NOVAGOLD RESOURCES INC
Form 10-Q
October 07, 2014

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended August 31, 2014

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to

Commission File Number: 001-31913

NOVAGOLD RESOURCES INC.
(Exact Name of Registrant as Specified in Its Charter)

British Columbia (State or Other Jurisdiction of Incorporation or Organization)	N/A (I.R.S. Employer Identification No.)
789 West Pender Street, Suite 720 Vancouver, British Columbia Canada (Address of Principal Executive Offices)	V6C 1H2 (Zip Code)

(604) 669-6227
(Registrant’s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of October 6, 2014, the Company had 317,288,472 Common Shares, no par value, outstanding.

NOVAGOLD RESOURCES INC.

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This Quarterly Report on Form 10-Q contains forward-looking statements or information within the meaning of Canadian securities laws and the United States Private Securities Litigation Reform Act of 1995 concerning anticipated results and developments in our operations in future periods, planned exploration activities, the adequacy of our financial resources and other events or conditions that may occur in the future. These forward-looking statements may include statements regarding perceived merit of properties, exploration results and budgets, mineral reserves and resource estimates, work programs, capital expenditures, operating costs, cash flow estimates, production estimates and similar statements relating to the economic viability of a project, timelines, strategic plans, including our plans and expectations relating to the Donlin Gold and Galore Creek projects, completion of transactions, market prices for precious and base metals, or other statements that are not statements of fact. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. Statements concerning mineral resource estimates may also be deemed to constitute "forward-looking statements" to the extent that they involve estimates of the mineralization that will be encountered if the property is developed.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "str "objectives", "potential", "possible" or variations thereof or stating that certain actions, events, conditions or results "may" "could", "would", "should", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and simi expressions) are not statements of historical fact and may be forward-looking statements.

Forward-looking statements are based on a number of material assumptions, including those listed below, which could prove to be materially incorrect:

- our ability to achieve production at any of our mineral exploration and development properties;
- estimated capital costs, operating costs, production and economic returns;
- estimated metal pricing, metallurgy, mineability, marketability and operating and capital costs, together with other assumptions underlying our resource and reserve estimates;
- our expected ability to develop adequate infrastructure and that the cost of doing so will be reasonable;
- assumptions that all necessary permits and governmental approvals will be obtained;
- assumptions made in the interpretation of drill results, the geology, grade and continuity of our mineral deposits;
- our expectations regarding demand for equipment, skilled labor and services needed for exploration and development of mineral properties; and
- our activities will not be adversely disrupted or impeded by development, operating or regulatory risks.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation:

- uncertainty of whether there will ever be production at our mineral exploration and development properties;

- uncertainty of estimates of capital costs, operating costs, production and economic returns;
- uncertainties related to the assumptions underlying our resource and reserve estimates, such as metal pricing, metallurgy, mineability, marketability and operating and capital costs;
- risks related to our ability to commence production and generate material revenues or obtain adequate financing for our planned exploration and development activities;
- risks related to our ability to finance the development of our mineral properties through external financing, strategic alliances, the sale of property interests or otherwise;
- risks related to the third parties on which we depend for our exploration and development activities;
- dependence on cooperation of joint venture partners in exploration and development of properties;
- credit, liquidity, interest rate and currency risks;
- risks related to market events and general economic conditions;
- uncertainty related to inferred mineral resources;
- risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of our mineral deposits;
- risks related to lack of infrastructure required to develop, construct, and operate our mineral properties;
- mining and development risks, including risks related to infrastructure, accidents, equipment breakdowns, labor disputes or other unanticipated difficulties with, or interruptions in, development, construction or production;
- the risk that permits and governmental approvals necessary to develop and operate mines on our properties will not be available on a timely basis, subject to reasonable conditions, or at all;
- commodity price fluctuations;
- risks related to governmental regulation and permits, including environmental regulation;
- risks related to the need for reclamation activities on our properties and uncertainty of cost estimates related thereto;
- uncertainty related to title to our mineral properties;

- uncertainty related to unsettled aboriginal rights and title in British Columbia;
- our history of losses and expectation of future losses;
- uncertainty as to the outcome of potential litigation;
- uncertainty inherent in litigation including the effects of discovery of new evidence or advancement of new legal theories, the difficulty of predicting decisions of judges and juries and the possibility that decisions may be reversed on appeal;
- risks related to default under our unsecured convertible notes;
- risks related to our majority shareholder;
- risks related to increases in demand for equipment, skilled labor and services needed for exploration and development of mineral properties, and related cost increases;
- increased competition in the mining industry;
- our need to attract and retain qualified management and technical personnel;
- risks related to our current practice of not using hedging arrangements;
- uncertainty as to our ability to acquire additional commercially mineable mineral rights;
- risks related to the integration of potential new acquisitions into our existing operations;
- risks related to unknown liabilities in connection with acquisitions;
- risks related to conflicts of interests of some of the directors of the Company;
- risks related to global climate change;
- risks related to opposition to our operations at our mineral exploration and development properties from non-governmental organizations or civil society;
- uncertainty as to our ability to maintain the adequacy of internal control over financial reporting as per the requirements of the Sarbanes-Oxley Act; and
- increased regulatory compliance costs relating to the Dodd-Frank Act.

This list is not exhaustive of the factors that may affect any of our forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and our actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this Quarterly Report on Form 10-Q under the heading "Risk Factors" and elsewhere.

Our forward-looking statements contained in this Quarterly Report on Form 10-Q are based on the beliefs, expectations and opinions of management as of the date of this report. We do not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change, except as required by law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NOVAGOLD RESOURCES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, US dollars in thousands)

	At August 31, 2014	At November 30, 2013		
ASSETS				
Cash and cash equivalents	$ 70,844	$ 81,262		
Investments (note 4)	100,000	110,000		
Other assets	3,303	5,549		
Current assets	174,147	196,811		
Investments (note 4)	1,394	1,280		
Investment in affiliates (note 5)	299,694	307,455		
Mineral properties	53,552	54,813		
Deferred income taxes	9,021	9,728		
Other assets	8,452	8,599		
Total assets	$ 546,260	$ 578,686		
LIABILITIES				
Accounts payable and accrued liabilities	$ 2,961	$ 3,492		
Debt (note 6)	14,705	—		
Derivative liabilities (note 7)	58	—		
Other liabilities	747	861		
Current liabilities	18,471	4,353		
Debt (note 6)	75,165	85,298		
Derivative liabilities (note 7)	—	83		
Deferred income taxes	22,281	23,303		
Total liabilities	115,917	113,037		
Commitments and contingencies (note 14)				
EQUITY				
Common shares	1,936,336			
Weighted-average number of shares				
Basic	468.1	489.8	474.7	501.2
Diluted	472.5	495.9	480.0	508.0

These unaudited interim consolidated financial statements, expressed in Canadian dollars, and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Canadian National Railway Company's (the Company) financial position as at December 31, 2008 and December 31, 2007, and its results of operations, changes in shareholders' equity and cash flows for the three months and years ended December 31, 2008 and 2007. These consolidated financial statements have been prepared using accounting policies consistent with those used in preparing the Company's 2008 Annual Consolidated Financial Statements and should be read in conjunction with such statements, notes thereto and Management's Discussion and Analysis (MD&A).

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

	December 31 2008 (Unaudited)	December 31 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 413	$ 310
Accounts receivable	913	370
Material and supplies	200	162
Deferred income taxes	98	68
Other	132	138
	1,756	1,048
Properties	23,203	20,413
Intangible and other assets	1,761	1,999
Total assets	$ 26,720	$ 23,460
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and other	$ 1,386	$ 1,336
Current portion of long-term debt	506	254
	1,892	1,590
Deferred income taxes	5,511	4,908
Other liabilities and deferred credits	1,353	1,422
Long-term debt	7,405	5,363
Shareholders' equity:		
Common shares	4,179	4,283
Accumulated other comprehensive loss	(155)	(31)
Retained earnings	6,535	5,925
	10,559	10,177
Total liabilities and shareholders' equity	$ 26,720	$ 23,460

Certain of the 2007 figures have been restated to conform to the 2008 presentation.

These unaudited interim consolidated financial statements, expressed in Canadian dollars, and prepared in accordance with U.S. GAAP, contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as at December 31, 2008 and December 31, 2007, and its results of operations, changes in shareholders' equity and cash flows for the three months and years ended December 31, 2008 and 2007. These consolidated financial statements have been prepared using accounting policies consistent with those used in preparing the Company's 2008 Annual Consolidated Financial Statements and should be read in conjunction with such statements, notes thereto and MD&A.

Subsequent event

The Company's agreement to acquire the principal lines of Elgin, Joliet and Eastern Railway Company (EJ&E) for a purchase price of approximately U.S.$300 million received all necessary regulatory approvals, including the U.S. Surface Transportation Board (STB) ruling rendered on December 24, 2008. The STB's decision will become effective on January 23, 2009 and the Company expects to close the transaction shortly thereafter and pay the purchase price with cash on hand. The Company will account for the acquisition using the purchase method of accounting pursuant to Statement of Financial Accounting Standards (SFAS) No. 141(R), "Business Combinations," which became effective for acquisitions closing on or after January 1, 2009.

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

	Three months ended December 31		Year ended December 31	
	2008	2007	2008	2007
		(Unaudited)		
Common shares				
Balance, beginning of period	$ 4,171	$ 4,359	$ 4,283	$ 4,459
Stock options exercised and other	9	6	68	89
Share repurchase programs	(1)	(82)	(172)	(265)
Balance, end of period	$ 4,179	$ 4,283	$ 4,179	$ 4,283
Accumulated other comprehensive loss				
Balance, beginning of period	$ 54	$ (257)	$ (31)	$ (44)
Other comprehensive income (loss):				
Unrealized foreign exchange gain (loss) on:				
Translation of the net investment in foreign operations	860	(90)	1,259	(1,004)
Translation of U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	(877)	22	(1,266)	788
Pension and other postretirement benefit plans:				
Net actuarial gain (loss) arising during the period	(452)	391	(452)	391
Prior service cost arising during the period	(3)	(12)	(3)	(12)
Amortization of net actuarial loss (gain) included in net periodic benefit cost	-	11	(2)	49
Amortization of prior service cost included in net periodic benefit cost	3	5	21	21
Derivative instruments	-	(1)	-	(1)
Other comprehensive income (loss) before income taxes	(469)	326	(443)	232
Income tax recovery (expense)	260	(100)	319	(219)
Other comprehensive income (loss)	(209)	226	(124)	13
Balance, end of period	$ (155)	$ (31)	$ (155)	$ (31)
Retained earnings				
Balance, beginning of period	$ 6,073	$ 5,557	$ 5,925	$ 5,409
Adoption of new accounting pronouncements (1)	-	-	-	95
Restated balance, beginning of period	6,073	5,557	5,925	5,504
Net income	573	833	1,895	2,158
Share repurchase programs	(3)	(363)	(849)	(1,319)
Dividends	(108)	(102)	(436)	(418)

Balance, end of period	$	6,535	$	5,925	$	6,535	$	5,925

(1) On January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes," and early adopted the measurement date provisions of Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." The application of FIN No. 48 on January 1, 2007 had the effect of decreasing the net deferred income tax liability and increasing Retained earnings by $98 million. The application of SFAS No. 158 on January 1, 2007 had the effect of decreasing Retained earnings by $3 million.

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

	Three months ended December 31		Year ended December 31	
	2008	2007	2008	2007
	(Unaudited)			
Operating activities				
Net income	$ 573	$ 833	$ 1,895	$ 2,158
Adjustments to reconcile net income to net cash provided from operating activities:				
Depreciation and amortization	197	172	725	678
Deferred income taxes	43	(207)	230	(82)
Gain on sale of Central Station Complex	-	(92)	-	(92)
Gain on sale of investment in English Welsh and Scottish Railway	-	(61)	-	(61)
Other changes in:				
Accounts receivable	(173)	267	(432)	229
Material and supplies	25	44	(23)	18
Accounts payable and other	(28)	99	(127)	(396)
Other current assets	2	(9)	37	84
Other	(139)	(122)	(274)	(119)
Cash provided from operating activities	500	942	2,031	2,417
Investing activities				
Property additions	(480)	(490)	(1,424)	(1,387)
Acquisitions, net of cash acquired	(50)	(25)	(50)	(25)
Sale of Central Station Complex	-	351	-	351
Sale of investment in English Welsh and Scottish Railway	-	114	-	114
Other, net	32	26	74	52
Cash used by investing activities	(498)	(24)	(1,400)	(895)
Financing activities				
Issuance of long-term debt	1,003	846	4,433	4,171
Reduction of long-term debt	(793)	(1,120)	(3,589)	(3,589)
Issuance of common shares due to exercise of stock options and related excess tax benefits realized	6	4	54	77
Repurchase of common shares	(4)	(445)	(1,021)	(1,584)
Dividends paid	(108)	(102)	(436)	(418)
Cash provided from (used by) financing activities	104	(817)	(559)	(1,343)

Effect of foreign exchange fluctuations on U.S. dollar-denominated cash and cash equivalents	19	(5)	31	(48)
Net increase in cash and cash equivalents	125	96	103	131
Cash and cash equivalents, beginning of period	288	214	310	179
Cash and cash equivalents, end of period	$ 413	$ 310	$ 413	$ 310
Supplemental cash flow information				
Net cash receipts from customers and other	$ 1,987	$ 2,209	$ 8,012	$ 8,139
Net cash payments for:				
Employee services, suppliers and other expenses	(1,171)	(979)	(4,920)	(4,323)
Interest	(124)	(67)	(396)	(340)
Workforce reductions	(5)	(7)	(22)	(31)
Personal injury and other claims	(29)	(28)	(91)	(86)
Pensions	(50)	(25)	(127)	(75)
Income taxes	(108)	(161)	(425)	(867)
Cash provided from operating activities	$ 500	$ 942	$ 2,031	$ 2,417

Certain of the 2007 figures have been restated to conform to the 2008 presentation.

CANADIAN NATIONAL RAILWAY COMPANY
SELECTED RAILROAD STATISTICS (1) (U.S. GAAP)

	Three months ended December 31			Year ended December 31	
	2008	2007		2008	2007
			(Unaudited)		
Statistical operating data					
Rail freight revenues ($ millions)	1,977	1,763		7,641	7,186
Gross ton miles (GTM) (millions)	81,871	89,315		339,854	347,898
Revenue ton miles (RTM) (millions)	42,382	47,151		177,951	184,148
Carloads (thousands)	1,078	1,205		4,615	4,744
Route miles (includes Canada and the U.S.)	20,961	20,421		20,961	20,421
Employees (end of period)	22,227	22,696		22,227	22,696
Employees (average for the period)	22,461	22,796		22,695	22,389
Productivity					
Operating ratio (%)	62.7	62.1		65.9	63.6
Rail freight revenue per RTM (cents)	4.66	3.74		4.29	3.90
Rail freight revenue per carload ($)	1,834	1,463		1,656	1,515
Operating expenses per GTM (cents)	1.69	1.35		1.64	1.44
Labor and fringe benefits expense per GTM (cents)	0.48	0.38		0.49	0.49
GTMs per average number of employees (thousands)	3,645	3,918		14,975	15,539
Diesel fuel consumed (U.S. gallons in millions)	93	102		380	392
Average fuel price ($/U.S. gallon)	2.88	2.70		3.39	2.40
GTMs per U.S. gallon of fuel consumed	880	876		894	887
Safety indicators					
Injury frequency rate per 200,000 person hours (2)	1.7	2.1		1.8	1.9
Accident rate per million train miles (2)	2.8	3.6		2.6	2.7
Financial ratio					
Debt to total capitalization ratio (% at end of period)	42.8	35.6		42.8	35.6

(1) Includes data relating to companies acquired as of the date of acquisition.

(2) Based on Federal Railroad Administration (FRA) reporting criteria.

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

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

	Three months ended December 31			Year ended December 31		
	2008	2007	Variance Fav (Unfav)	2008	2007	Variance Fav (Unfav)
			(Unaudited)			
Revenues (millions of dollars)						
Petroleum and chemicals	359	306	17%	1,346	1,226	10%
Metals and minerals	237	195	22%	950	826	15%
Forest products	366	336	9%	1,436	1,552	(7%)
Coal	132	98	35%	478	385	24%
Grain and fertilizers	381	350	9%	1,382	1,311	5%
Intermodal	390	362	8%	1,580	1,382	14%
Automotive	112	116	(3%)	469	504	(7%)
Total rail freight revenue	1,977	1,763	12%	7,641	7,186	6%
Other revenues	223	178	25%	841	711	18%
Total revenues	2,200	1,941	13%	8,482	7,897	7%
Revenue ton miles (millions)						
Petroleum and chemicals	7,678	8,473	(9%)	32,346	32,761	(1%)
Metals and minerals	3,982	4,305	(8%)	17,953	16,719	7%
Forest products	7,848	9,156	(14%)	33,847	39,808	(15%)
Coal	3,697	3,432	8%	14,886	13,776	8%
Grain and fertilizers	10,592	12,550	(16%)	42,507	45,359	(6%)
Intermodal	8,027	8,493	(5%)	33,822	32,607	4%
Automotive	558	742	(25%)	2,590	3,118	(17%)
	42,382	47,151	(10%)	177,951	184,148	(3%)
Rail freight revenue / RTM (cents)						
Total rail freight revenue per RTM	4.66	3.74	25%	4.29	3.90	10%
Commodity groups:						
Petroleum and chemicals	4.68	3.61	30%	4.16	3.74	11%
Metals and minerals	5.95	4.53	31%	5.29	4.94	7%
Forest products	4.66	3.67	27%	4.24	3.90	9%
Coal	3.57	2.86	25%	3.21	2.79	15%
Grain and fertilizers	3.60	2.79	29%	3.25	2.89	12%
Intermodal	4.86	4.26	14%	4.67	4.24	10%
Automotive	20.07	15.63	28%	18.11	16.16	12%
Carloads (thousands)						
Petroleum and chemicals	123	151	(19%)	547	599	(9%)
Metals and minerals	228	261	(13%)	1,025	1,010	1%
Forest products	116	134	(13%)	511	584	(13%)
Coal	95	86	10%	375	361	4%

Grain and fertilizers	143	162	(12%)	579	601	(4%)
Intermodal	332	346	(4%)	1,377	1,324	4%
Automotive	41	65	(37%)	201	265	(24%)
	1,078	1,205	(11%)	4,615	4,744	(3%)
Rail freight revenue / carload (dollars)						
Total rail freight revenue per carload	1,834	1,463	25%	1,656	1,515	9%
Commodity groups:						
Petroleum and chemicals	2,919	2,026	44%	2,461	2,047	20%
Metals and minerals	1,039	747	39%	927	818	13%
Forest products	3,155	2,507	26%	2,810	2,658	6%
Coal	1,389	1,140	22%	1,275	1,066	20%
Grain and fertilizers	2,664	2,160	23%	2,387	2,181	9%
Intermodal	1,175	1,046	12%	1,147	1,044	10%
Automotive	2,732	1,785	53%	2,333	1,902	23%

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

CANADIAN NATIONAL RAILWAY COMPANY
NON-GAAP MEASURES - unaudited

Adjusted performance measures

During the three months and year ended December 31, 2008, the Company reported adjusted net income of $531 million, or $1.12 per diluted share, and $1,778 million, or $3.71 per diluted share, respectively. The fourth quarter adjusted figures exclude the impact of a net deferred income tax recovery of $42 million ($0.09 per diluted share) resulting from the resolution of various income tax matters and adjustments related to tax filings of prior years. The year-to-date December 31, 2008 adjusted figures exclude a deferred income tax recovery of $117 million ($0.24 per diluted share), of which $83 million was due to the resolution of various income tax matters and adjustments related to tax filings of prior years, $23 million was due to the enactment of corporate income tax rate changes in Canada and $11 million was due to net capital losses arising from the reorganization of a subsidiary.

During the three months and year ended December 31, 2007, the Company reported adjusted net income of $444 million, or $0.90 per diluted share, and $1,725 million, or $3.40 per diluted share, respectively. These adjusted figures exclude the impact of a net deferred income tax recovery of $284 million ($0.57 per diluted share) in the fourth quarter and $328 million ($0.64 per diluted share) for the year ended December 31, 2007 that resulted mainly from the enactment of corporate income tax rate changes in Canada. Also excluded from adjusted net income for both the three- and twelve-month periods were the gains on sale of the Central Station Complex of $92 million or $64 million after-tax ($0.13 per diluted share) and the Company's investment in English Welsh and Scottish Railway of $61 million or $41 million after-tax ($0.08 per diluted share).

Management believes that adjusted net income and adjusted earnings per share are useful measures of performance that can facilitate period-to-period comparisons, as they exclude items that do not necessarily arise as part of the normal day-to-day operations of the Company and could distort the analysis of trends in business performance. The exclusion of such items in adjusted net income and adjusted earnings per share does not, however, imply that such items are necessarily non-recurring. These adjusted measures do not have any standardized meaning prescribed by GAAP and may, therefore, not be comparable to similar measures presented by other companies. The reader is advised to read all information provided in the Company's 2008 Annual Consolidated Financial Statements, Notes thereto and Management's Discussion and Analysis (MD&A). The following tables provide a reconciliation of net income and earnings per share, as reported for the three months and years ended December 31, 2008 and 2007, to the adjusted performance measures presented herein.

	Three months ended December 31, 2008			Year ended December 31, 2008		
In millions, except per share data	Reported	Adjustments	Adjusted	Reported	Adjustments	Adjusted
Revenues	$ 2,200	$ -	$ 2,200	$ 8,482	$ -	$ 8,482
Operating expenses	1,380	-	1,380	5,588	-	5,588
Operating income	820	-	820	2,894	-	2,894
Interest expense	(110)	-	(110)	(375)	-	(375)
Other income	19	-	19	26	-	26
	729	-	729	2,545	-	2,545

Income before income taxes												
Income tax expense		(156)		(42)		(198)		(650)		(117)		(767)
Net income	$	573	$	(42)	$	531	$	1,895	$	(117)	$	1,778
Basic earnings per share	$	1.22	$	(0.09)	$	1.13	$	3.99	$	(0.24)	$	3.75
Diluted earnings per share	$	1.21	$	(0.09)	$	1.12	$	3.95	$	(0.24)	$	3.71

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CANADIAN NATIONAL RAILWAY COMPANY
NON-GAAP MEASURES - unaudited

In millions, except per share data	Three months ended December 31, 2007 Reported	Adjustments	Adjusted	Year ended December 31, 2007 Reported	Adjustments	Adjusted
Revenues	$ 1,941	$ -	$ 1,941	$ 7,897	$ -	$ 7,897
Operating expenses	1,205	-	1,205	5,021	-	5,021
Operating income	736	-	736	2,876	-	2,876
Interest expense	(85)	-	(85)	(336)	-	(336)
Other income	159	(153)	6	166	(153)	13
Income before income taxes	810	(153)	657	2,706	(153)	2,553
Income tax recovery (expense)	23	(236)	(213)	(548)	(280)	(828)
Net income	$ 833	$ (389)	$ 444	$ 2,158	$ (433)	$ 1,725
Basic earnings per share	$ 1.70	$ (0.79)	$ 0.91	$ 4.31	$ (0.87)	$ 3.44
Diluted earnings per share	$ 1.68	$ (0.78)	$ 0.90	$ 4.25	$ (0.85)	$ 3.40

Free cash flow

The Company generated $311 million and $794 million of free cash flow for the three months and year ended December 31, 2008, respectively, compared to $635 million and $828 million of free cash flow for the same periods in 2007. Free cash flow does not have any standardized meaning prescribed by GAAP and may, therefore, not be comparable to similar measures presented by other companies. The Company believes that free cash flow is a useful measure of performance as it demonstrates the Company’s ability to generate cash after the payment of capital expenditures and dividends. The Company defines free cash flow as cash provided from operating activities, excluding changes in the accounts receivable securitization program and changes in cash and cash equivalents resulting from foreign exchange fluctuations, less cash used by investing activities and the payment of dividends, calculated as follows:

In millions	Three months ended December 31 2008	2007	Year ended December 31 2008	2007
Cash provided from operating activities	$ 500	$ 942	$ 2,031	$ 2,417
Cash used by investing activities	(498)	(24)	(1,400)	(895)
Cash provided before financing activities	2	918	631	1,522
Adjustments:				
Change in accounts receivable securitization	398	(176)	568	(228)
Dividends paid	(108)	(102)	(436)	(418)

Effect of foreign exchange fluctuations on U.S. dollar-denominated cash and cash equivalents		19		(5)		31		(48)
Free cash flow	$	311	$	635	$	794	$	828

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SIGNATURES

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

Canadian National Railway Company

Date: January 22, 2009	By:	/s/ Cristina Circelli	
		Name:	Cristina Circelli
		Title:	Deputy Corporate Secretary and General Counsel