| Long-term debt   | 5,892            | 6,441               | 5,451            |
| Shareholders' equity:  |                  |                     |                  |
| Common shares  | 4,153            | 4,141               | 4,228            |
| Accumulated other comprehensive loss                                 | (2,834)          | (2,839)             | (1,736)          |
| Retained earnings  | 9,679            | 9,378               | 8,966            |
| Total shareholders' equity   | 10,998           | 10,680              | 11,458           |
| Total liabilities and shareholders' equity                           | \$ 25,873        | \$ 26,026           | \$ 25,212        |

See accompanying notes to unaudited consolidated financial statements.



CANADIAN NATIONAL RAILWAY COMPANY  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (U.S. GAAP) -  
unaudited  
(In millions)

|                                      | Three months ended<br>March 31 |            |
|--------------------------------------|--------------------------------|------------|
|                                      | 2012                           | 2011       |
| Common shares (1)                    |                                |            |
| Balance, beginning of period         | \$ 4,141                       | \$ 4,252   |
| Stock options exercised and other    | 56                             | 22         |
| Share repurchase programs (Note 4)   | (44)                           | (46)       |
| Balance, end of period               | \$ 4,153                       | \$ 4,228   |
| Accumulated other comprehensive loss |                                |            |
| Balance, beginning of period         | \$ (2,839)                     | \$ (1,709) |
| Other comprehensive income (loss)    | 5                              | (27)       |
| Balance, end of period               | \$ (2,834)                     | \$ (1,736) |
| Retained earnings                    |                                |            |
| Balance, beginning of period         | \$ 9,378                       | \$ 8,741   |
| Net income                           | 775                            | 668        |
| Share repurchase programs (Note 4)   | (309)                          | (294)      |
| Dividends                            | (165)                          | (149)      |
| Balance, end of period               | \$ 9,679                       | \$ 8,966   |

See accompanying notes to unaudited consolidated financial statements.

- (1) During the three months ended March 31, 2012, the Company issued 1.3 million common shares as a result of stock options exercised and repurchased 4.7 million common shares under its current share repurchase program. At March 31, 2012, the Company had 438.7 million common shares outstanding.

CANADIAN NATIONAL RAILWAY COMPANY  
CONSOLIDATED STATEMENT OF CASH FLOWS (U.S. GAAP) - unaudited  
(In millions)

|  | Three months ended<br>March 31 |          |
|--|--------------------------------|----------|
|  | 2012                           | 2011     |
| Operating activities   |                                |          |
| Net income   | \$ 775                         | \$ 668   |
| Adjustments to reconcile net income to net cash provided<br>by operating activities:                   |                                |          |
| Depreciation and amortization  | 230                            | 218      |
| Deferred income taxes  | 194                            | 104      |
| Gain on disposal of property (Note 3)  | (281)                          | (288)    |
| Changes in operating assets and liabilities:   |                                |          |
| Accounts receivable  | 44                             | (18)     |
| Material and supplies  | (61)                           | (19)     |
| Accounts payable and other   | (200)                          | (64)     |
| Other current assets   | (30)                           | (10)     |
| Pensions and other, net  | (546)                          | (92)     |
| Net cash provided by operating activities  | 125                            | 499      |
| Investing activities   |                                |          |
| Property additions   | (224)                          | (220)    |
| Disposal of property (Note 3)  | 311                            | 299      |
| Other, net   | 2                              | 14       |
| Net cash provided by investing activities  | 89                             | 93       |
| Financing activities   |                                |          |
| Issuance of debt (Note 4)  | 1,077                          | -        |
| Repayment of debt  | (745)                          | (22)     |
| Issuance of common shares due to exercise of stock<br>options and related excess tax benefits realized | 54                             | 20       |
| Repurchase of common shares (Note 4)   | (353)                          | (340)    |
| Dividends paid   | (165)                          | (149)    |
| Net cash used in financing activities  | (132)                          | (491)    |
| Effect of foreign exchange fluctuations on US<br>dollar-denominated cash and cash equivalents          | (1)                            | 2        |
| Net increase in cash and cash equivalents  | 81                             | 103      |
| Cash and cash equivalents, beginning of period   | 101                            | 490      |
| Cash and cash equivalents, end of period   | \$ 182                         | \$ 593   |
| Supplemental cash flow information   |                                |          |
| Net cash receipts from customers and other   | \$ 2,379                       | \$ 2,105 |
| Net cash payments for:   |                                |          |
| Employee services, suppliers and other expenses  | (1,534)                        | (1,271)  |
| Interest   | (110)                          | (87)     |
| Personal injury and other claims   | (30)                           | (17)     |
| Pensions (Note 6)  | (553)                          | (93)     |

|   |    |      |    |       |
|---|----|------|----|-------|
| Income taxes                              |    | (27) |    | (138) |
| Net cash provided by operating activities | \$ | 125  | \$ | 499   |

See accompanying notes to unaudited consolidated financial statements.

CANADIAN NATIONAL RAILWAY COMPANY  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

Note 1 - Basis of presentation

In management's opinion, the accompanying unaudited Interim Consolidated Financial Statements and Notes thereto, expressed in Canadian dollars, and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial statements, contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Canadian National Railway Company's (the Company) financial position as at March 31, 2012, December 31, 2011 and March 31, 2011, and its results of operations, changes in shareholders' equity and cash flows for the three months ended March 31, 2012 and 2011.

These unaudited Interim Consolidated Financial Statements and Notes thereto have been prepared using accounting policies consistent with those used in preparing the Company's 2011 Annual Consolidated Financial Statements. While management believes that the disclosures presented are adequate to make the information not misleading, these unaudited Interim Consolidated Financial Statements and Notes thereto should be read in conjunction with the Company's Interim Management's Discussion and Analysis (MD&A) and the 2011 Annual Consolidated Financial Statements and Notes thereto.

Note 2 - Accounting change

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income, giving companies the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income in the statement of changes in shareholders' equity. ASU 2011-05 also requires reclassification adjustments for each component of accumulated other comprehensive income (AOCI) in both net income and other comprehensive income (OCI) to be separately disclosed on the face of the financial statements. In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income, which deferred the effective date to present reclassification adjustments in net income. The effective date of the deferral is consistent with the effective date of ASU 2011-05 which becomes effective for fiscal years beginning on or after December 15, 2011. During the deferral period, the FASB plans to re-evaluate the requirement, with a final decision expected in 2012. The Company has adopted the requirements of these ASUs.

Note 3 - Disposal of property

2012 – Disposal of Bala-Oakville

In March 2012, the Company entered into an agreement with Metrolinx to sell a segment of the Bala and a segment of the Oakville subdivisions in Toronto, Ontario, together with the rail fixtures and certain passenger agreements (collectively the "Bala-Oakville"), for cash proceeds of \$311 million before transaction costs. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Bala-Oakville at its then current level of operating activity, with the possibility of increasing its operating activity for additional consideration. The transaction resulted in a gain on disposal of \$281 million (\$252 million after-tax) that was recorded in Other income under the full accrual method of accounting for real estate transactions.

2011 – Disposal of IC RailMarine Terminal



In August 2011, the Company sold substantially all of the assets of IC RailMarine Terminal Company (ICRMT), an indirect subsidiary of the Company, to Raven Energy, LLC, an affiliate of Foresight Energy, LLC (Foresight) and the Cline Group (Cline), for cash proceeds of \$70 million (US\$73 million) before transaction costs. ICRMT is located on the east bank of the Mississippi River and stores and transfers bulk commodities and liquids between rail, ship and barge, serving customers in North American and global markets. Under the sale agreement, the Company will benefit from a 10-year rail transportation agreement with Savatran, LLC, an affiliate of Foresight and Cline, to haul a minimum annual volume of coal from four Illinois mines to the ICRMT transfer facility. The transaction resulted in a gain on disposal of \$60 million (\$38 million after-tax) that was recorded in Other income.

CANADIAN NATIONAL RAILWAY COMPANY  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

2011 – Disposal of Lakeshore East

In March 2011, the Company entered into an agreement with Metrolinx to sell a segment of the Kingston subdivision known as the Lakeshore East in Pickering and Toronto, Ontario, together with the rail fixtures and certain passenger agreements (collectively the “Lakeshore East”), for cash proceeds of \$299 million before transaction costs. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Lakeshore East at its then current level of operating activity, with the possibility of increasing its operating activity for additional consideration. The transaction resulted in a gain on disposal of \$288 million (\$254 million after-tax) that was recorded in Other income under the full accrual method of accounting for real estate transactions.

Note 4 - Financing activities

Revolving credit facility

In May 2011, the Company entered into an \$800 million four-year revolving credit facility agreement with a consortium of lenders. In March 2012, the agreement was amended to extend the term to May 2017. The agreement, which contains customary terms and conditions, allows for increases in the facility amount, up to a maximum of \$1,300 million, as well as the option to extend the term by an additional year at each anniversary date, subject to the consent of individual lenders. The Company plans to use the credit facility for working capital and general corporate purposes, including backstopping its commercial paper program. As at March 31, 2012, the Company had no outstanding borrowings under its revolving credit facility (nil as at December 31, 2011).

Commercial paper

The Company has a commercial paper program, which is backed by its revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of \$800 million, or the US dollar equivalent. As at March 31, 2012, the Company had borrowings of \$427 million of commercial paper (\$82 million (US\$81 million) as at December 31, 2011) which were presented in Current portion of long-term debt on the Consolidated Balance Sheet. The weighted-average interest rate on these borrowings was 1.09% (0.20% as at December 31, 2011).

Bilateral letter of credit facilities and Restricted cash and cash equivalents

In April 2011, the Company entered into a series of three-year bilateral letter of credit facility agreements with various banks to support its requirements to post letters of credit in the ordinary course of business. In March 2012, the agreements were amended to extend the maturity by one year to April 2015 and an additional letter of credit agreement was signed with an additional bank. Under these agreements as amended, the Company has the option from time to time to pledge collateral in the form of cash or cash equivalents, for a minimum term of one month, equal to at least the face value of the letters of credit issued. As at March 31, 2012, from a total committed amount of \$512 million (\$520 million as at December 31, 2011) by the various banks, the Company had letters of credit drawn of \$499 million (\$499 million as at December 31, 2011). As at March 31, 2012, cash and cash equivalents of \$499 million (\$499 million as at December 31, 2011) were pledged as collateral and recorded as Restricted cash and cash equivalents on the Consolidated Balance Sheet.

Share repurchase programs

In October 2011, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 17.0 million common shares between October 28, 2011 and October 27, 2012 pursuant to a normal course issuer bid at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the Toronto Stock Exchange.

The following table provides the activity under such share repurchase program as well as the share repurchase program of the prior year:

| In millions, except per share data   | Three months ended March 31  |          |
|--------------------------------------|--|----------|
|                                      | 2012   | 2011     |
| Number of common shares repurchased  |  |          |
| (1)                                  | 4.7  | 5.0      |
| Weighted-average price per share (2) | \$ 75.09   | \$ 67.99 |
| Amount of repurchase                 | \$ 353   | \$ 340   |
| (1)                                  | Includes common shares purchased in the first quarters of 2012 and 2011 pursuant to private agreements between the Company and arm's-length third-party sellers. |          |
| (2)                                  | Includes brokerage fees.   |          |

CANADIAN NATIONAL RAILWAY COMPANY  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

Note 5 - Stock plans

The Company has various stock-based incentive plans for eligible employees. A description of the Company's major plans is provided in Note 11 – Stock plans to the Company's 2011 Annual Consolidated Financial Statements. The following table provides total stock-based compensation expense for awards under all plans, as well as the related tax benefit recognized in income, for the three months ended March 31, 2012 and 2011.

| In millions                              | Three months ended March 31 |       |
|--|-----------------------------|-------|
|  | 2012                        | 2011  |
| Cash settled awards                      |                             |       |
| Restricted share unit plan               | \$ 9                        | \$ 29 |
| Voluntary Incentive Deferral Plan (VIDP) | 1                           | 11    |
|  | 10                          | 40    |
| Stock option awards                      | 2                           | 2     |
| Total stock-based compensation expense   | \$ 12                       | \$ 42 |
| Tax benefit recognized in income         | \$ 1                        | \$ 11 |

Cash settled awards

Following approval by the Board of Directors in January 2012, the Company granted 0.5 million restricted share units (RSUs) to designated management employees entitling them to receive payout in cash based on the Company's share price. The RSUs granted by the Company are generally scheduled for payout in cash after three years ("plan period") and vest conditionally upon the attainment of a target relating to return on invested capital over the plan period.

Payout is conditional upon the attainment of a minimum share price calculated using the average of the last three months of the plan period. In addition, commencing at various dates, for senior and executive management employees ("executive employees"), payout is conditional on compliance with the conditions of their benefit plans, award or employment agreements, including but not limited to non-compete, non-solicitation, and non-disclosure of confidential information conditions. Current or former executive employees who breach such conditions of their benefit plans, award or employment agreements will forfeit the RSU payout. Should the Company reasonably determine that a current or former executive employee may have violated the conditions of their benefit plans, award or employment agreements, the Company may at its discretion change the manner of vesting of the RSUs to suspend payout on any RSUs pending resolution of such matter.

In February 2012, the Company's Board of Directors unanimously voted to forfeit and cancel the RSU payout of approximately \$18 million otherwise due in February 2012 to its former Chief Executive Officer (CEO) after determining that the former CEO was likely in breach of his non-compete and non-disclosure of confidential information conditions contained in the former CEO's employment agreement. Pending a final resolution of the legal proceedings, the Company, without prejudice, has not recorded a gain from the cancellation of the RSU payout. See Note 7 - Major commitments and contingencies to the Company's unaudited Interim Consolidated Financial Statements.

As at March 31, 2012, 0.1 million RSUs remained authorized for future issuance under this plan.



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The following table provides the 2012 activity for all cash settled awards:

| In millions                      | RSUs      |                    | VIDP      |        |
|----------------------------------|-----------|--------------------|-----------|--------|
|                                  | Nonvested | Vested             | Nonvested | Vested |
| Outstanding at December 31, 2011 | 0.9       | 0.9                | -         | 1.4    |
| Granted (Payout)                 | 0.5       | (0.7)              | -         | -      |
| Outstanding at March 31, 2012    | 1.4       | 0.2 <sup>(1)</sup> | -         | 1.4    |

(1) Consists of the units of the RSU payout currently in dispute. See Note 7 – Major commitments and contingencies to the Company’s unaudited Interim Consolidated Financial Statements.

The following table provides valuation and expense information for all cash settled awards:

| In millions, unless otherwise indicated                                   | RSUs (1) |          |          |           | VIDP (2) | Total  |
|---|----------|----------|----------|-----------|----------|--------|
|   | 2012     | 2011     | 2010     | 2009      |          |        |
| Stock-based compensation expense recognized over requisite service period |          |          |          |           |          |        |
| Three months ended March 31, 2012   | \$ 2     | \$ 3     | \$ 4     | \$ -      | \$ 1     | \$ 10  |
| Three months ended March 31, 2011   | N/A      | \$ 3     | \$ 10    | \$ 16     | \$ 11    | \$ 40  |
| Liability outstanding   |          |          |          |           |          |        |
| March 31, 2012  | \$ 2     | \$ 23    | \$ 48    | \$ 18 (3) | \$ 119   | \$ 210 |
| December 31, 2011   | N/A      | \$ 19    | \$ 44    | \$ 82     | \$ 119   | \$ 264 |
| Fair value per unit   |          |          |          |           |          |        |
| March 31, 2012 (\$)   | \$ 42.64 | \$ 59.34 | \$ 77.68 | N/A       | \$ 79.27 | N/A    |
| Fair value of awards vested during the period                             |          |          |          |           |          |        |
| Three months ended March 31, 2012   | \$ -     | \$ -     | \$ -     | \$ -      | \$ 1     | \$ 1   |
| Three months ended March 31, 2011   | N/A      | \$ -     | \$ -     | \$ -      | \$ 1     | \$ 1   |
| Nonvested awards at March 31, 2012  |          |          |          |           |          |        |
| Unrecognized compensation cost  | \$ 17    | \$ 17    | \$ 10    | \$ -      | \$ 2     | \$ 46  |
|   | 2.8      | 1.8      | 0.8      | N/A       |          | N/A    |

|                                      |          |          |          |     |            |     |
|--------------------------------------|----------|----------|----------|-----|------------|-----|
| Remaining recognition period (years) |          |          |          |     | N/A<br>(4) |     |
| Assumptions (5)                      |          |          |          |     |            |     |
| Stock price (\$)                     | \$ 79.27 | \$ 79.27 | \$ 79.27 | N/A | \$ 79.27   | N/A |
| Expected stock price volatility (6)  | 19%      | 17%      | 18%      | N/A | N/A        | N/A |
| Expected term (years) (7)            | 2.8      | 1.8      | 0.8      | N/A | N/A        | N/A |
| Risk-free interest rate (8)          | 1.28%    | 1.16%    | 1.03%    | N/A | N/A        | N/A |
| Dividend rate (\$) (9)               | \$ 1.50  | \$ 1.50  | \$ 1.50  | N/A | N/A        | N/A |

- (1) Compensation cost is based on the fair value of the awards at period-end using the lattice-based valuation model that uses the assumptions as presented herein.
- (2) Compensation cost is based on intrinsic value.
- (3) Consists of the carrying value of the RSU payout currently in dispute. See Note 7 – Major commitments and contingencies to the Company’s unaudited Interim Consolidated Financial Statements.
- (4) The remaining recognition period has not been quantified as it relates solely to the 25% Company grant and the dividends earned thereon, representing a minimal number of units.
- (5) Assumptions used to determine fair value are at March 31, 2012.
- (6) Based on the historical volatility of the Company's stock over a period commensurate with the expected term of the award.
- (7) Represents the remaining period of time that awards are expected to be outstanding.
- (8) Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected term of the awards.
- (9) Based on the annualized dividend rate.

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Stock option awards

Following approval by the Board of Directors in January 2012, the Company granted 0.6 million conventional stock options to designated senior management employees. The stock option plan allows eligible employees to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of grant. The options are exercisable during a period not exceeding 10 years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of grant. At March 31, 2012, 10.4 million common shares remained authorized for future issuances under this plan. The total number of options outstanding at March 31, 2012, including conventional and performance-accelerated options, was 4.7 million and 1.5 million, respectively. As at March 31, 2012, the performance-accelerated stock options were fully vested.

The following table provides the activity of stock option awards in 2012. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the value that would have been received by option holders had they exercised their options on March 31, 2012 at the Company's closing stock price of \$79.27.

|                                      | Number      | Weighted-average | Options outstanding | Weighted-average    | Aggregate       |
|--------------------------------------|-------------|------------------|---------------------|---------------------|-----------------|
|                                      | of options  | exercise price   | Weighted-average    | years to expiration | intrinsic value |
|                                      | In millions |                  |                     |                     | In millions     |
| Outstanding at December 31, 2011 (1) | 6.9         | \$ 40.80         |                     |                     |                 |
| Granted                              | 0.6         | \$ 76.57         |                     |                     |                 |
| Exercised                            | (1.3)       | \$ 37.80         |                     |                     |                 |
| Outstanding at March 31, 2012 (1)    | 6.2         | \$ 44.28         | 5.2                 |                     | \$ 217          |
| Exercisable at March 31, 2012 (1)    | 4.5         | \$ 37.18         | 3.9                 |                     | \$ 188          |

(1) Stock options with a US dollar exercise price have been translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.



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The following table provides valuation and expense information for all stock option awards:

In millions, unless otherwise indicated

| Year of grant                                 | 2012     | 2011     | 2010     | 2009     | 2008     | 2007     | Total |
|---|----------|----------|----------|----------|----------|----------|-------|
| Stock-based compensation expense              |          |          |          |          |          |          |       |
| recognized over requisite service period (1)  |          |          |          |          |          |          |       |
| Three months ended March                      |          |          |          |          |          |          |       |
| 31, 2012                                      | \$ 1     | \$ 1     | \$ -     | \$ -     | \$ -     | \$ -     | \$ 2  |
| Three months ended March                      |          |          |          |          |          |          |       |
| 31, 2011                                      | N/A      | \$ 1     | \$ -     | \$ 1     | \$ -     | \$ -     | \$ 2  |
| Fair value per unit                           |          |          |          |          |          |          |       |
| At grant date (\$)                            | \$ 15.45 | \$ 15.66 | \$ 13.09 | \$ 12.60 | \$ 12.44 | \$ 13.37 | N/A   |
| Fair value of awards vested during the period |          |          |          |          |          |          |       |
| Three months ended March                      |          |          |          |          |          |          |       |
| 31, 2012                                      | \$ -     | \$ 2     | \$ 2     | \$ 4     | \$ 3     | \$ -     | \$ 11 |
| Three months ended March                      |          |          |          |          |          |          |       |
| 31, 2011                                      | N/A      | \$ -     | \$ 2     | \$ 4     | \$ 3     | \$ 2     | \$ 11 |
| Nonvested awards at March 31, 2012            |          |          |          |          |          |          |       |
| Unrecognized compensation cost                |          |          |          |          |          |          |       |
|   | \$ 7     | \$ 4     | \$ 3     | \$ 2     | \$ -     | \$ -     | \$ 16 |
| Remaining recognition period (years)          |          |          |          |          |          |          |       |
|   | 3.8      | 2.8      | 1.8      | 0.8      | -        | -        | N/A   |
| Assumptions                                   |          |          |          |          |          |          |       |
| Grant price (\$)                              | \$ 76.57 | \$ 68.94 | \$ 54.76 | \$ 42.14 | \$ 48.51 | \$ 52.79 | N/A   |
| Expected stock price volatility               |          |          |          |          |          |          |       |
| (2)   | 26%      | 26%      | 28%      | 39%      | 27%      | 24%      | N/A   |
| Expected term (years) (3)                     |          |          |          |          |          |          |       |
|   | 5.4      | 5.3      | 5.4      | 5.3      | 5.3      | 5.2      | N/A   |
| Risk-free interest rate (4)                   |          |          |          |          |          |          |       |
|   | 1.33%    | 2.53%    | 2.44%    | 1.97%    | 3.58%    | 4.12%    | N/A   |
| Dividend rate (\$) (5)                        |          |          |          |          |          |          |       |
|   | \$ 1.50  | \$ 1.30  | \$ 1.08  | \$ 1.01  | \$ 0.92  | \$ 0.84  | N/A   |

- (1) Compensation cost is based on the grant date fair value using the Black-Scholes option-pricing model that uses the assumptions at the grant date.
- (2) Based on the average of the historical volatility of the Company's stock over a period commensurate with the expected term of the award and the implied volatility from traded options on the Company's stock.
- (3) Represents the period of time that awards are expected to be outstanding. The Company uses historical data to estimate option exercise and employee termination, and groups of employees that have similar historical exercise behavior are considered separately.

- (4) Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected term of the awards.
- (5) Based on the annualized dividend rate.

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Note 6 - Pensions and other postretirement benefits

The Company has various retirement benefit plans under which substantially all of its employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. Senior and executive management (“executive employees”) subject to certain minimum service and age requirements are also eligible for an additional retirement benefit under their Special Retirement Stipend Agreements (“SRS”), the Supplemental Executive Retirement Plan (“SERP”) and/or the Defined Contribution Supplemental Executive Retirement Plan (“DC SERP”). Executive employees who breach the non-compete, non-solicitation and non-disclosure of confidential information conditions of the SRS, SERP and/or DC SERP plans or other employment agreements will forfeit the retirement benefit under these plans. Should the Company reasonably determine that a current or former executive employee may have violated the conditions of their SRS, SERP, and/or DC SERP plan or other employment agreement, the Company may at its discretion withhold or suspend payout of the retirement benefit pending resolution of such matter.

In February 2012, the Company’s Board of Directors unanimously voted to forfeit and cancel the \$1.5 million annual retirement benefit otherwise due to its former CEO after determining that the former CEO was likely in breach of the non-compete and non-disclosure of confidential information conditions contained in the former CEO’s employment agreement. Pending a final resolution of the legal proceedings, the Company, without prejudice, has not recorded a settlement gain of approximately \$21 million from the termination of the former CEO’s retirement benefit plan. See Note 7 - Major commitments and contingencies to the Company’s unaudited Interim Consolidated Financial Statements.

For the three months ended March 31, 2012 and 2011, the components of net periodic benefit cost (income) for pensions and other postretirement benefits were as follows:

(a) Components of net periodic benefit cost (income) for pensions

| In millions                        | Three months ended |         |
|------------------------------------|--------------------|---------|
|                                    | March 31           |         |
|                                    | 2012               | 2011    |
| Service cost                       | \$ 36              | \$ 31   |
| Interest cost                      | 184                | 197     |
| Expected return on plan assets     | (248)              | (251)   |
| Amortization of prior service cost | 1                  | -       |
| Recognized net actuarial loss      | 31                 | 2       |
| Net periodic benefit cost (income) | \$ 4               | \$ (21) |

(b) Components of net periodic benefit cost for other postretirement benefits

| In millions                        | Three months ended |      |
|------------------------------------|--------------------|------|
|                                    | March 31           |      |
|                                    | 2012               | 2011 |
| Service cost                       | \$ 1               | \$ 1 |
| Interest cost                      | 3                  | 4    |
| Amortization of prior service cost | 1                  | -    |
| Net periodic benefit cost          | \$ 5               | \$ 5 |

Pension contributions made in the first three months of 2012 and 2011 of \$553 million and \$93 million, respectively, mainly represent contributions to the Company's main pension plan, the CN Pension Plan. These contributions are for the current service cost as determined under its current actuarial valuations, in addition to voluntary contributions totaling \$450 million, mainly to the CN Pension Plan, made in 2012. The Company continuously monitors the various economic elements that affect the level of contribution it considers necessary to maintain the financial health of its various pension plans. In 2012, the Company expects to make total contributions of approximately \$575 million for all its pension plans, including its defined contribution plans. Of the \$575 million, \$450 million represents additional voluntary contributions mainly to strengthen the financial position of the CN Pension Plan, and the remainder mainly represents current service cost as determined under its current actuarial valuations. Additional information relating to the plans is provided in Note 12 – Pensions and other postretirement benefits to the Company's 2011 Annual Consolidated Financial Statements.

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Note 7 - Major commitments and contingencies

A. Commitments

As at March 31, 2012, the Company had commitments to acquire railroad ties, rail, freight cars, locomotives, and other equipment and services, as well as outstanding information technology service contracts and licenses, at an aggregate cost of \$985 million (\$727 million as at December 31, 2011). The Company also has remaining estimated commitments in relation to the acquisition of the principal lines of the former Elgin, Joliet and Eastern Railway Company of approximately \$115 million to be spent over the next few years for railroad infrastructure improvements, grade separation projects, as well as commitments under a series of agreements with individual communities and a comprehensive voluntary mitigation program established to address surrounding municipalities' concerns. The commitment for the grade separation projects is based on estimated costs provided by the Surface Transportation Board (STB) at the time of acquisition and could be subject to adjustment. In addition, remaining implementation costs associated with the U.S. federal government legislative requirement to implement positive train control (PTC) by 2015 are estimated to be approximately \$185 million (US\$185 million). The Company also has agreements with fuel suppliers to purchase approximately 59% of its estimated remaining 2012 volume, 44% of its anticipated 2013 volume and 11% of its anticipated 2014 volume at market prices prevailing on the date of the purchase.

B. Contingencies

In the normal course of business, the Company becomes involved in various legal actions seeking compensatory and occasionally punitive damages, including actions brought on behalf of various purported classes of claimants and claims relating to employee and third-party personal injuries, occupational disease and property damage, arising out of harm to individuals or property allegedly caused by, but not limited to, derailments or other accidents.

Proceedings against former CEO

In February 2012, the Company's Board of Directors unanimously voted to forfeit and cancel the RSU payout of approximately \$18 million, the \$1.5 million annual retirement benefit, and other benefits (collectively the "Benefits") otherwise due to its former CEO, after determining that the former CEO was likely in breach of his non-compete and non-disclosure of confidential information conditions contained in the former CEO's employment agreement. The Company's determination was based on certain facts, including the former CEO's active participation in concert with the largest shareholder of its major competitor in Canada for the express purpose of installing the former CEO as Chief Executive Officer of the competitor; the former CEO's admission that he has taken a personal \$5 million stock position in the competitor; and statements by the former CEO and the largest shareholder to the effect that the former CEO has developed a strategic plan for the operation of the Company's competitor to make it a stronger competitor to the Company; the Company reasonably believes that any such strategic plan would necessarily draw upon the Company's confidential information, which would constitute a clear and material breach of the former CEO's employment agreement. The Company has filed legal proceedings in the United States District Court for the Northern District of Illinois seeking, among other things, a declaration that the Company's termination of the Benefits is valid.

Liabilities can be derecognized only if the Company is legally released from its obligation, either judicially or by the creditor. As such, the Company, without prejudice, has not recorded a gain of approximately \$18 million from the cancellation of the former CEO's RSU payout pending a final resolution of the legal proceedings. In addition, a retirement benefit liability can be terminated when the Company is relieved of its obligation under the benefit plan. The Company estimates the settlement gain associated with the former CEO's retirement benefit liability to be approximately \$21 million, which will be partially offset by past accumulated actuarial losses of approximately \$4 million. Pending a final resolution of the legal proceedings, the Company, without prejudice, has not recorded the net settlement gain that would result from the termination of the former CEO's retirement benefit plan.

The Company is also seeking to recover \$3 million of retirement benefits paid to the former CEO as the Company believes that the former CEO has failed to fulfill the terms of his employment agreement as well as reasonable legal fees and other costs. The Company has not recognized the recovery of these amounts.

Canada

Employee injuries are governed by the workers' compensation legislation in each province whereby employees may be awarded either a lump sum or future stream of payments depending on the nature and severity of the injury. As such, the provision for employee injury claims is discounted. In the provinces where the Company is self-insured, costs related to employee work-related injuries are accounted for based on actuarially developed estimates of the ultimate cost associated with such injuries, including compensation, health care and third-

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party administration costs. A comprehensive actuarial study is generally performed at least on a triennial basis. For all other legal actions, the Company maintains, and regularly updates on a case-by-case basis, provisions for such items when the expected loss is both probable and can be reasonably estimated based on currently available information.

#### United States

Personal injury claims by the Company's employees, including claims alleging occupational disease and work-related injuries, are subject to the provisions of the Federal Employers' Liability Act (FELA). Employees are compensated under FELA for damages assessed based on a finding of fault through the U.S. jury system or through individual settlements. As such, the provision is undiscounted. With limited exceptions where claims are evaluated on a case-by-case basis, the Company follows an actuarial-based approach and accrues the expected cost for personal injury, including asserted and unasserted occupational disease claims, and property damage claims, based on actuarial estimates of their ultimate cost. A comprehensive actuarial study is performed annually.

For employee work-related injuries, including asserted occupational disease claims, and third-party claims, including grade crossing, trespasser and property damage claims, the actuarial valuation considers, among other factors, the Company's historical patterns of claims filings and payments. For unasserted occupational disease claims, the actuarial study includes the projection of the Company's experience into the future considering the potentially exposed population. The Company adjusts its liability based upon management's assessment and the results of the study. On an ongoing basis, management reviews and compares the assumptions inherent in the latest actuarial study with the current claim experience and, if required, adjustments to the liability are recorded.

As at March 31, 2012, the Company had aggregate reserves for personal injury and other claims of \$290 million, of which \$83 million was recorded as a current liability (\$310 million as at December 31, 2011, of which \$84 million was recorded as a current liability).

Although the Company considers such provisions to be adequate for all its outstanding and pending claims, the final outcome with respect to actions outstanding or pending at March 31, 2012, or with respect to future claims, cannot be reasonably determined. When establishing provisions for contingent litigation, the Company considers, where a probable loss estimate cannot be made with reasonable certainty, a range of potential probable losses for each such matter, and records the amount it considers the most reasonable estimate within the range. However, when no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued. For matters where a loss is reasonably possible but not probable, a range of potential losses could not be estimated due to various factors which may include the limited availability of facts, the lack of demand for specific damages and the fact that proceedings were at an early stage. Based on information currently available, the Company believes that the eventual outcome of the actions against the Company will not, individually or in the aggregate, have a material adverse effect on the Company's consolidated financial position. However, due to the inherent inability to predict with certainty unforeseeable future developments, there can be no assurance that the ultimate resolution of these actions will not have a material adverse effect on the Company's results of operations, financial position or liquidity in a particular quarter or fiscal year.

#### C. Environmental matters

The Company's operations are subject to numerous federal, provincial, state, municipal and local environmental laws and regulations in Canada and the U.S. concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations.

Known existing environmental concerns

The Company has identified approximately 315 sites at which it is or may be liable for remediation costs, in some cases along with other potentially responsible parties, associated with alleged contamination and is subject to environmental clean-up and enforcement actions, including those imposed by the United States Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), also known as the Superfund law, or analogous state laws. CERCLA and similar state laws, in addition to other similar Canadian and U.S. laws, generally impose joint and several liability for clean-up and enforcement costs on current and former owners and operators of a site, as well as those whose waste is disposed of at the site, without regard to fault or the legality of the original conduct. The Company has been notified that it is a potentially responsible party for study and clean-up costs at approximately 10 sites governed by the Superfund law (and analogous state laws) for which investigation and remediation payments are or will be made or are yet to be determined and, in many instances, is one of several potentially responsible parties.



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The ultimate cost of addressing these known contaminated sites cannot be definitely established given that the estimated environmental liability for any given site may vary depending on the nature and extent of the contamination; the nature of anticipated response actions, taking into account the available clean-up techniques; evolving regulatory standards governing environmental liability; and the number of potentially responsible parties and their financial viability. As a result, liabilities are recorded based on the results of a four-phase assessment conducted on a site-by-site basis. A liability is initially recorded when environmental assessments occur, remedial efforts are probable, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated. The Company estimates the costs related to a particular site using cost scenarios established by external consultants based on the extent of contamination and expected costs for remedial efforts. In the case of multiple parties, the Company accrues its allocable share of liability taking into account the Company's alleged responsibility, the number of potentially responsible parties and their ability to pay their respective share of the liability. Adjustments to initial estimates are recorded as additional information becomes available.

The Company's provision for specific environmental sites is undiscounted and includes costs for remediation and restoration of sites, as well as monitoring costs. Environmental accruals, which are classified as Casualty and other in the Consolidated Statement of Income, include amounts for newly identified sites or contaminants as well as adjustments to initial estimates. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

As at March 31, 2012, the Company had aggregate accruals for environmental costs of \$113 million, of which \$32 million was recorded as a current liability (\$152 million as at December 31, 2011, of which \$63 million was recorded as a current liability). The Company anticipates that the majority of the liability at March 31, 2012 will be paid out over the next five years. However, some costs may be paid out over a longer period. Based on the information currently available, the Company considers its provisions to be adequate.

#### Unknown existing environmental concerns

While the Company believes that it has identified the costs likely to be incurred for environmental matters in the next several years based on known information, the discovery of new facts, future changes in laws, the possibility of releases of hazardous materials into the environment and the Company's ongoing efforts to identify potential environmental liabilities that may be associated with its properties may result in the identification of additional environmental liabilities and related costs. The magnitude of such additional liabilities and the costs of complying with future environmental laws and containing or remediating contamination cannot be reasonably estimated due to many factors, including:

- (i) the lack of specific technical information available with respect to many sites;
- (ii) the absence of any government authority, third-party orders, or claims with respect to particular sites;
- (iii) the potential for new or changed laws and regulations and for development of new remediation technologies and uncertainty regarding the timing of the work with respect to particular sites; and
- (iv) the determination of the Company's liability in proportion to other potentially responsible parties and the ability to recover costs from any third parties with respect to particular sites.

Therefore, the likelihood of any such costs being incurred or whether such costs would be material to the Company cannot be determined at this time. There can thus be no assurance that liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year, or that the Company's liquidity will not be adversely impacted by such liabilities or costs, although management believes, based on current information, that the costs to address environmental matters will not have a material adverse effect on the Company's financial position or liquidity.

Costs related to any unknown existing or future contamination will be accrued in the period in which they become probable and reasonably estimable.

**D. Guarantees and indemnifications**

In the normal course of business, the Company, including certain of its subsidiaries, enters into agreements that may involve providing guarantees or indemnifications to third parties and others, which may extend beyond the term of the agreements. These include, but are not limited to, residual value guarantees on operating leases, standby letters of credit and surety and other bonds, and indemnifications that are customary for the type of transaction or for the railway business.

The Company is required to recognize a liability for the fair value of the obligation undertaken in issuing certain guarantees on the date the guarantee is issued or modified. In addition, where the Company expects to make a payment in respect of a guarantee, a liability will be recognized to the extent that one has not yet been recognized.

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(i) Guarantee of residual values of operating leases

The Company has guaranteed a portion of the residual values of certain of its assets under operating leases with expiry dates between 2012 and 2022, for the benefit of the lessor. If the fair value of the assets, at the end of their respective lease term, is less than the fair value, as estimated at the inception of the lease, then the Company must, under certain conditions, compensate the lessor for the shortfall. At March 31, 2012, the maximum exposure in respect of these guarantees was \$116 million. There are no recourse provisions to recover any amounts from third parties.

(ii) Other guarantees

As at March 31, 2012, the Company, including certain of its subsidiaries, has granted \$499 million of irrevocable standby letters of credit and \$10 million of surety and other bonds, issued by highly rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at March 31, 2012, the maximum potential liability under these guarantee instruments was \$509 million, of which \$439 million related to workers' compensation and other employee benefit liabilities and \$70 million related to equipment under leases and other liabilities. The letters of credit were drawn on the Company's bilateral letter of credit facilities. The Company has not recorded a liability as at March 31, 2012 with respect to these guarantee instruments as they relate to the Company's future performance and the Company does not expect to make any payments under these guarantee instruments. The majority of the guarantee instruments mature at various dates between 2012 and 2015.

(iii) General indemnifications

In the normal course of business, the Company has provided indemnifications, customary for the type of transaction or for the railway business, in various agreements with third parties, including indemnification provisions where the Company would be required to indemnify third parties and others. Indemnifications are found in various types of contracts with third parties which include, but are not limited to:

- a) contracts granting the Company the right to use or enter upon property owned by third parties such as leases, easements, trackage rights and sidetrack agreements;
- b) contracts granting rights to others to use the Company's property, such as leases, licenses and easements;
- c) contracts for the sale of assets;
- d) contracts for the acquisition of services;
- e) financing agreements;
- f) trust indentures, fiscal agency agreements, underwriting agreements or similar agreements relating to debt or equity securities of the Company and engagement agreements with financial advisors;
- g) transfer agent and registrar agreements in respect of the Company's securities;
- h) trust and other agreements relating to pension plans and other plans, including those establishing trust funds to secure payment to certain officers and senior employees of special retirement compensation arrangements;
  - i) pension transfer agreements;
  - j) master agreements with financial institutions governing derivative transactions;
- k) settlement agreements with insurance companies or other third parties whereby such insurer or third party has been indemnified for any present or future claims relating to insurance policies, incidents or events covered by the settlement agreements; and
  - l) acquisition agreements.

To the extent of any actual claims under these agreements, the Company maintains provisions for such items, which it considers to be adequate. Due to the nature of the indemnification clauses, the maximum exposure for future payments may be material. However, such exposure cannot be reasonably determined.

During the period, the Company entered into various indemnification contracts with third parties for which the maximum exposure for future payments cannot be reasonably determined. As a result, the Company was unable to

determine the fair value of these guarantees and accordingly, no liability was recorded. There are no recourse provisions to recover any amounts from third parties.

CANADIAN NATIONAL RAILWAY COMPANY  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

Note 8 - Financial instruments

For financial assets and liabilities measured at fair value on a recurring basis, fair value is the price the Company would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is believed to be consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

- Level 1: Quoted prices for identical instruments in active markets.  
 Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.  
 Level 3: Significant inputs to the valuation model are unobservable.

The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Balance Sheet under the following captions:

(i) Cash and cash equivalents, Restricted cash and cash equivalents, Accounts receivable, Other current assets, Accounts payable and other:

The carrying amounts approximate fair value because of the short maturity of these instruments. Cash and cash equivalents and Restricted cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are classified as Level 1. Accounts receivable, Other current assets, and Accounts payable and other are classified as Level 2 as they may not be priced using quoted prices, but rather determined from market observable information.

(ii) Intangible and other assets:

Included in Intangible and other assets are equity investments for which the carrying value approximates the fair value, with the exception of certain cost investments for which the fair value is estimated based on the Company's proportionate share of the underlying net assets. Intangible and other assets are classified as Level 3 as their fair value is based on significant unobservable inputs.

(iii) Debt:

The fair value of the Company's debt is estimated based on the quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity. Debt is classified as Level 2 as it may not be priced using quoted prices for identical instruments in active markets, but rather determined from quoted prices for similar instruments in active markets.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as at March 31, 2012 and December 31, 2011 for which the carrying values on the Consolidated Balance Sheet are different from their fair values:

| In millions | March 31, 2012 | December 31, 2011 |
|-------------|----------------|-------------------|
|-------------|----------------|-------------------|

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|                       | Carrying<br>amount | Fair<br>value | Carrying<br>amount | Fair<br>value |
|-----------------------|--------------------|---------------|--------------------|---------------|
| Financial assets      |                    |               |                    |               |
| Investments           | \$ 29 \$           | 122           | \$ 31 \$           | 126           |
| Financial liabilities |                    |               |                    |               |
| Total debt            | \$ 6,787 \$        | 8,006         | \$ 6,576 \$        | 7,978         |

CANADIAN NATIONAL RAILWAY COMPANY  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

Note 9 - Earnings per share

The following table provides a reconciliation between basic and diluted earnings per share:

| In millions, except per share data          | Three months ended<br>March 31 |         |
|---|--------------------------------|---------|
|   | 2012                           | 2011    |
| Net income                                  | \$ 775                         | \$ 668  |
| Weighted-average shares outstanding         | 441.0                          | 458.3   |
| Effect of stock options                     | 2.5                            | 3.5     |
| Weighted-average diluted shares outstanding | 443.5                          | 461.8   |
| Basic earnings per share                    | \$ 1.76                        | \$ 1.46 |
| Diluted earnings per share                  | \$ 1.75                        | \$ 1.45 |

Basic earnings per share are calculated based on the weighted-average number of common shares outstanding over each period. Diluted earnings per share are calculated based on the weighted-average diluted shares outstanding using the treasury stock method, which assumes that any proceeds received from the exercise of in-the-money stock options would be used to purchase common shares at the average market price for the period. The weighted-average number of stock options that were not included in the calculation of diluted earnings per share, as their inclusion would have had an anti-dilutive impact, was 0.1 million for the three months ended March 31, 2012, and 0.1 million for the corresponding period in 2011.

Note 10 - Comparative figures

Certain figures previously reported in 2011 have been reclassified to conform with the basis of presentation adopted in 2012.

CANADIAN NATIONAL RAILWAY COMPANY  
 SELECTED RAILROAD STATISTICS (U.S. GAAP) - unaudited

|   | Three months ended<br>March 31 |        |
|---|--------------------------------|--------|
|   | 2012                           | 2011   |
| Statistical operating data                                  |                                |        |
| Rail freight revenues (\$ millions)                         | 2,147                          | 1,904  |
| Gross ton miles (GTM) (millions)                            | 92,593                         | 86,667 |
| Revenue ton miles (RTM) (millions)                          | 49,049                         | 46,153 |
| Carloads (thousands)  | 1,205                          | 1,146  |
| Route miles (includes Canada and the U.S.) (1)              | 20,000                         | 20,400 |
| Employees (end of period)                                   | 23,396                         | 22,671 |
| Employees (average for the period)                          | 23,201                         | 22,409 |
| Productivity  |                                |        |
| Operating ratio (%)   | 66.2                           | 69.0   |
| Rail freight revenue per RTM (cents)                        | 4.38                           | 4.13   |
| Rail freight revenue per carload (\$)                       | 1,782                          | 1,661  |
| Operating expenses per GTM (cents)                          | 1.68                           | 1.66   |
| Labor and fringe benefits expense per GTM (cents)           | 0.55                           | 0.55   |
| GTMs per average number of employees (thousands)            | 3,991                          | 3,868  |
| Diesel fuel consumed (US gallons in millions)               | 96.9                           | 92.9   |
| Average fuel price (\$/US gallon)                           | 3.54                           | 3.20   |
| GTMs per US gallon of fuel consumed                         | 956                            | 933    |
| Safety indicators   |                                |        |
| Injury frequency rate per 200,000 person hours (2)          | 1.23                           | 1.44   |
| Accident rate per million train miles (2)                   | 2.17                           | 2.28   |
| Financial ratio   |                                |        |
| Debt-to-total capitalization ratio (% at end of period) (3) | 38.2                           | 34.1   |

(1) Rounded to the nearest hundred miles.  
 (2) Based on Federal Railroad Administration (FRA) reporting criteria.  
 (3) Debt-to-total capitalization is calculated as total long-term debt plus current portion of long-term debt, divided by the sum of total debt plus total shareholders' equity.



Certain of the 2011 comparative figures have been restated to conform with the 2012 presentation. Such statistical data and related productivity measures are based on estimated data available at such time and are subject to change as more complete information becomes available.

CANADIAN NATIONAL RAILWAY COMPANY  
SUPPLEMENTARY INFORMATION (U.S. GAAP) - unaudited

Three months ended March 31

|                                    | 2012   | 2011   | % Change<br>Fav (Unfav) | % Change at<br>constant<br>currency<br>Fav (Unfav) (1) |
|------------------------------------|--------|--------|-------------------------|--|
| Revenues (millions of dollars)     |        |        |                         |  |
| Petroleum and chemicals            | 392    | 342    | 15%                     | 13%  |
| Metals and minerals                | 273    | 209    | 31%                     | 29%  |
| Forest products                    | 328    | 299    | 10%                     | 9%   |
| Coal                               | 167    | 141    | 18%                     | 18%  |
| Grain and fertilizers              | 397    | 406    | (2%)                    | (3%)   |
| Intermodal                         | 460    | 392    | 17%                     | 17%  |
| Automotive                         | 130    | 115    | 13%                     | 11%  |
| Total rail freight revenues        | 2,147  | 1,904  | 13%                     | 12%  |
| Other revenues                     | 199    | 180    | 11%                     | 10%  |
| Total revenues                     | 2,346  | 2,084  | 13%                     | 12%  |
| Revenue ton miles (millions)       |        |        |                         |  |
| Petroleum and chemicals            | 8,867  | 8,229  | 8%                      | 8%   |
| Metals and minerals                | 4,938  | 3,957  | 25%                     | 25%  |
| Forest products                    | 7,466  | 7,131  | 5%                      | 5%   |
| Coal                               | 5,509  | 4,619  | 19%                     | 19%  |
| Grain and fertilizers              | 11,581 | 12,959 | (11%)                   | (11%)  |
| Intermodal                         | 10,018 | 8,618  | 16%                     | 16%  |
| Automotive                         | 670    | 640    | 5%                      | 5%   |
|                                    | 49,049 | 46,153 | 6%                      | 6%   |
| Rail freight revenue / RTM (cents) |        |        |                         |  |
| Total rail freight revenue per RTM | 4.38   | 4.13   | 6%                      | 5%   |
| Commodity groups:                  |        |        |                         |  |
| Petroleum and chemicals            | 4.42   | 4.16   | 6%                      | 5%   |
| Metals and minerals                | 5.53   | 5.28   | 5%                      | 4%   |
| Forest products                    | 4.39   | 4.19   | 5%                      | 4%   |
| Coal                               | 3.03   | 3.05   | (1%)                    | (1%)   |
| Grain and fertilizers              | 3.43   | 3.13   | 10%                     | 9%   |
| Intermodal                         | 4.59   | 4.55   | 1%                      | -  |
| Automotive                         | 19.40  | 17.97  | 8%                      | 6%   |
| Carloads (thousands)               |        |        |                         |  |
| Petroleum and chemicals            | 146    | 140    | 4%                      | 4%   |
| Metals and minerals                | 245    | 215    | 14%                     | 14%  |
| Forest products                    | 112    | 108    | 4%                      | 4%   |
| Coal                               | 106    | 119    | (11%)                   | (11%)  |
| Grain and fertilizers              | 143    | 160    | (11%)                   | (11%)  |
| Intermodal                         | 399    | 352    | 13%                     | 13%  |

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|  |       |       |     |     |
|--|-------|-------|-----|-----|
| Automotive                               | 54    | 52    | 4%  | 4%  |
|  | 1,205 | 1,146 | 5%  | 5%  |
| Rail freight revenue / carload (dollars) |       |       |     |     |
| Total rail freight revenue per carload   | 1,782 | 1,661 | 7%  | 6%  |
| Commodity groups:                        |       |       |     |     |
| Petroleum and chemicals                  | 2,685 | 2,443 | 10% | 9%  |
| Metals and minerals                      | 1,114 | 972   | 15% | 13% |
| Forest products                          | 2,929 | 2,769 | 6%  | 5%  |
| Coal                                     | 1,575 | 1,185 | 33% | 32% |
| Grain and fertilizers                    | 2,776 | 2,538 | 9%  | 9%  |
| Intermodal                               | 1,153 | 1,114 | 4%  | 3%  |
| Automotive                               | 2,407 | 2,212 | 9%  | 7%  |

(1) See supplementary schedule entitled Non-GAAP Measures for an explanation of this Non-GAAP measure.

Such statistical data and related productivity measures are based on estimated data available at such time and are subject to change as more complete information becomes available.

CANADIAN NATIONAL RAILWAY COMPANY  
NON-GAAP MEASURES - unaudited

Adjusted performance measures

For the three months ended March 31, 2012, the Company reported adjusted net income of \$523 million, or \$1.18 per diluted share. The adjusted figures exclude the gain on disposal of a segment of the Bala and a segment of the Oakville subdivisions of \$281 million, or \$252 million after-tax (\$0.57 per diluted share). For the three months ended March 31, 2011, the Company reported adjusted net income of \$414 million, or \$0.90 per diluted share. The adjusted figures exclude the gain on disposal of a segment of the Kingston subdivision of \$288 million, or \$254 million after-tax (\$0.55 per diluted share).

Management believes that adjusted net income and adjusted earnings per share are useful measures of performance that can facilitate period-to-period comparisons, as they exclude items that do not necessarily arise as part of the normal day-to-day operations of the Company and could distort the analysis of trends in business performance. The exclusion of such items in adjusted net income and adjusted earnings per share does not, however, imply that such items are necessarily non-recurring. These adjusted measures do not have any standardized meaning prescribed by GAAP and may, therefore, not be comparable to similar measures presented by other companies. The reader is advised to read all information provided in the Company's 2012 unaudited Interim Consolidated Financial Statements and Notes thereto. The following table provides a reconciliation of net income and earnings per share, as reported for the three months ended March 31, 2012 and 2011, to the adjusted performance measures presented herein.

| In millions, except per share data | Three months ended<br>March 31, 2012 |             |          | Three months ended<br>March 31, 2011 |             |          |
|------------------------------------|--------------------------------------|-------------|----------|--------------------------------------|-------------|----------|
|                                    | Reported                             | Adjustments | Adjusted | Reported                             | Adjustments | Adjusted |
| Revenues                           | \$ 2,346                             | \$ -        | \$ 2,346 | \$ 2,084                             | \$ -        | \$ 2,084 |
| Operating expenses                 | 1,553                                | -           | 1,553    | 1,439                                | -           | 1,439    |
| Operating income                   | 793                                  | -           | 793      | 645                                  | -           | 645      |
| Interest expense                   | (86)                                 | -           | (86)     | (86)                                 | -           | (86)     |
| Other income                       | 293                                  | (281)       | 12       | 300                                  | (288)       | 12       |
| Income before income taxes         | 1,000                                | (281)       | 719      | 859                                  | (288)       | 571      |
| Income tax expense                 | (225)                                | 29          | (196)    | (191)                                | 34          | (157)    |
| Net income                         | \$ 775                               | \$ (252)    | \$ 523   | \$ 668                               | \$ (254)    | \$ 414   |
| Operating ratio                    | 66.2%                                |             | 66.2%    | 69.0%                                |             | 69.0%    |
| Basic earnings per share           | \$ 1.76                              | \$ (0.57)   | \$ 1.19  | \$ 1.46                              | \$ (0.55)   | \$ 0.91  |
| Diluted earnings per share         | \$ 1.75                              | \$ (0.57)   | \$ 1.18  | \$ 1.45                              | \$ (0.55)   | \$ 0.90  |

Constant currency

Although CN conducts its business and reports its earnings in Canadian dollars, a large portion of revenues and expenses is denominated in US dollars. As such, the Company's results are affected by exchange-rate fluctuations.

Financial results at “constant currency” allow results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Measures at constant currency are considered non-GAAP measures and do not have any standardized meaning prescribed by GAAP and may, therefore, not be comparable to similar measures presented by other companies. Financial results at constant currency are obtained by translating the current period results denominated in US dollars at the foreign exchange rates of the comparable period of the prior year. The average foreign exchange rates for the three months ended March 31, 2012 and 2011 were \$1.00 and \$0.99 per US\$1.00, respectively.

CANADIAN NATIONAL RAILWAY COMPANY  
NON-GAAP MEASURES - unaudited

On a constant currency basis, the Company's 2012 first quarter net income would have been lower by \$4 million (\$0.01 per diluted share). The following table presents a reconciliation of 2012 net income as reported to net income on a constant currency basis:

| In millions  | Three months<br>ended<br>March 31, 2012 |
|--|---|
| Net income, as reported  | \$ 775                                  |
| Add back:  |   |
| Positive impact due to the weakening Canadian dollar included in net income                | (3)                                     |
| Add:   |   |
| Decrease due to the weakening Canadian dollar on additional year-over-year US\$ net income | (1)                                     |
| Impact of foreign exchange using constant currency rates                                   | (4)                                     |
| Net income, on a constant currency basis   | \$ 771                                  |

Free cash flow

The Company generated \$48 million of free cash flow for the three months ended March 31, 2012 compared to \$445 million for the same period in 2011. Free cash flow does not have any standardized meaning prescribed by GAAP and may, therefore, not be comparable to similar measures presented by other companies. The Company believes that free cash flow is a useful measure of performance as it demonstrates the Company's ability to generate cash after the payment of capital expenditures and dividends. The Company defines free cash flow as the sum of net cash provided by operating activities, adjusted for changes in cash and cash equivalents resulting from foreign exchange fluctuations; and net cash provided by investing activities, adjusted for changes in restricted cash and cash equivalents, if any, for the impact of major acquisitions, if any; and the payment of dividends, calculated as follows:

| In millions  | Three months ended<br>March 31 |        |
|--|--------------------------------|--------|
|  | 2012                           | 2011   |
| Net cash provided by operating activities  | \$ 125                         | \$ 499 |
| Net cash provided by investing activities  | 89                             | 93     |
| Net cash provided before financing activities  | 214                            | 592    |
| Adjustments:   |                                |        |
| Dividends paid   | (165)                          | (149)  |
| Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents | (1)                            | 2      |
| Free cash flow   | \$ 48                          | \$ 445 |



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Canadian National Railway Company

Date: April 23, 2012

By: /s/ Cristina Circelli  
Name: Cristina Circelli  
Title: Deputy Corporate Secretary and  
General Counsel