

Consolidated Statements of Income – unaudited

<i>In millions, except per share data</i>	Three months ended	
	March 31	
	2016	2015
Revenues	\$ 2,964	\$ 3,098
Operating expenses		
Labor and fringe benefits	590	668
Purchased services and material	408	457
Fuel	235	361
Depreciation and amortization	307	296
Equipment rents	95	94
Casualty and other	112	159
Total operating expenses	1,747	2,035
Operating income	1,217	1,063
Interest expense	(123)	(104)
Other income	5	4
Income before income taxes	1,099	963
Income tax expense	(307)	(259)
Net income	\$ 792	\$ 704
Earnings per share (Note 3)		
Basic	\$ 1.01	\$ 0.87
Diluted	\$ 1.00	\$ 0.86
Weighted-average number of shares (Note 3)		
Basic	786.1	809.4
Diluted	789.0	814.3
Dividends declared per share	\$ 0.3750	\$ 0.3125

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Comprehensive Income – unaudited

<i>In millions</i>	Three months ended	
	March 31	
	2016	2015
Net income	\$ 792	\$ 704
Other comprehensive income (loss) (Note 7)		
Net gain (loss) on foreign currency translation	(125)	96
Net change in pension and other postretirement benefit plans	49	61
Other comprehensive income (loss) before income taxes	(76)	157
Income tax recovery (expense)	(82)	69
Other comprehensive income (loss)	(158)	226
Comprehensive income	\$ 634	\$ 930

See accompanying notes to unaudited consolidated financial statements.

Consolidated Balance Sheets – unaudited

<i>In millions</i>	March 31 2016	December 31 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 188	\$ 153
Restricted cash and cash equivalents (Note 4)	522	523
Accounts receivable	861	878
Material and supplies	432	355
Other	237	244
Total current assets	2,240	2,153
Properties	31,813	32,624
Pension asset	1,450	1,305
Intangible and other assets	300	320
Total assets	\$ 35,803	\$ 36,402
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and other	\$ 1,571	\$ 1,556
Current portion of long-term debt	987	1,442
Total current liabilities	2,558	2,998
Deferred income taxes	8,029	8,105
Other liabilities and deferred credits	597	644
Pension and other postretirement benefits	704	720
Long-term debt	9,141	8,985
Shareholders' equity		
Common shares	3,731	3,705
Common shares in Share Trusts (Note 4)	(77)	(100)
Additional paid-in capital	396	475
Accumulated other comprehensive loss (Note 7)	(1,925)	(1,767)
Retained earnings	12,649	12,637
Total shareholders' equity	14,774	14,950
Total liabilities and shareholders' equity	\$ 35,803	\$ 36,402

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity – unaudited

<i>In millions</i>	Number of common shares		Common shares	Additional paid-in capital	Common shares in Share Trusts	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	Outstanding	Share Trusts						
<i>Balance at December 31, 2015</i>	787.2	1.4	\$ 3,705	\$ (100)	\$ 475	\$ (1,767)	\$ 12,637	\$ 14,950
Net income							792	792
Stock options exercised	0.3		13		(2)			11
Settlement of other equity settled awards			48		(74)			(26)
Stock-based compensation expense and other					20		(2)	18
Share repurchase program (Note 4)	(7.4)		(35)				(485)	(520)
Disbursed from Share Trusts (Note 4)	0.3	(0.3)		23	(23)			-
Other comprehensive loss (Note 7)						(158)		(158)
Dividends							(293)	(293)
<i>Balance at March 31, 2016</i>	780.4	1.1	\$ 3,731	\$ (77)	\$ 396	\$ (1,925)	\$ 12,649	\$ 14,774

<i>In millions</i>	Number of common shares		Common shares	Additional paid-in capital	Common shares in Share Trusts	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	Outstanding	Share Trusts						
<i>Balance at December 31, 2014</i>	809.4	-	\$ 3,718	\$ -	\$ -	\$ (2,427)	\$ 11,740	\$ 13,470
Net income							704	704
Stock options exercised	0.3		12		(2)			10
Settlement of other equity settled awards			1		(2)			(1)
Stock-based compensation expense and other					17		(1)	16
Share repurchase program (Note 4)	(5.4)		(25)				(404)	(429)
Other comprehensive income (Note 7)						226		226
Dividends							(252)	(252)
<i>Balance at March 31, 2015</i>	804.3	-	\$ 3,706	\$ -	\$ 452	\$ (2,201)	\$ 11,787	\$ 13,744

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Cash Flows – unaudited

<i>In millions</i>	Three months ended March 31	
	2016	2015
Operating activities		
Net income	\$ 792	\$ 704
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	307	296
Deferred income taxes	155	70
Changes in operating assets and liabilities:		
Accounts receivable	(27)	71
Material and supplies	(86)	(84)
Accounts payable and other	(8)	21
Other current assets	(6)	(17)
Pensions and other, net	(62)	(69)
<i>Net cash provided by operating activities</i>	1,065	992
Investing activities		
Property additions	(469)	(468)
Change in restricted cash and cash equivalents	1	(10)
Other, net	(12)	(3)
<i>Net cash used in investing activities</i>	(480)	(481)
Financing activities		
Issuance of debt (Note 4)	677	-
Repayment of debt	(111)	(47)
Net issuance (repayment) of commercial paper	(300)	310
Settlement of foreign exchange forward contracts on long-term debt	(1)	-
Common shares issued for stock options exercised, excess tax benefits, and other	11	10
Withholding taxes remitted on the net settlement of equity settled awards	(25)	-
Repurchase of common shares (Note 4)	(512)	(410)
Dividends paid	(293)	(252)
<i>Net cash used in financing activities</i>	(554)	(389)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	4	4
<i>Net increase in cash and cash equivalents</i>	35	126
Cash and cash equivalents, beginning of period	153	52
<i>Cash and cash equivalents, end of period</i>	\$ 188	\$ 178
Supplemental cash flow information		
Interest paid	\$ (117)	\$ (91)
Income taxes paid	(236)	(228)

See accompanying notes to unaudited consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements

1 – Basis of presentation

The accompanying unaudited Interim Consolidated Financial Statements, expressed in Canadian dollars, have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial statements. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In management's opinion, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included.

These unaudited Interim Consolidated Financial Statements have been prepared using accounting policies consistent with those used in preparing Canadian National Railway Company's ("CN" or the "Company") 2015 Annual Consolidated Financial Statements and should be read in conjunction with such statements and Notes thereto.

2 – Recent accounting pronouncements

The following recent Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board have an effective date after March 31, 2016 and have not been adopted by the Company:

Standard	Description	Impact	Effective date ⁽¹⁾
ASU 2016-09 Compensation – Stock Compensation	Simplifies several aspects of the accounting for share-based payments, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the Statement of Cash Flows. The new guidance includes multiple amendments with differing application methods.	The Company is evaluating the effects that the adoption of the ASU will have on its Consolidated Financial Statements.	December 15, 2016. Early adoption is permitted.
ASU 2016-02 Leases	Requires the recognition of lease assets and lease liabilities on the Balance Sheet by lessees for most leases. The accounting treatment applied by a lessor is largely unchanged. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.	The Company is evaluating the effects that the adoption of the ASU will have on its Consolidated Financial Statements.	December 15, 2018. Early adoption is permitted.
ASU 2016-01 Financial Instruments – Overall	Addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments require equity investments (except those accounted for under the equity method of accounting or those resulting in consolidation) to be measured at fair value with changes in fair value recognized in net income. The new guidance can be applied by means of a cumulative effect adjustment to the Balance Sheet at the beginning of the year of adoption.	The Company is evaluating the effects that the adoption of the ASU will have on its Consolidated Financial Statements, if any; however, no significant impact is expected.	December 15, 2017.
ASU 2014-09 Revenue from Contracts with Customers	Establishes principles for reporting the nature, amount, timing and uncertainty of revenues and cash flows arising from an entity's contracts with customers. The basis of the new standard is that an entity recognizes revenue to represent the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance can be applied using a retrospective or the cumulative effect transition method.	The Company is evaluating the effects that the adoption of the ASU will have on its Consolidated Financial Statements, if any; however, no significant impact is expected.	December 15, 2017. Early adoption is permitted.

(1) Effective for annual and interim reporting periods beginning after the stated date.

3 – Earnings per share

<i>In millions, except per share data</i>	Three months ended March 31	
	2016	2015
Net income	\$ 792	\$ 704
Weighted-average basic shares outstanding	786.1	809.4
Dilutive effect of stock-based compensation	2.9	4.9
<i>Weighted-average diluted shares outstanding</i>	789.0	814.3
Basic earnings per share	\$ 1.01	\$ 0.87
Diluted earnings per share	\$ 1.00	\$ 0.86
Units excluded from the calculation as their inclusion would not have a dilutive effect:		
Stock options	1.6	0.8
Performance share units	0.4	-

4 – Financing activities

Shelf prospectus and registration statement

On February 23, 2016, under its current shelf prospectus and registration statement, the Company issued US\$500 million (\$686 million) 2.75% Notes due 2026 in the United States (U.S.) capital markets, which resulted in net proceeds of \$677 million, intended for general corporate purposes, including the redemption and refinancing of outstanding indebtedness, and share repurchases. The Company has remaining capacity of \$5,314 million under its current shelf prospectus and registration statement. Access to the Canadian and U.S. capital markets under the shelf prospectus and registration statement is dependent on market conditions.

Revolving credit facility

The Company has an \$800 million revolving credit facility agreement with a consortium of lenders. The agreement, which contains customary terms and conditions, allows for an increase in the credit facility amount, up to a maximum of \$1.3 billion (the “accordion feature”), as well as the option to extend the term by an additional year at each anniversary date, subject to the consent of individual lenders.

On March 11, 2016, the agreement was amended, which will increase the credit facility from \$800 million to \$1.3 billion, effective May 5, 2016. The increase in capacity provides the Company with additional financial flexibility. The amended credit facility of \$1.3 billion will consist of a tranche for \$880 million maturing on May 5, 2021 and a tranche for \$420 million maturing May 5, 2019. The accordion feature, which provides for an additional \$500 million subject to the consent of individual lenders, remains unchanged. The credit facility is available for general corporate purposes, including backstopping the Company’s commercial paper programs, and provides for borrowings at various interest rates, including the Canadian prime rate, bankers’ acceptance rates, the U.S. federal funds effective rate and the London Interbank Offered Rate (LIBOR), plus applicable margins. The credit facility agreement has one financial covenant, which limits debt as a percentage of total capitalization, and with which the Company is in compliance. The terms and conditions of the agreement are substantially unchanged.

As at March 31, 2016 and December 31, 2015, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the three months ended March 31, 2016.

Commercial paper

The Company has a commercial paper program in Canada and the U.S. Both programs are backstopped by the Company’s revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of \$800 million, or the US dollar equivalent on a combined basis. During the second quarter of 2016, the maximum aggregate principal amount of commercial paper that could be issued will increase to \$1.3 billion, or the US dollar equivalent on a combined basis.

As at March 31, 2016 and December 31, 2015, the Company had total commercial paper borrowings of US\$120 million (\$156 million) and US\$331 million (\$458 million), respectively, at a weighted-average interest rate of 0.40% and 0.41%, respectively, presented in Current portion of long-term debt on the Consolidated Balance Sheets.

Notes to Unaudited Consolidated Financial Statements

Accounts receivable securitization program

The Company has an agreement, expiring on February 1, 2018, to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of \$450 million. As at March 31, 2016 and December 31, 2015, the Company had no proceeds received under the accounts receivable securitization program.

Bilateral letter of credit facilities

The Company has a series of bilateral letter of credit facility agreements, expiring on April 28, 2018, with various banks to support its requirements to post letters of credit in the ordinary course of business. Under these agreements, the Company has the option from time to time to pledge collateral in the form of cash or cash equivalents, for a minimum term of one month, equal to at least the face value of the letters of credit issued. As at March 31, 2016, the Company had letters of credit drawn of \$541 million (\$551 million as at December 31, 2015) from a total committed amount of \$568 million (\$575 million as at December 31, 2015) by the various banks. As at March 31, 2016, cash and cash equivalents of \$522 million (\$523 million as at December 31, 2015) were pledged as collateral and recorded as Restricted cash and cash equivalents on the Consolidated Balance Sheets.

Share repurchase programs

The Company may repurchase shares pursuant to a Normal Course Issuer Bid (NCIB) at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the Toronto Stock Exchange. Under its current NCIB, the Company may repurchase up to 33.0 million common shares between October 30, 2015 and October 29, 2016. As at March 31, 2016, the Company had repurchased 13.2 million common shares for \$930 million under its current program.

The following table provides the information related to the share repurchase programs for the three months ended March 31, 2016 and 2015:

<i>In millions, except per share data</i>	Three months ended March 31	
	2016	2015
Number of common shares repurchased ⁽¹⁾	7.4	5.4
Weighted-average price per share ⁽²⁾	\$ 70.64	\$ 79.17
Amount of repurchase ⁽³⁾	\$ 520	\$ 429

(1) Includes repurchases of common shares in the first quarters of 2016 and 2015 pursuant to private agreements between the Company and arm's length third-party sellers.

(2) Includes brokerage fees where applicable.

(3) Includes settlements in subsequent periods.

Share purchases by Share Trusts

The Company's Employee Benefit Plan Trusts ("Share Trusts") purchase common shares on the open market, which are used to deliver common shares under the Share Units Plan (see Note 6 - Stock-based compensation). For the three months ended March 31, 2016 and 2015, there were no purchases of common shares by the Share Trusts. For the three months ended March 31, 2016, the Share Trusts disbursed 0.3 million common shares, which had a historical cost of \$23 million, representing a weighted-average price per share of \$73.31, for settlement under the Share Units Plan. Additional information relating to the share purchases by Share Trusts is provided in Note 13 - Share capital to the Company's 2015 Annual Consolidated Financial Statements.

5 – Pensions and other postretirement benefits

The Company has various retirement benefit plans under which substantially all of its employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. Additional information relating to the retirement benefit plans is provided in *Note 12 - Pensions and other postretirement benefits* to the Company's 2015 Annual Consolidated Financial Statements.

Components of net periodic benefit cost (income) for defined benefit pension and other postretirement benefit (OPEB) plans

<i>In millions</i>	Three months ended March 31			
	Pensions		OPEB	
	2016	2015	2016	2015
Current service cost	\$ 35	\$ 43	\$ 1	\$ 1
Interest cost	136	163	2	3
Expected return on plan assets	(254)	(251)	-	-
Amortization of prior service cost	1	1	-	-
Amortization of net actuarial loss (gain)	49	61	(1)	(1)
<i>Net periodic benefit cost (income)</i>	\$ (33)	\$ 17	\$ 2	\$ 3

Pension contributions

Pension contributions for the three months ended March 31, 2016 and 2015 of \$66 million and \$86 million, respectively, primarily represent contributions to the Company's main pension plan, the CN Pension Plan, for the current service cost as determined under the Company's current actuarial valuations for funding purposes. In 2016, the Company expects to make total cash contributions of approximately \$115 million for all of the Company's pension plans.

Adoption of the spot rate approach

In the first quarter of 2016, the Company adopted the spot rate approach to measure current service cost and interest cost for all defined benefit pension and other postretirement benefit plans on a prospective basis as a change in accounting estimate. In prior periods, these costs were determined using the discount rate used to measure the projected benefit obligation at the beginning of the period.

The spot rate approach enhances the precision to which current service cost and interest cost are measured by increasing the correlation between projected cash flows and spot discount rates corresponding to their maturity. Under the spot rate approach, individual spot discount rates along the same yield curve used in the determination of the projected benefit obligation are applied to the relevant projected cash flows at the relevant maturity. More specifically, current service cost is measured using the projected cash flows related to benefits expected to be accrued in the following year by active members of a plan and interest cost is measured using the projected cash flows making up the projected benefit obligation multiplied by the corresponding spot discount rate at each maturity. Use of the spot rate approach does not affect the measurement of the projected benefit obligation.

Based on bond yields prevailing at December 31, 2015, the single equivalent discount rates to determine current service cost and interest cost under the spot rate approach in 2016 are 4.24% and 3.27%, respectively, compared to 3.99%, for both costs, under the approach applied in prior periods. For the three months ended March 31, 2016, the adoption of the spot rate approach increased net periodic benefit income by approximately \$30 million compared to the approach applied in prior periods.

6 – Stock-based compensation

The Company has various stock-based compensation plans for eligible employees. A description of the major plans is provided in Note 14 – Stock-based compensation to the Company's 2015 Annual Consolidated Financial Statements.

<i>In millions</i>	Three months ended March 31	
	2016	2015
Share Units Plan		
Equity settled awards	\$ 11	\$ 8
Cash settled awards	3	9
<i>Total Share Units Plan expense</i>	\$ 14	\$ 17
Voluntary Incentive Deferral Plan (VIDP)		
Cash settled awards	\$ 3	\$ 1
<i>Total VIDP expense</i>	\$ 3	\$ 1
Stock option awards		
<i>Total stock-based compensation expense</i>	\$ 20	\$ 21
Tax benefit recognized in income	\$ 4	\$ 5

Share Units Plan

	Equity settled				Cash settled
	PSUs-ROIC ⁽¹⁾		PSUs-TSR ⁽²⁾		PSUs-ROIC ⁽³⁾
	Units	Weighted-average grant date fair value	Units	Weighted-average grant date fair value	Units
	<i>In millions</i>		<i>In millions</i>		<i>In millions</i>
Outstanding at December 31, 2015	1.3	\$ 64.36	0.1	\$ 114.86	0.7
Granted	0.5	\$ 33.73	0.2	\$ 95.16	-
Settled ^{(4) (5)}	(0.5)	\$ 75.15	-	N/A	(0.3)
Outstanding at March 31, 2016	1.3	\$ 49.20	0.3	\$ 103.86	0.4

- (1) The grant date fair value of equity settled PSUs-ROIC granted in 2016 of \$17 million is calculated using a lattice-based valuation model. As at March 31, 2016, total unrecognized compensation cost related to nonvested equity settled PSUs-ROIC outstanding was \$29 million and is expected to be recognized over a weighted-average period of 1.8 years.
- (2) The grant date fair value of equity settled PSUs-TSR granted in 2016 of \$16 million is calculated using a Monte Carlo simulation model. As at March 31, 2016, total unrecognized compensation cost related to nonvested equity settled PSUs-TSR outstanding was \$19 million and is expected to be recognized over a weighted-average period of 2.0 years.
- (3) The fair value as at March 31, 2016 of cash settled PSUs-ROIC outstanding is calculated using a lattice-based valuation model. As at March 31, 2016, total unrecognized compensation cost related to nonvested cash settled PSUs-ROIC outstanding was \$7 million and is expected to be recognized over a weighted-average period of 0.8 years. As at March 31, 2016, the liability for cash settled PSU-ROICs was \$32 million (\$66 million as at December 31, 2015).
- (4) Equity settled PSUs-ROIC granted in 2013 met the minimum share price condition for settlement and attained a performance vesting factor of 150%. In the first quarter of 2016, these awards were settled, net of the remittance of the participants' minimum statutory withholding tax obligation of \$25 million, by way of disbursement from the Share Trusts of 0.3 million common shares.
- (5) Cash settled PSUs-ROIC granted in 2013 met the minimum share price condition for payout and attained a performance vesting factor of 150%. In the first quarter of 2016, the Company paid out \$37 million for these awards.

Notes to Unaudited Consolidated Financial Statements

Voluntary Incentive Deferral Plan

	Equity settled		Cash settled
	DSUs ⁽¹⁾		DSUs ⁽²⁾
	Units	Weighted-average grant date fair value	Units
	<i>In millions</i>		<i>In millions</i>
Outstanding at December 31, 2015	1.8	\$ 76.44	0.4
Granted	-	\$ 73.43	-
Outstanding at March 31, 2016 ⁽³⁾	1.8	\$ 76.42	0.4

(1) The grant date fair value of equity settled DSUs granted in 2016 of \$2 million is calculated using the Company's stock price on the grant date. As at March 31, 2016, the aggregate intrinsic value of equity settled DSUs outstanding amounted to \$145 million.

(2) The fair value as at March 31, 2016 of cash settled DSUs is based on the intrinsic value. As at March 31, 2016 the liability for cash settled DSUs was \$38 million (\$36 million as at December 31, 2015). The closing stock price used to determine the liability was \$81.16.

(3) The number of units outstanding that were nonvested, unrecognized compensation cost and the remaining recognition period for cash and equity settled DSUs have not been quantified as they relate to a minimal number of units.

Stock option awards

	Options outstanding	
	Number of options	Weighted-average exercise price
	<i>In millions</i>	
Outstanding at December 31, 2015 ⁽¹⁾	5.9	\$ 53.43
Granted ⁽²⁾	1.1	\$ 74.27
Exercised	(0.3)	\$ 35.40
Outstanding at March 31, 2016 ^{(1) (2) (3)}	6.7	\$ 55.24
Exercisable at March 31, 2016 ^{(1) (3)}	4.2	\$ 45.35

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

(2) The grant date fair value of options granted in 2016 of \$12 million (\$10.41 per unit) is calculated using the Black-Scholes option-pricing model. As at March 31, 2016, total unrecognized compensation cost related to nonvested options outstanding was \$16 million and is expected to be recognized over a weighted-average period of 2.0 years.

(3) As at March 31, 2016, the vast majority of stock options were in-the-money. The weighted-average term to expiration of options outstanding was 6.6 years and the weighted-average term to expiration of exercisable stock options was 5.2 years. As at March 31, 2016, the aggregate intrinsic value of in-the-money stock options outstanding amounted to \$176 million and the aggregate intrinsic value of stock options exercisable amounted to \$151 million.

7 – Accumulated other comprehensive loss

<i>In millions</i>	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Derivative instruments	Total before tax	Income tax recovery (expense)	Total net of tax
Balance at December 31, 2015	\$ (209)	\$ (2,204)	7	\$ (2,406)	\$ 639	\$ (1,767)
Other comprehensive income (loss) before reclassifications:						
Foreign exchange loss on translation of net investment in foreign operations	(640)			(640)	-	(640)
Foreign exchange gain on translation of US dollar- denominated debt designated as a hedge of the net investment in U.S. subsidiaries ⁽¹⁾	515			515	(69)	446
Amounts reclassified from Accumulated other comprehensive loss:						
Amortization of net actuarial loss		48		48 ⁽²⁾	(13) ⁽³⁾	35
Amortization of prior service cost		1		1 ⁽²⁾	-	1
<i>Other comprehensive income (loss)</i>	(125)	49	-	(76)	(82)	(158)
Balance at March 31, 2016	\$ (334)	\$ (2,155)	7	\$ (2,482)	\$ 557	\$ (1,925)

<i>In millions</i>	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Derivative instruments	Total before tax	Income tax recovery (expense)	Total net of tax
Balance at December 31, 2014	\$ (458)	\$ (2,510)	7	\$ (2,961)	\$ 534	\$ (2,427)
Other comprehensive income (loss) before reclassifications:						
Foreign exchange gain on translation of net investment in foreign operations	742			742	-	742
Foreign exchange loss on translation of US dollar- denominated debt designated as a hedge of the net investment in U.S. subsidiaries ⁽¹⁾	(646)			(646)	85	(561)
Amounts reclassified from Accumulated other comprehensive loss:						
Amortization of net actuarial loss		60		60 ⁽²⁾	(16) ⁽³⁾	44
Amortization of prior service cost		1		1 ⁽²⁾	-	1
<i>Other comprehensive income</i>	96	61	-	157	69	226
Balance at March 31, 2015	\$ (362)	\$ (2,449)	7	\$ (2,804)	\$ 603	\$ (2,201)

(1) The Company designates US dollar-denominated debt of the parent company as a foreign currency hedge of its net investment in U.S. subsidiaries. As a result, from the dates of designation, foreign exchange gains and losses on translation of the Company's US dollar-denominated debt are recorded in Accumulated other comprehensive loss, which minimizes volatility of earnings resulting from the conversion of US dollar-denominated debt into Canadian dollars.

(2) Reclassified to Labor and fringe benefits in the Consolidated Statements of Income and included in components of net periodic benefit cost. See Note 5 - Pensions and other postretirement benefits.

(3) Included in Income tax expense in the Consolidated Statements of Income.

8 – Major commitments and contingencies

Commitments

As at March 31, 2016, the Company had commitments to acquire railroad ties, rail, freight cars, locomotives, and other equipment and services, as well as outstanding information technology service contracts and licenses, at an aggregate cost of \$1,271 million.

The Company also has estimated remaining commitments of approximately \$1.25 billion (US\$0.95 billion), in relation to the U.S. federal government legislative requirement to implement Positive Train Control (PTC). In addition, the Company has estimated remaining commitments, through to December 31, 2017, of approximately \$19 million (US\$15 million), in relation to the acquisition of the principal lines of the former Elgin, Joliet and Eastern Railway Company, for grade separation projects.

Contingencies

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

As at March 31, 2016, the Company had aggregate reserves for personal injury and other claims of \$292 million, of which \$57 million was recorded as a current liability (\$296 million as at December 31, 2015, of which \$51 million was recorded as a current liability).

Although the Company considers such provisions to be adequate for all its outstanding and pending claims, the final outcome with respect to actions outstanding or pending as at March 31, 2016, or with respect to future claims, cannot be reasonably determined. When establishing provisions for contingent liabilities the Company considers, where a probable loss estimate cannot be made with reasonable certainty, a range of potential probable losses for each such matter, and records the amount it considers the most reasonable estimate within the range. However, when no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued. For matters where a loss is reasonably possible but not probable, a range of potential losses cannot be estimated due to various factors which may include the limited availability of facts, the lack of demand for specific damages and the fact that proceedings were at an early stage. Based on information currently available, the Company believes that the eventual outcome of the actions against the Company will not, individually or in the aggregate, have a material adverse effect on the Company's financial position. However, due to the inherent inability to predict with certainty unforeseeable future developments, there can be no assurance that the ultimate resolution of these actions will not have a material adverse effect on the Company's results of operations, financial position or liquidity.

Environmental matters

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

The Company has identified approximately 205 sites at which it is or may be liable for remediation costs, in some cases along with other potentially responsible parties, associated with alleged contamination and is subject to environmental clean-up and enforcement actions, including those imposed by the United States Federal *Comprehensive Environmental Response, Compensation and Liability Act* of 1980 (CERCLA), also known as the Superfund law, or analogous state laws. CERCLA and similar state laws, in addition to other similar Canadian and U.S. laws, generally impose joint and several liability for clean-up and enforcement costs on current and former owners and operators of a site, as well as those whose waste is disposed of at the site, without regard to fault or the legality of the original conduct. The Company has been notified that it is a potentially responsible party for study and clean-up costs at 6 sites governed by the Superfund law (and analogous state laws) for which investigation and remediation payments are or will be made or are yet to be determined and, in many instances, is one of several potentially responsible parties.

Notes to Unaudited Consolidated Financial Statements

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

The Company's provision for specific environmental sites is undiscounted and includes costs for remediation and restoration of sites, as well as monitoring costs. Costs related to any unknown existing or future contamination will be accrued in the period in which they become probable and reasonably estimable.

As at March 31, 2016, the Company had aggregate accruals for environmental costs of \$106 million, of which \$48 million was recorded as a current liability (\$110 million as at December 31, 2015, of which \$51 million was recorded as a current liability). The Company anticipates that the majority of the liability at March 31, 2016 will be paid out over the next five years. However, some costs may be paid out over a longer period. Based on the information currently available, the Company considers its accruals to be adequate.

Guarantees and indemnifications

A description of the Company's guarantees and indemnifications is provided in *Note 16 – Major commitments and contingencies* to the Company's 2015 Annual Consolidated Financial Statements.

Guarantees

Guarantee of residual values of operating leases

The Company has guaranteed a portion of the residual values of certain of its assets under operating leases with expiry dates between 2016 and 2022, for the benefit of the lessor. If the fair value of the assets at the end of their respective lease term is less than the fair value, as estimated at the inception of the lease, then the Company must, under certain conditions, compensate the lessor for the shortfall. As at March 31, 2016, the maximum exposure in respect of these guarantees was \$189 million (\$200 million as at December 31, 2015). There are no recourse provisions to recover any amounts from third parties.

Other guarantees

As at March 31, 2016, the Company, including certain of its subsidiaries, had granted \$541 million (\$551 million as at December 31, 2015) of irrevocable standby letters of credit and \$119 million (\$120 million as at December 31, 2015) of surety and other bonds, issued by highly rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at March 31, 2016, the maximum potential liability under these guarantee instruments was \$660 million (\$671 million as at December 31, 2015), of which \$582 million (\$589 million as at December 31, 2015) related to workers' compensation and other employee benefit liabilities and \$78 million (\$82 million as at December 31, 2015) related to other liabilities. The letters of credit were drawn on the Company's bilateral letter of credit facilities. The guarantee instruments expire at various dates between 2016 and 2018.

As at March 31, 2016, the Company has not recorded a liability with respect to guarantees and indemnifications as the Company did not expect to make any payments under its guarantees and indemnifications.

9 – Financial instruments

Derivative financial instruments

The Company uses derivative financial instruments from time to time in the management of its foreign currency and interest rate exposures. The Company has limited involvement with derivative financial instruments in the management of its risks and does not hold or issue them for trading or speculative purposes. As at March 31, 2016, the Company had outstanding foreign exchange forward contracts with a notional value of US\$640 million (US\$361 million as at December 31, 2015). Changes in the fair value of foreign exchange forward contracts, resulting from changes in foreign exchange rates, are recognized in Other income in the Consolidated Statement of Income as they occur.

For the three months ended March 31, 2016 and 2015, the Company recorded a loss of \$45 million and a gain of \$36 million, respectively, related to foreign exchange forward contracts. These gains and losses were largely offset by the re-measurement of US dollar-denominated monetary assets and liabilities recorded in Other income.

As at March 31, 2016, Other current assets included an unrealized gain of nil (\$4 million as at December 31, 2015) and Accounts payable and other included an unrealized loss of \$37 million (\$2 million as at December 31, 2015), related to the fair value of outstanding foreign exchange forward contracts.

Fair value of financial instruments

The following table provides the valuation methods and assumptions used by the Company to estimate the fair value of financial instruments and their associated level within the fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets	<p>The carrying amounts of Cash and cash equivalents and Restricted cash and cash equivalents approximate fair value. These financial instruments include highly liquid investments purchased three months or less from maturity, for which the fair value is determined by reference to quoted prices in active markets.</p>
Level 2 Significant inputs (other than quoted prices included in Level 1) are observable	<p>The carrying amounts of Accounts receivable, Other current assets, and Accounts payable and other approximate fair value. The fair value of these financial instruments is not determined using quoted prices, but rather from market observable information. The fair value of derivative financial instruments used to manage the Company's exposure to foreign currency risk and included in Other current assets and Accounts payable and other is measured by discounting future cash flows using a discount rate derived from market data for financial instruments subject to similar risks and maturities.</p> <p>The carrying amount of the Company's debt does not approximate fair value. The fair value is estimated based on quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity. As at March 31, 2016, the Company's debt had a carrying amount of \$10,128 million (\$10,427 million as at December 31, 2015) and a fair value of \$11,713 million (\$11,720 million as at December 31, 2015).</p>
Level 3 Significant inputs are unobservable	<p>The carrying amounts of investments included in Intangible and other assets approximate fair value, with the exception of certain cost investments for which significant inputs are unobservable and fair value is estimated based on the Company's proportionate share of the underlying net assets. As at March 31, 2016, the Company's investments had a carrying amount of \$65 million (\$69 million as at December 31, 2015) and a fair value of \$208 million (\$220 million as at December 31, 2015).</p>