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PRESS RELEASE

CN LOGO

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Stock symbols: TSE : CNR / NYSE: CNI

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CN reports second-quarter 2002 financial results

- o Second-quarter 2002 net income and diluted earnings per share of \$280 million and \$1.39, respectively, compared with adjusted net income and diluted EPS (1) of \$240 million and \$1.21 for second-quarter 2001
- o Revenues of \$1,551 million, up 11 per cent on the strength of WC acquisition and increased petroleum and chemicals, automotive and intermodal traffic
- o Strong six-month free cash flow of \$356 million

MONTREAL, July 22, 2002 - Canadian National today reported second-quarter 2002 net income of \$280 million, an increase of 17 per cent over adjusted net income (1) of \$240 million for the same quarter of 2001.

Diluted earnings per share for the second quarter of 2002 were \$1.39, up 15 per cent from adjusted diluted earnings per share (1) of \$1.21 for the year-earlier period.

Reported net income for the second quarter of 2001 was \$217 million, or \$1.10 per diluted share.

Operating income for second-quarter 2002 increased 10 per cent to \$490 million from \$444 million - excluding the effect of a special charge to operations to recognize the costs of a workforce adjustment program - for the same quarter of 2001. Including the special charge, operating income for second-quarter 2001 was \$346 million.

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Revenues for the most recent quarter rose 11 per cent to \$1,551 million, while operating expenses were \$1,061 million. Excluding the special charge, second-quarter 2001 operating expenses were \$948 million; including it, operating expenses were \$1,046 million.

CN President and Chief Executive Officer Paul M. Tellier said: "We are pleased with these results, which were achieved in a difficult environment for our grain and coal units. The Wisconsin Central acquisition, and the strong performance of our petroleum and chemicals, automotive and intermodal units,

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drove a 17 per cent increase in net income, and 15 per cent rise in earnings per share for the second quarter. Free cash flow for the first half of 2002 was also strong, rising to \$356 million from \$208 million for the comparable period of 2001. In sum, the strength of our service-sensitive merchandise business and intermodal unit more than offset tough conditions for CN's grain and coal segments.

"CN's petroleum and chemicals unit benefited from the inclusion of WC revenues, market share gains and strong sulfur shipments to the United States and to offshore markets. Continuing high motor vehicle production, particularly in the U.S., boosted our automotive revenue sharply. And the improvement in intermodal revenues reflected stronger Canadian retail sales, higher volumes on expedited trains in the Canadian domestic segment, and increased overseas traffic in spite of the loss of some overseas moves. Grain revenues were significantly affected again by the poor 2001/2002 Canadian crop, while coal revenues declined as a result of reduced demand from power utilities and weak Canadian coal exports to offshore markets.

"CN's strength is its service-sensitive merchandise business - petroleum and chemicals, forest products, metals and minerals, and automotive -- which is growing faster than the rail industry average as a result of our disciplined, scheduled railroad service. This service edge positions CN for further market share gains in its merchandise segments, with continued economic recovery expected for the balance of the year. However, CN remains cautious about business prospects for the second half of 2002, as there are signs of uncertainty in the overall level of consumer and business confidence."

Five of CN's seven business units experienced revenue gains in the second quarter of 2002: petroleum and chemicals (28 per cent); forest products (24 per cent); metals and minerals (18 per cent); automotive (14 per cent); and intermodal (seven per cent). Revenues declined for coal (eight per cent), and grain and fertilizers (seven per cent).

Total carloadings for second-quarter 2002 rose 12 per cent to 1,059 thousand.

CN's operating ratio for the most recent three-month period was 68.4 per cent, compared with 68.1 per cent, excluding the special charge, for the year-earlier quarter.

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The increase in operating expenses for second-quarter 2002 was largely attributable to the consolidation of WC operating expenses, higher expenses for labor and fringe benefits, equipment rents, and casualty and other, partially offset by lower fuel costs.

First-half 2002 results

Net income for the first half of 2002 was \$510 million, compared with adjusted net income(1) of \$442 million for the comparable period of 2001.

Diluted earnings per share for the first six months of 2002 were \$2.54 per share, up from adjusted diluted earnings per share (1) of \$2.24 for the year-earlier period.

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Reported net income for the first six months of 2001 was \$492 million, or \$2.49 per diluted share.

Operating income for the first half of 2002 was \$896 million, compared with \$829 million - excluding the effect of the special charge - for the same period of 2001. Including the special charge, operating income for first-half 2001 was \$731 million.

First-half 2002 revenues increased 10 per cent to \$3,060 million, while operating expenses were \$2,164 million. Excluding the special charge, operating expenses for the first six months of 2001 were \$1,961 million; including it, operating expenses were \$2,059 million.

Five of CN's business units reported increased revenues for the first six months of 2002: forest products (28 per cent); petroleum and chemicals (23 per cent); metals and minerals (21 per cent); automotive (17 per cent); intermodal (three per cent). Revenues declined for grain and fertilizers (12 per cent) and coal (nine per cent).

Total carloadings for the first half of 2002 increased eight per cent to 2,058 thousand.

(1) Adjusted net income and diluted earnings per share for the second quarter and first half of 2001 exclude a \$62-million after-tax charge (31 cents per share) to operations for a workforce adjustment program; a \$71-million after-tax charge (35 cents per share) to write down CN's net investment in 360networks Inc.; and a \$110 million deferred income tax recovery (55 cents per share) resulting from the enactment of lower corporate tax rates in Canada. In addition, CN's first-half 2001 results exclude a gain from the sale of CN's 50 per cent interest in the Detroit River Tunnel Company, equal to \$73 million after-tax, or 36 cents per diluted share. Note 10 to the accompanying financial statements provides a reconciliation of adjusted net income to the Company's net income reported in accordance with United States generally accepted accounting principles (U.S. GAAP).

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The financial results in this press release are reported in Canadian dollars and were determined on the basis of U.S. GAAP.

This news release contains forward-looking statements. CN cautions that, by their nature, forward-looking statements involve risk and uncertainties and that its results could differ materially from those expressed or implied in such statements. Reference should be made to CN's most recent Form 40-F filed with the United States Securities and Exchange Commission, and the Annual Information Form filed with the Canadian securities regulators, for a summary of major risk factors.

Canadian National Railway Company 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 cities of Toronto, Buffalo, Chicago, Detroit, Duluth,

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Minn./Superior, Wis., Green Bay, Wis., Minneapolis/St. Paul, Memphis, St. Louis, and Jackson, Miss., with connections to all points in North America.

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CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF INCOME (U.S. GAAP)

(In millions, except per share data)

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
	(Unaudited)			
Revenues	\$ 1,551	\$ 1,392	\$ 3,060	\$ 2,790
Operating expenses excluding special charge	1,061	948	2,164	1,961
Special charge (Note 3)	--	98	--	98
Total operating expenses	1,061	1,046	2,164	2,059
Operating income	490	346	896	731
Interest expense	(91)	(78)	(187)	(158)
Other income (loss) (Note 4)	23	(90)	61	22
Income before income taxes	422	178	770	595
Income tax (expense) recovery (Note 5)	(142)	39	(260)	(103)
Net income (Note 10)	\$ 280	\$ 217	\$ 510	\$ 492
Earnings per share (Note 10)				
Basic	\$ 1.44	\$ 1.13	\$ 2.64	\$ 2.57
Diluted	\$ 1.39	\$ 1.10	\$ 2.54	\$ 2.49

Weighted-average number of shares

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Basic	193.9	192.0	193.5	191.7
Diluted	203.3	200.9	203.1	200.4

See accompanying notes to consolidated financial statements.

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CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF OPERATING INCOME (U.S. GAAP)

(In millions)

	Three months ended June 30			Six months ended June 30	
	2002	2001	Variance Fav (Unfav)	2002	2001
	(Unaudited)				
Revenues					
Petroleum and chemicals	\$ 271	\$ 212	28%	\$ 544	\$ 442
Metals and minerals	138	117	18%	260	211
Forest products	334	269	24%	659	511
Coal	81	88	(8%)	158	171
Grain and fertilizers	255	275	(7%)	524	591
Intermodal	261	244	7%	496	481
Automotive	159	139	14%	310	266
Other items	52	48	8%	109	100
	1,551	1,392	11%	3,060	2,792
Operating expenses					
Labor and fringe benefits	430	370	(16%)	891	741
Purchased services	143	132	(8%)	280	266
Depreciation and amortization	144	131	(10%)	285	266
Fuel	114	121	6%	226	266
Equipment rents	92	75	(23%)	179	151
Material	57	51	(12%)	118	111
Operating taxes	42	37	(14%)	83	81
Casualty and other	39	31	(26%)	102	71
Special charge (Note 3)	--	98	100%	--	91
	1,061	1,046	(1%)	2,164	2,052
Operating income	\$ 490	\$ 346	42%	\$ 896	\$ 739
Operating ratio (excluding special charge)	68.4%	68.1%	(0.3)	70.7%	70.1%

See accompanying notes to consolidated financial statements.

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CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED BALANCE SHEET (U.S. GAAP)

(In millions)

	June 30 2002	December 31 2001	June 30 2001
	(Unaudited)		(Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	\$ 93	\$ 53	\$ 30
Accounts receivable (Note 6)	675	645	662
Material and supplies	163	133	136
Deferred income taxes (Note 5)	125	153	140
Other	185	180	142
	1,241	1,164	1,110
Properties	18,732	19,145	15,880
Other assets and deferred charges (Note 2)	866	914	382
Total assets	\$20,839	\$21,223	\$17,372
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued charges	\$ 1,355	\$ 1,374	\$ 1,272
Current portion of long-term debt (Note 6)	832	163	281
Other	83	132	82
	2,270	1,669	1,635
Deferred income taxes (Note 5)	4,560	4,591	3,404
Other liabilities and deferred credits	1,217	1,345	1,159
Long-term debt (Note 6)	4,500	5,764	3,873
Convertible preferred securities (Note 7)	347	366	348
Shareholders' equity:			
Common shares (Note 7)	4,499	4,442	4,402
Accumulated other comprehensive income	31	58	36
Retained earnings	3,415	2,988	2,515
	7,945	7,488	6,953
Total liabilities and shareholders' equity	\$20,839	\$21,223	\$17,372

See accompanying notes to consolidated financial statements

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

(In millions)

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
	(Unaudited)			
Common shares (1)				
Balance, beginning of period	\$ 4,473	\$ 4,385	\$ 4,442	\$ 4,442
Stock options exercised and conversion of convertible preferred securities (Note 7)	26	17	57	
Balance, end of period	\$ 4,499	\$ 4,402	\$ 4,499	\$ 4,442
Accumulated other comprehensive income				
Balance, beginning of period	\$ 92	\$ 97	\$ 58	\$ 58
Other comprehensive income (loss):				
Unrealized foreign exchange gain (loss) on translation of U.S. dollar denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	219	123	208	
Unrealized foreign exchange gain (loss) on translation of the net investment in foreign operations	(315)	(196)	(303)	
Unrealized holding gain (loss) on investment in 360networks Inc.	--	22	--	(22)
Unrealized holding gain (loss) on fuel derivative instruments (Note 8)	4	2	55	
Other comprehensive loss before income taxes	(92)	(49)	(40)	(40)
Income tax recovery (expense) on other comprehensive loss (Note 5)	31	(12)	13	
Other comprehensive loss	(61)	(61)	(27)	(61)
Balance, end of period	\$ 31	\$ 36	\$ 31	\$ 36

Retained earnings

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Balance, beginning of period	\$ 3,176	\$ 2,335	\$ 2,988	\$ 2,
Net income	280	217	510	
Dividends	(41)	(37)	(83)	
Balance, end of period	\$ 3,415	\$ 2,515	\$ 3,415	\$ 2,

See accompanying notes to consolidated financial statements.

- (1) The Company issued 0.6 million and 1.4 million shares for the three and six months ended June 30, 2002, respectively, as a result of stock options exercised and the conversion of convertible preferred securities. At June 30, 2002, the Company had 194.1 million common shares outstanding.

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CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (U.S. GAAP)

(In millions)

	Three months ended June 30		Six months June 30
	2002	2001	2002
	(Unaudited)		
Operating activities			
Net income	\$ 280	\$ 217	\$ 510
Non-cash items in income:			
Depreciation and amortization	146	132	288
Deferred income taxes (Note 5)	85	(70)	156
Gain on sale of investment (Note 4)	--	--	--
Write-down of investment (Note 4)	--	99	--
Special charge (Note 3)	--	98	--
Changes in:			
Accounts receivable	15	51	(41)
Material and supplies	(10)	(1)	(33)
Accounts payable and accrued charges	31	56	20
Other net current assets and liabilities	(12)	(6)	(12)
Payments for workforce reductions	(47)	(40)	(94)
Other	(13)	(49)	(37)
Cash provided from operating activities	475	487	757
Investing activities			
Net additions to properties	(242)	(269)	(362)
Other, net	(28)	(12)	44
Cash used by investing activities	(270)	(281)	(318)

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Dividends paid	(41)	(37)	(83)
Financing activities			
Issuance of long-term debt	1,035	236	1,890
Reduction of long-term debt	(1,182)	(430)	(2,260)
Issuance of common shares	25	15	54
Cash used by financing activities	(122)	(179)	(316)
Net increase (decrease) in cash and cash equivalents	42	(10)	40
Cash and cash equivalents, beginning of period	51	40	53
Cash and cash equivalents, end of period	\$ 93	\$ 30	\$ 93

See accompanying notes to consolidated financial statements

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

Note 1 - Basis of presentation

In management's opinion, the accompanying unaudited interim consolidated financial statements, prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Canadian National Railway Company's (the Company) financial position as at June 30, 2002, December 31 and June 30, 2001, its results of operations, changes in shareholders' equity and cash flows for the three and six months ended June 30, 2002 and 2001.

These consolidated financial statements and notes have been prepared using accounting policies consistent with those used in preparing the Company's 2001 Annual Consolidated Financial Statements. While management believes that the disclosures presented are adequate to make the information not misleading, these consolidated financial statements and notes should be read in conjunction with the Company's Annual Consolidated Financial Statements.

Note 2 - Acquisition of Wisconsin Central Transportation Corporation

Wisconsin Central Transportation Corporation (WC) was consolidated effective October 9, 2001, the date the Company acquired control of WC. Accordingly, the Company's results of operations for the three and six months ended June 30, 2001 exclude the results of operations of WC. For comparative purposes only, if the Company had acquired WC on January 1, 2001, based on the historical amounts reported by WC, revenues, net income, basic and diluted earnings per share would have been \$1,533 million, \$236 million, \$1.23 per basic share and \$1.19 per diluted share, respectively, for the three months ended June 30, 2001 and

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\$3,069 million, \$518 million, \$2.70 per basic share and \$2.61 per diluted share, respectively, for the six months ended June 30, 2001. These pro forma figures do not reflect synergies, and accordingly, do not account for any potential increases in operating income, any estimated cost savings or facilities consolidation.

In the first quarter of 2002, the Company sold its investment in Tranz Rail Holdings Limited (Tranz Rail), for net proceeds of \$68 million. The Company had acquired Tranz Rail, a company which operates a 2,400- route mile freight and passenger rail business in New Zealand, through its acquisition of WC, and had accounted for it as "available for sale" in accordance with the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) 87-11, "Allocation of Purchase Price to Assets to be Sold." The difference between the carrying amount of the investment and the proceeds from sale was not significant.

Note 3 - Special charge

In the second quarter of 2001, the Company recorded a charge of \$98 million, \$62 million after tax, for the reduction of 690 positions by the end of 2002. The charge included severance and other payments to be made to affected employees.

Note 4 - Other income (loss)

In June 2001, the Company recorded a charge of \$99 million, \$71 million after tax, to write down its net investment in 360networks Inc.

In the first quarter of 2001, the Company recorded a gain of \$101 million, \$73 million after tax, from the sale of its 50 percent interest in the Detroit River Tunnel Company (DRT). The DRT is a 1.6-mile rail-only tunnel crossing the Canada-U.S. border between Detroit and Windsor, Ontario.

Note 5 - Income taxes

In June 2001, the Company recorded a reduction of \$78 million to its net deferred income tax liability resulting from the enactment of lower corporate tax rates in Canada. As a result, for the three and six months ended June 30, 2001, a deferred income tax recovery of \$110 million was recorded in the Consolidated statement of income and a deferred income tax expense of \$32 million was recorded in Other comprehensive income.

Note 6 - Financing activities

Revolving credit facilities

The Company has U.S.\$1,000 million revolving credit facilities that expire in March 2003. The credit facility agreements contain customary financial covenants with which the Company has been in full compliance since the inception of the agreements. At June 30, 2002, the Company had entirely repaid its borrowings of U.S.\$172 million (Cdn\$273 million) outstanding at December 31, 2001. At June 30, 2002, letters of credit under the revolving credit facilities amounted to \$292 million.

Commercial paper

The Company has a commercial paper program, which is backed by a portion of its revolving credit facilities, enabling it to issue commercial paper up to a maximum aggregate principal amount of \$600 million, or the U.S.

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

dollar equivalent. The revolving credit facilities will mature within the next twelve months and while the Company's intent is to renew the existing revolving credit facilities, the refinancing has not been renegotiated and, as such, the outstanding balance of U.S.\$209 million (Cdn\$317 million) of commercial paper has been included in the current portion of long-term debt at June 30, 2002.

Accounts receivable securitization

The Company has a revolving agreement, expiring in June 2003, to sell eligible freight trade receivables up to a maximum of \$350 million of receivables outstanding at any point in time. At June 30, 2002, pursuant to the agreement, \$168 million and U.S.\$113 million (Cdn\$171 million) had been sold on a limited recourse basis reflecting no change in the level of accounts receivable sold since December 31, 2001.

Note 7 - Termination of conversion rights of 5.25% Convertible preferred securities ("Securities")

On May 6, 2002, the Company announced that it had met the conditions required to terminate the Securities holders' right to convert their Securities into common shares of the Company, and set the conversion termination date as July 3, 2002. The conditions were met when the Company's common share price exceeded 120% of the conversion price of U.S.\$38.48 per share (as adjusted, following the Company's two-for-one common stock split in September 1999) for a specified period, and all accrued interest on the Securities had been paid.

As of June 30, 2002, approximately U.S.\$1 million principal amount of the Securities were surrendered for conversion into common shares.

On July 3, 2002, the closing price of the Company's common shares exceeded the conversion price of U.S.\$38.48 per share. As a result, Securities that had not been previously surrendered for conversion were converted, resulting in the issuance of approximately 6 million common shares of the Company.

Note 8 - Derivative instruments

At June 30, 2002, a portion of the Company's fuel requirement is being hedged using derivative instruments that are carried at market value on the balance sheet. These fuel hedges are accounted for as cash flow hedges whereby the effective portion of the change in the market value of the derivative instruments has been recorded in Other comprehensive income. At June 30, 2002, Accumulated other comprehensive income included an unrealized holding gain of \$17 million, \$11 million after tax, (\$38 million unrealized holding loss, \$25 million after tax at December 31, 2001) of which \$12 million relates to derivative instruments that will mature within the next twelve months.

Note 9 - Commitments

At June 30, 2002, the Company had commitments to acquire railroad ties, rail, freight cars and locomotives at an aggregate cost of \$267 million (\$52 million at December 31, 2001).

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

Note 10 - Net income and earnings per share

In addition to the consolidation of the WC results of operations for the three and six months ended June 30, 2002 as explained in Note 2, the comparability of the results of operations for the three and six months ended June 30, 2002 and 2001 is also impacted by the following items:

	Three months ended June 30			Six months June 30	
	2002	2001	2001 pro forma (1)	2002	2001
(In millions)	(Unaudited)				
Income before income taxes, excluding undernoted items	\$ 422	\$ 375	\$ 403	\$ 770	\$ 690
Income tax expense	(142)	(135)	(144)	(260)	(240)
Adjusted net income	280	240	259	510	440
Undernoted items, net of tax:					
Special charge for workforce reductions	--	(62)	(62)	--	(62)
Write-down of net investment in 360networks Inc.	--	(71)	(71)	--	(71)
Deferred income tax recovery	--	110	110	--	110
Gain on sale of Detroit River Tunnel Company	--	--	--	--	7
	--	(23)	(23)	--	5
Net income	\$ 280	\$ 217	\$ 236	\$ 510	\$ 490

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

	Three months ended June 30			Six months ended June 30	
	2002	2001	2001 pro forma (1)	2002	2001
(In millions, except per share data)	(Unaudited)				
Net income	\$ 280	\$ 217	\$ 236	\$ 510	\$ 490
Income impact on assumed conversion of preferred securities	3	3	3	6	--
Net income	\$ 283	\$ 220	\$ 239	\$ 516	\$ 490

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Weighted-average shares outstanding	193.9	192.0	192.0	193.5	191.0
Effect of dilutive securities and stock options	9.4	8.9	8.9	9.6	8.0

Weighted-average diluted shares outstanding	203.3	200.9	200.9	203.1	200.0
Basic earnings per share	\$ 1.44	\$ 1.13	\$ 1.23	\$ 2.64	\$ 2.50
Diluted earnings per share	\$ 1.39	\$ 1.10	\$ 1.19	\$ 2.54	\$ 2.40
=====					

(1) The pro forma figures reflect the Company's results of operations as if the Company had acquired WC on January 1, 2001.

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

Note 11 - Stock-based compensation expense

Compensation expense for certain performance-based stock-option awards under the Company's various stock option plans is determined by the options' intrinsic value in accordance with Accounting Principles Board Opinion (APB) 25, "Accounting for Stock Issued to Employees," and related interpretations. Had compensation expense been determined based upon fair values at the date of grant for awards under all plans, consistent with the methods of Statement of Financial Accounting Standards (SFAS) No.123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share for the three and six months ended June 30, 2002 and 2001 would have been as follows:

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Net income (in millions)	\$ 273	\$ 212	\$ 497	\$ 482
Basic earnings per share	\$ 1.41	\$ 1.10	\$ 2.57	\$ 2.51
Diluted earnings per share	\$ 1.36	\$ 1.07	\$ 2.48	\$ 2.44

These amounts include compensation cost as calculated using the Black-Scholes option-pricing model with the assumptions:

	Three and six months ended June 30	
	2002	2001
Expected option life (years)	7.0	7.0
Risk-free interest rate	5.79%	5.36%
Expected stock price volatility	30%	30%
Average dividend per share	\$ 0.86	\$ 0.78

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001

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 Weighted average fair value
 of options granted \$ 30.61 \$ 24.54 \$ 30.98 \$ 18.76

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

	Three months ended June 30		Six months June 30	
	2002	2001 (1)	2002	2001

	(Unaudited)			

Rail operations				
Freight revenues (\$ millions)	1,499	1,344	2,951	2,951
Gross ton miles (millions)	78,835	73,077	153,990	147,000
Revenue ton miles (RTM) (millions)	40,332	38,104	79,621	77,000
Route miles (includes Canada and the U.S.)	17,837	15,479	17,837	15,479
Operating expenses per RTM (cents) (2)	2.63	2.49	2.72	2.72
Freight revenue per RTM (cents)	3.72	3.53	3.71	3.71
Carloads (thousands)	1,059	947	2,058	1,944
Freight revenue per carload (\$)	1,415	1,419	1,434	1,434
Diesel fuel consumed (Liters in millions)	350	328	713	673
Average fuel price (\$/Liter)	0.32	0.36	0.31	0.31
Revenue ton miles per liter of fuel consumed	115	116	112	112
Gross ton miles per liter of fuel consumed	225	223	216	216
Diesel fuel consumed (U.S. gallons in millions)	92	87	188	188
Average fuel price (\$/U.S. gallon)	1.20	1.30	1.18	1.18
Revenue ton miles per U.S. gallon of fuel consumed	438	438	424	424
Gross ton miles per U.S. gallon of fuel consumed	857	840	819	819
Locomotive bad order ratio (%) (3)	6.8	7.0	6.9	6.9
Freight car bad order ratio (%)	6.0	5.4	6.1	6.1

Productivity(2)				
Operating ratio (%)	68.4	68.1	70.7	70.7
Freight revenue per route mile (\$ thousands)	84	87	165	165
Revenue ton miles per route mile (thousands)	2,261	2,462	4,464	4,464
Freight revenue per average number of employees (\$ thousands)	64	60	129	129
Revenue ton miles per average number of employees (thousands)	1,720	1,694	3,478	3,478

Employees				
Number at end of period	23,708	22,817	23,708	22,817
Average number during period	23,454	22,499	22,895	22,499
Labor and fringe benefits expense per RTM (cents)	1.07	0.97	1.12	1.12
Injury frequency rate per 200,000 person hours	2.6	4.0	3.0	3.0
Accident rate per million train miles	2.1	2.0	2.1	2.1

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Financial

Debt to total capitalization ratio (% at end of period)	41.7	39.3	41.7
Return on assets (% at end of period)	1.6	1.5	3.0

- (1) 2001 data exclude WC which was acquired and consolidated effective October 9, 2001.
- (2) 2001 figures exclude special charge.
- (3) In 2002, the Company expanded its measure of bad order locomotives to include all those not available for service, including on-line failures. The 2001 figures have been restated accordingly.

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

	Three months ended June 30			Six months ended June		
	2002	2001 (1)	Variance Fav (Unfav)	2002	2001 (1)	Vari Fav (
----- (Unaudited)						
Revenue ton miles (millions)						
Petroleum and chemicals	7,357	5,745	28%	14,684	12,118	
Metals and minerals	3,158	2,736	15%	6,438	5,094	
Forest products	8,570	7,521	14%	16,692	14,506	
Coal	3,609	4,058	(11%)	6,914	7,994	
Grain and fertilizers	9,282	10,492	(12%)	19,113	22,951	
Intermodal	7,442	6,773	10%	14,071	13,205	
Automotive	914	779	17%	1,709	1,490	
	40,332	38,104	6%	79,621	77,358	
Freight revenue / RTM (cents)						
Total freight revenue per RTM	3.72	3.53	5%	3.71	3.47	
Business units:						
Petroleum and chemicals	3.68	3.69	--	3.70	3.66	
Metals and minerals	4.37	4.28	2%	4.04	4.20	
Forest products	3.90	3.58	9%	3.95	3.54	
Coal	2.24	2.17	3%	2.29	2.16	
Grain and fertilizers	2.75	2.62	5%	2.74	2.60	
Intermodal	3.51	3.60	(3%)	3.52	3.64	
Automotive	17.40	17.84	(2%)	18.14	17.85	

Carloads (thousands)						
Petroleum and chemicals	146	123	19%	291	257	
Metals and minerals	104	67	55%	190	126	
Forest products	151	124	22%	301	243	

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Coal	127	128	(1%)	247	266
Grain and fertilizers	135	144	(6%)	277	298
Intermodal	312	282	11%	585	555
Automotive	84	79	6%	167	154
	-----	-----		-----	-----
	1,059	947	12%	2,058	1,899

Freight revenue / carload (dollars)

Total freight revenue per carload	1,415	1,419	--	1,434	1,415
Business units:					
Petroleum and chemicals	1,856	1,724	8%	1,869	1,724
Metals and minerals	1,327	1,746	(24%)	1,368	1,698
Forest products	2,212	2,169	2%	2,189	2,115
Coal	638	688	(7%)	640	650
Grain and fertilizers	1,889	1,910	(1%)	1,892	2,000
Intermodal	837	865	(3%)	848	867
Automotive	1,893	1,759	8%	1,856	1,727

(1) 2001 data exclude WC which was acquired and consolidated effective October 9, 2001.

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CANADIAN NATIONAL RAILWAY COMPANY
 SUPPLEMENTARY INFORMATION
 PRO FORMA CONSOLIDATED STATEMENT OF INCOME (U.S. GAAP)

(In millions, except per share data)

	Three months ended June 30			Six months	
	2002	2001 pro forma(1)	Variance Fav (Unfav)	2002	2001 pro for

	(Unaudited)				
Revenues					
Petroleum and chemicals	\$ 271	\$ 234	16%	\$ 544	\$
Metals and minerals	138	144	(4%)	260	
Forest products	334	329	2%	659	
Coal	81	96	(16%)	158	
Grain and fertilizers	255	290	(12%)	524	
Intermodal	261	251	4%	496	
Automotive	159	139	14%	310	
Other items	52	50	4%	109	
	-----	-----		-----	-----
	1,551	1,533	1%	3,060	3,
Operating expenses					
Labor and fringe benefits	430	415	(4%)	891	
Purchased services	143	141	(1%)	280	
Depreciation and amortization	144	141	(2%)	285	
Fuel	114	132	14%	226	
Equipment rents	92	83	(11%)	179	

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Material	57	58	2%	118	
Operating taxes	42	39	(8%)	83	
Casualty and other	39	36	(8%)	102	
Special charge	--	98	100%	--	
	1,061	1,143	7%	2,164	2,
Operating income	490	390	26%	896	
Interest expense	(91)	(104)		(187)	(
Other income (loss)	23	(80)		61	
Income before income taxes	422	206		770	
Income tax (expense) recovery	(142)	30		(260)	(
Net income	\$ 280	\$ 236		\$ 510	\$
Operating ratio (excluding special charge)	68.4%	68.2%	(0.2)	70.7%	7
Diluted earnings per share	\$ 1.39	\$ 1.19		\$ 2.54	\$ 2
Adjusted diluted earnings per share (2)	\$ 1.39	\$ 1.30		\$ 2.54	\$ 2
Diluted weighted-average number of shares	203.3	200.9		203.1	20

- (1) The pro forma figures reflect the Company's results of operations as if the Company had acquired WC on January 1, 2001.
- (2) 2001 excludes the gain on sale of DRT, the special charge for workforce reductions, the charge to write down the net investment in 360networks Inc., and the deferred income tax recovery resulting from the enactment of lower corporate tax rates in Canada.

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CANADIAN NATIONAL RAILWAY COMPANY
SUPPLEMENTARY PRO FORMA INFORMATION (U.S. GAAP)

	Three months ended June 30			Six months ended Jun		
	2002	2001 pro forma(1)	Variance Fav (Unfav)	2002	2001 pro forma(1)	V
(Unaudited)						
Revenue ton miles (millions)						
Petroleum and chemicals	7,357	6,039	22%	14,684	12,738	
Metals and minerals	3,158	3,527	(10%)	6,438	6,741	

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Forest products	8,570	8,384	2%	16,692	16,279
Coal	3,609	4,381	(18%)	6,914	8,644
Grain and fertilizers	9,282	10,736	(14%)	19,113	23,444
Intermodal	7,442	6,823	9%	14,071	13,305
Automotive	914	781	17%	1,709	1,493

	40,332	40,671	(1%)	79,621	82,644

Freight revenue / RTM (cents)

Total freight revenue per RTM	3.72	3.65	2%	3.71	3.58
Business units:					
Petroleum and chemicals	3.68	3.87	(5%)	3.70	3.83
Metals and minerals	4.37	4.08	7%	4.04	3.92
Forest products	3.90	3.92	(1%)	3.95	3.90
Coal	2.24	2.19	2%	2.29	2.17
Grain and fertilizers	2.75	2.70	2%	2.74	2.67
Intermodal	3.51	3.68	(5%)	3.52	3.72
Automotive	17.40	17.80	(2%)	18.14	17.82

Carloads (thousands)

Petroleum and chemicals	146	131	11%	291	275
Metals and minerals	104	113	(8%)	190	208
Forest products	151	155	(3%)	301	309
Coal	127	137	(7%)	247	285
Grain and fertilizers	135	152	(11%)	277	312
Intermodal	312	296	5%	585	583
Automotive	84	79	6%	167	154

	1,059	1,063	--	2,058	2,126

Freight revenue / carload (dollars)

Total freight revenue per carload	1,415	1,395	1%	1,434	1,393
Business units:					
Petroleum and chemicals	1,856	1,786	4%	1,869	1,775
Metals and minerals	1,327	1,274	4%	1,368	1,269
Forest products	2,212	2,123	4%	2,189	2,055
Coal	638	701	(9%)	640	660
Grain and fertilizers	1,889	1,908	(1%)	1,892	2,006
Intermodal	837	848	(1%)	848	849
Automotive	1,893	1,759	8%	1,856	1,727

(1) The pro forma data has been prepared assuming the Company had acquired WC on January 1, 2001.

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its wholly owned subsidiaries, including Grand Trunk Corporation (GTC), Illinois Central Corporation (IC) and Wisconsin Central Transportation Corporation (WC), the latter from October 9, 2001. As used herein, the word "Company" means, as the context requires, CN and its subsidiaries. CN's common shares are listed on the Toronto and New York stock exchanges. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of United States generally accepted accounting principles (U.S. GAAP). The Company also prepares consolidated financial statements in accordance with Canadian GAAP, which are included in this document. The Canadian GAAP financial statements are different in some respects from these financial statements, principally in the treatment of track replacement costs, expenditures relating to improvements of bridges and other structures and freight cars, derivative instruments, stock-based compensation and convertible preferred securities.

FINANCIAL RESULTS

Second quarter and first six months of 2002
compared to corresponding periods in 2001

The Company consolidated WC effective October 9, 2001, the date it acquired control of WC. Accordingly, in the following discussion, the Company's results of operations for the three and six months ended June 30, 2001 exclude the results of operations of WC. Hereafter, pro forma refers to the consolidation of the results of operations of WC, assuming the acquisition and control of WC occurred on January 1, 2001.

The Company recorded consolidated net income of \$280 million (\$1.44 per basic share or \$1.39 per diluted share) for the quarter ended June 30, 2002 compared to consolidated net income of \$217 million (\$1.13 per basic share or \$1.10 per diluted share) in the second quarter of 2001, an increase of \$63 million (\$0.31 per basic share or \$0.29 per diluted share). Consolidated net income for the six months ended June 30, 2002 was \$510 million (\$2.64 per basic share or \$2.54 per diluted share) compared to \$492 million (\$2.57 per basic share or \$2.49 per diluted share) in the same period of 2001.

Operating income was \$490 million for the second quarter of 2002 compared to \$346 million in the same quarter of 2001. For the first half of the year, operating income was \$896 million compared to \$731 million in the same period of 2001.

The three and six-month periods ended June 30, 2001 included items impacting the comparability of the results of operations to those in the respective periods of 2002. In the second quarter of 2001, the Company recorded a special charge for workforce reductions of \$98 million, \$62 million after tax (\$0.32 per basic share or \$0.31 per diluted share), a charge to write down its net investment in 360networks Inc. of \$99 million, \$71 million after tax (\$0.37 per basic share or \$0.35 per diluted share), and a \$110 million deferred income tax recovery (\$0.57 per basic share or \$0.55 per diluted share) resulting from the enactment of lower corporate tax rates in Canada. In the first quarter of 2001, the Company recorded a gain of \$101 million, \$73 million after tax (\$0.38 per basic share or \$0.36 per diluted share) related to the sale of its 50 percent interest in the Detroit River Tunnel Company (DRT).

Excluding the aforementioned items, net income in the current quarter increased by \$40 million (\$0.19 per basic share or \$0.18 per diluted share) from net income of \$240 million (\$1.25 per basic share or \$1.21 per diluted share) for the same quarter last year. For the six months ended June 30, 2002, net income increased by \$68 million (\$0.33 per basic share or \$0.30 per diluted share), from \$442 million (\$2.31 per basic share or \$2.24 per diluted share) for the same period in 2001.

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Excluding the 2001 special charge, operating income for the second quarter of 2002 increased to \$490 million from \$444 million for the same period last year, an increase of \$46 million, or 10%. The operating ratio, excluding the 2001 special charge, increased to 68.4% in the current quarter from 68.1% in the second quarter of 2001, a 0.3-point increase. For the six-month period ended June 30, 2002,

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CANADIAN NATIONAL RAILWAY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

operating income excluding the 2001 special charge, increased by \$67 million, or 8%, to \$896 million. The six-month operating ratio, excluding the 2001 special charge, increased to 70.7% in 2002 from 70.3% in 2001, a 0.4-point increase.

Comparison to 2001 pro forma

Excluding the 2001 items previously discussed, net income in the current quarter increased by \$21 million (\$0.09 per basic and diluted share) from pro forma net income of \$259 million (\$1.35 per basic share or \$1.30 per diluted share) in the comparative 2001 quarter. For the six months ended June 30, 2002, net income, excluding the 2001 items previously discussed, increased by \$42 million (\$0.20 per basic share or \$0.18 per diluted share) from pro forma net income of \$468 million (\$2.44 per basic share or \$2.36 per diluted share) in the same period in 2001.

Revenues for the second quarter of 2002 increased by \$18 million, or 1%, when compared to pro forma revenues of \$1,533 million in the same 2001 period. For the six-month period ended June 30, 2002, revenues decreased by \$9 million when compared to pro forma revenues of \$3,069 million in the same period last year.

Excluding the 2001 special charge, operating expenses in the current quarter increased by \$16 million, or 2%, from pro forma operating expenses of \$1,045 million in the same quarter of 2001. For the first half of 2002, operating expenses amounted to \$2,164 million, relatively unchanged from pro forma operating expenses, excluding the special charge, of \$2,165 million in the same period last year.

Operating income for the second quarter of 2002 increased to \$490 million when compared to pro forma operating income, excluding the special charge, of \$488 million in the comparable 2001 quarter. The operating ratio, excluding the 2001 special charge, increased slightly to 68.4% in the current quarter from the pro forma operating ratio of 68.2% in the second quarter of 2001. For the sixmonth period ended June 30, 2002, operating income was \$896 million, a decrease of \$8 million, from pro forma operating income, excluding the special charge, of \$904 million in the comparable 2001 period. The six-month operating ratio, excluding the 2001 special charge, increased slightly to 70.7% in 2002 from the pro forma operating ratio of 70.5% in 2001.

Revenues

Revenues in the second quarter of 2002 totalled \$1,551 million compared to \$1,392 million during the same period in 2001, an increase of \$159 million, or 11%. Revenues for the first half of 2002 were \$3,060 million, an increase of \$270 million, or 10%, from the same period last year. The increase in the

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quarter was mainly attributable to the consolidation of WC revenues and to gains in petroleum and chemicals, automotive, and intermodal. Partly offsetting these gains were lower Canadian grain, and coal revenues. Contributing to the six-month increase was the impact of the weaker Canadian dollar, particularly in the petroleum and chemicals, forest products and automotive business units.

Revenue ton miles increased by 6% in the quarter and 3% in the six-month period when compared to the same periods in 2001. Freight revenue per revenue ton mile for the quarter and first half of the year, increased by 5% and 7%, respectively, when compared to the same periods last year.

Petroleum and chemicals: Revenues increased by \$59 million, or 28%, for the quarter and \$101 million, or 23%, for the first six months when compared to the same periods in 2001. Growth was driven by the inclusion of WC revenues, market share gains in various sectors, and strong sulfur shipments to both the United States and offshore markets. Revenue per revenue ton mile for the quarter remained unchanged and increased by 1% during the first six months of 2002, as the inclusion of shorter haul WC traffic and the effects of the weaker Canadian dollar were offset by an increase in longer haul CN traffic.

Metals and minerals: Revenues increased by \$21 million, or 18%, for the quarter and \$46 million, or 21%, for the first six months when compared to the same periods in 2001. The inclusion of WC revenues, market share gains in the non-ferrous segment, particularly aluminum, and increased

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CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

construction materials traffic, contributed to the growth in both the quarter and first half of the year. Partly offsetting these increases were a temporary reduction in cement shipments and one-time gains in 2001. Revenue per revenue ton mile increased by 2% in the quarter mainly due to a shift to shorter haul traffic. The 4% decline during the first six months was mainly attributable to the inclusion of certain lower-rated WC traffic.

Forest products: Revenues increased by \$65 million, or 24%, for the quarter and \$145 million, or 28%, for the first six months when compared to the same periods in 2001. Growth in the quarter and first six months was attributable to the inclusion of WC revenues and increased lumber and panels traffic, which benefited from strong housing markets in both Canada and the United States. These gains were partly offset by continued weakness in the pulp and paper markets. The increase in revenue per revenue ton mile of 9% in the quarter and 12% in the first half was mainly due to the inclusion of shorter haul WC traffic and the effect of the weaker Canadian dollar.

Coal: Revenues decreased by \$7 million, or 8%, for the quarter and \$15 million, or 9%, for the first six months when compared to the same periods in 2001. The decline in both the quarter and first half of 2002 was mainly due to reduced demand from power utilities and weak Canadian coal exports to offshore markets. The revenue per revenue ton mile increase of 3% in the quarter was mainly due to a decrease in longer haul traffic. The 6% increase in the first six months is also attributable to an increase in rates tied to commodity prices and the effect of the weaker Canadian dollar.

Grain and fertilizers: Revenues decreased by \$20 million, or 7%, for the

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quarter and \$72 million, or 12%, for the first six months when compared to the same periods in 2001. The decline in both the quarter and first six months of 2002 reflected a significant deterioration in the 2001/2002 Canadian grain crop that was partly offset by increases in the fertilizer segment and higher soybean shipments from the United States. The 5% increase in revenue per revenue ton mile in both the quarter and first half of 2002 was mainly due to an increase in the regulated grain rates and a decline in longer haul traffic.

Intermodal: Revenues increased by \$17 million, or 7%, for the quarter and \$15 million, or 3%, for the first six months when compared to the same periods in 2001. The increase in both the quarter and first half of 2002 was mainly due to stronger Canadian retail sales, higher volumes on expedited trains in the Canadian domestic segment and increased overseas traffic in spite of the loss of some overseas moves. The 3% decrease in revenue per revenue ton mile in both the quarter and first half of 2002 was mainly attributable to the elimination of the fuel surcharge at the end of 2001 and an increase in the average length of haul.

Automotive: Revenues increased by \$20 million, or 14%, for the quarter and \$44 million, or 17%, for the first six months when compared to the same periods in 2001, reflecting stronger motor vehicle production particularly in the United States. For the quarter, the 2% decrease in revenue per revenue ton mile was mainly attributable to an increase in longer haul traffic. For the first six months, the 2% increase was mainly attributable to the weaker Canadian dollar, which more than offset the increase in the average length of haul.

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CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Operating expenses

In the second quarter of 2002, operating expenses amounted to \$1,061 million compared to \$1,046 million in the same quarter of 2001. Operating expenses for the first half of 2002 were \$2,164 million compared to \$2,059 million in the same period of 2001.

Excluding the 2001 special charge for workforce reductions, operating expenses for the current quarter increased by \$113 million, or 12%, from \$948 million in the same period of 2001. For the first half of the year, operating expenses, excluding the 2001 special charge, increased by \$203 million, or 10%, from \$1,961 million in the same period last year. The increases in the quarter and first six months of 2002 were mainly due to the consolidation of WC operating expenses, higher expenses for labor and fringe benefits, equipment rents and casualty and other, partially offset by lower fuel costs.

Labor and fringe benefits: Labor and fringe benefit expenses in 2002 increased by \$60 million, or 16%, for the second quarter and \$143 million, or 19%, for the first half when compared to the same 2001 periods. The increase was mainly attributable to the inclusion of WC labor expense of \$40 million for the quarter and \$85 million for the six-month period, wage increases and higher benefit expenses, including health and welfare and other postretirement benefits. The impact of the weaker Canadian dollar on U.S. denominated expenses also contributed to the increase in the six-month period ended June 30, 2002.

Purchased services: The costs of purchased services increased by \$11 million,

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or 8%, for the quarter and \$15 million, or 6%, for the six-month period ended June 30, 2002, when compared to corresponding periods in 2001. The increase was mainly due to the inclusion of WC purchased services expense and higher derailment-related expenses in the second quarter of 2002 that were partially offset by lower crew transportation and lodging expenses.

Depreciation and amortization: Depreciation and amortization expense for the quarter and six months ended June 30, 2002, increased by \$13 million, or 10%, and \$22 million, or 8%, respectively, from the comparable 2001 periods, due mainly to the inclusion of WC depreciation expense.

Fuel: The decrease in the second quarter of \$7 million, or 6%, and \$38 million, or 14%, in the first half of 2002, when compared to the respective periods in 2001, was primarily due to a decrease in the average price of fuel, partially offset by the inclusion of WC fuel expense.

Equipment rents: These expenses increased by \$17 million, or 23%, in the quarter and \$28 million, or 19%, for the first half of the year, when compared to the same periods in 2001. The increase in the quarter and the first half of the year was mainly due to the inclusion of WC equipment rents and lower net car hire income.

Material: For the quarter and six months ended June 30, 2002, material costs increased by \$6 million, or 12%, and \$4 million, or 4%, respectively, from the comparable periods in 2001, due mainly to the inclusion of WC material costs that were partly offset by lower locomotive and car maintenance costs.

Operating taxes: Operating taxes increased by \$5 million, or 14%, during the second quarter of 2002 and \$2 million, or 2%, during the six-month period ended June 30, 2002 when compared to the corresponding periods in 2001, mainly due to the inclusion of WC operating taxes and one-time provincial sales tax recoveries in 2001 that were partly offset by capital and sales tax recoveries in 2002.

Casualty and other: These expenses increased by \$8 million, or 26%, in the current quarter and by \$27 million, or 36%, for the first six months of 2002, when compared to the corresponding 2001 periods. The increase in both the quarter and six-month period is mainly due to higher expenses for casualty and legal claims, including occupational-related claims, the inclusion of WC casualty and other expenses, and higher derailment-related expenses in the second quarter of 2002. Partially offsetting these increases were lower expenses related to environmental matters and, bad debt expenses in the first half of 2002.

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CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Other

Interest expense: Interest expense for the second quarter increased by \$13 million, or 17%, from the comparable 2001 quarter and \$29 million, or 18%, in the first six months of 2002 versus the equivalent 2001 period. Lower interest expense related to the maturity of certain notes was more than offset by the financing related to the acquisition of WC and the consolidation of WC interest expense.

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Other income: Excluding the impact of the 2001 DRT and 360networks Inc. transactions previously discussed, other income for the second quarter of 2002 increased to \$23 million from \$9 million in the comparable 2001 quarter, and increased to \$61 million for the first half of 2002 from \$20 million in the first half of last year. The increase was mainly due to the inclusion of WC's equity in earnings of English Welsh and Scottish Railway (EWS) of \$4 million for the quarter and \$15 million for the first half of 2002 and higher gains on disposal of surplus assets.

Income tax expense: The Company recorded an income tax expense of \$142 million for the current quarter and an income tax recovery of \$39 million for the corresponding period in 2001. Income tax expense was \$260 million for the six months ended June 30, 2002 and \$103 million for the comparable 2001 period. When compared to 2001, the increase in income tax expense for both the quarter and sixmonth period is mainly due to a \$110 million deferred income tax recovery recorded in June 2001 that resulted from the enactment of lower corporate tax rates in Canada. The effective tax rate for the quarter and six months ended June 30, 2002 was 33.6% and 33.8%, respectively. The effective tax rate for the comparative 2001 periods was 36.0%, excluding the deferred income tax recovery and the income tax effect on the special charge, the DRT transaction and the charge for 360networks Inc.

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CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of liquidity is cash generated from operations. The Company also has the ability to fund liquidity requirements through its revolving credit facilities, the issuance of debt and/or equity, and the sale of a portion of its accounts receivable through the Accounts receivable securitization program. In addition, from time to time, the Company's liquidity requirements can be supplemented by the disposal of surplus properties and the monetization of assets.

Operating activities: Cash provided from operating activities was \$475 million and \$757 million for the three and six-month periods ended June 30, 2002, respectively, compared to \$487 million and \$592 million for the same 2001 periods. Net income, excluding non-cash items, generated cash of \$511 million for the current quarter and \$954 million for the six months ended June 30, 2002, compared to \$476 million and \$871 million in the corresponding 2001 periods. Cash generated in the first six months of 2002 was partially consumed by payments for workforce reductions and income taxes of \$94 million and \$67 million, respectively, compared to \$89 million and \$59 million, respectively, for the same period last year. Payments for casualty and legal claims, including amounts paid for workers' compensation, for the first half of 2002 and 2001 were \$68 million and \$78 million, respectively.

Investing activities: Cash used by investing activities in the quarter and six months ended June 30, 2002 amounted to \$270 million and \$318 million, respectively, compared to \$281 million and \$309 million for the comparable periods in 2001. The Company's investing activities in the first half of 2002 included net proceeds of \$68 million from the sale of its investment in Tranz Rail Holdings Limited, whereas the comparative period included proceeds of \$112

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million from the sale of DRT. Net capital expenditures amounted to \$242 million and \$362 million in the three and six months ended June 30, 2002, respectively, a decrease of \$27 million and \$36 million from the same 2001 periods. Capital expenditures included expenditures for roadway renewal, rolling stock, and other capacity and productivity improvements.

The Company anticipates that capital expenditures for 2002 will remain at approximately the same level as 2001. This will include funds required for ongoing renewal of the basic plant and other acquisitions and investments required to improve the Company's operating efficiency and customer service.

Dividends: The Company paid a quarterly dividend of \$0.215 per share amounting to \$41 million for the second quarter and \$83 million for the first six months of 2002 compared to \$37 million and \$75 million, respectively, at the rate of \$0.195 per share, for the same periods in 2001.

Free cash flow

The Company generated \$164 million and \$356 million of free cash flow for the three and six months ended June 30, 2002, respectively, compared to \$169 million and \$208 million for the same 2001 periods. The Company defines free cash flow as cash provided from operating activities less capital expenditures, other investing activities and dividends paid.

Financing activities: Cash used by financing activities totaled \$122 million for the second quarter and \$316 million for the six months ended June 30, 2002 compared to \$179 million and \$193 million in the same periods of 2001. In 2002, the Company's issuances and repayments of long-term debt related principally to the Company's commercial paper and revolving credit facilities.

The Company has access to various financing arrangements:

Revolving credit facilities

The Company has U.S.\$1,000 million revolving credit facilities that expire in March 2003. The credit facility agreements contain customary financial covenants with which the Company has been in full compliance since the inception of the agreements. At June 30, 2002, the Company had entirely repaid its borrowings of U.S.\$172 million (Cdn\$273 million) outstanding at December 31, 2001. At June 30, 2002, letters of credit under the revolving credit facilities amounted to \$292 million.

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CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Commercial paper

The Company has a commercial paper program, which is backed by a portion of its revolving credit facilities, enabling it to issue commercial paper up to a maximum aggregate principal amount of \$600 million, or the U.S. dollar equivalent. The revolving credit facilities will mature within the next twelve months and while the Company's intent is to renew the existing revolving credit facilities, the refinancing has not been renegotiated and, as such, the outstanding balance of U.S.\$209 million (Cdn\$317 million) of commercial paper has been included in the current portion of long-term debt at June 30, 2002.

Shelf registration statement

At June 30, 2002, the Company had U.S.\$400 million remaining for issuance under

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its shelf registration statement.

Accounts receivable securitization program

The sale of a portion of the Company's accounts receivable is conducted under a securitization program, which has a \$350 million maximum limit and will expire in June 2003. The program is subject to customary credit rating and reporting requirements. In the event the program is terminated before its scheduled maturity, the Company expects to have sufficient liquidity remaining in its current and future revolving credit facilities to meet future obligations and anticipated capital expenditures. The Company intends to renew the program upon expiration. At June 30, 2002, pursuant to the agreement, \$168 million and U.S.\$113 million (Cdn\$171 million) had been sold on a limited recourse basis reflecting no change in the level of accounts receivable sold since December 31, 2001.

The Company's access to current and alternate sources of financing at competitive costs is dependent on its credit rating. The Company is not aware of any adverse trend, event or condition that would affect the Company's current credit standing.

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CANADIAN NATIONAL RAILWAY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Contractual obligations and commercial commitments

In the normal course of business, the Company incurs contractual obligations and commercial commitments. The following tables set forth material obligations and commitments as of June 30, 2002:

Contractual obligations (In millions)

Contract Type	Total	2002	2003- 2004	2005- 2006	2007 & thereafter
Debentures, notes and other	\$4,490	\$ 14	\$1,204	\$ 559	\$2,713
Capital leases (a)	842	72	174	84	512
Long-term debt	\$5,332	\$ 86	\$1,378	\$ 643	\$3,225
Operating leases (b)	1,221	111	393	292	425
Total obligations	\$6,553	\$ 197	\$1,771	\$ 935	\$3,650

Commercial commitments (In millions)

Commitment Type	Total	2002	2003- 2004	2005- 2006	2007 & thereafter
Standby letters of credit (c)	\$ 384	\$ 320	\$ 63	\$ 1	\$ --
Other commercial commitments (d)	267	36	231	--	--
Total commitments	\$ 651	\$ 356	\$ 294	\$ 1	\$ --

- =====
- (a) Excludes \$486 million of imputed interest on capital leases at rates ranging from approximately 3.0% to 11.9%.
 - (b) The Company has guaranteed the residual values of \$77 million of equipment with lease terms expiring in the years 2004 through 2012. As at June 30, 2002, the Company does not expect to make any payments pertaining to the guarantees of these leases.
 - (c) Consists mainly of letters of credit issued as a financial guarantee of the Company's contractual obligations under various arrangements. Letters of credit under the revolving credit facilities amounted to \$292 million.
 - (d) Includes commitments for railroad ties, rail, freight cars and locomotives.

For 2002 and the foreseeable future, the Company expects cash from operations and from its various sources of financing to be sufficient to meet its future obligations and fund anticipated capital expenditures.

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CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

TERMINATION OF CONVERSION RIGHTS OF 5.25% CONVERTIBLE PREFERRED SECURITIES
("SECURITIES")

On May 6, 2002, the Company announced that it had met the conditions required to terminate the Securities holders' right to convert their Securities into common shares of the Company, and set the conversion termination date as July 3, 2002. The conditions were met when the Company's common share price exceeded 120% of the conversion price of U.S.\$38.48 per share (as adjusted, following the Company's two-for-one common stock split in September 1999) for a specified period, and all accrued interest on the Securities had been paid.

As of June 30, 2002, approximately U.S.\$1 million principal amount of the Securities were surrendered for conversion into common shares.

On July 3, 2002, the closing price of the Company's common shares exceeded the conversion price of US\$38.48 per share. As a result, Securities that had not been previously surrendered for conversion were converted, resulting in the issuance of approximately 6 million common shares of the Company.

ACQUISITION OF WISCONSIN CENTRAL TRANSPORTATION CORPORATION

On October 9, 2001, the Company completed its acquisition of WC for an acquisition cost of \$1,297 million (U.S.\$831 million) and began a phased integration of the companies' operations.

The merger involves the integration of two previously independent businesses to provide shippers enhanced rail services over a coordinated network. There can be no assurance that there will be realization of rail service and other efficiencies or synergies that are expected to be derived from the merger.

The Company accounted for the merger using the purchase method of accounting as required by the Financial Accounting Standards Board's (FASB) Statement of

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Financial Accounting Standards (SFAS) No. 141 "Business Combinations." As such, the Company's consolidated financial statements include the assets, liabilities and results of operations of WC as of October 9, 2001, the date of acquisition. The results of the final valuation of WC's assets and liabilities are not expected to have a material impact on the results of operations.

CRITICAL ACCOUNTING POLICIES, BUSINESS RISKS AND OTHER MATTERS

Management's discussion and analysis of the Company's financial condition and results of operations is based on the same accounting policies as those used in preparing the Company's 2001 Annual Consolidated Financial Statements. As such, this document should be read in conjunction with Note 1 "Summary of significant accounting policies" of the Company's 2001 Annual Consolidated Financial Statements.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates, including those related to litigation, environmental liabilities, casualty claims, depreciation lives, income tax liabilities, and pension and other post-retirement benefits, based upon currently available information. Actual results could differ from these estimates.

Legal actions

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to personal injuries, occupational related claims, damage to property and environmental matters. The Company maintains, and regularly updates on a case-by-case basis, casualty provisions for such items when the expected loss is both probable and can be reasonably estimated. Although the Company considers such provisions to

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CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

be adequate for these matters, the final outcome with respect to actions outstanding or pending at June 30, 2002, or future claims, cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year.

Employee work-related injuries, including occupational related claims, are compensated according to the provisions of the Federal Employers' Liability Act (FELA) and represent a significant expense for the railroad industry in the United States. Consistent with the case-by-case approach, the Company does not accrue a provision for unasserted occupational related claims, as they are not reasonably estimable. In view of the Company's increasing expansion in the United States, and the increase in the number of occupational claims over the past years, the Company will continue to work with an independent actuarial firm and will consider the results of an actuarial based approach to evaluate

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the sufficiency of its provision for occupational claims. Any change in the estimated liability would be accounted for as a change in accounting estimate and recorded in the results of operations.

As at June 30, 2002, the Company had aggregate reserves for legal matters of \$250 million (\$277 million at December 31, 2001), of which approximately \$143 million was for work-related injuries to employees in the United States, including occupational related claims.

Environmental matters

Regulatory compliance

The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations 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 the 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. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements.

Environmental expenditures that relate to current operations are expensed unless they relate to an improvement to the property. Expenditures that relate to an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed.

Known existing environmental concerns

The ultimate cost of known contaminated sites cannot be definitely established, and the estimated environmental liability for any given site may vary depending on the nature and extent of the contamination, the available clean-up technique, the Company's share of the costs and evolving regulatory standards governing environmental liability. As a result, liabilities are recorded when environmental assessments and/or remedial efforts are likely, and when 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.

Unknown existing environmental concerns

While the Company believes that it has identified the costs likely to be incurred in the next several years, based on known information, for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and costs cannot be reasonably estimated and as such, costs related to future remediation will be accrued in the year they become known.

Future occurrences

In the operation of a railroad, it is possible that derailments, explosions or other accidents may occur that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future, which may be material, to address

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CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

any such harm, including costs relating to the performance of clean-ups, natural resource damages and compensatory or punitive damages relating to harm to individuals or property.

As at June 30, 2002, the Company had aggregate accruals for environmental costs of \$103 million (\$112 million at December 31, 2001). The Company has not included any reduction in costs for anticipated recovery from insurance.

There can be no assurance that material 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 environmental liabilities or costs.

Properties

The Company follows the group method of depreciation and, as such, depreciates the cost of properties, net of asset impairment write-downs, on a straight-line basis over the estimated useful life of each asset class. Assessing the reasonableness of the estimated useful lives of properties requires judgment and is based upon currently available information, including comprehensive depreciation studies that incorporate assumptions of remaining useful lives. A revision to the estimated useful lives of properties is considered a change in accounting estimate and, as a result, depreciation rates would be changed on a prospective basis. A significant change in depreciable lives could result in a material change to depreciation expense.

Pension and Other post-retirement benefits

The Company accounts for pension and other postretirement benefits as required by SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions," respectively. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and performance of plan assets. Delayed recognition of differences between actual results and those assumed is a guiding principle of these standards. This approach allows for a smooth recognition of changes in benefit obligations and plan performance over the working lives of the employees who benefit from the plans.

An actuarial valuation is conducted at least on a triennial basis, to account for pension and other postretirement benefits which uses management assumptions for the discount rate, the expected return on plan assets, the rate of compensation increase, the health care cost trend and the expected average remaining service life of the employee group. A change in any one of these assumptions could have a significant impact on the pension and post-retirement benefit expense recorded under SFAS No. 87 and SFAS No. 106, respectively.

Financial instruments

Although the Company conducts its business and receives revenues primarily in Canadian dollars, a growing portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues.

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The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. Collateral or other security to support financial instruments subject to credit risk is usually not obtained. However, the credit standing of counterparties is regularly monitored, and losses due to counterparty nonperformance are not anticipated.

To mitigate the effects of fuel price changes on its operating margins and overall profitability, the Company has a systematic hedging program which calls for regularly entering into swap positions on crude and heating oil to cover a target percentage of future fuel consumption up to two years in advance.

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CANADIAN NATIONAL RAILWAY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

At June 30, 2002, the Company hedged approximately 46% of the estimated 2002 fuel consumption, 41% of the estimated 2003 fuel consumption and 7% of the estimated 2004 fuel consumption. This represented approximately 348 million U.S. gallons at an average price of U.S.\$0.606 per U.S. gallon.

For the three months ended June 30, 2002, the Company realized a negligible loss from its fuel hedging activities, compared to a \$2 million gain in the same period last year. For the first half of 2002, the Company's hedging activities resulted in a realized loss of \$9 million compared to a \$4 million gain in the same period of 2001.

Other comprehensive income for the quarters ended June 30, 2002 and 2001, included an unrealized gain of \$4 million, \$2 million after tax, and \$2 million, \$1 million after tax, respectively, resulting from the Company's fuel hedging activities. For the first half of 2002 and 2001, other comprehensive income included an unrealized gain of \$55 million, \$36 million after tax, and an unrealized loss of \$5 million, \$3 million after tax, respectively.

At June 30, 2002, Accumulated other comprehensive income included an unrealized holding gain of \$17 million, \$11 million after tax, (\$38 million unrealized holding loss, \$25 million after tax at December 31, 2001) of which \$12 million relates to derivative instruments that will mature within the next twelve months.

Competition

The Company faces significant competition from a variety of carriers, including Canadian Pacific Railway Company which operates the other major rail system in Canada, serving most of the same industrial and population centers as the Company, long distance trucking companies and, in certain markets, major U.S. railroads and other Canadian and U.S. railroads. Competition is generally based on the quality and reliability of services provided, price, and the condition and suitability of carriers' equipment. Competition is particularly intense in eastern Canada where an extensive highway network and population centers, located relatively close to one another, have encouraged significant competition from trucking companies. In addition, much of the freight carried by the Company consists of commodity goods that are available from other sources in competitive markets. Factors affecting the competitive position of suppliers of these commodities, including exchange rates, could materially adversely affect the demand for goods supplied by the sources served by the

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Company and, therefore, the Company's volumes, revenues and profit margins.

To a greater degree than other rail carriers, the Company's subsidiary, Illinois Central Railroad Company (ICRR), is vulnerable to barge competition because its main routes are parallel to the Mississippi River system. The use of barges for some commodities, particularly coal and grain, often represents a lower cost mode of transportation. Barge competition and barge rates are affected by navigational interruptions from ice, floods and droughts, which can cause widely fluctuating barge rates. The ability of ICRR to maintain its market share of the available freight has traditionally been affected by the navigational conditions on the river.

In recent years, there has been significant consolidation of rail systems in the United States. The resulting larger rail systems are able to offer seamless services in larger market areas and effectively compete with the Company in certain markets. There can be no assurance that the Company will be able to compete effectively against current and future competitors in the railroad industry and that further consolidation within the railroad industry will not adversely affect the Company's competitive position. No assurance can be given that competitive pressures will not lead to reduced revenues, profit margins or both.

Labor negotiations

As of July 2002, the Company had achieved ratified settlements with bargaining units representing 98% of the Company's Canadian unionized workforce. These agreements are generally for a three-year period effective until December 31, 2003.

The general approach to labor negotiations by U.S. Class 1 railroads is to bargain on a collective national

CANADIAN NATIONAL RAILWAY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

basis. For several years now, Grand Trunk Western (GTW), Duluth Winnipeg and Pacific (DWP), ICRR, CCP Holdings, Inc. (CCP) and just recently WC, have bargained on a local basis rather than holding national, industry wide negotiations. Local negotiations result in settlements that better address both the employees' concerns and preferences and the railways' actual operating environment. There are risks associated with negotiating locally. Presidents and Congress have demonstrated that they will step in to avoid national strikes, while a local dispute may not generate federal intervention, making an extended work stoppage more likely. The Company believes the potential mutual benefits of local bargaining outweigh the risks.

As of July 2002, the Company had in place agreements with bargaining units representing all the unionized workforce at ICRR, GTW, DWP, and CCP and 43% at WC. These agreements have various durations, ranging from the end of 2001 to the end of 2005. Several of these agreements have reopened or will reopen in 2002.

Negotiations are ongoing with the bargaining units with which the Company has not yet achieved new settlements. Until new agreements are reached or until settlements are ratified, the terms and conditions of previous agreements

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continue to apply. Although the Company does not anticipate work action related to these negotiations while they are ongoing, there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

Regulation

The Company's rail operations in Canada are subject to regulation as to (i) rate setting and network rationalization by the Canadian Transportation Agency (the Agency), under the Canada Transportation Act (Canada) (the CTA), and (ii) safety by the federal Minister of Transport under the Railway Safety Act (Canada) and certain other statutes. The Company's U.S. rail operations are subject to regulation by the Surface Transportation Board (STB) (the successor to the Interstate Commerce Commission) and the Federal Railroad Administration. In addition, the Company is subject to a variety of health, safety, labor, environmental and other regulations, all of which can affect its competitive position and profitability.

The CTA Review Panel, which was appointed by the federal government to carry out a comprehensive review of the Canadian transportation legislation, issued its report to the Minister of Transport at the end of June 2001. It was released to the public on July 18, 2001 and contains numerous recommendations for legislative changes, which, if adopted, would affect all modes of transportation, including rail. No assurance can be given that any decision by the federal government pursuant to the report's recommendations will not materially adversely affect the Company's financial position or results of operations.

Business prospects and other risks

In any given year, the Company, like other railroads, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports or the supplies it requires to operate. In addition, many of the goods and commodities carried by the Company experience cyclicity in the demand for them. However, many of the bulk commodities the Company transports move offshore and are impacted more by global economic conditions than North American economic cycles. The Company's results of operations can be expected to reflect this cyclicity because of the significant fixed costs inherent in railroad operations. The Company's revenues are affected by prevailing economic conditions. In 2001, widespread recessionary conditions in the economy affected the Company's revenues across a number of markets. Following a significant reduction in interest rates and a major depletion in inventories, the North American economy rebounded in the first part of 2002. While continued growth is expected throughout the year, the speed of the recovery will depend on overall consumer and business confidence, which currently show signs of uncertainty. The Company will continue to leverage its strong service capabilities but remains cautious about business prospects in the second half of the year.

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CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Should a major economic slowdown or recession occur in North America or other key markets, or should major industrial restructuring take place, the volume of rail shipments carried by the Company is likely to be affected.

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In addition to the inherent risks of the business cycle, the Company is occasionally susceptible to severe weather conditions. For example, in the first quarter of 1998, a severe ice storm hit eastern Canada, which disrupted operations and service for the railroad as well as for CN customers.

Inflation

Generally accepted accounting principles require the use of historical cost as the basis of reporting in financial statements. As a result, the cumulative effect of inflation, which has significantly increased asset replacement costs for capital-intensive companies such as CN, is not reflected in operating expenses. Depreciation charges on an inflationadjusted basis, assuming that all operating assets are replaced at current price levels, would be substantially greater than historically reported amounts.

Forward-looking information

Certain information included in this report may be "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the outlook, the actual results or performance of the Company or the rail industry to be materially different from any future results or performance implied by such statements. Such factors include the factors set forth in this section as well as other risks detailed from time to time in reports filed by the Company with securities regulators in Canada and the United States.

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CANADIAN NATIONAL RAILWAY COMPANY
 CONSOLIDATED STATEMENT OF INCOME (CANADIAN GAAP)

 (in millions, except per share data)

	Three months ended June 30	
	2002	
Revenues	\$ 1,551	\$ 1,551
Operating expenses excluding special charge	1,166	1,166
Special charge (Note 4)	--	--
Total operating expenses	1,166	1,166
Operating income	385	385
Interest expense	(88)	(88)
Other income (loss) (Note 5)	23	23

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Income before income taxes		320	
Income tax expense		(108)	

Net income (Note 10)		\$ 212	\$
=====			
Earnings per share (Note 10)			
Basic		\$ 1.08	\$
Diluted		\$ 1.04	\$
Weighted-average number of shares			
Basic		193.9	1
Diluted		203.3	2
=====			

See accompanying notes to consolidated financial statements.

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CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF OPERATING INCOME (CANADIAN GAAP)

(in millions)

	Three months ended June 30		
	2002	2001	Variance Fav (Unfav)

			(Unaudited)
Revenues			
Petroleum and chemicals	\$ 271	\$ 212	28%
Metals and minerals	138	117	18%
Forest products	334	269	24%
Coal	81	88	(8%)
Grain and fertilizers	255	275	(7%)
Intermodal	261	244	7%
Automotive	159	139	14%
Other items	52	48	8%

	1,551	1,392	11%
Operating expenses			
Labor and fringe benefits	498	421	(18%)
Purchased services	154	139	(11%)
Depreciation and amortization	124	122	(2%)
Fuel	114	121	6%
Equipment rents	94	77	(22%)

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Material	76	72	(6%)
Operating taxes	42	37	(14%)
Casualty and other	64	60	(7%)
Special charge (Note 4)	--	98	100%
	-----	-----	
	1,166	1,147	(2%)
	-----	-----	
Operating income	\$ 385	\$ 245	57%
	=====	=====	
Operating ratio (excluding special charge)	75.2%	75.4%	0.2
	=====	=====	

See accompanying notes to consolidated financial statements.

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CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED BALANCE SHEET (CANADIAN GAAP)

(in millions)

	June 2012
	(Unaudited)

Assets	
Current assets:	
Cash and cash equivalents	\$
Accounts receivable (Note 6)	
Material and supplies	
Deferred income taxes	
Other	

	1,
Properties	16,
Other assets and deferred charges (Note 3)	

Total assets	\$ 18,
	=====
Liabilities and shareholders' equity	
Current liabilities:	
Accounts payable and accrued charges	\$ 1,
Current portion of long-term debt (Note 6)	
Other	

	2,
Deferred income taxes	3,
Other liabilities and deferred credits	1,

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Long-term debt (Note 6)	4,
Shareholders' equity:	
Common shares (Note 7)	3,
Convertible preferred securities (Note 7)	
Contributed surplus	
Currency translation	
Retained earnings	2,
-----	6,

Total liabilities and shareholders' equity	\$ 18,
=====	

See accompanying notes to consolidated financial statements.

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CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CANADIAN GAAP)

(in millions)

	Three months end June 30	

	2002	

Common shares (1)		
Balance, beginning of period	\$ 3,240	\$ 3
Stock options exercised and conversion of convertible preferred securities (Note 7)	26	

Balance, end of period	\$ 3,266	\$ 3
=====		
Convertible preferred securities (2)		
Balance, beginning of period	\$ 327	\$
Converted shares (Note 7)	(1)	

Balance, end of period	\$ 326	\$
=====		
Contributed surplus		

Balance, beginning and end of period	\$ 178	\$
=====		
Currency translation		

Balance, end of period	\$ 71	\$

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Retained earnings

Balance, beginning of period	\$ 2,680	\$ 2
Net income	212	
Dividends	(44)	
Balance, end of period	\$ 2,848	\$ 2

See accompanying notes to consolidated financial statements.

- (1) The Company issued 0.6 million and 1.4 million shares for the three and six months ended June 30, 2002, respectively, as a result of stock options exercised and the conversion of convertible preferred securities. At June 30, 2002, the Company had 194.1 million common shares outstanding.
- (2) At June 30, 2002, the Company had 4.6 million convertible preferred securities outstanding. (See Note 7)

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CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (CANADIAN GAAP)

(in millions)

	Three months ended June 30	
	2002	2001
Operating activities		
Net income	\$ 212	\$ 40
Non-cash items in income:		
Depreciation and amortization	126	123
Deferred income taxes	51	10
Gain on sale of investment (Note 5)	--	--
Write-down of investment (Note 5)	--	99
Special charge (Note 4)	--	98
Changes in:		
Accounts receivable	15	51
Material and supplies	(10)	(1)
Accounts payable and accrued charges	32	46
Other net current assets and liabilities	(12)	(10)
Payments for workforce reductions	(47)	(40)
Other	(17)	(41)
Cash provided from operating activities	350	375
Investing activities		

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Net additions to properties	(133)	(181)
Other, net	(7)	12

Cash used by investing activities	(140)	(169)

Dividends paid	(46)	(37)
Financing activities		
Issuance of long-term debt	1,035	236
Reduction of long-term debt	(1,182)	(430)
Issuance of common shares	25	15

Cash used by financing activities	(122)	(179)

Net increase (decrease) in cash and cash equivalents	42	(10)
Cash and cash equivalents, beginning of period	51	40

Cash and cash equivalents, end of period	\$ 93	\$ 30
=====		

See accompanying notes to consolidated financial statements.

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CANADIAN NATIONAL RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CANADIAN GAAP)

Note 1 - Basis of presentation

In management's opinion, the accompanying unaudited interim consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP), contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Canadian National Railway Company's (the Company) financial position as at June 30, 2002, December 31 and June 30, 2001, its results of operations, changes in shareholders' equity and cash flows for the three and six months ended June 30, 2002 and 2001.

These consolidated financial statements and notes have been prepared using accounting policies consistent with those used in preparing the Company's 2001 Annual Consolidated Financial Statements except for Stock-based compensation as explained in Note 2. While management believes that the disclosures presented are adequate to make the information not misleading, these consolidated financial statements and notes should be read in conjunction with the Company's Annual Consolidated Financial Statements.

Note 2 - Accounting changes

The Company has made certain changes in accounting policies to conform to new accounting standards.

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Stock-based compensation

Effective January 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments." The new recommendations require the use of a fair value based approach of accounting for all non-employee and certain employee stock-based awards, such as direct awards of stock, awards that call for settlement in cash or other assets, or stock appreciation rights that call for settlement through the issuance of equity instruments. For all other employee stock-based awards, such as stock option awards, the recommendations encourage but do not require that the fair value based approach be used, though require additional disclosure including net income and earnings per share, as if the fair value based accounting method had been used to account for these awards.

The Company has elected to prospectively apply the intrinsic value based method of accounting to its awards of conventional and performance-based employee stock options granted on or after January 1, 2002. These options are granted at an exercise price equal to the market value of the common shares at the date of granting and, as such, compensation cost is not recognized for conventional-based options since both the number of shares to which an individual is entitled and the exercise price are known at the date of granting. Compensation cost attributable to performance-based employee stock option awards, granted on or after January 1, 2002, is measured at intrinsic value and recognized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost. For the three and six months ended June 30, 2002, no compensation expense was recognized as no performancebased employee stock option awards were granted. In prior periods, the Company did not record compensation cost related to employee stock options grants and, any consideration paid by employees on the exercise of stock options was recorded as share capital.

In accordance with the new recommendations, the Company accounts for its direct awards of stock to employees, which are issued through the mid-term incentive share unit plan, using the fair value based approach to awards granted on or after January 1, 2002. The mid-term incentive share unit plan, entitles employees to receive payout of a combination of common stock of the Company (equity settled portion), as to 50 percent, and cash value (cash settled portion), as to the remaining 50 percent.

The new recommendations will not be applied to the equity settled portion of this award granted prior to January 1, 2002 since the new recommendations require prospective application for such awards.

Compensation cost for the cash settled portion of this award is measured at fair value, which in all respects is equivalent to intrinsic value since the compensation cost stemming from the award must be finally measured at intrinsic value, and is recognized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost. The new recommendations require retroactive application, without restatement, of the Company's grants outstanding at January 1, 2002 that call for settlement in cash. Had the new recommendations been retroactively applied to the cash settled portion, there would have been no impact on prior periods' financial statements, since no compensation expense was, or would have been recognized for prior periods, due to the nature of the vesting conditions.

For the six months ended June 30, 2002, the Company granted 3.2 million conventional options. For the three and six months ended June 30, 2002, 0.6 million and 1.4 million, respectively, of previously issued stock options were exercised.

CANADIAN NATIONAL RAILWAY COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CANADIAN GAAP)

Had compensation cost been determined as if the fair value based accounting approach had been used for all awards granted for the three and six months ended June 30, 2002, the Company's net income and earnings per share would have been as follows:

	Three months ended June 30, 2002	Six months ended June 30, 2002
Net income (in millions)	\$ 207	\$ 415
Basic earnings per share	\$ 1.05	\$ 2.11
Diluted earnings per share	\$ 1.02	\$ 2.04

As permitted by the new recommendations, these amounts exclude the effect of awards granted prior to January 1, 2002 and include the calculation of compensation expense using the Black-Scholes option-pricing model with the following assumptions:

	Three and six months ended June 30, 2002
Expected option life (years)	7.0
Risk-free interest rate	5.79%
Expected stock price volatility	30%
Average dividend per share	\$ 0.86

	Three months ended June 30, 2002	Six months ended June 30, 2002
Weighted average fair value of options granted	\$ 30.61	\$ 30.98

Foreign currency translation

In 2001, the Company early adopted the CICA amended recommendations of Section 1650 "Foreign Currency Translation." As required by the amended section, the Company has restated all financial data for 2001.

Note 3 - Acquisition of Wisconsin Central

Transportation Corporation

Wisconsin Central Transportation Corporation (WC) was consolidated effective October 9, 2001, the date the Company acquired control of WC. Accordingly, the Company's results of operations for the three and six months ended June 30, 2001 exclude the results of operations of WC. For comparative purposes only, if the Company had acquired WC on January 1, 2001, based on the historical amounts reported by WC, revenues, net income, basic and diluted earnings per share

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would have been \$1,533 million, \$52 million, \$0.26 per basic and diluted share, respectively, for the three months ended June 30, 2001 and \$3,069 million, \$329 million, \$1.68 per basic share and \$1.64 per diluted share, respectively, for the six months ended June 30, 2001. These pro forma figures do not reflect synergies, and accordingly, do not account for any potential increases in operating income, any estimated cost savings or facilities consolidation.

In the first quarter of 2002, the Company sold its investment in Tranz Rail Holdings Limited (Tranz Rail), for net proceeds of \$68 million. The Company had acquired Tranz Rail, a company which operates a 2,400- route mile freight and passenger rail business in New Zealand, through its acquisition of WC, and had accounted for it as "available for sale." The difference between the carrying amount of the investment and the proceeds from sale was not significant.

Note 4 - Special charge

In the second quarter of 2001, the Company recorded a charge of \$98 million, \$62 million after tax, for the reduction of 690 positions by the end of 2002. The charge included severance and other payments to be made to affected employees.

Note 5 - Other income (loss)

In June 2001, the Company recorded a charge of \$99 million, \$77 million after tax, to write down its net investment in 360networks Inc.

In the first quarter of 2001, the Company recorded a gain of \$101 million, \$82 million after tax, from the sale of its 50 percent interest in the Detroit River Tunnel Company (DRT). The DRT is a 1.6-mile rail-only tunnel crossing the Canada-U.S. border between Detroit and Windsor, Ontario.

Note 6 - Financing activities

Revolving credit facilities

The Company has U.S.\$1,000 million revolving credit facilities that expire in March 2003. The credit facility agreements contain customary financial covenants with which the Company has been in full compliance since the inception of the agreements. At June 30, 2002, the Company had entirely repaid its borrowings of U.S.\$172 million (Cdn\$273 million) outstanding at December 31, 2001. At June 30, 2002, letters of credit under the revolving credit facilities amounted to \$292 million.

Commercial paper

The Company has a commercial paper program, which is backed by a portion of its revolving credit facilities, enabling it to issue commercial paper up to a maximum aggregate principal amount of \$600 million, or the U.S. dollar equivalent. The revolving credit facilities will

mature within the next twelve months and while the Company's intent is to renew the existing revolving credit facilities, the refinancing has not been renegotiated and, as such, the outstanding balance of U.S.\$209 million (Cdn\$317 million) of commercial paper has been included in the current portion of

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long-term debt at June 30, 2002.

Accounts receivable securitization

The Company has a revolving agreement, expiring in June 2003, to sell eligible freight trade receivables up to a maximum of \$350 million of receivables outstanding at any point in time. At June 30, 2002, pursuant to the agreement, \$168 million and U.S.\$113 million (Cdn\$171 million) had been sold on a limited recourse basis reflecting no change in the level of accounts receivable sold since December 31, 2001.

Note 7 - Termination of conversion rights of 5.25% Convertible preferred securities ("Securities")

On May 6, 2002, the Company announced that it had met the conditions required to terminate the Securities holders' right to convert their Securities into common shares of the Company, and set the conversion termination date as July 3, 2002. The conditions were met when the Company's common share price exceeded 120% of the conversion price of U.S.\$38.48 per share (as adjusted, following the Company's two-for-one common stock split in September 1999) for a specified period, and all accrued interest on the Securities had been paid.

As of June 30, 2002, approximately U.S.\$1 million principal amount of the Securities were surrendered for conversion into common shares.

On July 3, 2002, the closing price of the Company's common shares exceeded the conversion price of U.S.\$38.48 per share. As a result, Securities that had not been previously surrendered for conversion were converted, resulting in the issuance of approximately 6 million common shares of the Company.

Note 8 - Derivative instruments

The Company uses derivative instruments to hedge a portion of its fuel requirement. As a result of its fuel hedging activities, the Company had an unrealized holding gain of \$17 million at June 30, 2002 (\$38 million unrealized holding loss at December 31, 2001).

Note 9 - Commitments

At June 30, 2002, the Company had commitments to acquire railroad ties, rail, freight cars and locomotives at an aggregate cost of \$267 million (\$52 million at December 31, 2001).

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CANADIAN NATIONAL RAILWAY COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CANADIAN GAAP)

Note 10 - Net income and earnings per share

In addition to the consolidation of the WC results of operations for the three and six months ended June 30, 2002 as explained in Note 3, the comparability of the results of operations for the three and six months ended June 30, 2002 and 2001 is also impacted by the following items:

Three months ended
June 30

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	2002	2001	2001 pro forma (1)
(In millions)			(Unaudited)
Income before income taxes, excluding undernoted items	\$ 320	\$ 278	\$ 295
Income tax expense	(108)	(99)	(104)
Adjusted net income	212	179	191
Undernoted items, net of tax:			
Special charge for workforce reductions	--	(62)	(62)
Write-down of net investment in 360networks Inc.	--	(77)	(77)
Gain on sale of Detroit River Tunnel Company	--	--	--
	--	(139)	(139)
Net income	\$ 212	\$ 40	\$ 52

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

	Three months ended June 30		
	2002	2001	2001 pro forma (1)
(In millions, except per share data)			(Unaudited)
Net income	\$ 212	\$ 40	\$ 52
Dividends on convertible preferred securities	(3)	(3)	(3)
Income used for basic earnings per share	\$ 209	\$ 37	\$ 49
Weighted-average shares outstanding	193.9	192.0	192.0
Effect of dilutive securities and stock options	9.4	8.9	8.9
Weighted-average diluted shares outstanding	203.3	200.9	200.9
Basic earnings per share	\$ 1.08	\$ 0.19	\$ 0.26
Diluted earnings per share	\$ 1.04	\$ 0.19	\$ 0.26

(1) The pro forma figures reflect the Company's results of operations as if the Company had acquired WC on January 1, 2001.

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June 30

	2002	2001 (1)

Rail operations		
Freight revenues (\$ millions)	1,499	1,344
Gross ton miles (millions)	78,835	73,077
Revenue ton miles (RTM) (millions)	40,332	38,104
Route miles (includes Canada and the U.S.)	17,837	15,479
Operating expenses per RTM (cents) (2)	2.89	2.75
Freight revenue per RTM (cents)	3.72	3.53
Carloads (thousands)	1,059	947
Freight revenue per carload (\$)	1,415	1,419
Diesel fuel consumed (Liters in millions)	350	328
Average fuel price (\$/Liter)	0.32	0.36
Revenue ton miles per liter of fuel consumed	115	116
Gross ton miles per liter of fuel consumed	225	223
Diesel fuel consumed (U.S. gallons in millions)	92	87
Average fuel price (\$/U.S. gallon)	1.20	1.30
Revenue ton miles per U.S. gallon of fuel consumed	438	438
Gross ton miles per U.S. gallon of fuel consumed	857	840
Locomotive bad order ratio (%) (3)	6.8	7.0
Freight car bad order ratio (%)	6.0	5.4

Productivity		
Operating ratio (%) (2)	75.2	75.4
Freight revenue per route mile (\$ thousands)	84	87
Revenue ton miles per route mile (thousands)	2,261	2,462
Freight revenue per average number of employees (\$ thousands)	64	60
Revenue ton miles per average number of employees (thousands)	1,720	1,694

Employees		
Number at end of period	23,708	22,817
Average number during period	23,454	22,499
Labor and fringe benefits expense per RTM (cents)	1.23	1.10
Injury frequency rate per 200,000 person hours	2.6	4.0
Accident rate per million train miles	2.1	2.0

Financial		
Debt to total capitalization ratio (% at end of period)	44.4	41.2
Return on assets (% at end of period)	1.5	0.6
=====		

(1) 2001 data exclude WC which was acquired and consolidated effective October 9, 2001.

(2) 2001 figures exclude special charge.

(3) In 2002, the Company expanded its measure of bad order locomotives to include all those not available for service, including on-line failures. The 2001 figures have been restated accordingly.

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CANADIAN NATIONAL RAILWAY COMPANY
SUPPLEMENTARY INFORMATION (CANADIAN GAAP)

	Three months ended June 30			2002
	2002	2001(1)	Variance Fav (Unfav)	
(Unaudited)				
Revenue ton miles (millions)				
Petroleum and chemicals	7,357	5,745	28%	14,
Metals and minerals	3,158	2,736	15%	6,
Forest products	8,570	7,521	14%	16,
Coal	3,609	4,058	(11%)	6,
Grain and fertilizers	9,282	10,492	(12%)	19,
Intermodal	7,442	6,773	10%	14,
Automotive	914	779	17%	1,
	40,332	38,104	6%	79,
Freight revenue / RTM (cents)				
Total freight revenue per RTM	3.72	3.53	5%	3
Business units:				
Petroleum and chemicals	3.68	3.69	--	3
Metals and minerals	4.37	4.28	2%	4
Forest products	3.90	3.58	9%	3
Coal	2.24	2.17	3%	2
Grain and fertilizers	2.75	2.62	5%	2
Intermodal	3.51	3.60	(3%)	3
Automotive	17.40	17.84	(2%)	18
Carloads (thousands)				
Petroleum and chemicals	146	123	19%	
Metals and minerals	104	67	55%	
Forest products	151	124	22%	
Coal	127	128	(1%)	
Grain and fertilizers	135	144	(6%)	
Intermodal	312	282	11%	
Automotive	84	79	6%	
	1,059	947	12%	2,
Freight revenue / carload (dollars)				
Total freight revenue per carload	1,415	1,419	--	1,
Business units:				
Petroleum and chemicals	1,856	1,724	8%	1,
Metals and minerals	1,327	1,746	(24%)	1,
Forest products	2,212	2,169	2%	2,
Coal	638	688	(7%)	
Grain and fertilizers	1,889	1,910	(1%)	1,

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Intermodal	837	865	(3%)	
Automotive	1,893	1,759	8%	1,

(1) 2001 data exclude WC which was acquired and consolidated effective October 9, 2001.

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CANADIAN NATIONAL RAILWAY COMPANY
 SUPPLEMENTARY INFORMATION
 PRO FORMA CONSOLIDATED STATEMENT OF INCOME (CANADIAN GAAP)

	Three months ended June 30			
	2002	2001 pro forma(1)	Variance Fav (Unfav)	
				(Unaudited)
Revenues				
Petroleum and chemicals	\$ 271	\$ 234	16%	\$
Metals and minerals	138	144	(4%)	
Forest products	334	329	2%	
Coal	81	96	(16%)	
Grain and fertilizers	255	290	(12%)	
Intermodal	261	251	4%	
Automotive	159	139	14%	
Other items	52	50	4%	
	1,551	1,533	1%	3,
Operating expenses				
Labor and fringe benefits	498	474	(5%)	
Purchased services	154	150	(3%)	
Depreciation and amortization	124	132	6%	
Fuel	114	132	14%	
Equipment rents	94	85	(11%)	
Material	76	80	5%	
Operating taxes	42	39	(8%)	
Casualty and other	64	65	2%	
Special charge	--	98	100%	
	1,166	1,255	7%	2,
Operating income	385	278	38%	
Interest expense	(88)	(100)		(
Other income (loss)	23	(80)		
Income before income taxes	320	98		
Income tax expense	(108)	(46)		(

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Net income	\$ 212	\$ 52	\$
Operating ratio (excluding special charge)	75.2%	75.5%	0.3 7
Diluted earnings per share	\$ 1.04	\$ 0.26	\$ 2
Adjusted diluted earnings per share (2)	\$ 1.04	\$ 0.96	\$ 2
Diluted weighted-average number of shares	203.3	200.9	20

- (1) The pro forma figures reflect the Company's results of operations as if the Company had acquired WC on January 1, 2001.
- (2) 2001 excludes the gain on sale of DRT, the special charge for workforce reductions and the charge to write down the net investment in 360networks Inc.

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CANADIAN NATIONAL RAILWAY COMPANY
SUPPLEMENTARY PRO FORMA INFORMATION (CANADIAN GAAP)

	Three months ended June 30			2002
	2002	2001 pro forma (1)	Variance Fav (Unfav)	
(Unaudited)				
Revenue ton miles (millions)				
Petroleum and chemicals	7,357	6,039	22%	14,
Metals and minerals	3,158	3,527	(10%)	6,
Forest products	8,570	8,384	2%	16,
Coal	3,609	4,381	(18%)	6,
Grain and fertilizers	9,282	10,736	(14%)	19,
Intermodal	7,442	6,823	9%	14,
Automotive	914	781	17%	1,
	40,332	40,671	(1%)	79,
Freight revenue / RTM (cents)				
Total freight revenue per RTM	3.72	3.65	2%	3
Business units:				
Petroleum and chemicals	3.68	3.87	(5%)	3
Metals and minerals	4.37	4.08	7%	4
Forest products	3.90	3.92	(1%)	3
Coal	2.24	2.19	2%	2
Grain and fertilizers	2.75	2.70	2%	2
Intermodal	3.51	3.68	(5%)	3
Automotive	17.40	17.80	(2%)	18

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Carloads (thousands)

Petroleum and chemicals	146	131	11%	
Metals and minerals	104	113	(8%)	
Forest products	151	155	(3%)	
Coal	127	137	(7%)	
Grain and fertilizers	135	152	(11%)	
Intermodal	312	296	5%	
Automotive	84	79	6%	
	-----	-----		
	1,059	1,063	--	2,

Freight revenue / carload (dollars)

Total freight revenue per carload	1,415	1,395	1%	1,
Business units:				
Petroleum and chemicals	1,856	1,786	4%	1,
Metals and minerals	1,327	1,274	4%	1,
Forest products	2,212	2,123	4%	2,
Coal	638	701	(9%)	
Grain and fertilizers	1,889	1,908	(1%)	1,
Intermodal	837	848	(1%)	
Automotive	1,893	1,759	8%	1,
	-----	-----		

- (1) The pro forma data has been prepared assuming the Company had acquired WC on January 1, 2001.

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CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CANADIAN GAAP)

Management's discussion and analysis relates to the financial condition and results of operations of Canadian National Railway Company (CN) together with its wholly owned subsidiaries, including Grand Trunk Corporation (GTC), Illinois Central Corporation (IC) and Wisconsin Central Transportation Corporation (WC), the latter from October 9, 2001. As used herein, the word "Company" means, as the context requires, CN and its subsidiaries. CN's common shares are listed on the Toronto and New York stock exchanges. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of Canadian generally accepted accounting principles (Canadian GAAP). The Company also prepares consolidated financial statements in accordance with U.S. GAAP, which are included in this document. The U.S. GAAP financial statements are different in some respects from these financial statements, principally in the treatment of track replacement costs, expenditures relating to improvements of bridges and other structures and freight cars, derivative instruments, stock-based compensation and convertible preferred securities.

FINANCIAL RESULTS

Second quarter and first six months of 2002 compared to corresponding periods in 2001

The Company consolidated WC effective October 9, 2001, the date it acquired

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control of WC. Accordingly, in the following discussion, the Company's results of operations for the three and six months ended June 30, 2001 exclude the results of operations of WC. Hereafter, pro forma refers to the consolidation of the results of operations of WC, assuming the acquisition and control of WC occurred on January 1, 2001.

The Company recorded consolidated net income of \$212 million (\$1.08 per basic share or \$1.04 per diluted share) for the quarter ended June 30, 2002 compared to consolidated net income of \$40 million (\$0.19 per basic and diluted share) in the second quarter of 2001, an increase of \$172 million (\$0.89 per basic share or \$0.85 per diluted share). Consolidated net income for the six months ended June 30, 2002 was \$423 million (\$2.16 per basic share or \$2.08 per diluted share) compared to \$311 million (\$1.59 per basic share or \$1.55 per diluted share) in the same period of 2001.

Operating income was \$385 million for the second quarter of 2002 compared to \$245 million in the same quarter of 2001. For the first half of the year, operating income was \$757 million compared to \$607 million in the same period of 2001.

The three and six-month periods ended June 30, 2001 included items impacting the comparability of the results of operations to those in the respective periods of 2002. In the second quarter of 2001, the Company recorded a special charge for workforce reductions of \$98 million, \$62 million after tax (\$0.32 per basic share or \$0.31 per diluted share) and a charge to write down its net investment in 360networks Inc. of \$99 million, \$77 million after tax (\$0.41 per basic share or \$0.39 per diluted share). In the first quarter of 2001, the Company recorded a gain of \$101 million, \$82 million after tax (\$0.43 per basic share or \$0.41 per diluted share) related to the sale of its 50 percent interest in the Detroit River Tunnel Company (DRT).

Excluding the aforementioned items, net income in the current quarter increased by \$33 million (\$0.16 per basic share or \$0.15 per diluted share) from net income of \$179 million (\$0.92 per basic share or \$0.89 per diluted share) for the same quarter last year. For the six months ended June 30, 2002, net income increased by \$55 million (\$0.27 per basic share or \$0.24 per diluted share), from \$368 million (\$1.89 per basic share or \$1.84 per diluted share) for the same period in 2001.

Excluding the 2001 special charge, operating income for the second quarter of 2002 increased to \$385 million from \$343 million for the same period last year, an increase of \$42 million, or 12%. The operating ratio, excluding the 2001 special charge, improved to 75.2% in the current quarter from 75.4% in the second quarter of 2001. For the six-month period ended June 30, 2002, operating income excluding the 2001 special charge, increased by \$52 million, or 7%, to \$757 million. The six-month operating ratio, excluding the 2001 special charge,

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CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CANADIAN GAAP)

increased to 75.3% in 2002 from 74.7% in 2001, a 0.6-point increase.

Comparison to 2001 pro forma

Excluding the 2001 items previously discussed, net income in the current quarter increased by \$21 million (\$0.09 per basic share and \$0.08 per diluted share) from pro forma net income of \$191 million (\$0.99 per basic share or

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\$0.96 per diluted share) in the comparative 2001 quarter. For the six months ended June 30, 2002, net income, excluding the 2001 items previously discussed, increased by \$37 million (\$0.18 per basic share or \$0.15 per diluted share) from pro forma net income of \$386 million (\$1.98 per basic share or \$1.93 per diluted share) in the same period in 2001.

Revenues for the second quarter of 2002 increased by \$18 million, or 1%, when compared to pro forma revenues of \$1,533 million in the same 2001 period. For the six-month period ended June 30, 2002, revenues decreased by \$9 million when compared to pro forma revenues of \$3,069 million in the same period last year.

Excluding the 2001 special charge, operating expenses in the current quarter increased by \$9 million, or 1%, from pro forma operating expenses of \$1,157 million in the same quarter of 2001. For the first half of 2002, operating expenses amounted to \$2,303 million, relatively unchanged from pro forma operating expenses, excluding the special charge, of \$2,302 million in the same period last year.

Operating income for the second quarter of 2002 increased to \$385 million when compared to pro forma operating income, excluding the special charge, of \$376 million in the comparable 2001 quarter. The operating ratio, excluding the 2001 special charge, improved to 75.2% in the current quarter from the pro forma operating ratio of 75.5% in the second quarter of 2001. For the six-month period ended June 30, 2002, operating income was \$757 million, a decrease of \$10 million, from pro forma operating income, excluding the special charge, of \$767 million in the comparable 2001 period. The six-month operating ratio, excluding the 2001 special charge, increased slightly to 75.3% in 2002 from the pro forma operating ratio of 75.0% in 2001.

Revenues

Revenues in the second quarter of 2002 totalled \$1,551 million compared to \$1,392 million during the same period in 2001, an increase of \$159 million, or 11%. Revenues for the first half of 2002 were \$3,060 million, an increase of \$270 million, or 10%, from the same period last year. The increase in the quarter was mainly attributable to the consolidation of WC revenues and to gains in petroleum and chemicals, automotive, and intermodal. Partly offsetting these gains were lower Canadian grain, and coal revenues. Contributing to the six-month increase was the impact of the weaker Canadian dollar, particularly in the petroleum and chemicals, forest products and automotive business units.

Revenue ton miles increased by 6% in the quarter and 3% in the six-month period when compared to the same periods in 2001. Freight revenue per revenue ton mile for the quarter and first half of the year, increased by 5% and 7%, respectively, when compared to the same periods last year.

Petroleum and chemicals: Revenues increased by \$59 million, or 28%, for the quarter and \$101 million, or 23%, for the first six months when compared to the same periods in 2001. Growth was driven by the inclusion of WC revenues, market share gains in various sectors, and strong sulfur shipments to both the United States and offshore markets. Revenue per revenue ton mile for the quarter remained unchanged and increased by 1% during the first six months of 2002, as the inclusion of shorter haul WC traffic and the effects of the weaker Canadian dollar were offset by an increase in longer haul CN traffic.

Metals and minerals: Revenues increased by \$21 million, or 18%, for the quarter and \$46 million, or 21%, for the first six months when compared to the same periods in 2001. The inclusion of WC revenues, market share gains in the non-ferrous segment, particularly aluminum, and increased construction materials traffic, contributed to the growth in both the quarter and first half of the year.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CANADIAN GAAP)

Partly offsetting these increases were a temporary reduction in cement shipments and one-time gains in 2001. Revenue per revenue ton mile increased by 2% in the quarter mainly due to a shift to shorter haul traffic. The 4% decline during the first six months was mainly attributable to the inclusion of certain lower-rated WC traffic.

Forest products: Revenues increased by \$65 million, or 24%, for the quarter and \$145 million, or 28%, for the first six months when compared to the same periods in 2001. Growth in the quarter and first six months was attributable to the inclusion of WC revenues and increased lumber and panels traffic, which benefited from strong housing markets in both Canada and the United States. These gains were partly offset by continued weakness in the pulp and paper markets. The increase in revenue per revenue ton mile of 9% in the quarter and 12% in the first half was mainly due to the inclusion of shorter haul WC traffic and the effect of the weaker Canadian dollar.

Coal: Revenues decreased by \$7 million, or 8%, for the quarter and \$15 million, or 9%, for the first six months when compared to the same periods in 2001. The decline in both the quarter and first half of 2002 was mainly due to reduced demand from power utilities and weak Canadian coal exports to offshore markets. The revenue per revenue ton mile increase of 3% in the quarter was mainly due to a decrease in longer haul traffic. The 6% increase in the first six months is also attributable to an increase in rates tied to commodity prices and the effect of the weaker Canadian dollar.

Grain and fertilizers: Revenues decreased by \$20 million, or 7%, for the quarter and \$72 million, or 12%, for the first six months when compared to the same periods in 2001. The decline in both the quarter and first six months of 2002 reflected a significant deterioration in the 2001/2002 Canadian grain crop that was partly offset by increases in the fertilizer segment and higher soybean shipments from the United States. The 5% increase in revenue per revenue ton mile in both the quarter and first half of 2002 was mainly due to an increase in the regulated grain rates and a decline in longer haul traffic.

Intermodal: Revenues increased by \$17 million, or 7%, for the quarter and \$15 million, or 3%, for the first six months when compared to the same periods in 2001. The increase in both the quarter and first half of 2002 was mainly due to stronger Canadian retail sales, higher volumes on expedited trains in the Canadian domestic segment and increased overseas traffic in spite of the loss of some overseas moves. The 3% decrease in revenue per revenue ton mile in both the quarter and first half of 2002 was mainly attributable to the elimination of the fuel surcharge at the end of 2001 and an increase in the average length of haul.

Automotive: Revenues increased by \$20 million, or 14%, for the quarter and \$44 million, or 17%, for the first six months when compared to the same periods in 2001, reflecting stronger motor vehicle production particularly in the United States. For the quarter, the 2% decrease in revenue per revenue ton mile was mainly attributable to an increase in longer haul traffic. For the first six months, the 2% increase was mainly attributable to the weaker Canadian dollar, which more than offset the increase in the average length of haul.

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Operating expenses

In the second quarter of 2002, operating expenses amounted to \$1,166 million compared to \$1,147 million in the same quarter of 2001. Operating expenses for the first half of 2002 were \$2,303 million compared to \$2,183 million in the same period of 2001.

Excluding the 2001 special charge for workforce reductions, operating expenses for the current quarter increased by \$117 million, or 11%, from \$1,049 million in the same period of 2001. For the first half of the year, operating expenses, excluding the 2001 special charge, increased by \$218 million, or 10%, from \$2,085 million in the same period last year. The increases in the quarter and first six months of 2002 were mainly due to the consolidation of WC operating expenses, higher expenses for labor and fringe benefits, equipment rents and casualty and other, partially offset by lower fuel costs.

Labor and fringe benefits: Labor and fringe benefit expenses in 2002 increased by \$77 million, or 18%, for the second quarter and \$156 million, or 19%, for the first half when compared to the same 2001 periods. The increase was mainly attributable to the inclusion of WC labor expense of \$51 million for the quarter and \$103 million for the six-month period, wage increases and higher benefit expenses, including health and welfare and other postretirement benefits. The impact of the weaker Canadian dollar on U.S. denominated expenses also contributed to the increase in the six-month period ended June 30, 2002.

Purchased services: The costs of purchased services increased by \$15 million, or 11%, for the quarter and \$22 million, or 8%, for the six-month period ended June 30, 2002, when compared to corresponding periods in 2001. The increase was mainly due to the inclusion of WC purchased services expense and higher derailment-related expenses in the second quarter of 2002 that were partially offset by lower crew transportation and lodging expenses.

Depreciation and amortization: Depreciation and amortization expense for the quarter and six months ended June 30, 2002, increased by \$2 million, or 2%, and \$15 million, or 7%, respectively, from the comparable 2001 periods, due mainly to the inclusion of WC depreciation expense.

Fuel: The decrease in the second quarter of \$7 million, or 6%, and \$38 million, or 14%, in the first half of 2002, when compared to the respective periods in 2001, was primarily due to a decrease in the average price of fuel, partially offset by the inclusion of WC fuel expense.

Equipment rents: These expenses increased by \$17 million, or 22%, in the quarter and \$28 million, or 18%, for the first half of the year, when compared to the same periods in 2001. The increase in the quarter and the first half of the year was mainly due to the inclusion of WC equipment rents and lower net car hire income.

Material: For the quarter and six months ended June 30, 2002, material costs increased by \$4 million, or 6%, and decreased by \$1 million, or 1%, respectively, from the comparable periods in 2001. Lower locomotive and car maintenance costs in the quarter and first half of 2002 partly offset the inclusion of WC material costs in the quarter, and more than offset the inclusion of WC material costs in the first half of 2002.

Operating taxes: Operating taxes increased by \$5 million, or 14%, during the

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second quarter of 2002 and \$2 million, or 2%, during the six-month period ended June 30, 2002 when compared to the corresponding periods in 2001, mainly due to the inclusion of WC operating taxes and one-time provincial sales tax recoveries in 2001 that were partly offset by capital and sales tax recoveries in 2002.

Casualty and other: These expenses increased by \$4 million, or 7%, in the current quarter and by \$34 million, or 33%, for the first six months of 2002, when compared to the corresponding 2001 periods. The increase in both the quarter and six-month period is mainly due to higher expenses for casualty and legal claims, including occupational-related claims, the inclusion of WC casualty and other expenses, and higher derailment-related expenses in

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the second quarter of 2002. Partially offsetting these increases were lower expenses related to environmental matters and, bad debt expenses in the first half of 2002.

Other

Interest expense: Interest expense for the second quarter increased by \$14 million, or 19%, from the comparable 2001 quarter and \$30 million, or 20%, in the first six months of 2002 versus the equivalent 2001 period. Lower interest expense related to the maturity of certain notes was more than offset by the financing related to the acquisition of WC and the consolidation of WC interest expense.

Other income: Excluding the impact of the 2001 DRT and 360networks Inc. transactions previously discussed, other income for the second quarter of 2002 increased to \$23 million from \$9 million in the comparable 2001 quarter and increased to \$61 million for the first half of 2002 from \$18 million in the first half of last year. The increase was mainly due to the inclusion of WC's equity in earnings of English Welsh and Scottish Railway (EWS) of \$4 million for the quarter and \$15 million for the first half of 2002 and higher gains on disposal of surplus assets.

Income tax expense: The Company recorded an income tax expense of \$108 million for the current quarter and \$41 million for the corresponding period in 2001. Income tax expense was \$216 million for the six months ended June 30, 2002 and \$167 million for the comparable 2001 period. The effective tax rate for the quarter and six months ended June 30, 2002 was 33.8%. The effective tax rate for the comparative 2001 periods was 35.6% and 35.9%, respectively, excluding the income tax effect on the special charge, the DRT transaction and the charge for 360networks Inc.

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LIQUIDITY AND CAPITAL RESOURCES

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The Company's principal source of liquidity is cash generated from operations. The Company also has the ability to fund liquidity requirements through its revolving credit facilities, the issuance of debt and/or equity, and the sale of a portion of its accounts receivable through the Accounts receivable securitization program. In addition, from time to time, the Company's liquidity requirements can be supplemented by the disposal of surplus properties and the monetization of assets.

Operating activities: Cash provided from operating activities was \$350 million and \$575 million for the three and six-month periods ended June 30, 2002, respectively, compared to \$375 million and \$437 million for the same 2001 periods. Net income, excluding non-cash items, generated cash of \$389 million for the current quarter and \$783 million for the six months ended June 30, 2002, compared to \$370 million and \$721 million in the corresponding 2001 periods. Cash generated in the first six months of 2002 was partially consumed by payments for workforce reductions and income taxes of \$94 million and \$67 million, respectively, compared to \$89 million and \$59 million, respectively, for the same period last year. Payments for casualty and legal claims, including amounts paid for workers' compensation, for the first half of 2002 and 2001 were \$68 million and \$78 million, respectively.

Investing activities: Cash used by investing activities in the quarter and six months ended June 30, 2002 amounted to \$140 million and \$131 million, respectively, compared to \$169 million and \$148 million for the comparable periods in 2001. The Company's investing activities in the first half of 2002 included net proceeds of \$68 million from the sale of its investment in Tranz Rail Holdings Limited, whereas the comparative period included proceeds of \$112 million from the sale of DRT. Net capital expenditures amounted to \$133 million and \$204 million in the three and six months ended June 30, 2002, respectively, a decrease of \$48 million and \$64 million from the same 2001 periods. Capital expenditures included expenditures for roadway renewal, rolling stock, and other capacity and productivity improvements.

The Company anticipates that capital expenditures for 2002 will remain at approximately the same level as 2001. This will include funds required for ongoing renewal of the basic plant and other acquisitions and investments required to improve the Company's operating efficiency and customer service.

Dividends: The Company paid a quarterly dividend of \$0.215 per common share amounting to \$41 million for the second quarter and \$83 million for the first six months of 2002 compared to \$37 million and \$75 million, respectively, at the rate of \$0.195 per common share for the same periods in 2001. In the second quarter and first half of 2002, \$5 million was paid on the convertible preferred securities at an annual rate of 5.25%, compared to \$10 million in the first half of 2001 at the same rate.

Free cash flow

The Company generated \$164 million and \$356 million of free cash flow for the three and six months ended June 30, 2002, respectively, compared to \$169 million and \$204 million for the same 2001 periods. The Company defines free cash flow as cash provided from operating activities less capital expenditures, other investing activities and dividends paid.

Financing activities: Cash used by financing activities totaled \$122 million for the second quarter and \$316 million for the six months ended June 30, 2002 compared to \$179 million and \$193 million in the same periods of 2001. In 2002, the Company's issuances and repayments of long-term debt related principally to the Company's commercial paper and revolving credit facilities.

The Company has access to various financing arrangements:

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Revolving credit facilities

The Company has U.S.\$1,000 million revolving credit facilities that expire in March 2003. The credit facility agreements contain customary financial covenants with which the Company has been in full compliance since the inception of the agreements. At June 30, 2002, the Company had entirely repaid its borrowings of U.S.\$172 million

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(Cdn\$273 million) outstanding at December 31, 2001. At June 30, 2002, letters of credit under the revolving credit facilities amounted to \$292 million.

Commercial paper

The Company has a commercial paper program, which is backed by a portion of its revolving credit facilities, enabling it to issue commercial paper up to a maximum aggregate principal amount of \$600 million, or the U.S. dollar equivalent. The revolving credit facilities will mature within the next twelve months and while the Company's intent is to renew the existing revolving credit facilities, the refinancing has not been renegotiated and, as such, the outstanding balance of U.S.\$209 million (Cdn\$317 million) of commercial paper has been included in the current portion of long-term debt at June 30, 2002.

Shelf registration statement

At June 30, 2002, the Company had U.S.\$400 million remaining for issuance under its shelf registration statement.

Accounts receivable securitization program

The sale of a portion of the Company's accounts receivable is conducted under a securitization program, which has a \$350 million maximum limit and will expire in June 2003. The program is subject to customary credit rating and reporting requirements. In the event the program is terminated before its scheduled maturity, the Company expects to have sufficient liquidity remaining in its current and future revolving credit facilities to meet future obligations and anticipated capital expenditures. The Company intends to renew the program upon expiration. At June 30, 2002, pursuant to the agreement, \$168 million and U.S.\$113 million (Cdn\$171 million) had been sold on a limited recourse basis reflecting no change in the level of accounts receivable sold since December 31, 2001.

The Company's access to current and alternate sources of financing at competitive costs is dependent on its credit rating. The Company is not aware of any adverse trend, event or condition that would affect the Company's current credit standing.

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Contractual obligations and commercial commitments

In the normal course of business, the Company incurs contractual obligations and commercial commitments. The following tables set forth material obligations and commitments as of June 30, 2002:

Contractual obligations (In millions)

Contract Type	Total	2002	2003-2004	2005-

Debentures, notes and other	\$ 4,490	\$ 14	\$ 1,204	\$
Capital leases (a)	842	72	174	

Long-term debt	\$ 5,332	\$ 86	\$ 1,378	\$
Operating leases (b)	1,221	111	393	

Total obligations	\$ 6,553	\$ 197	\$ 1,771	\$
=====				

Commercial commitments (In millions)

Ccommitments Type	Total	2002	2003-2004	2005-

Standby letters of credit (c)	\$ 384	\$ 320	\$ 63	\$
Other commercial commitments (d)	267	36	231	

Total commitments	\$ 651	\$ 356	\$ 294	\$
=====				

- (a) Excludes \$486 million of imputed interest on capital leases at rates ranging from approximately 3.0% to 11.9%.
- (b) The Company has guaranteed the residual values of \$77 million of equipment with lease terms expiring in the years 2004 through 2012. As at June 30, 2002, the Company does not expect to make any payments pertaining to the guarantees of these leases.
- (c) Consists mainly of letters of credit issued as a financial guarantee of the Company's contractual obligations under various arrangements. Letters of credit under the revolving credit facilities amounted to \$292 million.
- (d) Includes commitments for railroad ties, rail, freight cars and locomotives.

For 2002 and the foreseeable future, the Company expects cash from operations and from its various sources of financing to be sufficient to meet its future obligations and fund anticipated capital expenditures.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CANADIAN GAAP)

TERMINATION OF CONVERSION RIGHTS OF 5.25% CONVERTIBLE PREFERRED SECURITIES ("SECURITIES")

On May 6, 2002, the Company announced that it had met the conditions required to terminate the Securities holders' right to convert their Securities into common shares of the Company, and set the conversion termination date as July 3, 2002. The conditions were met when the Company's common share price exceeded 120% of the conversion price of U.S.\$38.48 per share (as adjusted, following the Company's two-for-one common stock split in September 1999) for a specified period, and all accrued interest on the Securities had been paid.

As of June 30, 2002, approximately U.S.\$1 million principal amount of the Securities were surrendered for conversion into common shares.

On July 3, 2002, the closing price of the Company's common shares exceeded the conversion price of US\$38.48 per share. As a result, Securities that had not been previously surrendered for conversion were converted, resulting in the issuance of approximately 6 million common shares of the Company.

ACQUISITION OF WISCONSIN CENTRAL TRANSPORTATION CORPORATION

On October 9, 2001, the Company completed its acquisition of WC for an acquisition cost of \$1,297 million (U.S.\$831 million) and began a phased integration of the companies' operations.

The merger involves the integration of two previously independent businesses to provide shippers enhanced rail services over a coordinated network. There can be no assurance that there will be realization of rail service and other efficiencies or synergies that are expected to be derived from the merger.

The Company accounted for the merger using the purchase method of accounting as required by the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1581 "Business Combinations." As such, the Company's consolidated financial statements include the assets, liabilities and results of operations of WC as of October 9, 2001, the date of acquisition. The results of the final valuation of WC's assets and liabilities are not expected to have a material impact on the results of operations.

CRITICAL ACCOUNTING POLICIES, BUSINESS RISKS AND OTHER MATTERS

Management's discussion and analysis of the Company's financial condition and results of operations is based on the same accounting policies as those used in preparing the Company's 2001 Annual Consolidated Financial Statements. As such, this document should be read in conjunction with Note 1 "Summary of significant accounting policies" of the Company's 2001 Annual Consolidated Financial Statements.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates, including those related to litigation, environmental liabilities, casualty claims, depreciation lives, income tax liabilities, and pension and other post-retirement benefits, based upon currently available information. Actual results could differ from these estimates.

Legal actions

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to personal injuries, occupational related claims, damage to property and environmental matters. The Company maintains, and regularly updates on a case-by-case basis, casualty provisions for such items when the expected loss is both probable and can be reasonably estimated.

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Although the Company considers such provisions to be adequate for these matters, the final outcome with respect to actions outstanding or pending at June 30, 2002, or future claims, cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year.

Employee work-related injuries, including occupational related claims, are compensated according to the provisions of the Federal Employers' Liability Act (FELA) and represent a significant expense for the railroad industry in the United States. Consistent with the case-by-case approach, the Company does not accrue a provision for unasserted occupational related claims, as they are not reasonably estimable. In view of the Company's increasing expansion in the United States, and the increase in the number of occupational claims over the past years, the Company will continue to work with an independent actuarial firm and will consider the results of an actuarial based approach to evaluate the sufficiency of its provision for occupational claims. Any change in the estimated liability would be accounted for as a change in accounting estimate and recorded in the results of operations.

As at June 30, 2002, the Company had aggregate reserves for legal matters of \$250 million (\$277 million at December 31, 2001), of which approximately \$143 million was for work-related injuries to employees in the United States, including occupational related claims.

Environmental matters

Regulatory compliance

The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations 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 the 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. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements.

Environmental expenditures that relate to current operations are expensed unless they relate to an improvement to the property. Expenditures that relate

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to an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed.

Known existing environmental concerns

The ultimate cost of known contaminated sites cannot be definitely established, and the estimated environmental liability for any given site may vary depending on the nature and extent of the contamination, the available clean-up technique, the Company's share of the costs and evolving regulatory standards governing environmental liability. As a result, liabilities are recorded when environmental assessments and/or remedial efforts are likely, and when 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.

Unknown existing environmental concerns

While the Company believes that it has identified the costs likely to be incurred in the next several years, based on known information, for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and costs cannot be reasonably estimated and as such, costs related to future remediation will be accrued in the year they become known.

Future occurrences

In the operation of a railroad, it is possible that derailments, explosions or other accidents may occur

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that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future, which may be material, to address any such harm, including costs relating to the performance of clean-ups, natural resource damages and compensatory or punitive damages relating to harm to individuals or property.

As at June 30, 2002, the Company had aggregate accruals for environmental costs of \$103 million (\$112 million at December 31, 2001). The Company has not included any reduction in costs for anticipated recovery from insurance.

There can be no assurance that material 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 environmental liabilities or costs.

Properties

The Company follows the group method of depreciation and, as such, depreciates the cost of properties, net of asset impairment write-downs, on a straight-line basis over the estimated useful life of each asset class. Assessing the reasonableness of the estimated useful lives of properties requires judgment

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and is based upon currently available information, including comprehensive depreciation studies that incorporate assumptions of remaining useful lives. A revision to the estimated useful lives of properties is considered a change in accounting estimate and, as a result, depreciation rates would be changed on a prospective basis. A significant change in depreciable lives could result in a material change to depreciation expense.

Pension and Other post-retirement benefits

The Company accounts for pension and other postretirement benefits as required by CICA Handbook Section 3461 "Employee Future Benefits." Under this accounting standard, assumptions are made regarding the valuation of benefit obligations and performance of plan assets. Delayed recognition of differences between actual results and those assumed is a guiding principle of this standard. This approach allows for a smooth recognition of changes in benefit obligations and plan performance over the working lives of the employees who benefit from the plans.

An actuarial valuation is conducted at least on a triennial basis, to account for pension and other postretirement benefits which uses management assumptions for the discount rate, the expected return on plan assets, the rate of compensation increase, the health care cost trend and the expected average remaining service life of the employee group. A change in any one of these assumptions could have a significant impact on the pension and post-retirement benefit expense recorded under CICA Section 3461.

Financial instruments

Although the Company conducts its business and receives revenues primarily in Canadian dollars, a growing portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues.

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. Collateral or other security to support financial instruments subject to credit risk is usually not obtained. However, the credit standing of counterparties is regularly monitored, and losses due to counterparty nonperformance are not anticipated.

To mitigate the effects of fuel price changes on its operating margins and overall profitability, the Company has a systematic hedging program which calls for regularly entering into swap positions on crude and heating oil to cover a target percentage of future fuel consumption up to two years in advance. At June 30, 2002, the Company hedged

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approximately 46% of the estimated 2002 fuel consumption, 41% of the estimated 2003 fuel consumption and 7% of the estimated 2004 fuel consumption. This represented approximately 348 million U.S. gallons at an average price of U.S.\$0.606 per U.S. gallon.

For the three months ended June 30, 2002, the Company realized a negligible

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loss from its fuel hedging activities, compared to a \$2 million gain in the same period last year. For the first half of 2002, the Company's hedging activities resulted in a realized loss of \$9 million compared to a \$4 million gain in the same period of 2001.

As a result of fuel hedging activities, the Company had an unrealized holding gain of \$17 million at June 30, 2002 (\$38 million unrealized holding loss at December 31, 2001).

Competition

The Company faces significant competition from a variety of carriers, including Canadian Pacific Railway Company which operates the other major rail system in Canada, serving most of the same industrial and population centers as the Company, long distance trucking companies and, in certain markets, major U.S. railroads and other Canadian and U.S. railroads. Competition is generally based on the quality and reliability of services provided, price, and the condition and suitability of carriers' equipment. Competition is particularly intense in eastern Canada where an extensive highway network and population centers, located relatively close to one another, have encouraged significant competition from trucking companies. In addition, much of the freight carried by the Company consists of commodity goods that are available from other sources in competitive markets. Factors affecting the competitive position of suppliers of these commodities, including exchange rates, could materially adversely affect the demand for goods supplied by the sources served by the Company and, therefore, the Company's volumes, revenues and profit margins.

To a greater degree than other rail carriers, the Company's subsidiary, Illinois Central Railroad Company (ICRR), is vulnerable to barge competition because its main routes are parallel to the Mississippi River system. The use of barges for some commodities, particularly coal and grain, often represents a lower cost mode of transportation. Barge competition and barge rates are affected by navigational interruptions from ice, floods and droughts, which can cause widely fluctuating barge rates. The ability of ICRR to maintain its market share of the available freight has traditionally been affected by the navigational conditions on the river.

In recent years, there has been significant consolidation of rail systems in the United States. The resulting larger rail systems are able to offer seamless services in larger market areas and effectively compete with the Company in certain markets. There can be no assurance that the Company will be able to compete effectively against current and future competitors in the railroad industry and that further consolidation within the railroad industry will not adversely affect the Company's competitive position. No assurance can be given that competitive pressures will not lead to reduced revenues, profit margins or both.

Labor negotiations

As of July 2002, the Company had achieved ratified settlements with bargaining units representing 98% of the Company's Canadian unionized workforce. These agreements are generally for a three-year period effective until December 31, 2003.

The general approach to labor negotiations by U.S. Class 1 railroads is to bargain on a collective national basis. For several years now, Grand Trunk Western (GTW), Duluth Winnipeg and Pacific (DWP), ICRR, CCP Holdings, Inc. (CCP) and just recently WC, have bargained on a local basis rather than holding national, industry wide negotiations. Local negotiations result in settlements that better address both the employees' concerns and preferences and the railways' actual operating environment. There are risks associated with negotiating locally. Presidents and Congress have demonstrated that they will

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step in to avoid national strikes, while a local dispute may not generate federal intervention,

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making an extended work stoppage more likely. The Company believes the potential mutual benefits of local bargaining outweigh the risks.

As of July 2002, the Company had in place agreements with bargaining units representing all the unionized workforce at ICRR, GTW, DWP, and CCP and 43% at WC. These agreements have various durations, ranging from the end of 2001 to the end of 2005. Several of these agreements have reopened or will reopen in 2002.

Negotiations are ongoing with the bargaining units with which the Company has not yet achieved new settlements. Until new agreements are reached or until settlements are ratified, the terms and conditions of previous agreements continue to apply. Although the Company does not anticipate work action related to these negotiations while they are ongoing, there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

Regulation

The Company's rail operations in Canada are subject to regulation as to (i) rate setting and network rationalization by the Canadian Transportation Agency (the Agency), under the Canada Transportation Act (Canada) (the CTA), and (ii) safety by the federal Minister of Transport under the Railway Safety Act (Canada) and certain other statutes. The Company's U.S. rail operations are subject to regulation by the Surface Transportation Board (STB) (the successor to the Interstate Commerce Commission) and the Federal Railroad Administration. In addition, the Company is subject to a variety of health, safety, labor, environmental and other regulations, all of which can affect its competitive position and profitability.

The CTA Review Panel, which was appointed by the federal government to carry out a comprehensive review of the Canadian transportation legislation, issued its report to the Minister of Transport at the end of June 2001. It was released to the public on July 18, 2001 and contains numerous recommendations for legislative changes, which, if adopted, would affect all modes of transportation, including rail. No assurance can be given that any decision by the federal government pursuant to the report's recommendations will not materially adversely affect the Company's financial position or results of operations.

Business prospects and other risks

In any given year, the Company, like other railroads, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports or the supplies it requires to operate. In addition, many of the goods and commodities carried by the Company experience cyclicalities in the demand for them. However, many of the bulk commodities the Company transports move offshore and are impacted more by global economic conditions than North American economic cycles. The Company's results of operations can be expected to reflect this cyclicalities because of the significant fixed costs inherent in railroad operations.

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The Company's revenues are affected by prevailing economic conditions. In 2001, widespread recessionary conditions in the economy affected the Company's revenues across a number of markets. Following a significant reduction in interest rates and a major depletion in inventories, the North American economy rebounded in the first part of 2002. While continued growth is expected throughout the year, the speed of the recovery will depend on overall consumer and business confidence, which currently show signs of uncertainty. The Company will continue to leverage its strong service capabilities but remains cautious about business prospects in the second half of the year.

Should a major economic slowdown or recession occur in North America or other key markets, or should major industrial restructuring take place, the volume of rail shipments carried by the Company is likely to be affected.

In addition to the inherent risks of the business cycle, the Company is occasionally susceptible to severe weather conditions. For example, in the first quarter

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of 1998, a severe ice storm hit eastern Canada, which disrupted operations and service for the railroad as well as for CN customers.

Inflation

Generally accepted accounting principles require the use of historical cost as the basis of reporting in financial statements. As a result, the cumulative effect of inflation, which has significantly increased asset replacement costs for capital-intensive companies such as CN, is not reflected in operating expenses. Depreciation charges on an inflationadjusted basis, assuming that all operating assets are replaced at current price levels, would be substantially greater than historically reported amounts.

Forward-looking information

Certain information included in this report may be "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the outlook, the actual results or performance of the Company or the rail industry to be materially different from any future results or performance implied by such statements. Such factors include the factors set forth in this section as well as other risks detailed from time to time in reports filed by the Company with securities regulators in Canada and the United States.

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