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CANADIAN NATIONAL RAILWAY CO

Form 6-K

October 29, 2002

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FORM 6-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 or 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR OCTOBER 29, 2002

Canadian National Railway Company
(Exact name of Registrant as specified in its charter)

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

935 de la Gauchetiere Street West
Montreal, Quebec
Canada H3B 2M9
(514) 399-7091
(Address of principal executive offices)

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

FORM 20-F FORM 40-F X
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[Indicate by check mark whether the registrant by furnishing the information
contained in this form is also thereby furnishing the information to the
Commission pursuant to rule 12g3-2(b) under the Securities Exchange Act of
1934.]

YES NO X
 --- ---

[If "Yes " is marked, indicate below the file number assigned to the registrant
in connection with Rule 12g3-2(b):] Not applicable

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Canadian National Railway Company

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ITEM 1

CANADIAN NATIONAL RAILWAY COMPANY
PRESS RELEASE

[CANADIAN NATIONAL LOGO]

FOR IMMEDIATE RELEASE

Stock symbols: TSX : CNR / NYSE: CNI

www.cn.ca

CN reports third-quarter 2002 financial results

- o Third-quarter 2002 net income and diluted earnings per share of \$268 million and \$1.32, respectively, compared with adjusted net income and diluted EPS(1) of \$240 million and \$1.21 for third-quarter 2001
- o Revenues of \$1,503 million, up 13 per cent on WC acquisition and solid merchandise revenue performance
- o Nine-month free cash flow of \$444 million

MONTREAL, Oct. 22, 2002 -- Canadian National today reported third-quarter 2002 net income of \$268 million, a 12 per cent increase over adjusted net income (1) of \$240 million for the same quarter of 2001.

Diluted earnings per share for the quarter ended Sept. 30, 2002, were \$1.32, up nine per cent from adjusted diluted earnings per share (1) of \$1.21 for the comparable period of 2001. Reported net income for third-quarter 2001 was \$252 million, or \$1.27 per diluted share.

Third-quarter 2002 operating income increased 13 per cent to \$484 million. Revenues for the period rose 13 per cent to \$1,503 million, while operating expenses were \$1,019 million.

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CANADIAN NATIONAL RAILWAY COMPANY
PRESS RELEASE

CN President and Chief Executive Officer Paul M. Tellier said: "CN met the challenge this quarter, turning in good financial results in the face of devastating drought conditions that continue to weigh heavily on our Western Canadian grain franchise. Solid gains in our service-sensitive merchandise businesses - automotive, petroleum and chemicals, intermodal and forest products - and the consolidation of Wisconsin Central revenues more than offset depressed bulk commodity revenues. The performance of our merchandise and intermodal units is particularly satisfying because they will continue to drive much of CN's growth.

"In addition, we are gratified by CN's strong free cash flow performance. We generated \$444 million in free cash flow for the first nine months of 2002 and \$88 million for the quarter - right on company target.

"For the latest quarter, increased automotive revenues reflected stronger motor vehicle production in Canada and the United States, while petroleum and chemicals revenues benefited from the inclusion of WC revenues and continued strength in the petroleum segment, which experienced higher sulfur shipments and market share gains in various sectors. Increased intermodal revenues reflected improved domestic performance from growing markets in Canada and the U.S., and growth in the overseas segment despite stagnant trade. Forest products revenue gains were driven by the inclusion of WC revenues and increased lumber and panels traffic, in line with a strong North American housing market. Improved market conditions in the Canadian pulp and paper industry also contributed to third-quarter forest products revenue growth.

"CN will continue to drive productivity improvements and leverage its strong service capabilities to generate growth, but it remains cautious about near-term business prospects. Tough conditions will continue to prevail in our grain and coal businesses. Despite this, CN is determined to deliver improved results in 2003."

Six of CN's seven business units registered revenue gains during the most recent quarter: forest products (30 per cent); petroleum and chemicals (22 per cent); automotive (20 per cent); metals and minerals (17 per cent); intermodal (12 per cent), and coal (six per cent). Grain and fertilizers revenues declined by 15 per cent.

Total carloadings for the third quarter of 2002 rose 14 per cent to 1,043 thousand.

CN's operating ratio for the most recent three-month period was 67.8 per cent, compared with 67.5 per cent for the year-earlier quarter.

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

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CANADIAN NATIONAL RAILWAY COMPANY
PRESS RELEASE

Results for the first nine months of 2002

Net income for the first nine months of 2002 increased 14 per cent to \$778 million from adjusted net income (1) of \$682 million for the comparable period of 2001.

Diluted earnings per share for the nine-month period ended Sept. 30, 2002, were \$3.86, up 12 per cent from adjusted diluted earnings per share (1) of \$3.44 for the year-earlier period. Reported net income for the first nine months of 2001 was \$744 million, or \$3.75 per diluted share.

Operating income for the first nine months of 2002 was \$1,380 million, compared with \$1,259 million - excluding the effect of a special charge to operations to recognize the costs of a workforce adjustment program - for the same period of 2001. Including the charge, operating income was \$1,161 million for last year's nine-month period.

Nine-month 2002 revenues increased 11 per cent to \$4,563 million, while operating expenses were \$3,183 million. Excluding the special charge, operating expenses for the first nine months of 2001 were \$2,856 million; including it, they were \$2,954 million.

Five of CN's business units reported increased revenues for the first nine months of 2002: forest products (29 per cent); petroleum and chemicals (23 per cent); metals and minerals (20 per cent); automotive (18 per cent), and intermodal (six per cent). Grain and fertilizers revenues declined 13 per cent, and coal revenues declined four per cent.

Total carloadings for the first nine months of 2002 increased 10 per cent to 3,101 thousand.

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

(1) Adjusted net income and diluted earnings per share for the third quarter of 2001 exclude a deferred income tax recovery of \$12 million, or six cents per share, resulting from the enactment of lower corporate tax rates in Canada.

For the first nine months of 2001, adjusted net income and diluted earnings per share exclude an after-tax gain of \$73 million (36 cents per share) from the sale of CN's 50 per cent interest in the Detroit River Tunnel Company; 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 \$122 million deferred income tax recovery (61 cents per share) resulting from the enactment of lower corporate tax rates in Canada.

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).

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

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risks.

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CANADIAN NATIONAL RAILWAY COMPANY
PRESS RELEASE

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, 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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ITEM 2

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

(In millions, except per share data)

	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001

	(Unaudited)			
Revenues	\$ 1,503	\$ 1,325	\$ 4,563	\$ 4,111
Operating expenses excluding special charge	1,019	895	3,183	2,811
Special charge (Note 3)	-	-	-	-
Total operating expenses	1,019	895	3,183	2,811
Operating income	484	430	1,380	1,111
Interest expense	(89)	(73)	(276)	(211)
Other income (Note 4)	8	12	69	11

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Income before income taxes	403	369	1,173	9
Income tax expense (Note 5)	(135)	(117)	(395)	(2)
Net income (Note 10)	\$ 268	\$ 252	\$ 778	\$ 7
Earnings per share (Note 10)				
Basic	\$ 1.34	\$ 1.31	\$ 3.98	\$ 3.
Diluted	\$ 1.32	\$ 1.27	\$ 3.86	\$ 3.
Weighted-average number of shares				
Basic	200.3	192.4	195.7	191
Diluted	203.0	201.4	203.1	200

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 September 30			2000
	2002	2001	Variance Fav (Unfav)	
(Unaudited)				
Revenues				
Petroleum and chemicals	\$ 275	\$ 225	22%	\$ 8
Metals and minerals	138	118	17%	3
Forest products	337	260	30%	9
Coal	85	80	6%	2
Grain and fertilizers	217	254	(15%)	7
Intermodal	273	243	12%	7
Automotive	130	108	20%	4
Other items	48	37	30%	1
	1,503	1,325	13%	4,5
Operating expenses				
Labor and fringe benefits	410	352	(16%)	1,3
Purchased services	148	121	(22%)	4
Depreciation and amortization	149	131	(14%)	4

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Fuel	109	111	2%	3
Equipment rents	85	70	(21%)	2
Material	48	43	(12%)	1
Operating taxes	39	34	(15%)	1
Casualty and other	31	33	6%	1
Special charge (Note 3)	-	-	-	-
	1,019	895	(14%)	3,1
Operating income	\$ 484	\$ 430	13%	\$ 1,3
Operating ratio (excluding special charge)	67.8%	67.5%	(0.3)	69

See accompanying notes to consolidated financial statements.

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

(In millions)

	September 30 2002	December 31 2001	September 2
	(Unaudited)		(Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	\$ 24	\$ 53	\$
Accounts receivable (Note 6)	715	645	
Material and supplies	150	133	
Deferred income taxes (Note 5)	120	153	
Other	179	180	
	1,188	1,164	2,
Properties	19,348	19,145	16,
Other assets and deferred charges (Note 2)	903	914	
Total assets	\$ 21,439	\$ 21,223	\$ 18,
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued charges	\$ 1,377	\$ 1,374	\$ 1,
Current portion of long-term debt (Note 6)	699	163	
Other	71	132	
	2,147	1,669	1,

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Deferred income taxes (Note 5)	4,798	4,591	3,
Other liabilities and deferred credits	1,205	1,345	1,
Long-term debt (Note 6)	4,699	5,764	4,
Convertible preferred securities (Note 7)	-	366	
Shareholders' equity:			
Common shares (Note 7)	4,848	4,442	4,
Accumulated other comprehensive income	102	58	
Retained earnings	3,640	2,988	2,
	8,590	7,488	7,
Total liabilities and shareholders' equity	\$ 21,439	\$ 21,223	\$ 18,

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 September 30	
	2002	2001
		(Unaudite
Common shares (1)		
Balance, beginning of period	\$ 4,499	\$ 4,402
Stock options exercised	10	13
Conversion of convertible preferred securities (Note 7)	339	-
Balance, end of period	\$ 4,848	\$ 4,415
Accumulated other comprehensive income		
Balance, beginning of period	\$ 31	\$ 36
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	(158)	(134)
Unrealized foreign exchange gain (loss) on translation of the net investment in foreign operations	251	197

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Unrealized holding loss on investment in 360networks Inc.	-	-
Unrealized holding gain (loss) on fuel derivative instruments (Note 8)	14	(13)

Other comprehensive income (loss) before income taxes	107	50
Income tax expense on other comprehensive income (loss) (Note 5)	(36)	(18)

Other comprehensive income (loss)	71	32

Balance, end of period	\$ 102	\$ 68
=====		
Retained earnings		
Balance, beginning of period	\$ 3,415	\$ 2,515
Net income	268	252
Dividends	(43)	(38)

Balance, end of period	\$ 3,640	\$ 2,729
=====		

See accompanying notes to consolidated financial statements.

- (1) The Company issued 6.2 million and 7.6 million shares for the three and nine months ended September 30, 2002, respectively, as a result of stock options exercised and the conversion of convertible preferred securities. At September 30, 2002, the Company had 200.3 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 September 30	
	2002	2001

		(Unaudited)
Operating activities		
Net income	\$ 268	\$ 252
Non-cash items in income:		

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Depreciation and amortization	151	132	
Deferred income taxes (Note 5)	81	46	
Equity in earnings of English Welsh and Scottish Railway	(4)	-	
Gain on sale of investment (Note 4)	-	-	
Write-down of investment (Note 4)	-	-	
Special charge (Note 3)	-	-	
Changes in:			
Accounts receivable	(2)	(95)	
Material and supplies	16	13	
Accounts payable and accrued charges	12	6	
Other net current assets and liabilities	8	(12)	
Payments for workforce reductions	(36)	(39)	
Other	(63)	12	
Cash provided from operating activities	431	315	
Investing activities			
Net additions to properties	(271)	(264)	
Other, net	(29)	(23)	
Cash used by investing activities	(300)	(287)	
Dividends paid	(43)	(38)	
Financing activities			
Issuance of long-term debt	642	2,034	
Reduction of long-term debt	(807)	(1,231)	
Issuance of common shares	8	7	
Cash provided from (used by) financing activities	(157)	810	
Net increase (decrease) in cash and cash equivalents	(69)	800	
Cash and cash equivalents, beginning of period	93	30	
Cash and cash equivalents, end of period	\$ 24	\$ 830	\$

See accompanying notes to consolidated financial statements.

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

(in millions)

Note 1 - Basis of presentation

In management's opinion, the accompanying unaudited interim consolidated financial statements, prepared in accordance with U.S. generally accepted

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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 September 30, 2002, December 31 and September 30, 2001, its results of operations, changes in shareholders' equity and cash flows for the three and nine months ended September 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 nine months ended September 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 \$1,470 million, \$275 million, \$1.43 per basic share and \$1.38 per diluted share, respectively, for the three months ended September 30, 2001 and \$4,539 million, \$793 million, \$4.13 per basic share and \$4.00 per diluted share, respectively, for the nine months ended September 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

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 the second and third quarter of 2001, the Company recorded a reduction of \$78 million and \$12 million, respectively, 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 nine months ended September 30, 2001, a deferred

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income tax recovery of \$12 million and \$122 million, respectively, was recorded in the Consolidated statement of income. For the nine months ended September 30, 2001, a deferred income tax expense of \$32 million was recorded in Other comprehensive income.

Note 6 - Financing activities

Share repurchase program

On October 22, 2002, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 13 million common shares between October 25, 2002 and October 24, 2003 pursuant to a normal course issuer bid, at prevailing market prices.

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

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. The Company's borrowings of U.S.\$172 million (Cdn\$273 million) outstanding at December 31, 2001 were entirely repaid in the first quarter of 2002 and since then, the credit facilities have not been drawn upon. At September 30, 2002, letters of credit under the revolving credit facilities amounted to \$295 million. The Company currently expects to renew the existing facilities and to complete the refinancing before their maturity.

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 in March 2003 and while the Company's intent is to renew the existing revolving credit facilities, the refinancing has not been completed and, as such, the outstanding balance of U.S.\$117 million (Cdn\$184 million) of commercial paper has been included in the current portion of long-term debt at September 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 September 30, 2002, pursuant to the agreement, \$168 million and U.S.\$113 million (Cdn\$178 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

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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.

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.

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

Note 8 - Derivative instruments

At September 30, 2002, a portion of the Company's fuel requirement has been 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 September 30, 2002, Accumulated other comprehensive income included an unrealized holding gain of \$31 million, \$21 million after tax, (\$38 million unrealized holding loss, \$25 million after tax at December 31, 2001) of which \$29 million relates to derivative instruments that will mature within the next twelve months.

Note 9 - Commitments

At September 30, 2002, the Company had commitments to acquire railroad ties, rail, freight cars and locomotives at an aggregate cost of \$223 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 nine months ended September 30, 2002 as explained in Note 2, the comparability of the results of operations for the three and nine months ended September 30, 2002 and 2001 is also impacted by the following items:

Three months ended September 30		
2002	2001	2001 pro forma (1)

(In millions)

(Unaudited)

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Income before income taxes, excluding undernoted items	\$ 403	\$ 369	\$ 407
Income tax expense	(135)	(129)	(144)

Adjusted net income	268	240	263
Undernoted items, net of tax:			
Special charge for workforce reductions	-	-	-
Write-down of net investment in 360networks Inc.	-	-	-
Deferred income tax recovery	-	12	12
Gain on sale of Detroit River Tunnel Company	-	-	-

	-	12	12
Net income	\$ 268	\$ 252	\$ 275
=====			

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

	Three months ended September 30		
	2002	2001	2001 pro forma (1)

(In millions, except per share data)			(Unaud)
Net income	\$ 268	\$ 252	\$ 275
Income impact on assumed conversion of preferred securities (Note 7)	-	3	3

	\$ 268	\$ 255	\$ 278
Weighted-average shares outstanding	200.3	192.4	192.4
Effect of dilutive securities and stock options	2.7	9.0	9.0

Weighted-average diluted shares outstanding	203.0	201.4	201.4
Basic earnings per share	\$ 1.34	\$ 1.31	\$ 1.43
Diluted earnings per share	\$ 1.32	\$ 1.27	\$ 1.38
=====			

(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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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 nine months ended September 30, 2002 and 2001 would have been as follows:

	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Net income (in millions)	\$ 254	\$ 247	\$ 751	\$ 729
Basic earnings per share	\$ 1.27	\$ 1.28	\$ 3.84	\$ 3.80
Diluted earnings per share	\$ 1.25	\$ 1.24	\$ 3.73	\$ 3.68

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

	Three months ended September 30		Nine months ended September 30	
	2002 (1)	2001	2002	2001
Expected option life (years)	-	7.0	7.0	7.0
Risk-free interest rate	-	5.36%	5.79%	5.36%
Expected stock price volatility	-	30%	30%	30%
Average dividend per share	-	\$ 0.78	\$ 0.86	\$ 0.78

	Three months ended September 30		Nine months ended September 30	
	2002 (1)	2001	2002	2001
Weighted average fair value of options granted	\$ -	\$ 23.42	\$ 30.98	\$ 18.76

(1) In the third quarter of 2002, the Company did not grant any stock-option awards.

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Rail operations

Freight revenues (\$ millions)	1,455	
Gross ton miles (millions)	75,687	6
Revenue ton miles (RTM) (millions)	39,460	3
Route miles (includes Canada and the U.S.)	17,843	1
Operating expenses per RTM (cents) (2)	2.58	
Freight revenue per RTM (cents)	3.69	
Carloads (thousands)	1,043	
Freight revenue per carload (\$)	1,395	
Diesel fuel consumed (Liters in millions)	334	
Average fuel price (\$/Liter)	0.32	
Revenue ton miles per liter of fuel consumed	118	
Gross ton miles per liter of fuel consumed	227	
Diesel fuel consumed (U.S. gallons in millions)	89	
Average fuel price (\$/U.S. gallon)	1.23	
Revenue ton miles per U.S. gallon of fuel consumed	443	
Gross ton miles per U.S. gallon of fuel consumed	850	
Locomotive bad order ratio (%) (3)	6.9	
Freight car bad order ratio (%)	5.9	

Productivity

Operating ratio (%) (2)	67.8	
Freight revenue per route mile (\$ thousands)	82	
Revenue ton miles per route mile (thousands)	2,212	
Freight revenue per average number of employees (\$ thousands)	62	
Revenue ton miles per average number of employees (thousands)	1,669	

Employees

Number at end of period	23,484	2
Average number during period	23,647	2
Labor and fringe benefits expense per RTM (cents)	1.04	
Injury frequency rate per 200,000 person hours	3.4	
Accident rate per million train miles	2.2	

Financial

Debt to total capitalization ratio (% at end of period)	38.6	
Return on assets (% at end of period)	1.5	

(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 September 30		
	2002	2001(1)	Variance Fav (Unfav)
(Unaudited)			
Revenue ton miles (millions)			
Petroleum and chemicals	7,538	6,181	22%
Metals and minerals	3,574	2,618	37%
Forest products	8,508	7,193	18%
Coal	3,872	3,795	2%
Grain and fertilizers	7,800	8,982	(13%)
Intermodal	7,429	6,481	15%
Automotive	739	659	12%
	39,460	35,909	10%
Freight revenue / RTM (cents)			
Total freight revenue per RTM	3.69	3.59	3%
Business units:			
Petroleum and chemicals	3.65	3.64	-
Metals and minerals	3.86	4.51	(14%)
Forest products	3.96	3.61	10%
Coal	2.20	2.11	4%
Grain and fertilizers	2.78	2.83	(2%)
Intermodal	3.67	3.75	(2%)
Automotive	17.59	16.39	7%
Carloads (thousands)			
Petroleum and chemicals	147	126	17%
Metals and minerals	104	69	51%
Forest products	151	116	30%
Coal	127	125	2%
Grain and fertilizers	123	136	(10%)
Intermodal	319	273	17%
Automotive	72	70	3%
	1,043	915	14%
Freight revenue / carload (dollars)			
Total freight revenue per carload	1,395	1,408	(1%)
Business units:			
Petroleum and chemicals	1,871	1,786	5%
Metals and minerals	1,327	1,710	(22%)
Forest products	2,232	2,241	-
Coal	669	640	5%
Grain and fertilizers	1,764	1,868	(6%)
Intermodal	856	890	(4%)
Automotive	1,806	1,543	17%

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(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 September 30			
	2002	2001 pro forma(1)	Variance Fav (Unfav)	
				(Unaudited)
Revenues				
Petroleum and chemicals	\$ 275	\$ 248	11%	\$
Metals and minerals	138	149	(7%)	
Forest products	337	319	6%	
Coal	85	87	(2%)	
Grain and fertilizers	217	267	(19%)	
Intermodal	273	252	8%	
Automotive	130	108	20%	
Other items	48	40	20%	
	1,503	1,470	2%	
Operating expenses				
Labor and fringe benefits	410	395	(4%)	
Purchased services	148	129	(15%)	
Depreciation and amortization	149	143	(4%)	
Fuel	109	122	11%	
Equipment rents	85	77	(10%)	
Material	48	47	(2%)	
Operating taxes	39	36	(8%)	
Casualty and other	31	34	9%	
Special charge	-	-	-	
	1,019	983	(4%)	
Operating income	484	487	(1%)	
Interest expense	(89)	(99)		
Other income	8	19		
Income before income taxes	403	407		
Income tax expense	(135)	(132)		
Net income	\$ 268	\$ 275		\$

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Operating ratio (excluding special charge)	67.8%	66.9%	(0.9)
Diluted earnings per share	\$ 1.32	\$ 1.38	\$
Adjusted diluted earnings per share (2)	\$ 1.32	\$ 1.32	\$
Diluted weighted-average number of shares	203.0	201.4	

- (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 September 30			
	2002	2001 pro forma (1)	Variance Fav (Unfav)	
(Unaudited)				
Revenue ton miles (millions)				
Petroleum and chemicals	7,538	6,484	16%	2
Metals and minerals	3,574	3,448	4%	1
Forest products	8,508	8,052	6%	2
Coal	3,872	4,153	(7%)	1
Grain and fertilizers	7,800	9,183	(15%)	2
Intermodal	7,429	6,535	14%	2
Automotive	739	660	12%	
	39,460	38,515	2%	11
Freight revenue / RTM (cents)				
Total freight revenue per RTM	3.69	3.71	(1%)	
Business units:				
Petroleum and chemicals	3.65	3.82	(4%)	
Metals and minerals	3.86	4.32	(11%)	
Forest products	3.96	3.96	-	
Coal	2.20	2.09	5%	
Grain and fertilizers	2.78	2.91	(4%)	
Intermodal	3.67	3.86	(5%)	
Automotive	17.59	16.36	8%	

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Carloads (thousands)			
Petroleum and chemicals	147	135	9%
Metals and minerals	104	120	(13%)
Forest products	151	147	3%
Coal	127	135	(6%)
Grain and fertilizers	123	143	(14%)
Intermodal	319	288	11%
Automotive	72	70	3%

	1,043	1,038	-
Freight revenue / carload (dollars)			
Total freight revenue per carload	1,395	1,378	1%
Business units:			
Petroleum and chemicals	1,871	1,837	2%
Metals and minerals	1,327	1,242	7%
Forest products	2,232	2,170	3%
Coal	669	644	4%
Grain and fertilizers	1,764	1,867	(6%)
Intermodal	856	875	(2%)
Automotive	1,806	1,543	17%
=====			

(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 (U.S. 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 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

Third quarter and first nine months of 2002 compared to corresponding periods in

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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 nine months ended September 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 \$268 million (\$1.34 per basic share or \$1.32 per diluted share) for the quarter ended September 30, 2002 compared to consolidated net income of \$252 million (\$1.31 per basic share or \$1.27 per diluted share) in the third quarter of 2001, an increase of \$16 million (\$0.03 per basic share or \$0.05 per diluted share). Consolidated net income for the nine months ended September 30, 2002 was \$778 million (\$3.98 per basic share or \$3.86 per diluted share) compared to \$744 million (\$3.88 per basic share or \$3.75 per diluted share) in the same period of 2001.

Operating income was \$484 million for the third quarter of 2002 compared to \$430 million in the same quarter of 2001. For the first nine months of the year, operating income was \$1,380 million compared to \$1,161 million in the same period of 2001. The operating ratio increased to 67.8% in the current quarter from 67.5% in the third quarter of 2001, a 0.3-point increase.

The three and nine-month periods ended September 30, 2001 included items impacting the comparability of the results of operations to those in the respective periods of 2002. Included in the third quarter and nine months ended September 30, 2001 was a deferred income tax recovery of \$12 million (\$0.06 per basic and diluted share) and \$122 million (\$0.64 per basic share or \$0.61 per diluted share) respectively, resulting from the enactment of lower corporate tax rates in Canada. The nine-month period ended September 30, 2001 also included 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 the Company's 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 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 \$28 million (\$0.09 per basic share or \$0.11 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 nine months ended September 30, 2002, net income increased by \$96 million (\$0.43 per basic share or \$0.42 per diluted share), from \$682 million (\$3.55 per basic share or \$3.44 per diluted share) for the same period in 2001.

Excluding the 2001 special charge, operating income for the nine-month period ended September 30, 2002,

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

increased by \$121 million, or 10%, to \$1,380 million from \$1,259 million in the same period last year. The nine-month operating ratio, excluding the 2001 special charge, increased to 69.8% in 2002 from 69.4% in 2001, a 0.4-point increase.

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Comparison to 2001 pro forma

Excluding the 2001 item previously discussed, net income in the current quarter increased by \$5 million (a decrease of \$0.03 per basic share or unchanged on a diluted share basis) from pro forma net income of \$263 million (\$1.37 per basic share or \$1.32 per diluted share) in the comparative 2001 quarter. For the nine months ended September 30, 2002, net income, excluding the 2001 items previously discussed, increased by \$47 million (\$0.18 per basic share or \$0.17 per diluted share) from pro forma net income of \$731 million (\$3.80 per basic share or \$3.69 per diluted share) in the same 2001 period.

Revenues for the third quarter of 2002 increased by \$33 million, or 2%, when compared to pro forma revenues of \$1,470 million in the same 2001 period. For the nine-month period ended September 30, 2002, revenues increased by \$24 million, or 1%, when compared to pro forma revenues of \$4,539 million in the same period last year.

Operating expenses in the current quarter increased by \$36 million, or 4%, from pro forma operating expenses of \$983 million in the same quarter of 2001. For the first nine months of 2002, operating expenses increased by \$35 million, or 1%, from pro forma operating expenses, excluding the special charge, of \$3,148 million in the same period last year.

Operating income for the third quarter of 2002 was \$484 million, a decrease of \$3 million, or 1%, when compared to pro forma operating income of \$487 million in the comparable 2001 quarter. The operating ratio increased to 67.8% in the current quarter from the pro forma operating ratio of 66.9% in the same quarter of 2001. For the nine-month period ended September 30, 2002, operating income was \$1,380 million, a decrease of \$11 million, from pro forma operating income, excluding the special charge, of \$1,391 million in the comparable 2001 period. The nine-month operating ratio increased to 69.8% in 2002 from the pro forma operating ratio, excluding the special charge, of 69.4% in 2001.

Revenues

Revenues in the third quarter of 2002 totaled \$1,503 million compared to \$1,325 million during the same period in 2001, an increase of \$178 million, or 13%. Revenues for the first nine months of 2002 were \$4,563 million, an increase of \$448 million, or 11%, from the same period last year. The increase in the quarter and first nine months was mainly attributable to the consolidation of WC revenues and to gains in petroleum and chemicals, automotive, intermodal and forest products. Partly offsetting these gains were continued weakness in Canadian grain, and coal revenues. Also contributing to the nine-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 10% in the quarter and 5% in the nine-month period ended September 30, 2002 when compared to the same periods in 2001. Freight revenue per revenue ton mile for the quarter and first nine months of the year increased by 3% and 5%, respectively, when compared to the same periods last year.

Petroleum and chemicals: Revenues increased by \$50 million, or 22%, for the third quarter and \$151 million, or 23%, for the first nine months when compared to the same periods in 2001. Growth in the quarter and nine-month period was mainly due to the inclusion of WC revenues and continued strength in the petroleum segment, including strong sulfur shipments and market share gains in various sectors. Revenue per revenue ton mile for the current quarter remained unchanged and increased by 1% during the first nine months of 2002, as the inclusion of shorter haul WC traffic and the effects of the weaker Canadian

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dollar were offset by an increase in longer haul traffic.

Metals and minerals: Revenues increased by \$20 million, or 17%, for the third quarter and \$66 million, or 20%, for the first nine months when compared to the same periods in 2001. The increase in the quarter and first nine months was mainly due

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

to the inclusion of WC revenues, market share gains in the aluminum sector and strong construction materials traffic, partly offset by one-time gains in 2001. Also impacting the quarter were market share gains in the steel industry that were offset by reduced traffic in specific segments due to ongoing customer strikes. Revenue per revenue ton mile decreased by 14% in the current quarter and 7% for the first nine months of the year mainly due to an increase in longer haul traffic and the inclusion of certain lower-rated WC traffic.

Forest products: Revenues increased by \$77 million, or 30%, for the third quarter and \$222 million, or 29%, for the first nine months when compared to the same periods in 2001. Growth in the quarter and first nine months of the year was mainly due to the inclusion of WC revenues and, increased lumber and panels traffic, in line with a strong North American housing market. Improved market conditions in the Canadian pulp and paper industry also contributed to third quarter growth. The increase in revenue per revenue ton mile of 10% in the current quarter and 11% in the first nine months of 2002 was mainly due to the inclusion of shorter haul WC traffic and the effect of the weaker Canadian dollar.

Coal: Revenues increased by \$5 million, or 6%, for the third quarter and decreased by \$10 million, or 4%, for the first nine months when compared to the same periods in 2001. The increase in the quarter reflected the inclusion of WC revenues, partly offset by some weakness in CN coal traffic on a year-over-year basis. The decrease in the nine-month period 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 4% in the current quarter and 5% during the first nine months of 2002 was mainly due to a decrease in longer haul traffic and the effect of the weaker Canadian dollar.

Grain and fertilizers: Revenues decreased by \$37 million, or 15%, for the third quarter and \$109 million, or 13%, for the first nine months when compared to the same periods in 2001. The decline in both the quarter and first nine months of 2002 reflected a significant deterioration in the Canadian grain crop. The third quarter was also impacted by the loss of a potash move and a decline in United States originating grain traffic. The 2% decrease in revenue per revenue ton mile in the current quarter was mainly attributable to a shift in traffic mix. For the first nine months, revenue per revenue ton mile increased by 3% mainly as a result of an increase in regulated grain rates and a decline in longer haul traffic.

Intermodal: Revenues increased by \$30 million, or 12%, for the third quarter and \$45 million, or 6%, for the first nine months when compared to the same periods in 2001. The increase in the quarter and first nine months of 2002 was attributable to growth in both the overseas and domestic segments. Growth in the overseas segment was achieved in spite of stagnant trade and the loss of an overseas move in the second half of 2001. The domestic segment benefited from growing markets in both Canada and the United States. The decrease in revenue

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per revenue ton mile of 2% for the current quarter and 3% for the first nine months of 2002 was mainly attributable to the fuel surcharge in 2001 and an increase in the average length of haul.

Automotive: Revenues increased by \$22 million, or 20%, for the third quarter and \$66 million, or 18%, for the first nine months when compared to the same periods in 2001, reflecting stronger motor vehicle production in both Canada and the United States. The 7% revenue per revenue ton mile increase for the current quarter and 3% increase for the first nine months of 2002 was mainly attributable to the weaker Canadian dollar.

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

Operating expenses

In the third quarter of 2002, operating expenses amounted to \$1,019 million compared to \$895 million in the same quarter of 2001. Operating expenses for the first nine months of 2002 were \$3,183 million compared to \$2,954 million in the same period of 2001.

Excluding the 2001 special charge for workforce reductions, operating expenses for the first nine months of the year increased by \$327 million, or 11%, from \$2,856 million in the same period of 2001. The increases in the quarter and first nine months of 2002 were mainly due to the consolidation of WC expenses, higher expenses for labor and fringe benefits and equipment rents, partially offset by lower fuel costs.

Labor and fringe benefits: Labor and fringe benefit expenses in 2002 increased by \$58 million, or 16%, for the third quarter and \$201 million, or 18%, for the first nine months when compared to the same 2001 periods. The increase in the quarter and first nine months of the year was mainly attributable to the inclusion of WC expenses (\$42 million for the quarter and \$127 million for the nine-month period), wage increases, higher benefit expenses, including health and welfare and other post-retirement benefits, and the impact of the weaker Canadian dollar on U.S. denominated expenses. These increases were partly offset by the effects of a reduced workforce in 2002.

Purchased services: The costs of purchased services increased by \$27 million, or 22%, for the quarter and \$42 million, or 11%, for the nine-month period ended September 30, 2002, when compared to corresponding periods in 2001. The increase in the quarter and first nine months of the year was mainly due to the inclusion of WC expenses and higher expenses for professional services and equipment repairs.

Depreciation and amortization: Depreciation and amortization expense for the quarter and nine months ended September 30, 2002, increased by \$18 million, or 14%, and \$40 million, or 10%, respectively, from the comparable 2001 periods. The increase in the quarter and first nine months of the year was mainly due to the inclusion of WC expenses and the impact of capital additions in 2002.

Fuel: Fuel expense decreased by \$2 million, or 2%, for the third quarter and \$40 million, or 11%, for the first nine months of 2002, when compared to the respective 2001 periods. The decrease in the quarter and first nine months of the year was primarily due to a decrease in the average price of fuel, partially

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offset by the inclusion of WC expenses.

Equipment rents: These expenses increased by \$15 million, or 21%, in the quarter and \$43 million, or 19%, for the first nine months of the year, when compared to the same 2001 periods. The increase in the quarter and first nine months of the year was mainly due to the inclusion of WC expenses and lower car hire income.

Material: For the quarter and nine months ended September 30, 2002, material costs increased by \$5 million, or 12%, and \$9 million, or 6%, respectively, from the comparable 2001 periods. The increase in the quarter and first nine months of the year was mainly due to the inclusion of WC expenses that were partly offset by lower locomotive and car maintenance costs.

Operating taxes: Operating taxes increased by \$5 million, or 15%, during the third quarter and \$7 million, or 6%, during the nine-month period ended September 30, 2002 when compared to the corresponding 2001 periods. The increase in the quarter and first nine months of the year was mainly due to the inclusion of WC expenses and lower recoveries in 2002.

Casualty and other: These expenses decreased by \$2 million, or 6%, in the current quarter and increased by \$25 million, or 23%, for the first nine months of 2002, when compared to the corresponding 2001 periods. The decrease in the current quarter is due to lower expenses for casualty and legal claims, including occupational-related claims, partly offset by the inclusion of WC expenses. The increase in the nine-month period was mainly due to higher expenses for casualty and legal claims, including occupational-related claims, and higher derailment-related expenses that were partly

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

offset by lower expenses related to environmental matters and bad debts.

Other

Interest expense: Interest expense for the third quarter increased by \$16 million, or 22%, from the comparable 2001 quarter and \$45 million, or 19%, in the first nine months of 2002 versus the equivalent 2001 period. The increase in the quarter and first nine months of the year was mainly due to the financing related to the acquisition of WC and the inclusion of WC expenses. Partly offsetting these increases was lower interest expense related to the conversion of the convertible preferred securities in July 2002 and the maturity of certain notes in the first nine months of 2001.

Other income: The Company recorded other income of \$8 million for the third quarter of 2002 compared to \$12 million in the same period of 2001. The decrease is mainly due to lower gains on disposal of surplus assets, partly offset by the Company's equity in earnings of English Welsh and Scottish Railway (EWS) of \$4 million. On September 30, 2002, the Company completed the sale of IC Terminal Holdings Company for net sales proceeds of U.S.\$18 million (Cdn\$28 million), which approximated the carrying value of the investment. Excluding the impact of the 2001 DRT and 360networks Inc. transactions previously discussed, other income for the first nine months of 2002 increased to \$69 million from \$32 million in the comparable period of 2001. The increase was mainly due to the Company's equity in earnings of EWS of \$19 million and higher gains on disposal of surplus assets.

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Income tax expense: The Company recorded an income tax expense of \$135 million for the current quarter and \$117 million for the corresponding period in 2001. Income tax expense was \$395 million for the nine months ended September 30, 2002 and \$220 million for the comparable 2001 period. When compared to 2001, the increase in income tax expense for the quarter and nine-month period is mainly due to a 2001 deferred income tax recovery of \$122 million, of which \$12 million was recorded in the third quarter, resulting from the enactment of lower corporate tax rates in Canada. The effective tax rate for the quarter and nine months ended September 30, 2002 was 33.5% and 33.7%, respectively. The effective tax rate for the comparative 2001 periods was 35.0% and 35.7%, respectively, 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 \$431 million and \$1,188 million for the three and nine-month periods ended September 30, 2002, respectively, compared to \$315 million and \$907 million for the same 2001 periods. Net income, excluding non-cash items, generated cash of \$496 million for the current quarter and \$1,435 million for the nine months ended September 30, 2002, compared to \$430 million and \$1,301 million in the corresponding 2001 periods. Cash generated in the first nine months of 2002 was partially consumed by payments for workforce reductions and income taxes of \$130 million and \$88 million, respectively, compared to \$128 million and \$70 million, respectively, for the same period last year. Payments for casualty and legal claims, including amounts paid for workers' compensation, for the first nine months of 2002 and 2001 were \$105 million and \$119 million, respectively.

Investing activities: Cash used by investing activities in the quarter and nine months ended September 30, 2002 amounted to \$300 million and \$618 million, respectively, compared to \$287 million and \$596 million for the comparable periods in 2001. The Company's investing activities in the first nine months of 2002 included net proceeds of \$68 million from the sale of its investment in Tranz Rail Holdings Limited, whereas the comparative period included net proceeds of \$112 million from the sale of DRT. Net capital expenditures amounted to \$271 million and \$633 million in the three and nine months ended September 30, 2002, respectively, an increase of \$7 million and a decrease of \$29 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

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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 \$43 million for the third quarter and \$126 million for the first nine months of 2002 compared to \$38 million and \$113 million, respectively, at the rate of \$0.195 per share, for the same periods in 2001.

Free cash flow

The Company generated \$88 million and \$444 million of free cash flow for the three and nine months ended September 30, 2002, respectively, compared to cash consumed of \$10 million and cash generated of \$198 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 \$157 million for the third quarter and \$473 million for the nine months ended September 30, 2002 compared to cash generated from financing activities of \$810 million and \$617 million in the same periods of 2001. In 2002, issuances and repayments of long-term debt related principally to the Company's commercial paper and revolving credit facilities. In September 2001, the Company issued debt securities in two series, U.S.\$400 million (Cdn\$629 million) 6.375% Notes due 2011 and U.S.\$200 million (Cdn\$314 million) 7.375% Debentures due 2031, related to the acquisition of WC.

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

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

credit facility agreements contain customary financial covenants with which the Company has been in full compliance since the inception of the agreements. The Company's borrowings of U.S.\$172 million (Cdn\$273 million) outstanding at December 31, 2001 were entirely repaid in the first quarter of 2002 and since then, the credit facilities have not been drawn upon. At September 30, 2002, letters of credit under the revolving credit facilities amounted to \$295 million. The Company currently expects to renew the existing facilities and to complete the refinancing before their maturity.

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 in March 2003 and while the Company's intent is to renew the existing revolving credit facilities, the refinancing has not been completed and, as such, the outstanding balance of U.S.\$117 million (Cdn\$184 million) of commercial paper has been included in the current portion of long-term debt at September 30, 2002.

Shelf registration statement

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At September 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 September 30, 2002, pursuant to the agreement, \$168 million and U.S.\$113 million (Cdn\$178 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 currently aware of any adverse trend, event or condition that would affect the Company's 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 September 30, 2002:

Contractual obligations (In millions)

Contract Type	Total	2002	2003-2004	2005-2006	2007 & thereafter
Debentures, notes and other	\$ 4,517	\$ 11	\$ 1,104	\$ 581	\$ 2,821
Capital leases (a)	881	35	188	97	561
Long-term debt	\$ 5,398	\$ 46	\$ 1,292	\$ 678	\$ 3,382
Operating leases (b)	1,206	56	406	302	442
Total obligations	\$ 6,604	\$ 102	\$ 1,698	\$ 980	\$ 3,824

Commercial commitments (In millions)

Commitment Type	Total	2002	2003-2004	2005-2006	2007 &
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thereafter

Standby letters of credit (c)	\$ 488	\$ 194	\$ 293	\$ 1	\$ -
Other commercial commitments (d)	223	27	196	-	-
Total commitments	\$ 711	\$ 221	\$ 489	\$ 1	\$ -

- (a) Excludes \$507 million of imputed interest on capital leases at rates ranging from approximately 3.0% to 14.6%.
- (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 September 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 \$295 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, including the expected renewal of its revolving credit facilities, 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)

SHARE REPURCHASE PROGRAM

On October 22, 2002, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 13 million common shares between October 25, 2002 and October 24, 2003 pursuant to a normal course issuer bid, at prevailing market prices.

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.

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds the provisions of SFAS No. 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS No. 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS No. 13 to require that certain lease modifications be treated as sale leaseback transactions. This statement is effective for transactions occurring after May 15, 2002. The Company does not expect SFAS No. 145 to have a material impact on its financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also establishes that the liability should initially be measured at fair value and subsequently adjusted for changes in estimated cash flows. This statement is to be applied to exit or disposal activities initiated after December 31, 2002. The Company will apply SFAS No. 146 on a prospective basis and, as such, does not expect this statement to have an initial material impact on its financial statements upon adoption.

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.

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that

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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 claims and environmental claims. 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 be adequate for these matters, the final outcome with respect to actions outstanding or pending at September 30, 2002, or with respect to 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. 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 consider using an actuarial based approach to evaluate the sufficiency of its provision for occupational and other claims. The Company has been, and continues working with an independent actuarial firm. 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 September 30, 2002, the Company had aggregate reserves for legal matters of \$258 million (\$277 million at December 31, 2001), of which approximately \$152 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.

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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

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

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 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 September 30, 2002, the Company had aggregate accruals for environmental costs of \$101 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

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material change to depreciation expense.

Pension and Other post-retirement benefits

The Company accounts for pension and other post-retirement 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, the 2002 assumptions regarding the valuation of benefit obligations and performance of plan assets were established on the plan's last measurement date of January 1, 2002. Delayed recognition of differences between actual results and those assumed is a guiding principle of these standards. This approach allows for 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 post-retirement 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

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

benefit expense recorded under SFAS No. 87 and SFAS No. 106, respectively. The Company regularly reviews these assumptions on an annual basis.

During the last ten years ended December 31, 2001, the CN Pension Plan earned an average rate of return in excess of 10% annually. For that same period, the Company used a long-term rate of return assumption not exceeding 9% to compute pension expense. However, given the recent performance of its plan assets and the equity markets in North America, it is anticipated that the Company will, effective for 2003, reduce the expected long-term rate of return on plan assets from 9% to 8% to reflect management's current view of long-term investment returns. The effect of this change in management's assumption will be to increase pension expense by approximately \$50 million.

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 or their guarantors is regularly monitored, and losses due to counterparty non-performance 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

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target percentage of future fuel consumption up to two years in advance. At September 30, 2002, the Company hedged approximately 46% of the estimated 2002 fuel consumption, 45% of the estimated 2003 fuel consumption and 14% of the estimated 2004 fuel consumption. This represented approximately 391 million U.S. gallons at an average price of U.S.\$0.6064 per U.S. gallon.

For the three months ended September 30, 2002, the Company realized a gain of \$4 million from its fuel hedging activities, compared to a negligible gain in the same period last year. For the first nine months of 2002, the Company's hedging activities resulted in a realized loss of \$5 million compared to a \$4 million gain in the same period of 2001.

Other comprehensive income for the quarters ended September 30, 2002 and 2001, included an unrealized gain of \$14 million, \$10 million after tax, and an unrealized loss of \$13 million, \$9 million after tax, respectively, resulting from the Company's fuel hedging activities. For the first nine months of 2002 and 2001, other comprehensive income included an unrealized gain of \$69 million, \$46 million after tax, and an unrealized loss of \$18 million, \$12 million after tax, respectively.

At September 30, 2002, Accumulated other comprehensive income included an unrealized holding gain of \$31 million, \$21 million after tax, (\$38 million unrealized holding loss, \$25 million after tax at December 31, 2001) of which \$29 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

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

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.

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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

Canadian workforce

As of October 2002, the Company had achieved ratified settlements with bargaining groups representing substantially all of its Canadian unionized workforce. These agreements are generally for a three-year period effective until December 31, 2003.

U.S. workforce

The general approach to labor negotiations by U.S. Class 1 railroads is to bargain on a collective national basis. 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 because the resulting settlements better address both the employees' concerns and preferences and the railways' actual operating environment. However, local negotiations may not generate federal intervention in a strike or lockout situation, since a dispute may be localized. The Company believes the potential mutual benefits of local bargaining outweigh the risks.

As of October 2002, the Company had in place agreements with bargaining units representing the entire 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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

to a variety of health, safety, security, 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. While the Company expects continued North American economic growth in the fourth quarter of 2002, much of that will depend on consumer and business confidence, both of which show signs of being tested by uncertain domestic markets and international events. The Company will continue to leverage its strong service capabilities but remains cautious about business prospects for the near term.

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 of 1998, a severe ice storm hit eastern Canada, which disrupted operations and service for the railroad as well as for CN customers. More recently, severe drought conditions in western Canada significantly reduced bulk commodity revenues, principally grain. There continues to be widespread concerns about the impact of crop conditions on grain supplies in the near term.

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 inflation-adjusted basis, assuming that all operating assets are replaced at current price levels, would be substantially greater than historically reported amounts.

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

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.

Disclosure Controls and Procedures

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-14(c) and 15-d-14(c)) as of October 22, 2002 (the "Evaluation Date") within the 90 day period leading to and ending on the filing date of this quarterly report, have concluded that the Company's disclosure controls and procedures were adequate and effective and designed to ensure that material information relating to the Company and its consolidated subsidiaries would have been made known to them. Subsequent to the Evaluation Date, there were no significant changes in the Company's internal controls or, to their knowledge, in other factors that could significantly affect the Company's disclosure controls and procedures.

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

(In millions, except per share data)

	Three months ended September 30	
	2002	2001
Revenues	\$ 1,503	\$ 1,325
Operating expenses excluding special charge	1,141	994
Special charge (Note 4)	-	-
Total operating expenses	1,141	994
Operating income	362	331

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Interest expense	(89)	(71)
Other income (Note 5)	8	14

Income before income taxes	281	274
Income tax expense	(94)	(96)

Net income (Note 10)	\$ 187	\$ 178
=====		
Earnings per share (Note 10)		
Basic	\$ 0.93	\$ 0.91
Diluted	\$ 0.92	\$ 0.88
Weighted-average number of shares		
Basic	200.3	192.4
Diluted	203.0	201.4
=====		

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 September 30			Variance Fav (Unfav)
	2002	2001		

				(Unaudited)
Revenues				
Petroleum and chemicals	\$ 275	\$ 225	22%	\$
Metals and minerals	138	118	17%	
Forest products	337	260	30%	
Coal	85	80	6%	
Grain and fertilizers	217	254	(15%)	
Intermodal	273	243	12%	
Automotive	130	108	20%	
Other items	48	37	30%	

	1,503	1,325	13%	
Operating expenses				

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Labor and fringe benefits	480	417	(15%)
Purchased services	166	136	(22%)
Depreciation and amortization	128	106	(21%)
Fuel	109	112	3%
Equipment rents	87	72	(21%)
Material	72	61	(18%)
Operating taxes	39	34	(15%)
Casualty and other	60	56	(7%)
Special charge (Note 4)	-	-	-
	1,141	994	(15%)
Operating income	\$ 362	\$ 331	9%
Operating ratio (excluding special charge)	75.9%	75.0%	(0.9)

See accompanying notes to consolidated financial statements.

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CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED BALANCE SHEET (CANADIAN GAAP)

(In millions)

	September 30, 2008
	(Unaudited)
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,115
Accounts receivable (Note 6)	71
Material and supplies	15
Deferred income taxes	12
Other	15
	1,155
Properties	16,666
Other assets and deferred charges (Note 3)	90
Total assets	\$ 18,726
Liabilities and shareholders' equity	
Current liabilities:	
Accounts payable and accrued charges	\$ 1,377
Current portion of long-term debt (Note 6)	69
Other	7

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	2,14
Deferred income taxes	3,82
Other liabilities and deferred credits	1,16
Long-term debt (Note 6)	4,69
Shareholders' equity:	
Common shares (Note 7)	3,60
Convertible preferred securities (Note 7)	
Contributed surplus	17
Currency translation	12
Retained earnings	2,99
	6,89
Total liabilities and shareholders' equity	\$ 18,72

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 e September 3	
	2002	
Common shares (1)		
Balance, beginning of period	\$ 3,266	\$
Stock options exercised	10	
Conversion of convertible preferred securities (Note 7)	326	
Balance, end of period	\$ 3,602	\$
Convertible preferred securities		
Balance, beginning of period	\$ 326	\$
Converted shares (Note 7)	(326)	
Balance, end of period	\$ -	\$

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Contributed surplus

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

Balance, end of period	\$	123	\$
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Retained earnings

Balance, beginning of period	\$	2,848	\$
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Net income	187
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Dividends	(43)
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Balance, end of period	\$	2,992	\$
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See accompanying notes to consolidated financial statements.

- (1) The Company issued 6.2 million and 7.6 million shares for the three and nine months ended September 30, 2002, respectively, as a result of stock options exercised and the conversion of convertible preferred securities. At September 30, 2002, the Company had 200.3 million common shares outstanding.

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

(In millions)

Three months ended
September 30

2002

Operating activities

Net income	\$	187	\$
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Non-cash items in income:

Depreciation and amortization	130
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Deferred income taxes	40
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Equity in earnings of English Welsh and Scottish Railway	(4)
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Gain on sale of investment (Note 5)	-
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Write-down of investment (Note 5)	-
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Special charge (Note 4)		-	
Changes in:			
Accounts receivable		(2)	
Material and supplies		16	
Accounts payable and accrued charges		16	
Other net current assets and liabilities		9	
Payments for workforce reductions		(36)	
Other		(62)	

Cash provided from operating activities		294	

Investing activities			
Net additions to properties		(157)	
Other, net		(2)	

Cash used by investing activities		(159)	

Dividends paid		(47)	

Financing activities			
Issuance of long-term debt		642	2
Reduction of long-term debt		(807)	(1
Issuance of common shares		8	

Cash provided from (used by) financing activities		(157)	

Net increase (decrease) in cash and cash equivalents		(69)	
Cash and cash equivalents, beginning of period		93	

Cash and cash equivalents, end of period		\$ 24	\$
=====			

See accompanying notes to consolidated financial statements.

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

(In millions)

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 September 30, 2002, December 31 and September 30, 2001, its results of operations, changes in shareholders' equity and cash flows for the three and nine months ended September 30, 2002 and 2001.

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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

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 nine months ended September 30, 2002, no compensation expense was recognized as no performance-based 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

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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 nine months ended September 30, 2002, the Company granted 3.2 million conventional options. For the three and nine months ended September 30, 2002, 0.2

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

million and 1.6 million, respectively, of previously issued stock options were exercised.

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

	Three months ended September 30, 2002	Nine months ended September 30, 2002
Net income (in millions)	\$ 182	\$ 597
Basic earnings per share	\$ 0.91	\$ 3.02
Diluted earnings per share	\$ 0.90	\$ 2.94

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 months ended September 30, 2002 (1)	Nine months ended September 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 September 30, 2002 (1)	Nine months ended September 30, 2002
Weighted average fair value of options granted	\$ -	\$ 30.98

(1) In the third quarter of 2002, the Company did not grant any stock-option awards.

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.

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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 nine months ended September 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 \$1,470 million, \$194 million, \$0.99 per basic share and \$0.96 per diluted share, respectively, for the three months ended September 30, 2001 and \$4,539 million, \$523 million, \$2.68 per basic share and \$2.61 per diluted share, respectively, for the nine months ended September 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

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

Share repurchase program

On October 22, 2002, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 13 million common shares between October 25, 2002 and October 24, 2003 pursuant to a normal course issuer bid, at prevailing market prices.

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

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agreements. The Company's borrowings of U.S.\$172 million (Cdn\$273 million) outstanding at December 31, 2001 were entirely repaid in the first quarter of 2002 and since then, the credit facilities have not been drawn upon. At September 30, 2002, letters of credit under the revolving credit facilities amounted to \$295 million. The Company currently expects to renew the existing facilities and to complete the refinancing before their maturity.

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 in March 2003 and while the Company's intent is to renew the existing revolving credit facilities, the refinancing has not been completed and, as such, the outstanding balance of U.S.\$117 million (Cdn\$184 million) of commercial paper has been included in the current portion of long-term debt at September 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 September 30, 2002, pursuant to the agreement, \$168 million and U.S.\$113 million (Cdn\$178 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.

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 \$31 million at September 30, 2002 (\$38 million unrealized holding loss at December 31, 2001).

Note 9 - Commitments

At September 30, 2002, the Company had commitments to acquire railroad ties, rail, freight cars and locomotives at an aggregate cost of \$223 million (\$52 million at December 31, 2001).

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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 nine months ended September 30, 2002 as explained in Note 3, the comparability of the results of operations for the nine months ended September 30, 2002 and 2001 is also impacted by the following items:

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

	Three months ended September 30		
	2002	2001	2001 pro forma (1)
(In millions)			(Unaud)
Income before income taxes, excluding undernoted items	\$ 281	\$ 274	\$ 300
Income tax expense	(94)	(96)	(106)
Adjusted net income	187	178	194
Undernoted items, net of tax:			
Special charge for workforce reductions	-	-	-
Write-down of net investment in 360networks Inc.	-	-	-
Gain on sale of Detroit River Tunnel Company	-	-	-
Net income	\$ 187	\$ 178	\$ 194

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

	Three months ended September 30		
	2002	2001	2001 pro forma (1)
(In millions, except per share data)			(Unaud)

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Net income	\$ 187	\$ 178	\$ 194
Dividends on convertible preferred securities (Note 7)	-	(3)	(3)

Income used for basic earnings per share	\$ 187	\$ 175	\$ 191
Weighted-average shares outstanding	200.3	192.4	192.4
Effect of dilutive securities and stock options	2.7	9.0	9.0

Weighted-average diluted shares outstanding	203.0	201.4	201.4
Basic earnings per share	\$ 0.93	\$ 0.91	\$ 0.99
Diluted earnings per share	\$ 0.92	\$ 0.88	\$ 0.96
=====			

(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
SELECTED RAILROAD STATISTICS (CANADIAN GAAP)

	Three months September
	----- 2002

Rail operations	
Freight revenues (\$ millions)	1,455
Gross ton miles (millions)	75,687
Revenue ton miles (RTM) (millions)	39,460
Route miles (includes Canada and the U.S.)	17,843
Operating expenses per RTM (cents) (2)	2.89
Freight revenue per RTM (cents)	3.69
Carloads (thousands)	1,043
Freight revenue per carload (\$)	1,395
Diesel fuel consumed (Liters in millions)	334
Average fuel price (\$/Liter)	0.32
Revenue ton miles per liter of fuel consumed	118
Gross ton miles per liter of fuel consumed	227
Diesel fuel consumed (U.S. gallons in millions)	89
Average fuel price (\$/U.S. gallon)	1.23
Revenue ton miles per U.S. gallon of fuel consumed	443
Gross ton miles per U.S. gallon of fuel consumed	850
Locomotive bad order ratio (%) (3)	6.9
Freight car bad order ratio (%)	5.9

Productivity	
Operating ratio (%) (2)	75.9
Freight revenue per route mile (\$ thousands)	82
Revenue ton miles per route mile (thousands)	2,212

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Freight revenue per average number of employees (\$ thousands)	62
Revenue ton miles per average number of employees (thousands)	1,669

Employees

Number at end of period	23,484
Average number during period	23,647
Labor and fringe benefits expense per RTM (cents)	1.22
Injury frequency rate per 200,000 person hours	3.4
Accident rate per million train miles	2.2

Financial

Debt to total capitalization ratio (% at end of period)	43.9
Return on assets (% at end of period)	1.3

- (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 September 30		
	2002	2001(1)	Variance Fav (Unfav)
(Unaudited)			
Revenue ton miles (millions)			
Petroleum and chemicals	7,538	6,181	22%
Metals and minerals	3,574	2,618	37%
Forest products	8,508	7,193	18%
Coal	3,872	3,795	2%
Grain and fertilizers	7,800	8,982	(13%)
Intermodal	7,429	6,481	15%
Automotive	739	659	12%
	39,460	35,909	10%
Freight revenue / RTM (cents)			
Total freight revenue per RTM	3.69	3.59	3%
Business units:			

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Petroleum and chemicals	3.65	3.64	-
Metals and minerals	3.86	4.51	(14%)
Forest products	3.96	3.61	10%
Coal	2.20	2.11	4%
Grain and fertilizers	2.78	2.83	(2%)
Intermodal	3.67	3.75	(2%)
Automotive	17.59	16.39	7%

Carloads (thousands)

Petroleum and chemicals	147	126	17%
Metals and minerals	104	69	51%
Forest products	151	116	30%
Coal	127	125	2%
Grain and fertilizers	123	136	(10%)
Intermodal	319	273	17%
Automotive	72	70	3%
	1,043	915	14%

Freight revenue / carload (dollars)

Total freight revenue per carload	1,395	1,408	(1%)
Business units:			
Petroleum and chemicals	1,871	1,786	5%
Metals and minerals	1,327	1,710	(22%)
Forest products	2,232	2,241	-
Coal	669	640	5%
Grain and fertilizers	1,764	1,868	(6%)
Intermodal	856	890	(4%)
Automotive	1,806	1,543	17%

=====

(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)

(In millions, except per share data)

	Three months ended September 30			
	2002	2001	Variance	
		pro forma (1)	Fav (Unfav)	
Revenues				(Unaudited)
Petroleum and chemicals	\$ 275	\$ 248	11%	\$
Metals and minerals	138	149	(7%)	
Forest products	337	319	6%	
Coal	85	87	(2%)	

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Grain and fertilizers	217	267	(19%)
Intermodal	273	252	8%
Automotive	130	108	20%
Other items	48	40	20%
	1,503	1,470	2%
Operating expenses			
Labor and fringe benefits	480	468	(3%)
Purchased services	166	146	(14%)
Depreciation and amortization	128	118	(8%)
Fuel	109	123	11%
Equipment rents	87	79	(10%)
Material	72	67	(7%)
Operating taxes	39	36	(8%)
Casualty and other	60	57	(5%)
Special charge	-	-	-
	1,141	1,094	(4%)
Operating income	362	376	(4%)
Interest expense	(89)	(97)	
Other income	8	21	
Income before income taxes	281	300	
Income tax expense	(94)	(106)	
Net income	\$ 187	\$ 194	
Operating ratio (excluding special charge)	75.9%	74.4%	(1.5)
Diluted earnings per share	\$ 0.92	\$ 0.96	
Adjusted diluted earnings per share (2)	\$ 0.92	\$ 0.96	
Diluted weighted-average number of shares	203.0	201.4	

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

(2) Adjusted diluted earnings per share for 2001 exclude 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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	Three months ended September 30			
	2002	2001	Variance	
	pro forma(1)	pro forma(1)	Fav (Unfav)	
				(Unaudited)
Revenue ton miles (millions)				
Petroleum and chemicals	7,538	6,484	16%	2
Metals and minerals	3,574	3,448	4%	1
Forest products	8,508	8,052	6%	2
Coal	3,872	4,153	(7%)	1
Grain and fertilizers	7,800	9,183	(15%)	2
Intermodal	7,429	6,535	14%	2
Automotive	739	660	12%	
	39,460	38,515	2%	11
Freight revenue / RTM (cents)				
Total freight revenue per RTM	3.69	3.71	(1%)	
Business units:				
Petroleum and chemicals	3.65	3.82	(4%)	
Metals and minerals	3.86	4.32	(11%)	
Forest products	3.96	3.96	-	
Coal	2.20	2.09	5%	
Grain and fertilizers	2.78	2.91	(4%)	
Intermodal	3.67	3.86	(5%)	
Automotive	17.59	16.36	8%	
Carloads (thousands)				
Petroleum and chemicals	147	135	9%	
Metals and minerals	104	120	(13%)	
Forest products	151	147	3%	
Coal	127	135	(6%)	
Grain and fertilizers	123	143	(14%)	
Intermodal	319	288	11%	
Automotive	72	70	3%	
	1,043	1,038	-	
Freight revenue / carload (dollars)				
Total freight revenue per carload	1,395	1,378	1%	
Business units:				
Petroleum and chemicals	1,871	1,837	2%	
Metals and minerals	1,327	1,242	7%	
Forest products	2,232	2,170	3%	
Coal	669	644	4%	
Grain and fertilizers	1,764	1,867	(6%)	
Intermodal	856	875	(2%)	
Automotive	1,806	1,543	17%	

(1) The pro forma data has been prepared assuming the Company had acquired WC

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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

Third quarter and first nine 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 nine months ended September 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 \$187 million (\$0.93 per basic share or \$0.92 per diluted share) for the quarter ended September 30, 2002 compared to consolidated net income of \$178 million (\$0.91 per basic share or \$0.88 per diluted share) in the third quarter of 2001, an increase of \$9 million (\$0.02 per basic share or \$0.04 per diluted share). Consolidated net income for the nine months ended September 30, 2002 was \$610 million (\$3.09 per basic share or \$3.00 per diluted share) compared to \$489 million (\$2.50 per basic share or \$2.44 per diluted share) in the same period of 2001.

Operating income was \$362 million for the third quarter of 2002 compared to \$331 million in the same quarter of 2001. For the first nine months of the year, operating income was \$1,119 million compared to \$938 million in the same period of 2001. The operating ratio increased to 75.9% in the current quarter from 75.0% in the third quarter of 2001, a 0.9-point increase.

The nine-month period ended September 30, 2001 included items impacting the comparability of the results of operations to those in the respective period of 2002. For the nine months ended September 30, 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, \$77 million after tax (\$0.40

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per basic share or \$0.39 per diluted share) and 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 nine months ended September 30, 2002, increased by \$64 million (\$0.30 per basic share or \$0.27 per diluted share), from \$546 million (\$2.79 per basic share or \$2.73 per diluted share) for the same period in 2001.

Excluding the 2001 special charge, operating income for the nine-month period ended September 30, 2002, increased by \$83 million, or 8%, to \$1,119 million from \$1,036 million in the same period last year. The nine-month operating ratio, excluding the 2001 special charge, increased to 75.5% in 2002 from 74.8% in 2001, a 0.7-point increase.

Comparison to 2001 pro forma

Net income in the current quarter decreased by \$7 million (\$0.06 per basic share or \$0.04 per diluted share) from pro forma net income of \$194 million (\$0.99 per basic share or \$0.96 per diluted share) in

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

the comparative 2001 quarter. Excluding the 2001 items previously discussed, net income for the nine months ended September 30, 2002, increased by \$30 million (\$0.12 per basic share or \$0.10 per diluted share) from pro forma net income of \$580 million (\$2.97 per basic share or \$2.90 per diluted share) in the same 2001 period.

Revenues for the third quarter of 2002 increased by \$33 million, or 2%, when compared to pro forma revenues of \$1,470 million in the same 2001 period. For the nine-month period ended September 30, 2002, revenues increased by \$24 million, or 1%, when compared to pro forma revenues of \$4,539 million in the same period last year.

Operating expenses in the current quarter increased by \$47 million, or 4%, from pro forma operating expenses of \$1,094 million in the same quarter of 2001. For the first nine months of 2002, operating expenses increased by \$48 million, or 1%, from pro forma operating expenses, excluding the special charge, of \$3,396 million in the same period last year.

Operating income for the third quarter of 2002 was \$362 million, a decrease of \$14 million, or 4%, when compared to pro forma operating income of \$376 million in the comparable 2001 quarter. The operating ratio increased to 75.9% in the current quarter from the pro forma operating ratio of 74.4% in the same quarter of 2001. For the nine-month period ended September 30, 2002, operating income was \$1,119 million, a decrease of \$24 million, from pro forma operating income, excluding the special charge, of \$1,143 million in the comparable 2001 period. The nine-month operating ratio increased to 75.5% in 2002 from the pro forma operating ratio, excluding the special charge, of 74.8% in 2001.

Revenues

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Revenues in the third quarter of 2002 totaled \$1,503 million compared to \$1,325 million during the same period in 2001, an increase of \$178 million, or 13%. Revenues for the first nine months of 2002 were \$4,563 million, an increase of \$448 million, or 11%, from the same period last year. The increase in the quarter and first nine months was mainly attributable to the consolidation of WC revenues and to gains in petroleum and chemicals, automotive, intermodal and forest products. Partly offsetting these gains were continued weakness in Canadian grain, and coal revenues. Also contributing to the nine-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 10% in the quarter and 5% in the nine-month period ended September 30, 2002 when compared to the same periods in 2001. Freight revenue per revenue ton mile for the quarter and first nine months of the year increased by 3% and 5%, respectively, when compared to the same periods last year.

Petroleum and chemicals: Revenues increased by \$50 million, or 22%, for the third quarter and \$151 million, or 23%, for the first nine months when compared to the same periods in 2001. Growth in the quarter and nine-month period was mainly due to the inclusion of WC revenues and continued strength in the petroleum segment, including strong sulfur shipments and market share gains in various sectors. Revenue per revenue ton mile for the current quarter remained unchanged and increased by 1% during the first nine 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 traffic.

Metals and minerals: Revenues increased by \$20 million, or 17%, for the third quarter and \$66 million, or 20%, for the first nine months when compared to the same periods in 2001. The increase in the quarter and first nine months was mainly due to the inclusion of WC revenues, market share gains in the aluminum sector and strong construction materials traffic, partly offset by one-time gains in 2001. Also impacting the quarter were market share gains in the steel industry that were offset by reduced traffic in specific segments due to ongoing customer strikes. Revenue per revenue ton mile decreased by 14% in the current quarter and 7% for the first nine months of the year mainly due to an increase in longer haul traffic and the inclusion of certain lower-rated WC traffic.

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

Forest products: Revenues increased by \$77 million, or 30%, for the third quarter and \$222 million, or 29%, for the first nine months when compared to the same periods in 2001. Growth in the quarter and first nine months of the year was mainly due to the inclusion of WC revenues and, increased lumber and panels traffic, in line with a strong North American housing market. Improved market conditions in the Canadian pulp and paper industry also contributed to third quarter growth. The increase in revenue per revenue ton mile of 10% in the current quarter and 11% in the first nine months of 2002 was mainly due to the inclusion of shorter haul WC traffic and the effect of the weaker Canadian dollar.

Coal: Revenues increased by \$5 million, or 6%, for the third quarter and decreased by \$10 million, or 4%, for the first nine months when compared to the same periods in 2001. The increase in the quarter reflected the inclusion of WC revenues, partly offset by some weakness in CN coal traffic on a year-over-year

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basis. The decrease in the nine-month period 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 4% in the current quarter and 5% during the first nine months of 2002 was mainly due to a decrease in longer haul traffic and the effect of the weaker Canadian dollar.

Grain and fertilizers: Revenues decreased by \$37 million, or 15%, for the third quarter and \$109 million, or 13%, for the first nine months when compared to the same periods in 2001. The decline in both the quarter and first nine months of 2002 reflected a significant deterioration in the Canadian grain crop. The third quarter was also impacted by the loss of a potash move and a decline in United States originating grain traffic. The 2% decrease in revenue per revenue ton mile in the current quarter was mainly attributable to a shift in traffic mix. For the first nine months, revenue per revenue ton mile increased by 3% mainly as a result of an increase in regulated grain rates and a decline in longer haul traffic.

Intermodal: Revenues increased by \$30 million, or 12%, for the third quarter and \$45 million, or 6%, for the first nine months when compared to the same periods in 2001. The increase in the quarter and first nine months of 2002 was attributable to growth in both the overseas and domestic segments. Growth in the overseas segment was achieved in spite of stagnant trade and the loss of an overseas move in the second half of 2001. The domestic segment benefited from growing markets in both Canada and the United States. The decrease in revenue per revenue ton mile of 2% for the current quarter and 3% for the first nine months of 2002 was mainly attributable to the fuel surcharge in 2001 and an increase in the average length of haul.

Automotive: Revenues increased by \$22 million, or 20%, for the third quarter and \$66 million, or 18%, for the first nine months when compared to the same periods in 2001, reflecting stronger motor vehicle production in both Canada and the United States. The 7% revenue per revenue ton mile increase for the current quarter and 3% increase for the first nine months of 2002 was mainly attributable to the weaker Canadian dollar.

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

Operating expenses

In the third quarter of 2002, operating expenses amounted to \$1,141 million compared to \$994 million in the same quarter of 2001. Operating expenses for the first nine months of 2002 were \$3,444 million compared to \$3,177 million in the same period of 2001.

Excluding the 2001 special charge for workforce reductions, operating expenses for the first nine months of the year increased by \$365 million, or 12%, from \$3,079 million in the same period of 2001. The increases in the quarter and first nine months of 2002 were mainly due to the consolidation of WC expenses, higher expenses for labor and fringe benefits and equipment rents, partially offset by lower fuel costs.

Labor and fringe benefits: Labor and fringe benefit expenses in 2002 increased by \$63 million, or 15%, for the third quarter and \$219 million, or 18%, for the first nine months when compared to the same 2001 periods. The increase in the quarter and first nine months of the year was mainly attributable to the

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inclusion of WC expenses (\$55 million for the quarter and \$158 million for the nine-month period), wage increases, higher benefit expenses, including health and welfare and other post-retirement benefits, and the impact of the weaker Canadian dollar on U.S. denominated expenses. These increases were partly offset by the effects of a reduced workforce in 2002.

Purchased services: The costs of purchased services increased by \$30 million, or 22%, for the quarter and \$52 million, or 13%, for the nine-month period ended September 30, 2002, when compared to corresponding periods in 2001. The increase in the quarter and first nine months of the year was mainly due to the inclusion of WC expenses and higher expenses for professional services and equipment repairs.

Depreciation and amortization: Depreciation and amortization expense for the quarter and nine months ended September 30, 2002, increased by \$22 million, or 21%, and \$37 million, or 11%, respectively, from the comparable 2001 periods. The increase in the quarter and first nine months of the year was mainly due to the inclusion of WC expenses and the impact of capital additions in 2002.

Fuel: Fuel expense decreased by \$3 million, or 3%, for the third quarter and \$41 million, or 11%, for the first nine months of 2002, when compared to the respective 2001 periods. The decrease in the quarter and first nine months of the year was primarily due to a decrease in the average price of fuel, partially offset by the inclusion of WC expenses.

Equipment rents: These expenses increased by \$15 million, or 21%, in the quarter and \$43 million, or 19%, for the first nine months of the year, when compared to the same 2001 periods. The increase in the quarter and first nine months of the year was mainly due to the inclusion of WC expenses and lower car hire income.

Material: For the quarter and nine months ended September 30, 2002, material costs increased by \$11 million, or 18%, and \$10 million, or 5%, respectively, from the comparable 2001 periods. The increase in the quarter and first nine months of the year was mainly due to the inclusion of WC expenses that were partly offset by lower locomotive and car maintenance costs.

Operating taxes: Operating taxes increased by \$5 million, or 15%, during the third quarter and \$7 million, or 6%, during the nine-month period ended September 30, 2002 when compared to the corresponding 2001 periods. The increase in the quarter and first nine months of the year was mainly due to the inclusion of WC expenses and lower recoveries in 2002.

Casualty and other: These expenses increased by \$4 million, or 7%, in the current quarter and \$38 million, or 24%, for the first nine months of 2002, when compared to the corresponding 2001 periods. The increase in the current quarter is mainly due to the inclusion of WC expenses. The increase in the nine-month period was mainly due to higher expenses for casualty and legal claims, including occupational-related claims, and higher derailment-related expenses that were partly offset by lower expenses related to environmental matters and bad debts.

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Interest expense: Interest expense for the third quarter increased by \$18 million, or 25%, from the comparable 2001 quarter and \$48 million, or 22%, in the first nine months of 2002 versus the equivalent 2001 period. The increase in the quarter and first nine months of the year was mainly due to the financing related to the acquisition of WC and the inclusion of WC expenses. Partly offsetting these increases was lower interest expense related to the maturity of certain notes in the first nine months of 2001.

Other income: The Company recorded other income of \$8 million for the third quarter of 2002 compared to \$14 million in the same period of 2001. The decrease is mainly due to lower gains on disposal of surplus assets, partly offset by the Company's equity in earnings of English Welsh and Scottish Railway (EWS) of \$4 million. On September 30, 2002, the Company completed the sale of IC Terminal Holdings Company for net sales proceeds of U.S.\$18 million (Cdn\$28 million), which approximated the carrying value of the investment. Excluding the impact of the 2001 DRT and 360networks Inc. transactions previously discussed, other income for the first nine months of 2002 increased to \$69 million from \$32 million in the comparable period of 2001. The increase was mainly due to the Company's equity in earnings of EWS of \$19 million and higher gains on disposal of surplus assets.

Income tax expense: The Company recorded an income tax expense of \$94 million for the current quarter and \$96 million for the corresponding period in 2001. Income tax expense was \$310 million for the nine months ended September 30, 2002 and \$263 million for the comparable 2001 period. The effective tax rate for the quarter and nine months ended September 30, 2002 was 33.5% and 33.7%, respectively. The effective tax rate for the comparative 2001 periods was 35.0% and 35.6%, respectively, excluding 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 (CANADIAN 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 \$294 million and \$869 million for the three and nine-month periods ended September 30, 2002, respectively, compared to \$193 million and \$630 million for the same 2001 periods. Net income, excluding non-cash items, generated cash of \$353 million for the current quarter and \$1,121 million for the nine months ended September 30, 2002, compared to \$310 million and \$1,031 million in the corresponding 2001 periods. Cash generated in the first nine months of 2002 was partially consumed by payments for workforce reductions and income taxes of \$130 million and \$88 million, respectively, compared to \$128 million and \$70 million, respectively, for the same period last year. Payments for casualty and legal claims, including amounts paid for workers' compensation, for the first nine months of 2002 and 2001 were \$105 million and \$119 million, respectively.

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Investing activities: Cash used by investing activities in the quarter and nine months ended September 30, 2002 amounted to \$159 million and \$290 million, respectively, compared to \$161 million and \$309 million for the comparable periods in 2001. The Company's investing activities in the first nine months of 2002 included net proceeds of \$68 million from the sale of its investment in Tranz Rail Holdings Limited, whereas the comparative period included net proceeds of \$112 million from the sale of DRT. Net capital expenditures amounted to \$157 million and \$361 million in the three and nine months ended September 30, 2002, respectively, an increase of \$37 million and a decrease of \$27 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 \$43 million for the third quarter and \$126 million for the first nine months of 2002 compared to \$38 million and \$113 million, respectively, at the rate of \$0.195 per common share for the same periods in 2001. In the third quarter and first nine months of 2002, \$4 million and \$9 million, respectively, was paid on the convertible preferred securities compared to \$4 million and \$14 million, respectively, for the same periods in 2001, at an annual rate of 5.25%.

Free cash flow

The Company generated \$88 million and \$444 million of free cash flow for the three and nine months ended September 30, 2002, respectively, compared to cash consumed of \$10 million and cash generated of \$194 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 \$157 million for the third quarter and \$473 million for the nine months ended September 30, 2002 compared to cash generated from financing activities of \$810 million and \$617 million in the same periods of 2001. In 2002, issuances and repayments of long-term debt related principally to the Company's commercial paper and revolving credit facilities. In September 2001, the Company issued debt securities in two series, U.S.\$400 million (Cdn\$629 million) 6.375% Notes due 2011 and U.S.\$200 million (Cdn\$314 million) 7.375% Debentures due 2031, related to the acquisition of WC.

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

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. The Company's borrowings of U.S.\$172 million (Cdn\$273 million)

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outstanding at December 31, 2001 were entirely repaid in the first quarter of 2002 and since then, the credit facilities have not been drawn upon. At September 30, 2002, letters of credit under the revolving credit facilities amounted to \$295 million. The Company currently expects to renew the existing facilities and to complete the refinancing before their maturity.

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 in March 2003 and while the Company's intent is to renew the existing revolving credit facilities, the refinancing has not been completed and, as such, the outstanding balance of U.S.\$117 million (Cdn\$184 million) of commercial paper has been included in the current portion of long-term debt at September 30, 2002.

Shelf registration statement

At September 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 September 30, 2002, pursuant to the agreement, \$168 million and U.S.\$113 million (Cdn\$178 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 currently aware of any adverse trend, event or condition that would affect the Company's credit standing.

CANADIAN NATIONAL RAILWAY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS (CANADIAN 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 September 30, 2002:

Contractual obligations (In millions)

Contract Type	Total	2002	2003-2004	2005-2006	2007 & thereafter
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Debentures, notes and other	\$ 4,517	\$ 11	\$ 1,104	\$ 581	\$ 2,821
Capital leases (a)	881	35	188	97	561
Long-term debt	\$ 5,398	\$ 46	\$ 1,292	\$ 678	\$ 3,382
Operating leases (b)	1,206	56	406	302	442
Total obligations	\$ 6,604	\$ 102	\$ 1,698	\$ 980	\$ 3,824

Commercial commitments
(In millions)

Commitment Type	Total	2002	2003-2004	2005-2006	2007 & thereafter
Standby letters of credit (c)	\$ 488	\$ 194	\$ 293	\$ 1	\$ -
Other commercial commitments (d)	223	27	196	-	-
Total commitments	\$ 711	\$ 221	\$ 489	\$ 1	\$ -

- (a) Excludes \$507 million of imputed interest on capital leases at rates ranging from approximately 3.0% to 14.6%.
- (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 September 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 \$295 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, including the expected renewal of its revolving credit facilities, to be sufficient to meet its future obligations and fund anticipated capital expenditures.

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

SHARE REPURCHASE PROGRAM

On October 22, 2002, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 13 million common

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shares between October 25, 2002 and October 24, 2003 pursuant to a normal course issuer bid, at prevailing market prices.

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.

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.

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 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 claims and environmental claims. 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

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estimated. Although the Company considers such provisions to be adequate for these matters, the final outcome with respect to actions outstanding or pending at September 30, 2002, or with respect to future claims,

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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. 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 consider using an actuarial based approach to evaluate the sufficiency of its provision for occupational and other claims. The Company has been, and continues working with an independent actuarial firm. 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 September 30, 2002, the Company had aggregate reserves for legal matters of \$258 million (\$277 million at December 31, 2001), of which approximately \$152 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

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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 any such harm, including costs relating to the performance of clean-ups, natural resource damages

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

and compensatory or punitive damages relating to harm to individuals or property.

As at September 30, 2002, the Company had aggregate accruals for environmental costs of \$101 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 post-retirement benefits as required by CICA Handbook Section 3461 "Employee Future Benefits." Under this accounting

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standard, the 2002 assumptions regarding the valuation of benefit obligations and performance of plan assets were established on the plan's last measurement date of January 1, 2002. Delayed recognition of differences between actual results and those assumed is a guiding principle of this standard. This approach allows for 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 post-retirement 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. The Company regularly reviews these assumptions on an annual basis.

During the last ten years ended December 31, 2001, the CN Pension Plan earned an average rate of return in excess of 10% annually. For that same period, the Company used a long-term rate of return assumption not exceeding 9% to compute pension expense. However, given the recent performance of its plan assets and the equity markets in North America, it is anticipated that the Company will, effective for 2003, reduce the expected long-term rate of return on plan assets from 9% to 8% to reflect management's current view of long-term investment returns. The effect of this change in management's assumption will be to increase pension expense by approximately \$50 million.

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

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 or their guarantors is regularly monitored, and losses due to counterparty non-performance 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 September 30, 2002, the Company hedged approximately 46% of the estimated 2002 fuel consumption, 45% of the estimated 2003 fuel consumption and 14% of the estimated 2004 fuel consumption. This represented approximately 391 million U.S. gallons at an average price of U.S.\$0.6064 per U.S. gallon.

For the three months ended September 30, 2002, the Company realized a gain of \$4 million from its fuel hedging activities, compared to a negligible gain in the same period last year. For the first nine months of 2002, the Company's hedging

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activities resulted in a realized loss of \$5 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 \$31 million at September 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

Canadian workforce

As of October 2002, the Company had achieved ratified settlements with bargaining groups representing substantially all of its Canadian

unionized workforce. These agreements are generally for a three-year period effective until December 31, 2003.

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U.S. workforce

The general approach to labor negotiations by U.S. Class 1 railroads is to bargain on a collective national basis. 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 because the resulting settlements better address both the employees' concerns and preferences and the railways' actual operating environment. However, local negotiations may not generate federal intervention in a strike or lockout situation, since a dispute may be localized. The Company believes the potential mutual benefits of local bargaining outweigh the risks.

As of October 2002, the Company had in place agreements with bargaining units representing the entire 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, security, 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. While the Company expects continued North American economic growth in the fourth quarter of 2002, much of that will depend on

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

consumer and business confidence, both of which show signs of being tested by uncertain domestic markets and international events. The Company will continue to leverage its strong service capabilities but remains cautious about business prospects for the near term.

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 of 1998, a severe ice storm hit eastern Canada, which disrupted operations and service for the railroad as well as for CN customers. More recently, severe drought conditions in western Canada significantly reduced bulk commodity revenues, principally grain. There continues to be widespread concerns about the impact of crop conditions on grain supplies in the near term.

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 inflation-adjusted 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.

Disclosure Controls and Procedures

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-14(c) and 15-d-14(c)) as of October 22, 2002 (the "Evaluation Date") within the 90 day period leading to and ending on the filing date of this quarterly report, have concluded that the Company's disclosure controls and procedures were adequate and effective and

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designed to ensure that material information relating to the Company and its consolidated subsidiaries would have been made known to them. Subsequent to the Evaluation Date, there were no significant changes in the Company's internal controls or, to their knowledge, in other factors that could significantly affect the Company's disclosure controls and procedures.

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ITEM 3

Statement of Principal Executive Officer Regarding Facts and Circumstances Relating to Exchange Act Filings

I, PAUL M. TELLIER, President and Chief Executive Officer of Canadian National Railway Company ("CN"), certify that:

- (1) I have reviewed this quarterly report on Form 6-K of CN;
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- (4) The Executive Vice-President and Chief Financial Officer of CN and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant ("CN") and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to CN, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of CN's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) CN's other certifying officers and I have disclosed, based on our most recent evaluation, to CN's auditors and the audit committee of CN's board of directors:
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data

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and have identified for the registrant's auditors any material weaknesses in internal controls; and

- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) CN's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The following certification is made on a voluntary basis and is not required under the laws of Canada, the United States or any other jurisdiction. The certification is not and shall not be deemed to be a certification made pursuant to the Sarbanes-Oxley Act of 2002 of the United States or any other law or regulation of the United States, Canada or any other jurisdiction. The certification is made as of the date of issuance of this report and neither we nor the undersigned assumes any duty to update the certification.

/s/ PAUL M. TELLIER

PAUL M. TELLIER
President and Chief Executive Officer
Canadian National Railway Company

DATE: October 24, 2002

ITEM 4

Statement of Principal Financial Officer Regarding Facts and Circumstances Relating to Exchange Act Filings

I, CLAUDE MONGEAU, Executive Vice-President and Chief Financial Officer of Canadian National Railway Company ("CN"), certify that:

- (1) I have reviewed this quarterly report on Form 6-K of CN;
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- (4) The President and Chief Executive Officer of CN and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant ("CN") and have:

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- (a) designed such disclosure controls and procedures to ensure that material information relating to CN, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of CN's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) CN's other certifying officers and I have disclosed, based on our most recent evaluation, to CN's auditors and the audit committee of CN's board of directors;
- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) CN's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The following certification is made on a voluntary basis and is not required under the laws of Canada, the United States or any other jurisdiction. The certification is not and shall not be deemed to be a certification made pursuant to the Sarbanes-Oxley Act of 2002 of the United States or any other law or regulation of the United States, Canada or any other jurisdiction. The certification is made as of the date of issuance of this report and neither we nor the undersigned assumes any duty to update the certification.

/s/ CLAUDE MONGEAU

CLAUDE MONGEAU
Executive Vice-President and Chief
Financial Officer
Canadian National Railway Company

DATE: October 24, 2002