

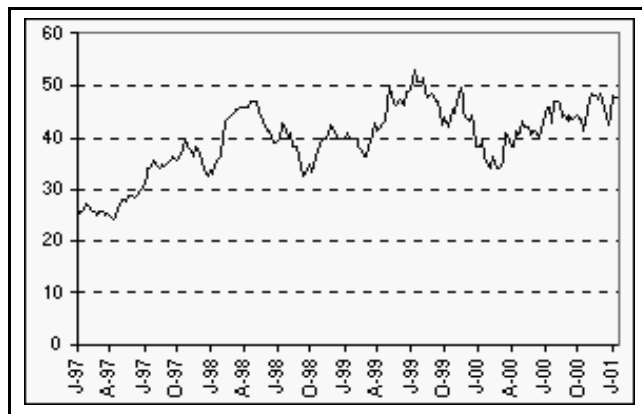
**THE COMPANY**

Canadian National Railway (CN) operates 13,750 route miles of tracks in Canada and the United States. With a fleet of 1,400 locomotives and 64,000 railcars, the Company mainly transports industrial goods, forest products, grain, coal, sulfur, fertilizers and newly manufactured automobiles.

**FINANCIAL DATA**

	1998	1999	2000
Earnings per Share (\$)	3.09*	3.71	4.67
Price to Earnings (times)	13.6	11.3	9.0
Dividend (\$)	0.60	0.60	0.70
Dividend Yield (%)	1.43	1.43	1.67
Book Value (\$)	27.30	30.23	32.53
Price to Book Value (times)	1.54	1.39	1.29

\*Excluding the special charge and accounting change

**HISTORICAL SHARE PRICES**

**WHY ABC FUNDS BOUGHT CANADIAN NATIONAL RAILWAY**

The current focus on "new economy" stocks has caused investors to ignore "old economy" companies. This circumstance has given value investors the opportunity to consider large capitalization stocks which might have otherwise been too expensive. CN is an excellent example of an old economy "value" opportunity.

Canadian National Railway, a highly liquid and large capitalization stock, has declined from a 52-week high of \$54.50 and is currently trading at about 1.3 times book value. CN has a low price to earnings ratio of less than ten times and a solid balance sheet. The company recently increased its dividend to \$0.70 from \$0.60 per share, raising its dividend yield to 1.8%. CN also announced a 6.4% or 13 million share buyback. These attractive valuations represent good relative and historical value.

The management of CN, led by Paul Tellier, who was voted Canadian CEO of the year in 1998, is one of the company's strongest assets. Tellier and his team are very capable and innovative. The company has made a superb turnaround from a negative cash flow in 1995 of \$118 million to a positive free cash flow of \$224 million in 1999. This improvement was achieved through many cost reduction programs. CN is continuing with these cost reductions to further improve the overall efficiency of the company. Paul Tellier has shown that he has even bigger plans for CN. This began with the 1998 purchase of Illinois Central Corporation, improving CN's north/south access and currently, the potential merger with Burlington Northern Santa Fe Corporation (BNSF). The BNSF merger would create numerous cost and logistic synergies with little route overlap. Rail routes would have fewer stops and redundancy hence less capital expenditure would be needed. With the merger put on temporary hold by the American STB, we do not doubt that Paul Tellier will look to other opportunities. In line with this, CN has entered into various strategic corporate agreements which have allowed CN to service all three NAFTA nations.

Not only does CN possess strong fundamentals but it also has a few hidden assets. For instance, CN has acquired an 11.4 million share interest in a cutting edge telecommunication firm, 360networks Inc. These shares were received from two fibre-optic cable joint ventures which utilized CN track rights-of-way to develop 360's fibre optic transmission systems.

While CN is fundamentally strong there is still some vulnerability to economic slowdown. However, all in all, we believe that Canadian National Railway has the capabilities, capacity and innovation to improve its cost structure and substantially expand its business interests.

## UPDATES

Canadian National Railway has continued its positive earnings trend in the second quarter of 2000. The company earned \$1.15 per diluted share versus the comparable quarter's earnings in 1999 of \$1.00 per diluted share. These results are particularly impressive as the company battles increasing fuel costs. Although CN's fuel expense significantly increased by 46% in the quarter, the company was still able to report its best ever-operating ratio of 68.6%.

In December 1999 CN and Burlington Northern Santa Fe Corp. announced plans to merge their two railways. Unfortunately, the U.S. Surface Transportation Board's decision to implement a 15-month moratorium on rail mergers terminated their plans. Both companies felt that it was not in the best interests of shareholders to continue the merger proceedings once the moratorium was put in place. The decision to abandon the merger has definitely not discouraged new initiatives by CN. The company recently announced a route-sharing agreement with Canadian Pacific, which should be mutually beneficial to both companies. This agreement should reduce operating costs significantly.

It is evident that CN remains focused on becoming the best-run railroad in North America. CN's solid fundamentals and excellent management team headed by Paul Tellier gives us continued confidence that the company is on the right track.

ABC Funds  
July 31, 2000

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Canadian National Railway is an old economy stock that has had to contend with increasing fuel costs and the fear of a slowing economy. Despite this, we were pleased to see CN report earnings per share for third quarter 2000 of \$1.09 compared to \$0.96 in the same quarter of 1999. Revenues increased 4% to \$1.33 billion and although fuel costs rose 44% in the quarter, total expenses only rose 2%. This led to an impressive operating ratio of 69.4%.

CN's strong free cash flow of approximately \$290 million year to date has allowed the company to be aggressive in buying back its stock which is anti-dilutive. To date, CN has purchased 11.4 million shares of its 13 million share repurchase plan at an average price of \$40.

CN is one of the most proactive companies in the railway industry. While we are unsure whether merger talks with Burlington Northern will be revisited, the two companies have, in the meantime formed an alliance in order to share some of their track systems. Joint ventures such as this along with continued cost cutting initiatives have strengthened CN's fundamental base and investor confidence.

ABC Funds  
October 27, 2000

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Canadian National Railway once again reported impressive 2000 fourth quarter earnings of \$1.20 versus \$1.03 in the comparable quarter. Improved earnings were achieved despite an economic slowdown which produced flat quarter over quarter revenues. This economic slowdown, however, did not hinder CN's ability to achieve an operating ratio of 68.3%, the lowest in the industry despite significantly higher fuel costs. CN was also able to increase its free cash flow to 7% of revenues, which prompted the company to institute a dividend increase and share repurchase program.

Despite this excellent quarter, we are concerned that CN could be victim to further economic decline and have taken the opportunity to sell our entire position at an average price of about \$49.50.

ABC Funds  
January 26, 2001