BOMBARDIER
the evolution of mobility

FIRST QUARTERLY REPORT

Three-month period ended March 31, 2016

GLOSSARY

The following table shows the abbreviations used in this report.

Term	Description	Term	Description
AFS	Available for sale	GDP	Gross domestic product
AOCI	Accumulated other comprehensive income	HFT	Held for trading
BPS	Basis points	IAS	International Accounting Standard(s)
CCTD	Cumulative currency translation difference	IASB	International Accounting Standards Board
CDPQ	Caisse de dépôt et placement du Québec	IFRIC	International Financial Reporting Interpretation Committee
CGU	Cash generating unit	IFRS	International Financial Reporting Standard(s)
CIS	Commonwealth of Independent States	L&R	Loans and receivables
DDHR	Derivative designated in a hedge relationship	MD&A	Management's discussion and analysis
DSU	Deferred share unit	NCI	Non-controlling interests
EBIT	Earnings (loss) before financing expense, financing income and income taxes	NMF	Information not meaningful
		OCI	Other comprehensive income
EBITDA	Earnings (loss) before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets	PP&E	Property, plant and equipment
		PSG	Performance security guarantee
		PSU	Performance share unit
EBT	Earnings (loss) before income taxes	R&D	Research and development
EIS	Entry-into-service	RSU	Restricted share unit
EPS	Earnings (loss) per share attributable to equity holders of Bombardier Inc.	RVG	Residual value guarantee
		SG&A	Selling, general and administrative
FTV	Flight test vehicle	U.K.	United Kingdom
FVTP&L	Fair value through profit and loss	U.S.	United States of America
GAAP	Generally accepted accounting principles		

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MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts in this report are expressed in U.S. dollars, and all amounts in the tables are in millions of U.S. dollars, unless otherwise indicated.

This MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors of Bombardier Inc. (the "Corporation" or "Bombardier"). This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators. The Board of Directors is responsible for ensuring that we fulfill our responsibilities for financial reporting and is ultimately responsible for reviewing and approving the MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the MD&A and financial statements for issuance to shareholders.

The data presented in this MD&A is structured by reporting segment: Business Aircraft, Commercial Aircraft, Aerostructures and Engineering Services and Transportation, which is reflective of our organizational structure effective as of January 1, 2015.

The results of operations and cash flows for the first quarters are not necessarily indicative of the results of operations and cash flows for the full fiscal year.

IFRS and non-GAAP measures

This MD&A contains both IFRS and non-GAAP measures. Non-GAAP measures are defined and reconciled to the most comparable IFRS measure (see the Non-GAAP financial measures and Liquidity and capital resources sections in Overview and each reporting segment's Analysis of results section).

Materiality for disclosures

We determine whether information is material based on whether we believe a reasonable investor's decision to buy, sell or hold securities of the Corporation would likely be influenced or changed if the information were omitted or misstated.

Certain totals, subtotals and percentages may not agree due to rounding.

FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements, which may involve, but are not limited to: statements with respect to our objectives, guidance, targets, goals, priorities, market and strategies, financial position, beliefs, prospects, plans, expectations, anticipations, estimates and intentions; general economic and business outlook, prospects and trends of an industry; expected growth in demand for products and services; product development, including projected design, characteristics, capacity or performance; expected or scheduled entry-into-service of products and services, orders, deliveries, testing, lead times, certifications and project execution in general; competitive position; the expected impact of the legislative and regulatory environment and legal proceedings on our business and operations; available liquidities and ongoing review of strategic and financial alternatives; the completion of the investment by the Government of Québec in the *C Series* aircraft program (the *C Series* Investment) and the use of proceeds therefrom; the effects of the *C Series* Investment and of the private placement of a minority stake in Transportation to the CDPQ (the CDPQ Investment and, with the *C Series* Investment, the Investments) on the range of options available to us, including regarding our participation in future industry consolidation; the capital and governance structure of the Transportation segment following the CDPQ Investment, and of the Commercial Aircraft segment following the *C Series* Investment; the impact and expected benefits of the Investments on our operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; and the impact of the sale of equity on our balance sheet and liquidity position. The implementation of the Share Consolidation is subject to a number of conditions, including but not limited to, Toronto Stock Exchange approval and shareholder approval, and subject to the Board of Directors' authority, notwithstanding approval of the Share Consolidation by shareholders, to determine in its discretion not to proceed with the Share Consolidation, without further approval or action by, or prior notice to, shareholders. There can be no assurance that the Share Consolidation will be implemented as proposed or at all, or as to the timing thereof, or that the Share Consolidation will result in the contemplated initial post-consolidation share price of Class A Shares or Class B Subordinate Voting Shares.

Forward-looking statements can generally be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "anticipate", "plan", "foresee", "believe", "continue", "maintain" or "align", the negative of these terms, variations of them or similar terminology. By their nature, forward-looking statements require management to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause actual results in future periods to differ materially from forecast results. While management considers their assumptions to be reasonable and appropriate based on information currently available, there is risk that they may not be accurate.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to, risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of the airline industry, of business aircraft customers, and of the rail industry; trade policy; increased competition; political instability and force majeure), operational risks (such as risks related to developing new products and services; development of new business; the certification and homologation of products and services; fixed-price commitments and production and project execution; pressures on cash flows based on project-cycle fluctuations and seasonality; our ability to successfully implement our strategy and transformation plan; doing business with partners; product performance warranty and casualty claim losses; regulatory and legal proceedings; the environment; dependence on certain customers and suppliers; human resources; reliance on information systems; reliance on and protection of intellectual property rights; and adequacy of insurance coverage), financing risks (such as risks related to liquidity and access to capital markets; retirement benefit plan risk; exposure to credit risk; existing debt and interest payment requirements; certain restrictive debt covenants; financing support provided for the benefit of certain customers; and reliance on government support), market risks (such as risks related to foreign currency fluctuations; changing interest rates; decreases in residual values; increases in commodity prices; and inflation rate fluctuations). For more details, see the Risks and uncertainties section in Other in the MD&A of our financial report for the fiscal year ended December 31, 2015. Certain important assumptions by management in making forward-looking statements include, but are not limited to: that ongoing due diligence investigations by the Government of Québec will not identify any materially adverse facts or circumstances; and the satisfaction of all conditions to the completion of the *C Series* Investment, including the receipt of any required third party, regulatory and other approvals. For additional information with respect to the assumptions underlying the forward-looking statements made in this MD&A, refer to the Guidance and forward-looking statements sections in the MD&A of our financial report for the fiscal year ended December 31, 2015. There can be no assurance that the *C Series* Investment will be undertaken or completed in whole or in part, or of the timing, size and proceeds of any such transaction, which will depend on a number of factors.

Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect our expectations as at the date of this report and are subject to change after such date. Unless otherwise required by applicable securities laws, we expressly disclaim any intention, and assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OVERVIEW

HIGHLIGHTS

Results of the quarter

Three-month periods ended March 31	2016	2015	Variance
Revenues	**$ 3,914**	$ 4,397	(11)%
EBIT	**$ 56**	$ 228	(75)%
EBIT margin	**1.4 %**	5.2%	(380) bps
EBIT before special items[1]	**$ 130**	$ 237	(45)%
EBIT margin before special items[1]	**3.3 %**	5.4%	(210) bps
EBITDA before special items[1]	**$ 219**	$ 345	(37)%
EBITDA margin before special items[1]	**5.6 %**	7.8%	(220) bps
Net income (loss)	**$ (138)**	$ 100	nmf
Diluted EPS (in dollars)	**$ (0.07)**	$ 0.05	nmf
Adjusted net income (loss)[1]	**$ (34)**	$ 170	nmf
Adjusted EPS (in dollars)[1]	**$ (0.03)**	$ 0.09	nmf
Net additions to PP&E and intangible assets	**$ 294**	$ 379	(22)%
Cash flows from operating activities	**$ (456)**	$ (366)	(25)%
Free cash flow usage[1]	**$ (750)**	$ (745)	(1)%
As at	**March 31, 2016**	December 31, 2015	
Order backlog (in billions of dollars)	**$ 58.9**	$ 59.2	(1)%
Available short-term capital resources[2]	**$ 4,675**	$ 4,014	16 %

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.
[2] Defined as cash and cash equivalents plus the amount available under the revolving credit facilities.

Key highlights and events

- Lower revenues were anticipated in the first quarter of 2016, reflecting the proactive decision to reduce production rates for business aircraft. Supply chain optimization delayed recognition of certain costs in Transportation and therefore delayed revenue recognition under long-term contract accounting.
- Production for the *C Series* aircraft program is accelerating, diluting the EBIT margin as planned.
- Despite the ramp-up in production of the *C Series* aircraft program in the first quarter of 2016, improved net change in non-cash balances compared to the same period last year had a favourable impact on free cash flow usage.
- Pro forma liquidity of $5.4 billion.[1]
- Recent significant agreements solidified the *C Series* aircraft program in the 100-150 seat category:
  - Subsequent to the quarter, in April 2016, we signed a firm order with Delta Air Lines, Inc. for 75 *CS100* aircraft with options for an additional 50 *CS100* aircraft. Based on list price, the firm order is valued at $5.6 billion;
  - In February 2016, we signed a Letter of Intent with Air Canada and in the second quarter of 2016 we expect to sign a firm purchase agreement for 45 *CS300* aircraft with options for an additional 30 *CS300* aircraft, including conversion rights to the *CS100* aircraft. Based on list price of the *CS300* aircraft, the anticipated firm order is valued at $3.8 billion; and
  - Subsequent to the quarter, Air Baltic Corporation AS converted its remaining seven options to firm orders of *CS300* aircraft. Based on list price, the firm order is valued at $506 million.

  These anticipated 127 firm orders are valued at $9.9 billion based on list prices. They build confidence and reinforce our five-year plan for the *C Series* aircraft program. In conjunction with the closing of these firm purchase agreements, we expect to record an onerous contract provision of approximately $500 million as a special item in the second quarter of 2016. As a result of these orders, the program is expected to enter into service with a firm order backlog of more than 300 aircraft and up to 800 aircraft including options and other agreements.[2] We remain on target to invest $2.0 billion and achieve a break-even free cash flow for the program by 2020.

[1] Pro forma liquidity of $5.4 billion reflects the revisions to our revolving credit facilities effective in April 2016 and the closing of the investment from the Government of Québec in the *C Series* aircraft program expected in the second quarter of 2016.
[2] The other agreements consist of conditional orders, letters of intent, options and purchase rights.

Key highlights and events (continued)

- We closed the sale to the CDPQ of a $1.5-billion investment in convertible shares representing a 30% stake in Bombardier Transportation (Investment) UK LTD (BT Holdco), which following the completion of a corporate reorganization, owns essentially all of the assets and liabilities of Bombardier's Transportation business segment. BT Holdco will continue to be controlled by Bombardier Inc. and consolidated in our results.
- As we move forward with our transformation plan, in February 2016 we decided to optimize our workforce with a combination of manpower reductions and strategic hiring. The goal is to resize our organization in line with current business needs and increase our competitiveness. The company plans to reduce its workforce by an estimated 7,000 production and non-production employees throughout 2016 and 2017. The manpower reduction includes approximately 2,000 contractual workers and 800 product development engineers, the latter of which, are not allocated to a reportable segment. Over the course of the resizing, we expect to record restructuring charges consisting mainly of severance of approximately $250 million to $300 million as special items, primarily in 2016. During the first quarter of 2016, approximately 30% of the planned reductions were completed. To date, we have recognized restructuring charges of $112 million in special items, which include the completed workforce reductions. These workforce reductions will be partially offset by hiring in certain growth areas, notably to support the ramp-up of strategic programs and projects worldwide.

CONSOLIDATED RESULTS OF OPERATIONS

Results of operations

	Three-month periods ended March 31	
	2016	2015
Revenues	**$ 3,914**	$ 4,397
Cost of sales	**3,488**	3,831
Gross margin	**426**	566
SG&A	**264**	276
R&D	**60**	79
Share of income of joint ventures and associates	**(14)**	(16)
Other income	**(14)**	(10)
EBIT before special items[(1)]	**130**	237
Special items	**74**	9
EBIT	**56**	228
Financing expense	**170**	108
Financing income	**(10)**	(23)
EBT	**(104)**	143
Income taxes	**34**	43
Net income (loss)	**$ (138)**	$ 100
Attributable to		
Equity holders of Bombardier Inc.	**$ (161)**	$ 98
NCI	**$ 23**	$ 2
EPS (in dollars)		
Basic and diluted	**$ (0.07)**	$ 0.05
(as a percentage of total revenues)		
EBIT before special items[(1)]	**3.3%**	5.4%
EBIT	**1.4%**	5.2%

(1) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for details, definitions and reconciliations of these metrics to the most comparable IFRS measures.

Non-GAAP financial measures[1]

	Three-month periods ended March 31	
	2016	2015
EBITDA	**$ 145**	$ 336
EBITDA before special items	**$ 219**	$ 345
Adjusted net income (loss)	**$ (34)**	$ 170
Adjusted EPS	**$ (0.03)**	$ 0.09

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for details, definitions and reconciliations of these metrics to the most comparable IFRS measures.

Reconciliation of segment to consolidated results

	Three-month periods ended March 31	
	2016	2015
Revenues		
Business Aircraft	**$ 1,303**	$ 1,537
Commercial Aircraft	**616**	673
Aerostructures and Engineering Services	**468**	471
Transportation	**1,880**	2,041
Corporate and eliminations	**(353)**	(325)
	$ 3,914	$ 4,397
EBIT before special items[1]		
Business Aircraft	**$ 87**	$ 107
Commercial Aircraft	**(66)**	(10)
Aerostructures and Engineering Services	**35**	41
Transportation	**115**	118
Corporate and eliminations	**(41)**	(19)
	$ 130	$ 237
Special Items		
Business Aircraft	**$ 5**	$ 11
Commercial Aircraft	**—**	(1)
Aerostructures and Engineering Services	**20**	(1)
Transportation	**92**	—
Corporate and eliminations	**(43)**	—
	$ 74	$ 9
EBIT		
Business Aircraft	**$ 82**	$ 96
Commercial Aircraft	**(66)**	(9)
Aerostructures and Engineering Services	**15**	42
Transportation	**23**	118
Corporate and eliminations	**2**	(19)
	$ 56	$ 228

[1] Non-GAAP financial measure. Refer to the Non-GAAP financial measures section for a definition of this metric and each reporting segment's Analysis of results section for reconciliations to the most comparable IFRS measure.

Analysis of consolidated results

Detailed analyses of revenues and EBIT are provided in each reportable segment's Analysis of results section.

Special items

Special items comprise items which do not reflect our core performance or where their separate presentation will assist users in understanding our results for the period, such as the impact of restructuring charges and significant impairment charges and reversals.

Special items were as follows:

		Three-month periods ended March 31	
	Ref	**2016**	2015
Restructuring charges	1	**$ 112**	$ 9
Foreign exchange gains related to the sale of a minority stake in Transportation	2	**(38)**	—
Transaction costs related to the conversion option embedded in the CDPQ investment	3	**8**	—
Loss on repurchase of long-term debt	4	**—**	22
Tax impacts of special items		**(10)**	—
		$ 72	$ 31
Of which is presented in			
Special items in EBIT		**$ 74**	$ 9
Financing expense - transaction costs related to the conversion option embedded in the CDPQ investment	3	**8**	—
Financing expense - loss on repurchase of long-term debt	4	**—**	22
Income taxes - effect of special items		**(10)**	—
		$ 72	$ 31

1. In 2016, comprised restructuring charges of $125 million partially offset by a curtailment gain of $13 million related to the workforce optimization announced in February 2016.

   In 2015, included restructuring charges of $13 million related to the workforce reduction announced in January 2015 as a result of the decision to pause the *Learjet 85* aircraft program, partially offset by $4 million of adjustments to restructuring provisions recorded in 2014.

2. Represents foreign exchange gains related to the reorganization of Transportation under one holding entity necessary to facilitate the placement of a minority stake in Transportation.

3. Represents transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco.

4. Represents the loss related to the redemption of the $750-million Senior Notes.

Net financing expense

Net financing expense amounted to $160 million for the three-month period ended March 31, 2016, compared to $85 million for the corresponding period last fiscal year.

The $75-million increase for the three-month period is mainly due to:

- lower borrowing costs capitalized to PP&E and intangible assets ($37 million);
- higher interest on long-term debt, after the effect of hedges ($32 million);
- higher accretion on other financial liabilities ($9 million); and
- transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco ($8 million).

Partially offset by:

- a loss on repurchase of long-term debt in the corresponding period last year ($22 million); and
- a lower net loss related to certain financial instruments classified as FVTP&L ($12 million).

Income taxes

The effective income tax rate for the three-month period ended March 31, 2016 is (32.7)%, compared to the statutory income tax rate in Canada of 26.8%. The negative effective income tax rate is mainly due to the net non-recognition of income tax benefits related to tax losses and temporary differences and to permanent differences.

The effective income tax rate for the three-month period ended March 31, 2015 was 30.1%, compared to the statutory income tax rate in Canada of 26.8%. The higher effective income tax rate was mainly due to the negative impact of the net non-recognition of income tax benefits related to tax losses and temporary differences, partially offset by the positive impacts of the income tax rate differential of foreign subsidiaries.

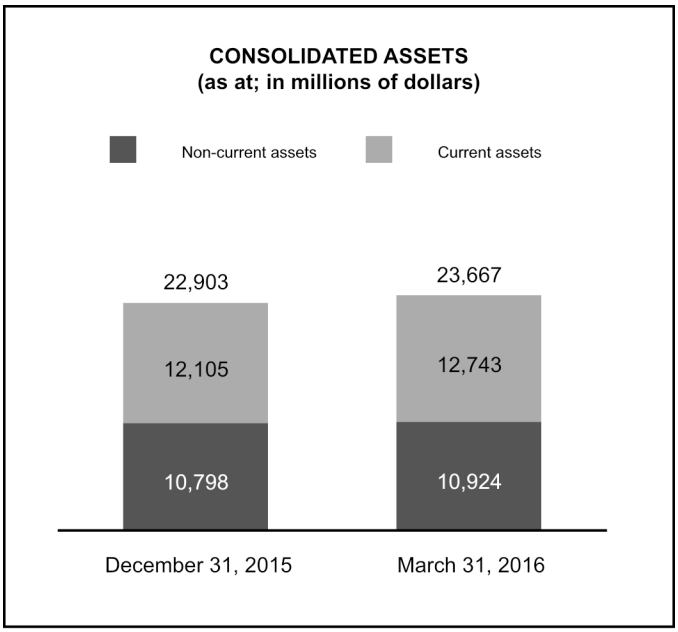
CONSOLIDATED FINANCIAL POSITION

The total assets increased by $764 million in the three-month period, including a positive currency impact of $145 million. The $619-million increase excluding the currency impact is mainly explained by:

- a $648-million increase in cash and cash equivalents. See the Free cash flow usage and the Variation in cash and cash equivalents tables for details;
- a $410-million increase in gross inventories mainly due to a ramp-up of production ahead of deliveries in Transportation; and
- a $227-million increase in aerospace program tooling. See the Investment in product development tables in Business Aircraft and Commercial Aircraft for details.

Partially offset by:

- a $265-million increase in advances and progress billings related to Transportation;
- a $219-million decrease in trade and other receivables mainly in Transportation; and
- a $110-million decrease in other assets mainly related to a decrease in retirement benefit assets.

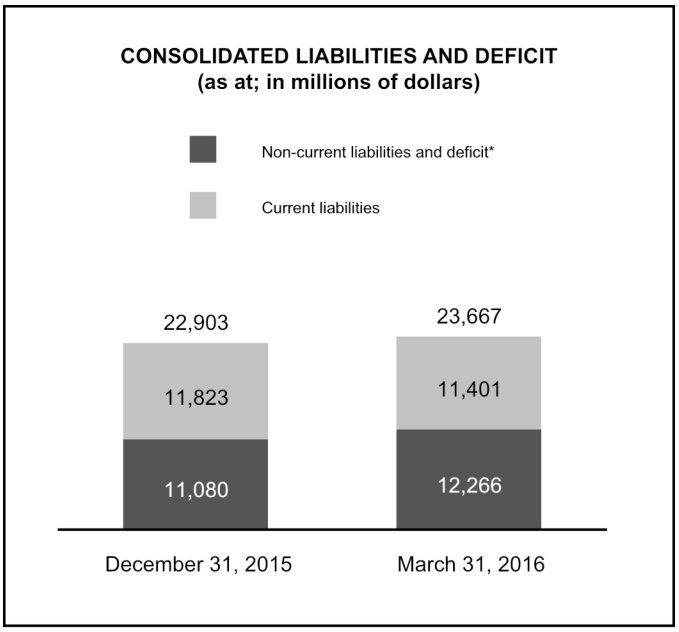


The total liabilities and deficit increased by $764 million in the three-month period, including a currency impact of $145 million. The $619-million increase excluding the currency impact is mainly explained by:

- a $668-million decrease in deficit, mainly due to an increase in the NCI of $1.3 billion due to the sale of convertible shares of BT Holdco to CDPQ, partially offset by the loss on remeasurement of defined benefit plans of $603-million; and
- a $518-million increase in the retirement benefit liability. See the Variation in net retirement benefit liability table for details.

Partially offset by:

- a $284-million decrease in trade and other payables mainly in Transportation and Commercial Aircraft; and
- a $148-million decrease in Business Aircraft's advances on aerospace programs.



*Includes a deficit of $3.4 billion as at March 31, 2016 (a deficit of $4.1 billion as at December 31, 2015).

LIQUIDITY AND CAPITAL RESOURCES

Free cash flow

Free cash flow usage[(1)]

	Three-month periods ended March 31	
	2016	2015
Net income (loss)	**$ (138)**	$ 100
Non-cash items		
Amortization	**89**	108
Deferred income taxes	**(4)**	12
Share of income of joint ventures and associates	**(14)**	(16)
Loss on repurchase of long-term debt	**—**	22
Other	**(4)**	1
Dividends received from joint ventures and associates	**46**	4
Net change in non-cash balances	**(431)**	(597)
Cash flows from operating activities	**(456)**	(366)
Net additions to PP&E and intangible assets	**(294)**	(379)
Free cash flow usage[(1)]	**(750)**	(745)
Net interest and income taxes paid	**(203)**	(105)
Free cash flow usage before net interest and income taxes paid[(1)]	**$ (547)**	$ (640)

The $5-million deterioration of free cash flow usage[(1)] for the three-month period is mainly due to:

- lower net income before non-cash items ($298 million).

Partially offset by:

- a positive period-over-period variation in net change in non-cash balances ($166 million) (see explanation below);
- lower net additions to PP&E and intangible assets ($85 million); and
- higher dividends received from joint ventures and associates ($42 million).

[(1)] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for definitions of these metrics.

Net change in non-cash balances

For the three-month period ended March 31, 2016, the $431-million outflow is mainly due to:

- an increase in Transportation's inventories following ramp-up in production ahead of deliveries;
- a decrease in trade and other payables mainly related to the Commercial Aircraft and Transportation segments;
- a decrease in Business Aircraft's advances on aerospace programs; and
- an increase in the *C Series* aircraft program inventory, due to the ramp-up in production, partially offset by write-downs on early production units.[(1)]

Partially offset by:

- an increase in Transportation's advances and progress billings on existing contracts and new orders; and
- a decrease in Transportation's trade and other receivables.

For the three-month period ended March 31, 2015, the $597-million outflow is mainly due to:

- an increase in Transportation's inventories following ramp-up of production ahead of deliveries;
- a decrease in trade and other payables mainly related to the Transportation and the Business Aircraft segments;
- a decrease in advances on aerospace programs mainly resulting from lower order intake than deliveries for the large and medium business aircraft categories and for regional jets; and
- an increase in Business Aircraft finished product inventories mainly due to an increase in pre-owned business aircraft inventories.

Partially offset by:

- an increase in Transportation's advances and progress billings on existing contracts and new orders; and
- a decrease in trade and other receivables mainly related to the Transportation segment.

(1) Early production units in a new aircraft program require higher costs than the units produced later in the program and the selling prices of early units are generally lower.

Available short-term capital resources

Variation in cash and cash equivalents

	Three-month periods ended March 31	
	2016	2015
Balance at the beginning of period	**$ 2,720**	$ 2,489
Net proceeds from the sale of a minority stake in Transportation to CDPQ	**1,466**	—
Free cash flow usage[(1)]	**(750)**	(745)
Dividends paid to NCI	**(42)**	—
Effect of exchange rate changes on cash and cash equivalents	**(9)**	(116)
Repayments of long-term debt	**(8)**	(8)
Dividends paid	**(4)**	(5)
Net proceeds from issuance of long-term debt	**—**	2,218
Net proceeds from issuance of shares	**—**	822
Net variation in AFS investments in securities	**—**	(10)
Other	**(14)**	88
Balance at the end of period	**$ 3,359**	$ 4,733

(1) Non-GAAP financial measure. Refer to the Non-GAAP financial measures section for a definition of this metric and the Free cash flow usage table above for reconciliations to the most comparable IFRS measure.

On February 11, 2016, we closed the sale and received gross proceeds of $1.5 billion from the CDPQ for an investment in convertible shares in Transportation's newly-created holding company, Bombardier Transportation (Investment) UK Ltd (BT Holdco). The CDPQ's shares are convertible into a 30% common equity stake of BT Holdco, subject to annual adjustments related to performance. The funds from the investment were distributed to the Corporation in the first quarter of 2016 and are being used for general corporate purposes. The parties have agreed that Bombardier will maintain a consolidated cash position at the end of each quarter of at least $1.25 billion. In the event Bombardier's cash position falls below that level, the Board of Directors of Bombardier will create a Special Initiatives Committee composed of three independent directors acceptable to the CDPQ to develop an action plan to improve cash. The implementation of the plan, once agreed with the CDPQ, will be overseen by the Special Initiatives Committee. Refer to the Sale of a minority share section in Transportation for more detail.

Available short-term capital resources

	Pro forma liquidity[1]	**March 31, 2016**	December 31, 2015
Cash and cash equivalents	$ 3,359	**$ 3,359**	$ 2,720
Available revolving credit facilities	1,088	**1,316**	1,294
Expected gross proceeds of the investment from the Government of Québec in the *C Series* aircraft program	1,000	**—**	—
Available short-term capital resources	$ 5,447	**$ 4,675**	$ 4,014

[1] Our pro forma liquidity of $5.4 billion reflects the revisions to our revolving credit facilities effective in April 2016 and the closing of the investment from the Government of Québec in the *C Series* aircraft program expected in the second quarter of 2016.

Our available short-term capital resources include cash and cash equivalents and the amounts available under our two unsecured revolving credit facilities. These facilities are available for cash drawings for the general needs of the Corporation. Under these facilities, the same financial covenants must be met as for our letter of credit facilities.

In March and April 2016, respectively, we extended the maturity dates of Transportation's €500-million ($566-million) and the $750-million[1] unsecured revolving credit facilities to October 2018 and June 2019, respectively. Also in April 2016, Transportation's €500-million ($566-million) unsecured revolving credit facility was increased to €608 million ($688 million) and the $750-million[1] unsecured revolving credit facility was decreased to $400 million, in light of our current cash position and the anticipated investment from the Government of Québec. These revised values are not reflected in the available short-term capital resources as at March 31, 2016.

In October 2015, we entered into a memorandum of understanding with the Government of Québec, who will invest $1.0 billion in the *C Series* aircraft program in return for a 49.5% equity stake in a newly created limited partnership to which we would transfer the assets, liabilities and obligations of the *C Series* aircraft program. The closing of the investment is expected to take place in the second quarter of 2016. The proceeds of the investment will be used entirely for the cash flow purposes of the *C Series* aircraft program. Refer to the Strategic partnership section in Commercial Aircraft for more detail.

[1] Available for other than Transportation's usage.

Letter of credit facilities

In April 2016, we extended the availability periods of Transportation's €3.64-billion ($4.1-billion) and the $600-million[1] letter of credit facilities by one year to May 2019 and June 2019, respectively, and the committed amount under the latter was decreased to $400 million. We also expect Transportation's €3.64-billion ($4.1-billion) committed amount to decrease to €3.3 billion ($3.7 billion) in the second quarter of 2016.

[1] Available for other than Transportation's usage.

Financial covenants

Effective in April 2016, the maximum net debt to EBITDA ratio required by the $600-million letter of credit facility[(1)] and the $750 million unsecured revolving facility[(1)] is being replaced by maximum gross debt and minimum EBITDA thresholds. The remaining covenants requiring a minimum EBITDA to fixed charges ratio and a minimum liquidity level of $750 million at the end of each quarter all calculated based on an adjusted consolidated basis (i.e. excluding Transportation) remain unchanged.

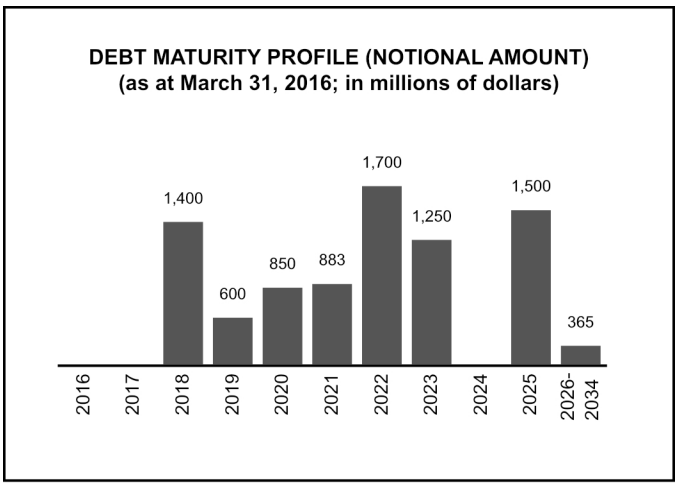
Transportation's letter of credit facility and unsecured revolving facility continue to require a minimum liquidity level of €600 million ($679 million) at the end of each quarter, as well as a minimum equity level and a maximum debt to EBITDA ratio, all calculated on a Transportation stand-alone basis.

These terms and ratios are defined in the respective agreements and do not correspond to our global metrics or to any specific terms used in the MD&A.

[(1)] Available for other than Transportation's usage.

Future liquidity requirements

Our available short-term capital resources, along with the investment from the Government of Québec, give us a pro forma liquidity of $5.4 billion, which is sufficient to execute our plan. In addition to the investments from the CDPQ and the Government of Québec, we may receive funding from governments and contributions from key suppliers for certain aircraft programs, which increases financing flexibility as these parties act as risk-sharing partners. We consider that these resources will enable the development of new products to enhance our competitiveness and support our growth; will allow the payment of dividends, if and when declared by the Board of Directors; and will enable us to meet all other expected financial requirements in the foreseeable future. There is no significant debt maturing before the year 2018.



CAPITAL STRUCTURE

We analyze our capital structure using global metrics, which are based on a broad economic view of the Corporation, in order to assess the creditworthiness of the Corporation. These global metrics are managed and monitored so as to achieve an investment-grade profile.

Reconciliations of these measures to the most comparable IFRS financial measures are in the Non-GAAP financial measures section. Adjusted EBIT and adjusted EBITDA exclude special items, such as restructuring charges, significant impairment charges and reversals, as well as other significant unusual items, which are not representative of our core performance or where their exclusion will assist users in understanding our results for the period.

Our objectives with regard to global metrics are as follows:

- adjusted EBIT to adjusted interest ratio greater than 5.0; and
- adjusted debt to adjusted EBITDA ratio lower than 2.5.

Interest coverage ratio

	For the four quarter trailing periods ended	
	March 31, 2016	December 31, 2015
Adjusted EBIT[(1)]	**$ 672**	$ 777
Adjusted interest[(1)]	**$ 588**	$ 503
Adjusted EBIT to adjusted interest ratio	**1.1**	1.5

(1) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for definitions of these metrics and reconciliations to the most comparable IFRS measures.

The interest coverage ratio deteriorated as a result of:

- higher adjusted interest, mainly due to interest paid on unsecured Senior Notes issued in March 2015; and
- lower adjusted EBIT, due to lower EBIT before special items (see each reporting segment's Analysis of results section for details).

Financial leverage ratio

	As at and for the four quarter trailing periods ended	
	March 31, 2016	December 31, 2015
Adjusted debt[(1)]	**$ 9,305**	$ 9,289
Adjusted EBITDA[(1)]	**$ 1,151**	$ 1,278
Adjusted debt to adjusted EBITDA ratio	**8.1**	7.3

(1) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for definitions of these metrics and reconciliations to the most comparable IFRS measures.

The financial leverage ratio deteriorated as a result of lower adjusted EBITDA, mainly due to lower adjusted EBIT (see variance explanation above).

These global metrics do not represent the calculations required for bank covenants. They represent our key business metrics and as such are used to analyze our capital structure. For compliance purposes, we regularly monitor our bank covenants to ensure that they are all met.

In addition to the above global metrics, we separately monitor our net retirement benefit liability which amounted to $2.5 billion as at March 31, 2016 ($1.9 billion as at December 31, 2015). The measurement of this liability is dependent on numerous key long-term assumptions such as discount rates, future compensation increases, inflation rates and mortality rates. In recent years, this liability has been particularly volatile due to changes in discount rates. Such volatility is exacerbated by the long-term nature of the obligation. We closely monitor the impact of the net retirement benefit liability on our future cash flows and we have introduced significant risk mitigation initiatives in recent years to gradually reduce key risks associated with the retirement benefit plans. The $640-million increase in the net retirement benefit liability is explained as follows:

Variation in net retirement benefit liability

Balance as at December 31, 2015	$ 1,908	[(1)]
Changes in discount rates and other financial assumptions	638	
Changes in foreign exchange rates	102	
Actuarial gains on pension plan assets	(99)	
Employer contributions	(76)	
Service costs	54	
Accretion on net retirement benefit obligation	17	
Other	4	
Balance as at March 31, 2016	**$ 2,548**	**[(1)]**

(1) Includes retirement benefit assets of $167 million as at March 31, 2016 ($251 million as at December 31, 2015).

NON-GAAP FINANCIAL MEASURES

This MD&A is based on reported earnings in accordance with IFRS and on the following non-GAAP financial measures:

Non-GAAP financial measures	
EBITDA	Earnings (loss) before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets.
EBIT before special items	EBIT excluding the impact of restructuring charges, significant impairment charges and reversals, as well as other significant unusual items.
EBITDA before special items	EBIT before special items, amortization and impairment charges on PP&E and intangible assets.
Adjusted net income (loss)	Net income (loss) excluding special items, accretion on net retirement benefit obligations, certain net gains and losses arising from changes in measurement of provisions and of financial instruments carried at FVTP&L and the related tax impacts of these items.
Adjusted EPS	EPS calculated based on adjusted net income attributable to equity holders of Bombardier Inc., using the treasury stock method, giving effect to the exercise of all dilutive elements.
Free cash flow (usage)	Cash flows from operating activities less net additions to PP&E and intangible assets.
Free cash flow (usage) before net interest and income taxes paid or received	Free cash flow (usage) excluding cash paid and received for interest and income taxes, as per the consolidated statements of cash flows.
Adjusted debt	Long-term debt as presented in the consolidated statements of financial position adjusted for the fair value of derivatives (or settled derivatives) designated in related hedge relationships plus sale and leaseback obligations and the net present value of operating lease obligations.
Adjusted EBIT	EBIT before special items plus interest adjustment for operating leases and interest received (as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of fair value hedge derivatives before their contractual maturity dates).
Adjusted EBITDA	Adjusted EBIT plus amortization and impairment charges on PP&E and intangible assets, and amortization adjustment for operating leases.
Adjusted interest	Interest paid, as per the supplemental information provided in the consolidated statements of cash flows, plus accretion expense on sale and leaseback obligations and interest adjustment for operating leases.

We believe that providing certain non-GAAP financial measures in addition to IFRS measures provides users of our interim financial report with enhanced understanding of our results and related trends and increases the transparency and clarity of the core results of our business. For these reasons a significant number of users of the MD&A analyze our results based on these performance measures. EBIT before special items, EBITDA before special items, adjusted net income and adjusted EPS exclude items that do not reflect our core performance or where their exclusion will assist users in understanding our results for the period. We believe these measure help users of our MD&A to better analyze results, enabling better comparability of our results from one period to another and with peers.

Non-GAAP financial measures are mainly derived from the interim consolidated financial statements but do not have standardized meanings prescribed by IFRS. The exclusion of certain items from non-GAAP performance measures does not imply that these items are necessarily non-recurring. From time to time, we may exclude additional items if we believe doing so would result in a more transparent and comparable disclosure. Other entities in our industry may define the above measures differently than we do. In those cases, it may be difficult to compare the performance of those entities to ours based on these similarly-named non-GAAP measures.

Reconciliations of non-GAAP financial measures to the most comparable IFRS financial measures are provided in the tables hereafter, except for the following reconciliations:

- EBIT before special items to EBIT – see the Results of operations tables in the reporting segments and Consolidated results of operations section; and
- free cash flow usage before net interest and income taxes paid and free cash flow usage to cash flows from operating activities – see the Free cash flow usage table in the Liquidity and capital resources section.

Reconciliation of EBITDA before special items and EBITDA to EBIT

	Three-month periods ended March 31	
	2016	2015
EBIT	**$ 56**	$ 228
Amortization	**89**	108
EBITDA	**145**	336
Special items[1]	**74**	9
EBITDA before special items	**$ 219**	$ 345

Reconciliation of adjusted net income to net income

	Three-month periods ended March 31			
	2016		2015	
	(per share)			(per share)
Net income (loss)	**$ (138)**		$ 100	
Adjustments to EBIT related to special items[1]	**74**	**$ 0.03**	9	$ 0.01
Adjustments to net financing expense related to:				
Transaction costs related to the conversion option embedded in the CDPQ investment	**8**	**0.00**	—	—
Net change in provisions arising from changes in interest rates and net loss on certain financial instruments[1]	**15**	**0.01**	21	0.01
Accretion on net retirement benefit obligations	**17**	**0.01**	19	0.01
Loss on repurchase of long-term debt[1]	**—**	**—**	22	0.01
Tax impact of special[1] and other adjusting items	**(10)**	**(0.01)**	(1)	0.00
Adjusted net income (loss)	**$ (34)**		$ 170	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Three-month periods ended March 31	
	2016	2015
Diluted EPS	**$ (0.07)**	$ 0.05
Impact of special[1] and other adjusting items	**0.04**	0.04
Adjusted EPS	**$ (0.03)**	$ 0.09

Reconciliation of adjusted debt to long-term debt

		As at
	March 31, 2016	December 31, 2015
Long-term debt	**$ 9,051**	$ 8,979
Adjustment for the fair value of derivatives designated (or settled derivatives) in related hedge relationships	**(410)**	(386)
Long-term debt, net	**8,641**	8,593
Operating lease obligations[2]	**542**	563
Sale and leaseback obligations	**122**	133
Adjusted debt	**$ 9,305**	$ 9,289

[1] Refer to the Consolidated results of operations section for details regarding special items.

[2] Discounted using the average five-year U.S. Treasury Notes plus the average credit spread, given our credit rating, for the corresponding period.

Reconciliation of adjusted EBITDA and adjusted EBIT to EBIT

	Four-quarter trailing periods ended	
	March 31, 2016	December 31, 2015
EBIT	**$ (5,010)**	$ (4,838)
Special items[1]	**5,457**	5,392
Interest received	**156**	156
Interest adjustment for operating leases[2]	**69**	67
Adjusted EBIT	**672**	777
Amortization	**419**	438
Amortization adjustment for operating leases[3]	**60**	63
Adjusted EBITDA	**$ 1,151**	$ 1,278

Reconciliation of adjusted interest to interest paid

	Four-quarter trailing periods ended	
	March 31, 2016	December 31, 2015
Interest paid	**$ 511**	$ 427
Interest adjustment for operating leases[2]	**69**	67
Accretion expense on sale and leaseback obligations	**8**	9
Adjusted interest	**$ 588**	$ 503

(1) Refer to the Consolidated results of operations section for details regarding special items for the three-month periods ended March 31, 2016 and 2015. The special items for the second, third and fourth quarters of 2015 relate to: impairment and other charges on the *C Series* aircraft program, the *Learjet 85* aircraft program, the *CRJ1000* aircraft program and the Learjet family of aircraft; an increase in provisions for credit guarantees and RVGs and a loss on certain financial instruments; write-off of deferred costs; termination of sales representative and distribution agreements; and a provision related to tax litigation.

(2) Represents the interest cost of a debt equivalent to operating lease obligations included in adjusted debt, bearing interest at the average five-year U.S. swap rate plus the average credit default swap spread for the related period, given our credit rating.

(3) Represents a straight-line amortization of the amount included in adjusted debt for operating leases, based on a nine-year amortization period.

BUSINESS AIRCRAFT

HIGHLIGHTS

Results of the quarter

Three-month periods ended March 31	**2016**	2015	Variance
Revenues	**$ 1,303**	$ 1,537	(15)%
Aircraft deliveries (in units)	**31**	45	(31)%
Net orders (in units)	**40**	19	111 %
Book-to-bill ratio[(1)]	**1.3**	0.4	0.9
EBIT	**$ 82**	$ 96	(15)%
EBIT margin	**6.3%**	6.2%	10 bps
EBIT before special items[(2)]	**$ 87**	$ 107	(19)%
EBIT margin before special items[(2)]	**6.7%**	7.0%	(30) bps
EBITDA before special items[(2)]	**$ 112**	$ 149	(25)%
EBITDA margin before special items[(2)]	**8.6%**	9.7%	(110) bps
Net additions to PP&E and intangible assets	**$ 153**	$ 159	(4)%
As at	**March 31, 2016**	December 31, 2015	
Order backlog (in billions of dollars)	**$ 17.3**	$ 17.2	1 %

(1) Ratio of net orders received over aircraft deliveries, in units.
(2) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measures.

Key highlights and events

- Performance on revenues and deliveries was as anticipated for the first quarter of 2016, reflecting the proactive decision to reduce production rates.
- Strong sales activity during the period yielded net orders for 40 aircraft, with a book-to-bill ratio of 1.3. This includes a firm order for 20 *Challenger 350* aircraft from an undisclosed customer, valued at $534 million at list price.
- EBIT margin before special items was essentially preserved compared to the same period last year, despite lower volumes, reflecting the positive impact of our business model enhancements and transformation activities.
- As we move forward with our transformation plan, in February 2016 we decided to optimize our workforce with a combination of manpower reductions and strategic hiring. The goal is to resize our organization in line with current business needs and increase our competitiveness. Business Aircraft plans to reduce its workforce by an estimated 500 production and non-production employees throughout 2016 and 2017. During the first quarter of 2016, approximately 80% of the planned reductions were completed. To date, we have recognized restructuring charges of $5 million in special items, which include the completed workforce reductions.
- In March 2016, the *Challenger 650* aircraft received full type certification from the European Aviation Safety Agency (EASA). The aircraft received type certification from Transport Canada and the Federal Aviation Administration in November 2015 and entered into service in the fourth quarter of 2015.

INDUSTRY AND ECONOMIC ENVIRONMENT

The business aircraft market continues to signal challenges in the short-term. World GDP growth rate and market indicators such as the UBS Business Jet Market Index* and pre-owned business jet inventory levels point to a delayed recovery and continued market softness. However, we remain confident in the potential of the business aircraft industry with a strong outlook for drivers of business jet demand.

In the first quarter of 2016, emerging markets like China, Latin America (particularly Brazil) and Russia remain sluggish due to economic uncertainty and geopolitical issues. Orders continue to be driven by established markets such as North America and Western Europe. In 2016, the global economy is expected to grow at a rate of 2.3%, slightly lower than growth of 2.5% in 2015.[(1)]

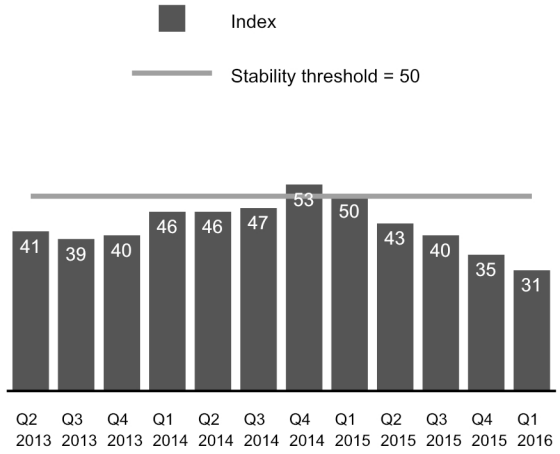
Industry confidence[(2)] further declined since the end of 2015 and remains under the threshold of market stability, at its lowest level since 2009. The decline in the confidence index in the first quarter of 2016 was mainly due to reduced confidence related to inventory levels.[(3)]

The total number of pre-owned aircraft available for sale as a percentage of the total in-service fleet slightly increased in the first quarter of 2016 and stood at 11.8% as at March 31, 2016. We consider this level of pre-owned inventory to be within the normal range for the overall market.

As indicated in the graphs below, overall business jet utilization in the U.S. and Europe remained stable compared to the same periods in the last three years.

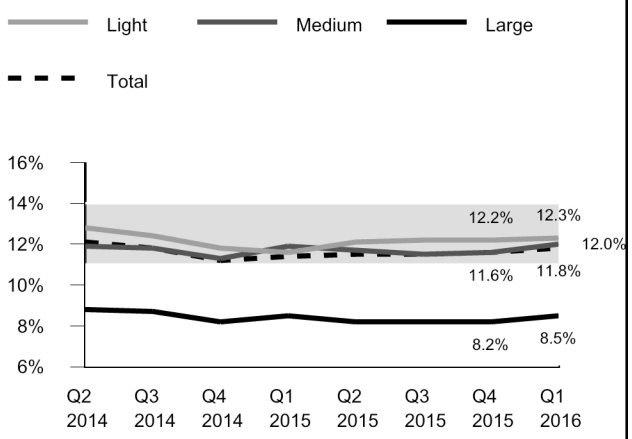
(1) According to “Oxford Economics Global Data Report” dated April 12, 2016.
(2) As measured by the UBS Business Jet Market Index.
(3) According to the March 2016 UBS Business Jet Survey.

UBS BUSINESS JET MARKET INDEX*
(for calendar quarters; average on a 100-point scale)

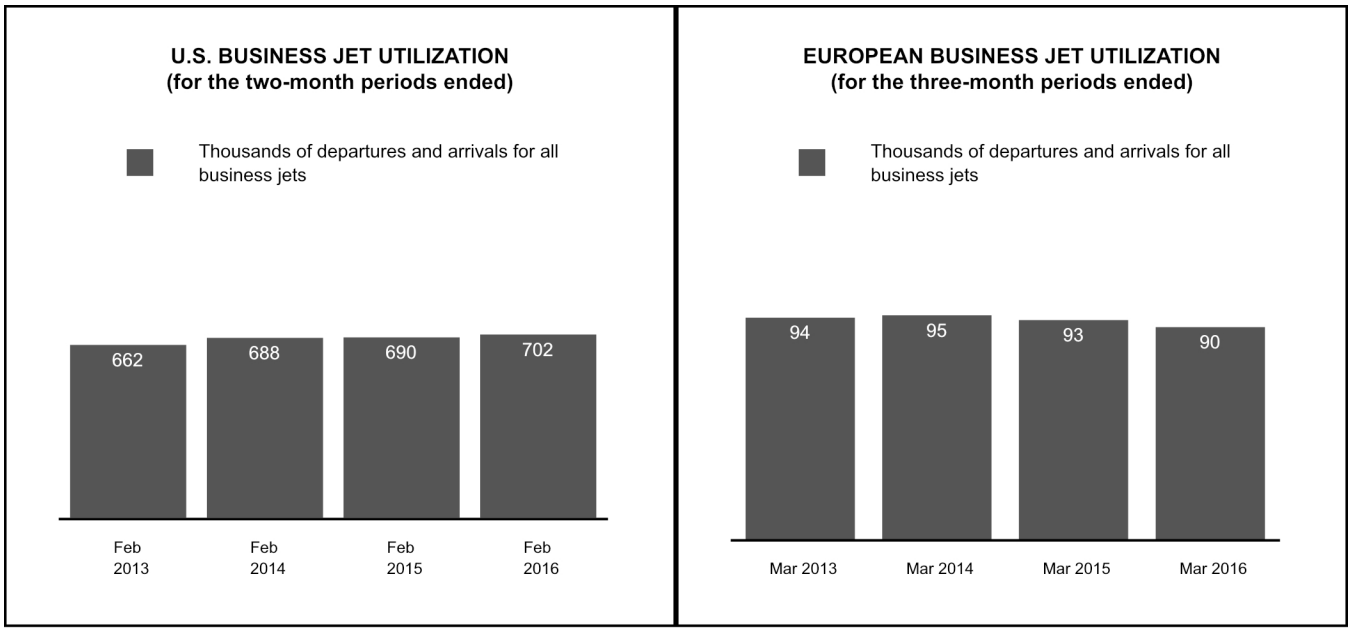


Source: UBS
* The UBS Business Jet Market Index is a measure of market confidence from industry professionals, gathered through bi-monthly surveys of brokers, dealers, manufacturers, fractional providers, financiers and others.

PRE-OWNED BUSINESS JET INVENTORY*
(as at end of)



Sources: JETNET and Ascend
* As a percentage of total business jet fleet, excluding very light jets. Shaded area indicates what we consider to be the normal range of total pre-owned business jet inventory available for sale, i.e. between 11% and 14%.



Source: U.S. Federal Aviation Administration (FAA) website

Source: Eurocontrol

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended March 31	
	2016	2015
Revenues	**$ 1,303**	$ 1,537
EBITDA before special items[(1)]	**$ 112**	$ 149
Amortization	**25**	42
EBIT before special items[(1)]	**87**	107
Special items	**5**	11
EBIT	**$ 82**	$ 96
EBIT margin before special items[(1)]	**6.7%**	7.0%
EBIT margin	**6.3%**	6.2%

[(1)] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

Revenues

The $234-million decrease for the three-month period is mainly due to planned lower deliveries across all business aircraft categories.

Special items

Special items comprise items which do not reflect our core performance or where their separate presentation will assist users in understanding our results for the period, such as the impact of restructuring charges and significant impairment charges and reversals.

The special item for the three-month period ended March 31, 2016 represents restructuring charges related to the workforce optimization announced in February 2016.

The special items for the three-month period ended March 31, 2015 related to:

- a $13-million restructuring charge related to the workforce reduction of 1,000 employees in Querétaro, Mexico and Wichita, U.S., related to the *Learjet 85* program;
- partially offset by a $2-million adjustment to a restructuring provision recorded in 2014.

EBIT margin

The EBIT margin for the three-month period increased by 0.1 percentage point compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items above) for the three-month period decreased by 0.3 percentage point, mainly as a result of:

- lower margins on business aircraft, including an inventory write-down in the light aircraft category, partially offset by a favourable mix of aircraft deliveries; and
- lower absorption of SG&A expense.

Partially offset by:

- higher margins on customer services activities; and
- favourable impacts of business model enhancements related to pre-owned aircraft activities.

Product development

Investment in product development

	Three-month periods ended March 31	
	2016	2015
Program tooling[1]	**$ 162**	$ 158
R&D expense[2]	**1**	2
	$ 163	$ 160
As a percentage of revenues	**12.5%**	10.4%

Program tooling additions mainly relate to the development of the *Global 7000* and *Global 8000* aircraft program.

The carrying amount of business aircraft program tooling[3] as at March 31, 2016 was $2.2 billion, compared to $2.0 billion as at December 31, 2015.

(1) Net amount capitalized in aerospace program tooling.

(2) Excluding amortization of aerospace program tooling of $25 million for the three-month period ended March 31, 2016 ($26 million for the three-month period ended March 31, 2015), as the related investments are already included in aerospace program tooling.

(3) Capitalized borrowing costs included in the business aircraft aerospace program tooling balance amounted to $180 million as at March 31, 2016 ($157 million as at December 31, 2015).

The *Global 7000* and *Global 8000* aircraft program

We continue to focus our efforts on the flight test program in order to bring the category-defining *Global 7000* aircraft to market.

Progress continues on building the *Global 7000* FTVs, and we are advancing on systems integration and static testing. All structural components have been joined on FTV1. FTV2 and FTV 3 are in final assembly with major structural components joined, including the rear, centre and forward fuselage sections, wing and cockpit. The final FTV is in various stages of production and assembly.

The safety-of-flight testing is underway. Engine development by our supplier is progressing well.

The manufacturing process of the *Global 7000* and *Global 8000* aircraft program is employing the highest caliber technology. The final assembly line in Toronto, Canada, features a state-of-the-art automated positioning system using laser-guided measuring to join the wing structure to the fuselage with a very high level of precision.

The *Global 7000* aircraft is expected to enter into service in the second half of 2018.

Aircraft deliveries

Aircraft deliveries

	Three-month periods ended March 31	
(in units)	**2016**	2015
Light		
Learjet 70/75	**1**	9
Medium		
Challenger 350	**14**	14
Challenger 605/650	**2**	5
Large		
Global 5000/Global 6000	**14**	17
	31	45

Aircraft orders

Net orders

	Three-month periods ended March 31	
(in units)	**2016**	2015
Gross orders	**57**	31
Cancellations	**(17)**	(12)
Net orders	**40**	19

The higher order intake in the three-month period ended March 31, 2016 when compared to the same period last fiscal year is mainly in the medium aircraft category. During the first quarter of 2016, an undisclosed customer signed a firm order for 20 *Challenger 350* aircraft. Based on list price, the firm order is valued at $534 million.

Cancellations during the three-month period ended March 31, 2016 include 13 cancellations related to the restructuring of two customer commercial agreements as we continue to enhance our business model to improve long-term profitability. During the three-month period ended March 31, 2015, there were nine cancellations for the *Learjet 85* program.

Order backlog and book-to-bill ratio

Order backlog

		As at
(in billions of dollars)	**March 31, 2016**	December 31, 2015
	$ 17.3	$ 17.2

The increase in the order backlog as at March 31, 2016 reflects a book-to-bill ratio higher than 1.0. The order backlog and the production horizon for programs are monitored to align production rates to reflect market demand.

Book-to-bill ratio[(1)]

	Three-month periods ended March 31	
	2016	2015
Net orders	**40**	19
Deliveries	**31**	45
	1.3	0.4

[(1)] Ratio of net orders received over aircraft deliveries, in units.

COMMERCIAL AIRCRAFT

HIGHLIGHTS

Results of the quarter

Three-month periods ended March 31	2016	2015	Variance
Revenues	**$ 616**	$ 673	(8)%
Aircraft deliveries (in units)	**20**	23	(13)%
Net orders (in units)	**2**	25	(92)%
Book-to-bill ratio[1]	**0.1**	1.1	(1.0)
EBIT	**$ (66)**	$ (9)	(633)%
EBIT margin	**(10.7)%**	(1.3)%	(940) bps
EBIT before special items[2]	**$ (66)**	$ (10)	(560)%
EBIT margin before special items[2]	**(10.7)%**	(1.5)%	(920) bps
EBITDA before special items[2]	**$ (40)**	$ 18	nmf
EBITDA margin before special items[2]	**(6.5)%**	2.7 %	nmf
Net additions to PP&E and intangible assets	**$ 113**	$ 194	(42)%
As at	**March 31, 2016**	December 31, 2015	
Order backlog (in billions of dollars)	**$ 11.1**	$ 11.5	(3)%

[1] Ratio of net orders received over aircraft deliveries, in units.
[2] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measures.

Key highlights and events

- Production for the *C Series* aircraft program is accelerating, diluting the EBIT margin as planned.
- During the first quarter of 2016, free cash flow usage related to the *C Series* aircraft program amounted to approximately $200 million and remains in line with our target of $1.0 billion free cash flow usage for the program in 2016.
- Recent significant agreements solidified the *C Series* aircraft program in the 100-150 seat category:
  - Subsequent to the quarter, in April 2016, we signed a firm order with Delta Air Lines, Inc. for 75 *CS100* aircraft with options for an additional 50 *CS100* aircraft. Based on list price, the firm order is valued at $5.6 billion;
  - In February 2016, we signed a Letter of Intent (LOI) with Air Canada and in the second quarter of 2016 we expect to sign a firm purchase agreement for 45 *CS300* aircraft with options for an additional 30 *CS300* aircraft, including conversion rights to the *CS100* aircraft. Based on list price of the *CS300* aircraft, the anticipated firm order is valued at $3.8 billion; and
  - Subsequent to the quarter, Air Baltic Corporation AS converted its remaining seven options to firm orders of *CS300* aircraft. Based on list price, the firm order is valued at $506 million.

  These anticipated 127 firm orders are valued at $9.9 billion based on list prices and are not included in the order backlog as at March 31, 2016. They build confidence and reinforce our five-year plan for the *C Series* aircraft program. In conjunction with the closing of these firm purchase agreements, we expect to record an onerous contract provision of approximately $500 million as a special item in the second quarter of 2016. As a result of these orders, the program is expected to enter into service with a firm order backlog of more than 300 aircraft and up to 800 aircraft including options and other agreements.[1] We remain on target to invest $2.0 billion and achieve a break-even free cash flow for the program by 2020.
- We continue to prepare for the EIS of the *CS100* aircraft, with the first aircraft to be delivered to Swiss International Air Lines (SWISS) in June 2016.

[1] The other agreements consist of conditional orders, letters of intent, options and purchase rights.

INDUSTRY AND ECONOMIC ENVIRONMENT

Since the beginning of 2016, the demand for air travel, measured by revenue passenger kilometres ("RPK")[1], continues to show a strong upward trend for commercial airlines compared to the same period last year.

Scheduled domestic and international commercial air travel, measured by RPK, were 7.4% and 8.1% higher, respectively, during the year-to-date period ended February 2016, compared to the same period last year. Commercial airlines worldwide achieved domestic and international passenger load factors[2] of 79.3% and 77.8%, respectively, during the year-to-date period ended February 2016, and were higher than the 78.9% and 77.7% respective levels experienced during the same period in 2015. Airlines have been increasing capacity at a slower rate than growth in demand.[3]

For domestic commercial air travel specifically, increases in the U.S., China and India account for most of the 7.4% increase in RPK compared to the same period last year. On the international commercial air travel side, increases in Asia-Pacific, Europe and the Middle-East account for most of the 8.1% increase in RPK compared to the same period last year.[3]

Regional passenger traffic measured by RPK for the four leading U.S. network carriers[4] and their affiliates, which represent a major portion of the regional airline passenger traffic in the U.S., Commercial Aircraft's largest market, increased by 1.4% during the year-to-date period ended March 2016, compared to the same period last year. These airlines achieved an average passenger load factor of 77.1% during the year-to-date period ended March 2016, compared to 78.3% during the same period in 2015.

Continued low crude oil prices should help sustain growth and demand for air travel in 2016.[3][5] Although some airlines may delay their decision to renew their fleet in the short term, lower fuel prices should continue to help improve airline profitability, which in turn would provide an opportunity for airlines to reinvest in their fleets. The high volatility in crude oil prices should result in continued demand for more fuel efficient aircraft. Environmental issues and regulations related to local air quality, aircraft emissions and community noise, as well commitments by the aviation industry towards reducing carbon emissions, should speed up the retirement of older less fuel efficient aircraft worldwide.

[1] RPK is a measure of paying passenger traffic and represents passenger demand for air transport, defined as one fare-paying passenger transported over one kilometre.

[2] Passenger load factor is defined as the percentage of available seat kilometres used (RPK divided by available seat kilometres). Available seat kilometres are measured as the number of seats multiplied by the kilometres flown, whether a passenger occupied the seat or not.

[3] Per IATA's February 2016 Air Passenger Market Analysis report.

[4] Delta Air Lines, American Airlines, United Airlines, and Alaska Air.

[5] Per IATA's February-March 2016 Airlines Financial Monitor report.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended March 31	
	2016	2015
Revenues	**$ 616**	$ 673
EBITDA before special items[1]	**$ (40)**	$ 18
Amortization	**26**	28
EBIT before special items[1]	**(66)**	(10)
Special items	**—**	(1)
EBIT	**$ (66)**	$ (9)
EBIT margin before special items[1]	**(10.7)%**	(1.5)%
EBIT margin	**(10.7)%**	(1.3)%

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

Revenues
The $57-million decrease for the three-month period is mainly due to lower aircraft deliveries, partially offset by higher revenues from sales of pre-owned aircraft.

Special items
Special items comprise items which do not reflect our core performance or where their separate presentation will assist users in understanding our results for the period, such as the impact of restructuring charges and significant impairment charges and reversals.

The special item for the three-month period ended March 31, 2015 related to an adjustment to a restructuring provision recorded in 2014.

EBIT margin
The EBIT margin percentage for the three-month period decreased by 9.4 percentage points compared to the same period last year. The EBIT margin before special items for the three-month period decreased by 9.2 percentage points mainly as a result of:

- higher losses related to the *C Series* aircraft program, mainly related to early production units[(1)]; and
- lower margins related to aircraft deliveries.

Partially offset by:

- lower R&D expenses, mainly as a result of the lower carrying amount of the *CRJ* aircraft family program development costs.

(1) Early production units in a new aircraft program require higher costs than units produced later in the program and the selling prices of early units are generally lower.

Product development

Investment in product development

	Three-month periods ended March 31	
	2016	2015
Program tooling[(1)]	**$ 95**	$ 188
R&D expense[(2)]	**1**	1
	$ 96	$ 189
As a percentage of revenues	**15.6%**	28.1%

Program tooling additions mainly relate to the development of the *C Series* aircraft program.

The carrying amount of commercial aircraft program tooling[(3)] as at March 31, 2016 was $2.0 billion, compared to $1.9 billion as at December 31, 2015.

(1) Net amount capitalized in aerospace program tooling.
(2) Excluding amortization of aerospace program tooling of $5 million for the three-month period ended March 31, 2016 ($20 million for the three-month period ended March 31, 2015), as the related investments are already included in aerospace program tooling.
(3) Capitalized borrowing costs included in the commercial aircraft aerospace program tooling balance amounted to $296 million as at March 31, 2016 ($294 million as at December 31, 2015).

The *C Series* aircraft program
CS100 aircraft
In December 2015, the *CS100* aircraft was awarded type certification from Transport Canada. Following the successful completion of the *CS100* aircraft's European route-proving exercises in March 2016, the first *C Series* aircraft is on track for its first delivery in June 2016.

In February 2016, the SWISS team completed its initial phase of on-site training for pilots as well as for ground and maintenance crews. The first *CS100* aircraft to be delivered to SWISS was powered on, with the electricity and systems running for the first time on the aircraft.

CS300 aircraft

The *CS300* aircraft is on target to obtain its type certificate in mid-2016. EIS of the *CS300* aircraft is expected in the second half of 2016. The first *CS300* aircraft for launch customer, airBaltic of Latvia is now in production.

The first *CS300* FTV is undergoing upgrades to the latest software and hardware versions and continues planned tests, such as flutter, handling, cruise performance, cross-wind takeoff and landing, braking and anti-skid testing. The second *CS300* FTV, the final test vehicle, equipped with a full production interior, joined the flight testing fleet following its first flight in March 2016. This FTV is dedicated to cabin and interior certification.

Performance results

Flight and aircraft structural test performance results have exceeded original targets for fuel burn, payload, range and airfield performance. All aircraft are displaying a high level of reliability.[(1)]

Production ramp-up and EIS readiness

The *C Series* aircraft program has begun its ramp-up to full production. The ramp-up, including the production of units for launch operator SWISS, is progressing according to plan in the new assembly facilities in Mirabel, Canada.

The *CS100* aircraft's full-flight simulator will play a significant role in pilot training on the all-new aircraft. The simulator was awarded Interim Level C qualification from Transport Canada, the U.S. Federal Aviation Administration (FAA) and the European Aviation Safety Agency (EASA). Customer support activities are ramping up in preparation for first delivery.

(1) Key performance targets under certain operating conditions when compared to aircraft currently in production for flights of 500 nautical miles. See the *C Series* family of aircraft program disclaimer at the end of this MD&A.

Aircraft deliveries

Aircraft deliveries

	Three-month periods ended March 31	
(in units)	**2016**	2015
Regional jets		
CRJ700	**—**	1
CRJ900	**12**	13
CRJ1000	**2**	1
Turboprops		
Q400	**6**	8
	20	23

Aircraft orders

Net orders

	Three-month periods ended March 31	
(in units)	**2016**	2015
Regional jets		
CRJ900	**2**	7
Turboprops		
Q400	**—**	18
	2	25

The decrease in the net orders in the three-month period ended March 31, 2016 compared to the same period last year is mainly due to the significant orders received from Chorus Aviation Inc. (Chorus) for 13 *Q400* aircraft and from Mesa Airlines for 7 *CRJ900* aircraft during the first quarter of 2015.

On February 17, 2016, we signed a Letter of Intent (LOI) with Air Canada and in the second quarter of 2016 we expect to sign a firm purchase agreement for 45 *CS300* aircraft with options for an additional 30 *CS300* aircraft, including conversion rights to the *CS100* aircraft. The Air Canada deliveries are expected to start in 2019. Based on list price of the *CS300* aircraft, a firm order would be valued at $3.8 billion. This LOI is not included in the order backlog as at March 31, 2016.

Subsequent to the end of the first quarter, Delta Air Lines, Inc. (Delta) signed a firm order for 75 *CS100* aircraft with options for an additional 50 *CS100* aircraft. Based on list price, the firm order is valued at $5.6 billion. Deliveries of the aircraft to Delta are scheduled to begin in 2018. This firm order is not included in the order backlog as at March 31, 2016.

Subsequent to the end of the first quarter, airBaltic converted its remaining seven options to firm orders of *CS300* aircraft. This latest order brings airBaltic's total firm order to 20 *CS300* aircraft. Based on the list price of the *CS300* aircraft, this additional firm order is valued at $506 million. This additional firm order is not included in the order backlog as at March 31, 2016.

Subsequent to the end of the first quarter, Chorus Aviation Inc. signed a firm purchase agreement for five *CRJ900* aircraft. The order also includes purchase rights for an additional five *CRJ900* aircraft. Based on the list price of the *CRJ900* aircraft, the firm order is valued at $229 million. This firm order is not included in the order backlog as at March 31, 2016.

Order backlog and book-to-bill ratio

Order backlog

		As at
(in billions of dollars)	**March 31, 2016**	December 31, 2015
	$ 11.1	$ 11.5

The order backlog decreased as at March 31, 2016, mainly in regional jets. The order backlog and the production horizon for programs are monitored to align production rates to reflect market demand.

On February 25, 2016, Republic Airways Holdings (Republic) announced that it and certain of its subsidiaries have filed voluntary petitions to reorganize under Chapter 11 of the U.S. Bankruptcy Code. As at March 31, 2016, there were 40 *CS300* aircraft in our order backlog for this customer. We are monitoring the situation closely and we will work with Republic while it restructures.

Commercial aircraft order backlog and options

			As at	
	March 31, 2016		December 31, 2015	
(in units)	**Firm orders**	**Options**	Firm orders	Options
Regional jets				
CRJ700	**10**	**—**	10	—
CRJ900	**34**	**20**	44	24
CRJ1000	**23**	**—**	25	9
Commercial jets				
CS100	**53** [(1)]	**49**	53 [(1)]	49
CS300	**190** [(1)]	**113**	190 [(1)]	113
Turboprops				
Q400	**33**	**55**	39	77
	343	**237**	361	272

[(1)] The total of 243 orders includes 86 firm orders with conversion rights to the other *C Series* aircraft model.

As at the date of this report, the total *C Series* firm order backlog comprises 325 aircraft from 15 customers (243 aircraft as at March 31, 2016).

Book-to-bill ratio[1]

	Three-month periods ended March 31	
	2016	2015
Net orders	**2**	25
Deliveries	**20**	23
	0.1	1.1

(1) Ratio of net orders received over aircraft deliveries, in units.

STRATEGIC PARTNERSHIP

Government of Québec's investment in the *C Series* aircraft program

In October 2015, we entered into a memorandum of understanding which contemplates a $1.0 billion equity investment by the Ministère de l'Économie, de l'Innovation et des Exportations du Québec (through Investissement Québec) (the Government of Québec) for a 49.5% equity stake in a newly-created limited partnership to which we would transfer the assets, liabilities and obligations of the *C Series* aircraft program. This newly created limited partnership will be owned 50.5% by Bombardier Inc. and, as a subsidiary of Bombardier Inc., will carry on the operations related to our *C Series* aircraft program. After the investment, the newly created limited partnership will be consolidated in our financial results. The investment remains conditional upon the completion of definitive agreements, the receipt of consents from third parties, the completion of an internal pre-closing reorganization, the receipt of required regulatory approvals and other customary conditions precedent.

The proceeds of the investment will be used entirely for cash flow purposes of the *C Series* aircraft program. We estimate that the *C Series* aircraft program will require cash of approximately $2.0 billion over the next five years at which time the program is expected to be cash flow positive, of which $1.0 billion will be funded by the Government of Québec's investment in the program.

The investment also includes the issuance of warrants to the Government of Québec exercisable to acquire up to 200,000,000 Class B shares (subordinate voting) in the capital of Bombardier Inc., at an exercise price per share equal to the U.S. dollar equivalent of $2.21 Canadian dollars, using the exchange rate on the date of execution of definitive agreements. The warrants will have a five-year term from the date of issue and will not be listed on the Toronto Stock Exchange.

The closing of the investment is expected to take place in the second quarter of 2016.

The investment contemplates a continuity undertaking providing that we maintain in the Province of Québec, for a period of 20 years, the newly-created limited partnership's operational, financial and strategic headquarters, manufacturing and engineering activities, policies, practices and investment plans for research and development, in each case in respect of the design, manufacture and marketing of the *CS100* and *CS300* aircraft and after-sales services for these aircraft and that we will operate the facilities located in Mirabel, Canada for these purposes.

AEROSTRUCTURES AND ENGINEERING SERVICES

HIGHLIGHTS

Results of the quarter

Three-month periods ended March 31		**2016**		2015	Variance
Revenues	**$**	**468**	$	471	(1)%
External order intake	**$**	**99**	$	130	(24)%
External book-to-bill ratio[1]		**0.9**		0.9	—
EBIT	**$**	**15**	$	42	(64)%
EBIT margin		**3.2%**		8.9%	(570) bps
EBIT before special items[2]	**$**	**35**	$	41	(15)%
EBIT margin before special items[2]		**7.5%**		8.7%	(120) bps
EBITDA before special items[2]	**$**	**49**	$	53	(8)%
EBITDA margin before special items[2]		**10.5%**		11.3%	(80) bps
Net additions to PP&E and intangible assets	**$**	**4**	$	14	(71)%
As at	**March 31, 2016**		December 31, 2015		
External order backlog	**$**	**64**	$	80	(20)%

[1] Ratio of new external orders over external revenues.
[2] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measures.

Key highlights and events

- The level of intersegment activity is increasing, as the *C Series* aircraft program ramps-up towards full production. Aerostructures and Engineering Services manufactures cockpits and all-composite wings for the *CS100* and *CS300* aircraft.
- As we move forward with our transformation plan, in February 2016 we decided to optimize our workforce with a combination of manpower reductions and strategic hiring. The goal is to resize our organization in line with current business needs and increase our competitiveness. Aerostructures and Engineering Services plans to reduce its workforce by an estimated 2,500 production and non-production employees throughout 2016 and 2017. During the first quarter of 2016, approximately 25% of the planned reductions were completed. To date, we have recognized restructuring charges of $20 million in special items, which include the completed workforce reductions. These workforce reductions will be partially offset by hiring in certain growth areas, notably to support the ramp-up of strategic programs and projects worldwide.

INDUSTRY AND ECONOMIC ENVIRONMENT

Key drivers of the aerostructures market are strongly linked to factors such as economic growth (GDP per capita), air passenger traffic and aircraft retirement rates. More specifically, this market is driven by the number of new products in development or upgrades to existing platforms as well as growth in production rates and backlogs in various aircraft sectors.

Given that the industry's revenues are generated from original equipment manufacturers in the aerospace market, it is subject to the same industry and economic drivers described in Business Aircraft and Commercial Aircraft. Refer to the Industry and economic environment sections of Business Aircraft and Commercial Aircraft for further discussion of the overall aerospace market which influences the aerostructures business.

The current status of some market drivers could potentially have a negative impact over the short-term for the aerostructures industry. The economic conditions and on-going geopolitical issues in China, Russia and Latin America have had a negative impact on both business and commercial aircraft orders. Industry confidence in the business jet market[(1)] has continued to decrease, down to its lowest level since 2009. Nevertheless, we remain confident in the potential of the business aircraft industry with a strong outlook for long-term drivers of business jet demand. Also, the demand for commercial air travel (measured by RPK) has continued to show a strong upward trend and passenger load factors have improved.

[(1)] As measured by the UBS Business Jet Market index. See Industry and economic environment section in Business Aircraft for details.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended March 31	
	2016	2015
Revenues		
External revenues	**$ 115**	$ 148
Intersegment revenues	**353**	323
	468	471
EBITDA before special items[(1)]	**$ 49**	$ 53
Amortization	**14**	12
EBIT before special items[(1)]	**35**	41
Special items	**20**	(1)
EBIT	**$ 15**	$ 42
EBIT margin before special items[(1)]	**7.5%**	8.7%
EBIT margin	**3.2%**	8.9%

[(1)] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

Revenues

Revenues for the three-month period is in line with the prior year. Lower external revenues ($33 million), mainly due to lower volume, partially offset by an increase in spare parts sales and improved pricing on contracts, were offset by higher intersegment revenues ($30 million), mainly due to higher volume for commercial aircraft mostly related to the *C Series* aircraft program production ramp-up, partially offset by lower volume for business aircraft related to production rate decreases we pro-actively implemented in 2015.

Special items
Special items comprise items which do not reflect our core performance or where their separate presentation will assist users in understanding our results for the period, such as the impact of restructuring charges and significant impairment charges and reversals.

The special item for the three-month period ended March 31, 2016 represents restructuring charges related to the workforce optimization announced in February 2016.

The special item for the three-month period ended March 31, 2015 related to an adjustment to a restructuring provision recorded in 2014.

EBIT margin
The EBIT margin for the three-month period decreased by 5.7 percentage points compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items above) for the three-month period decreased by 1.2 percentage points, mainly as a result of:

- lower margins on intersegment contracts, mainly due to the recognition of expected losses on early units of the *C Series* aircraft program, under long-term contract accounting.

Partially offset by:

- higher margins on external contracts, mainly due to improved pricing; and
- improved margins on spare parts.

Order backlog and book-to-bill ratio

External order backlog

	As at	
	March 31, 2016	December 31, 2015
	$ 64	$ 80

External order intake and book-to-bill ratio

	Three-month periods ended March 31	
	2016	2015
External order intake	**$ 99**	$ 130
External book-to-bill ratio[(1)]	**0.9**	0.9

(1) Ratio of new external orders over external revenues.

TRANSPORTATION

HIGHLIGHTS

Results of the quarter

Three-month periods ended March 31	2016	2015	Variance
Revenues	**$ 1,880**	$ 2,041	(8)%
Order intake (in billions of dollars)	**$ 1.2**	$ 1.2	—
Book-to-bill ratio[1]	**0.7**	0.6	0.1
EBIT	**$ 23**	$ 118	(81)%
EBIT margin	**1.2%**	5.8%	(460) bps
EBIT before special items[2]	**115**	$ 118	(3)%
EBIT margin before special items[2]	**6.1%**	5.8%	30 bps
EBITDA before special items[2]	**$ 139**	$ 144	(3)%
EBITDA margin before special items[2]	**7.4%**	7.1%	30 bps
Net additions to PP&E and intangible assets	**$ 23**	$ 12	92 %
As at	**March 31, 2016**	December 31, 2015	
Order backlog (in billions of dollars)	**$ 30.4**	$ 30.4	—

[1] Ratio of new orders over revenues.

[2] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for a definition of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measures.

Key highlights and events

- EBIT margin before special items increased to 6.1% in the first quarter. From an operational perspective, continued improvements in working capital management are positively impacting free cash flow generation, and delaying recognition of certain costs and therefore delaying revenue recognition under long-term contract accounting.
- We closed the sale to the CDPQ of a $1.5-billion investment in convertible shares representing a 30% stake in Bombardier Transportation (Investment) UK LTD (BT Holdco), which following the completion of a corporate reorganization, owns essentially all of the assets and liabilities of Bombardier's Transportation business segment. BT Holdco will continue to be controlled by Bombardier Inc. and consolidated in our results.
- On February 12, 2016, as part of TransEd Partners consortium, we signed a contract for the Valley Line LRT in Edmonton, Canada. Our scope is valued at $280 million.
- As we move forward with our transformation plan, in February 2016 we decided to optimize our workforce with a combination of manpower reductions and strategic hiring. The goal is to resize our organization in line with current business needs and increase our competitiveness. Transportation plans to reduce its workforce by an estimated 3,200 production and non-production employees throughout 2016 and 2017. During the first quarter of 2016, approximately 25% of the planned reductions were completed. To date, we have recognized restructuring charges of $87 million in special items, which include the completed workforce reductions. These workforce reductions will be partially offset by hiring in certain growth areas and to support the ramp-up of certain projects.

INDUSTRY AND ECONOMIC ENVIRONMENT

In the first quarter of 2016, the overall market volume contracted compared to the first quarter of 2015 due to very large contracts awarded last year in Germany and in Doha, Qatar. In the upcoming quarters, large orders are expected to be tendered. Based on UNIFE forecasts, the overall accessible rail market is expected to grow at an average annualized rate of 2.7% over the next three years.[1][2]

In Europe, activity in the rail market decreased compared to the same period last year due to a large contract awarded in Germany in the commuter and regional trains segment in the first quarter of 2015. Nevertheless, several medium-sized orders were placed in this segment during the quarter in Germany and the U.K. In the upcoming quarters, large orders are expected to be tendered for commuter and regional trains in Italy, the U.K. and France, such as new commuter trains for Paris. In Spain and Italy, additional investments are expected in very high speed trains. In Eastern Europe, the order volume was primarily driven by a metro project awarded in Sofia, Bulgaria. Further demand remains for high speed trains in Turkey as well as modernization and replacements of aging fleets in Hungary, Poland and the Czech Republic, although budgeting and funding constraints persist.

In North America, the order level increased compared to the same quarter last year due to a large metro order awarded in Chicago, U.S., and a significant light rail contract awarded in Canada to respond to urbanization concerns. In the quarters to come, contracts are expected to be awarded in both Canada and the U.S. in the locomotives as well as in the commuter and regional trains segments. In addition, Mexico City's transport authority is expected to renew part of its metro fleets.

In Asia-Pacific, the market volume declined compared to the same period last year. However, several metro orders in India, China and the Philippines as well as for signalling solutions in Australia and Malaysia were awarded to meet urbanization and congestion challenges. Further investments are expected in the metro segment in China and Malaysia while in Australia and Thailand, contracts for commuter and regional trains are expected in the remaining quarters of 2016. The growing installed base in Asia-Pacific offers many opportunities for services across all countries.

In the Rest of world region, the market volume decreased compared to the same quarter last year. Market activity in the region is lower compared to other regions, despite large long-term growth potential. However, factors such as political instability, falling commodity prices or slower than expected economic recovery delay project realization in South America, the Middle East, Russia and other CIS countries.

(1) The overall accessible rail market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition. Transportation's accessible market also excludes the infrastructure, freight wagon and shunter segments.

(2) Based on data from the UNIFE World Rail Market Study "Forecast 2014 to 2019" published in September 2014 for the overall accessible rail market only. UNIFE data is updated every two years based on the 55 largest rail markets worldwide.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended March 31	
	2016	2015
Revenues		
External revenues	**$ 1,879**	$ 2,039
Intersegment revenues	**1**	2
	1,880	2,041
EBITDA before special items[(1)]	**$ 139**	$ 144
Amortization	**24**	26
EBIT before special items[(1)]	**115**	118
Special items	**92**	—
EBIT	**$ 23**	$ 118
EBIT margin before special items[(1)]	**6.1%**	5.8%
EBIT margin	**1.2%**	5.8%

[(1)] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

Revenues

External revenues for the three-month period ended March 31, 2016 have decreased by $160 million. Excluding negative currency translation impacts of $71 million, external revenues have decreased by $89 million, or 4.4%, compared to the same period last fiscal year.

The $89-million decrease excluding currency impact for the three-month period is mainly explained by:

- lower activities in rolling stock in Europe and North America following completion of some locomotive contracts in both regions and some commuter and regional train contracts in North America, as well as overall optimization of our supply chain, which delayed recognition of certain costs and therefore delayed recognition of revenue under long-term contract accounting, partly compensated by ramp-up in production related to some commuter and regional train contracts in Europe and some light rail vehicle contracts in North America ($157 million); and
- lower activities in systems in the Rest of world region ($31 million).

Partially offset by:

- higher activities in rolling stock in Asia-Pacific and the Rest of world region mainly due to ramp-up in production related to propulsion and commuter and regional train contracts in Asia-Pacific and some locomotive contracts in the Rest of world region ($88 million); and
- higher activities in systems and in signalling mainly in North America, and in signalling in Europe ($23 million).

Special items

Special items comprise items which do not reflect our core performance or where their separate presentation will assist users in understanding our results for the period, such as the impact of restructuring charges and significant impairment charges and reversals.

The special items for the three-month period ended March 31, 2016 represents restructuring charges of $87 million related to the workforce optimization announced in February 2016 and a foreign exchange loss of $5 million related to the reorganization of Transportation under one holding entity necessary to facilitate the placement of a minority stake in Transportation.

EBIT margin

The EBIT margin percentage for the three-month period decreased by 4.6 percentage points compared to the same period last year. The EBIT margin before special items (see explanation of special items above) for the three-month period increased by 0.3 percentage points, mainly as a result of:

- a higher margin in system and signalling and in services.

Partially offset by:

- a lower margin in rolling stock due to an unfavourable contract mix; and
- lower absorption of SG&A expenses.

Orders and backlog

Order backlog

(in billions of dollars)	As at March 31, 2016	As at December 31, 2015
	$ 30.4	$ 30.4

The order backlog remains stable due to the strengthening of some foreign currencies versus the U.S. dollar as at March 31, 2016, compared to December 31, 2015 ($0.6 billion), mainly the euro and the Australian dollar, offset by higher revenues than order intake ($0.6 billion).

Order intake and book-to-bill ratio

	Three-month periods ended March 31	
	2016	2015
Order intake (in billions of dollars)	**$ 1.2**	$ 1.2
Book-to-bill ratio[1]	**0.7**	0.6

[1] Ratio of new orders over revenues.

The order intake for the three-month period ended March 31, 2016 reflects a negative currency impact of $32 million. Excluding the negative currency impact, the order intake for the three-month period increased by $71 million compared to the same period last fiscal year.

We won several orders across various regions and product segments in the first quarter of 2016 and maintained a leading position[1] in the overall accessible rail market[2].

[1] Based on a rolling 36-month order intake with latest data published by companies publishing order intake for at least 36 months.

[2] The overall accessible rail market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition. Our accessible market also excludes the infrastructure, freight wagon and shunter segments.

The significant orders obtained during the three-month period ended March 31, 2016 were as follows:

Customer	Country	Product or service	Number of cars	Market segment	Value
City of Edmonton	Canada	*FLEXITY* trams, signalling and related depot equipment; O&M services[1]	n/a	Rolling stock, Services, System and signalling	$ 280 [2]
Israel Railways (ISR)	Israel	*TWINDEXX* Vario double-deck coaches	60	Rolling stock	$ 120

[1] Operations and maintenance of the light rail transit system performed together with other consortium partners over a 30-year period.

[2] Contract signed as part of a consortium. Only our share of the value is stated.

n/a: Not applicable

SALE OF A MINORITY SHARE

Sale of a 30% stake in Bombardier Transportation to the CDPQ for $1.5 billion

On February 11, 2016, Bombardier closed the sale to the CDPQ of a $1.5-billion convertible share investment in Bombardier Transportation's newly-created holding company, Bombardier Transportation (Investment) UK Ltd (BT Holdco). Under the terms of the investment, Bombardier Inc. sold voting shares convertible into a 30% common equity stake of BT Holdco to the CDPQ, subject to annual adjustments related to performance.

Following the completion of the previously-announced corporate reorganization, BT Holdco owns essentially all of the assets and liabilities of Bombardier's Transportation business segment, its operational headquarters remains in Germany and it will continue to be consolidated in Bombardier's financial results.

Key terms of the investment
The CDPQ will be entitled to its pro-rata portion (on an as-converted basis, initially equal to 30% of BT Holdco common shares) of any future dividends declared.

Dividends will be payable in cash or, subject to certain conditions, in additional convertible shares at the option of BT Holdco (any such issuance to increase the CDPQ's participation).

Performance incentives
The terms of the transaction provide strong performance incentives for Bombardier Transportation. For each of the first five years following the closing date, the CDPQ's ownership (on conversion) and return may be subject to upward or downward annual adjustments, based on a performance target jointly agreed to as part of Bombardier Transportation's business plan.

If Bombardier Transportation outperforms its business plan, the CDPQ's percentage of ownership on conversion of its shares decreases by 2.5% annually, down to a minimum threshold of 25%. In this circumstance, the convertible shares' minimum return also decreases from 9.5% to a floor of 7.5%.

Conversely, should Bombardier Transportation underperform relative to its plan, the CDPQ's percentage of ownership on conversion of its shares will increase by 2.5% annually, up to a maximum of 42.5% over a five-year period. In this case, the convertible shares' minimum return also increases from 9.5% up to 12%.

Shareholders rights and exit
Under the terms of the investment, the CDPQ has standard minority protection rights, including: pre-emptive rights, a right of first offer, and tag-along rights, and Bombardier has a right of first offer and customary drag-along rights, in each case subject to certain conditions.

Bombardier has the ability to buy back the CDPQ's investment upon specified terms at any time on or after the third anniversary of the closing of the investment, at the higher of the fair market value (on an as-converted basis) or a minimum of 15% compounded annual return to the CDPQ.

At any time on or after the fifth anniversary of the closing of the investment, and provided that Bombardier has not exercised its right to buy back CDPQ's investment before then, the CDPQ will have the right to cause BT Holdco to proceed with a secondary initial public offering (IPO) or a sale of 100% of its shares.

In the case of an IPO, the conversion ratio of CDPQ's shares will be adjusted so that, immediately prior to the IPO, CDPQ receives shares having a value equal to the higher of: (i) the value of its shares, on an as-converted basis, based on the implied value of the IPO; or (ii) the minimum return adjusted for any distributions, in both cases taking into account changes, if any, resulting from the effect of the performance incentives. CDPQ's shares would be sold in priority to Bombardier's shares as part of the secondary IPO.

In the case of a sale of 100% of the BT Holdco shares, CDPQ will have the right to receive an amount equal to the higher of: (i) the value of its shares, on an as-converted basis, based on the implied value of the sale to a third party; or (ii) the minimum return adjusted for any distributions, in both cases taking into account changes, if any, resulting from the effect of the performance incentives.

Upon a change of control of Bombardier Inc. or, in certain circumstances, of BT Holdco, the CDPQ will have the right to require an IPO or a sale of 100% of the BT Holdco shares and to receive the higher of: (i) the value of the common shares held by the CDPQ on an as-converted basis, based on the implied value of the IPO or sale to a third party, as discussed above; or (ii) a minimum three-year 15% compounded annual return (or at any time after three years, a 15% compounded annual return).

Other details of the transaction
The parties have agreed to a consolidated Bombardier cash position at the end of each quarter of at least $1.25 billion. In the event Bombardier's cash position falls below that level, the Board of directors of Bombardier will create a Special Initiatives Committee composed of three independent directors acceptable to the CDPQ, who would be responsible to develop an action plan to improve cash. The implementation of the plan, once agreed with the CDPQ, would be overseen by the Special Initiatives Committee.

Warrants
The investment includes the issuance by Bombardier to the CDPQ of warrants exercisable for a total number of 105,851,872 Class B shares (subordinate voting) in the capital of Bombardier Inc. (Class B Subordinate Voting Shares), equivalent to a 4.5% ownership of all outstanding Class A shares (multiple voting) in the capital of Bombardier Inc. (Class A Shares) and Class B Subordinate Voting Shares (after giving effect to the exercise of such warrants) (and approximately 4.7% of the aggregate outstanding Class A Shares and Class B Subordinate Voting Shares on a non-diluted basis). The warrants are exercisable for a period of seven years from the date of their issuance at an exercise price per Class B Subordinate Voting Share equal to $1.66, the U.S. dollar equivalent of $2.21 CDN at the date of execution of the subscription agreement, which represents a premium to the 5-day VWAP of the Class B Subordinate Voting Shares on the Toronto Stock Exchange (TSX) as of October 16, 2015.

The TSX has determined to accept notice of the private placement of warrants and has conditionally approved the listing of the Class B Subordinate Voting Shares issuable pursuant to the terms of the warrants on the TSX. Listing will be subject to Bombardier fulfilling all of the listing requirements of the TSX. The warrants are not and will not be listed on the TSX, and contain market standard adjustment provisions, including in the event of corporate changes, stock splits, non-cash dividends, distributions of rights, options or warrants to all or substantially all shareholders or consolidations.

Security holder approval was required under TSX rules due to the fact that the warrants were issued later than 45 days from the date upon which the exercise price was established, as set out in Section 607(f)(i) of the TSX Company Manual. Such approval was obtained, as agreed with the TSX, by way of written consent of shareholders holding more than 50% of the voting rights attached to all of Bombardier's issued and outstanding shares.

OTHER

OFF-BALANCE SHEET ARRANGEMENTS

Factoring facilities

In the normal course of its business, Transportation has set up factoring facilities, under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €915 million ($1.0 billion) were outstanding under such facilities as at March 31, 2016 (€871 million ($948 million) as at December 31, 2015). During the three-month period ended March 31, 2016, trade receivables of €275 million ($303 million) were sold to these facilities (€394 million ($444 million) during the three-month period ended March 31, 2015).

Other arrangements

In the normal course of operations, we maintain other off-balance sheet arrangements including credit and residual value guarantees, financing commitments and financing structures related to the sale of commercial aircraft. There was no significant change in these arrangements during the three-month period ended March 31, 2016. Refer to the Off-balance sheet arrangements section in Other of our Financial Report for the year ended December 31, 2015 for a description of these arrangements, and to Note 20, Commitments and Contingencies, to the interim consolidated financial statements for further details.

RISKS AND UNCERTAINTIES

We operate in industry segments which present a variety of risk factors and uncertainties. The risks and uncertainties that we currently believe could materially affect our business activities, financial condition, cash flows and results of operations are described in our Financial Report for the fiscal year ended December 31, 2015 in Other, but are not necessarily the only risks and uncertainties that we face.

There was no significant change to these risks and uncertainties during the three-month period ended March 31, 2016, other than those described elsewhere in this MD&A. Also refer to Note 20, Commitments and contingencies, to our interim consolidated financial statements, for information regarding current litigation proceedings related to the investigation in Brazil.

If any of these risks, or any additional risks and uncertainties presently unknown to us or that we currently consider as being not material, actually occur or become material risks, our business activities, financial condition, cash flows and results of operations could be materially adversely affected.

ACCOUNTING AND REPORTING DEVELOPMENTS

Future changes in accounting policies

Financial instruments

In July 2014, the IASB completed the three-part project to replace IAS 39, *Financial instruments: recognition and measurement* by issuing IFRS 9, *Financial instruments*. IFRS 9, *Financial instruments* includes classification and measurement of financial assets and financial liabilities, a forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at FVTP&L, will be presented in OCI rather than in the statement of income.

IFRS 9 also introduced a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

Lastly, IFRS 9 introduced a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

IFRS 9 will be effective for our fiscal year beginning on January 1, 2018, with earlier application permitted. We are assessing the impact of the adoption of this standard on our consolidated financial statements.

Revenue Recognition

In May 2014, the IASB released IFRS 15, *Revenue from contracts with customers*, which supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenues*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC-31, *Revenue – Barter Transactions Involving Advertising Services*. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised 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. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

IFRS 15 will be effective for our fiscal year beginning on January 1, 2018, with earlier application permitted. We are assessing the impact of the adoption of this standard on our consolidated financial statements.

Leases

In January 2016, the IASB released IFRS 16, *Leases*, to replace the previous leases Standard, IAS 17, *Leases,* and related Interpretations**.** IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. IFRS 16 also substantially carries forward the lessor accounting requirements. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will be effective for our fiscal year beginning on January 1, 2019, with earlier application permitted only if we apply IFRS 15, *Revenue from contracts with customers*. We have not yet assessed the impact of the adoption of this standard on our consolidated financial statements.

CONTROLS AND PROCEDURES

No changes were made to our internal controls over financial reporting during the three-month period ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

FOREIGN EXCHANGE RATES

We are subject to currency fluctuations from the translation of revenues, expenses, assets and liabilities of our foreign operations with non-U.S. dollar functional currencies, mainly the euro, pound sterling and other European currencies, and from transactions denominated in foreign currencies, mainly the Canadian dollar and pound sterling.

The foreign exchange rates used to translate assets and liabilities into U.S. dollars were as follows, as at:

	March 31, 2016	December 31, 2015	Increase (Decrease)
Euro	**1.1324**	1.0887	4%
Canadian dollar	**0.7675**	0.7202	7%
Pound sterling	**1.4411**	1.4833	(3%)

The average foreign exchange rates used to translate revenues and expenses into U.S. dollars were as follows, for the three-month periods ended:

	March 31, 2016	March 31, 2015	Decrease
Euro	**1.1014**	1.1278	(2%)
Canadian dollar	**0.7264**	0.8076	(10%)
Pound sterling	**1.4315**	1.5156	(6%)

SELECTED FINANCIAL INFORMATION

The following table provides selected financial information for the last eight quarters:

Fiscal years	**2016**				2015				2014
	First	Fourth	Third	Second	First	Fourth	Third	Second
Revenues	**$ 3,914**	$ 5,017	$ 4,138	$ 4,620	$ 4,397	$ 5,960	$ 4,906	$ 4,891
Net income (loss)	**$ (138)**	$ (677)	$ (4,888)	$ 125	$ 100	$ (1,590)	$ 74	$ 155
EPS (in dollars)								
Basic and diluted	**$ (0.07)**	$ (0.31)	$ (2.20)	$ 0.06	$ 0.05	$ (0.92)	$ 0.03	$ 0.08
Adjusted net income (loss)[1]	**$ (34)**	$ 9	$ 2	$ 145	$ 170	$ 83	$ 222	$ 192
Adjusted EPS (in dollars)[1]	**$ (0.03)**	$ 0.00	$ 0.00	$ 0.06	$ 0.09	$ 0.04	$ 0.12	$ 0.10

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and reconciliations to the most comparable IFRS measures.

SHAREHOLDER INFORMATION

On April 29, 2016, we will present a proposal to shareholders of the Corporation for a consolidation (also known as a "reverse stock split") of the Class A shares (multiple voting) (Class A Shares), issued and unissued, and Class B shares (subordinate voting) (Class B Subordinate Voting Shares), issued and unissued, at the annual and special meeting of the shareholders (the Share Consolidation). The consolidation ratio will be selected by the Board of Directors from within a range of ratios, subject to shareholder approval, which ratio would be expected, at that time, to result in an initial post-consolidation share price in the range of $10 to $20 Canadian dollars per Class A Share or Class B Subordinate Voting Share. Assuming receipt of shareholder and Toronto Stock Exchange approvals, the Share Consolidation, if any, would be completed at such time as the Board of Directors shall deem appropriate.

Authorized, issued and outstanding share data, as at April 26, 2016

	Authorized	Issued and outstanding	
Class A Shares (multiple voting)[1]	2,742,000,000	313,900,550	
Class B Shares (subordinate voting)[2]	2,742,000,000	1,906,360,230	[3]
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,692,521	
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,307,479	
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000	

[1] Ten votes each, convertible at the option of the holder into one Class B Subordinate Voting Share.
[2] Convertible at the option of the holder into one Class A Share under certain conditions.
[3] Net of 26,194,908 Class B Subordinate Voting Shares purchased and held in trust in connection with the PSU and RSU plans.

Warrant, share option, PSU, DSU and RSU data as at March 31, 2016

Warrants issued and outstanding	105,851,872
Options issued and outstanding under the share option plans	74,801,926
PSUs, DSUs and RSUs issued and outstanding under the PSU, DSU and RSU plans	42,445,893
Class B Subordinate Voting Shares held in trust to satisfy PSU and RSU obligations	26,194,908

Expected issuance date of our financial reports for the next 12 months

Second Quarterly Report, for the period ending June 30, 2016	August 5, 2016
Third Quarterly Report, for the period ending September 30, 2016	November 10, 2016
Financial Report, for the fiscal year ending December 31, 2016	February 16, 2017
First Quarterly Report, for the period ending March 31, 2017	May 11, 2017

Information

Bombardier Inc., Investor Relations
800 René-Lévesque Blvd. West, Montréal, Québec, Canada H3B 1Y8
Telephone: +1 514 861 9481; fax: +1 514 861 2420; email: investors@bombardier.com; website: bombardier.com

April 27, 2016

Additional information relating to the Corporation, including the financial report and annual information form, are available on SEDAR at sedar.com or on Bombardier's dedicated investor relations website at ir.bombardier.com.

The *C Series* and *Global 7000* and *Global 8000* aircraft programs are currently in development, and as such are subject to changes in family strategy, branding, capacity, performance, design and/or systems. All specifications and data are approximate, may change without notice and are subject to certain operating rules, assumptions and other conditions. This document does not constitute an offer, commitment, representation, guarantee or warranty of any kind.

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The printed version of this quarterly report uses Rolland Enviro100 paper, containing 100% post-consumer fibres, certified Eco-Logo, processed chlorine free and FSC recycled. Using this paper, instead of virgin paper, saves the equivalent of 8 mature trees, 368 kg of waste, 1,206 kg of CO_2 emissions (equivalent to 8,065 kilometres driven) and 29,984 litres of water.

Un exemplaire en français est disponible sur demande adressée auprès du service des Relations avec les investisseurs ou sur le site Internet de la Société dédié aux relations avec les investisseurs, à l'adresse ri.bombardier.com.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2016
(Unaudited)
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

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BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(in millions of U.S. dollars, except per share amounts)

		Three-month periods ended March 31	
	Notes	**2016**	2015
Revenues		**$ 3,914**	$ 4,397
Cost of sales	11	**3,488**	3,831
Gross margin		**426**	566
SG&A		**264**	276
R&D	4	**60**	79
Share of income of joint ventures and associates		**(14)**	(16)
Other income	5	**(14)**	(10)
Special items	6	**74**	9
EBIT		**56**	228
Financing expense	7	**170**	108
Financing income	7	**(10)**	(23)
EBT		**(104)**	143
Income taxes		**34**	43
Net income (loss)		**$ (138)**	$ 100
Attributable to			
Equity holders of Bombardier Inc.		**$ (161)**	$ 98
NCI	8	**23**	2
		$ (138)	$ 100
EPS (in dollars)	9		
Basic and diluted		**$ (0.07)**	$ 0.05

The notes are an integral part of these interim consolidated financial statements.

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(in millions of U.S. dollars)

		Three-month periods ended March 31	
	Note	**2016**	2015
Net income (loss)		**$ (138)**	$ 100
OCI			
Items that may be reclassified to net income			
Net change in cash flow hedges			
Foreign exchange re-evaluation		**(6)**	4
Net gain (loss) on derivative financial instruments		**130**	(438)
Reclassification to income or to the related non-financial asset		**109**	120
Income taxes		**(56)**	51
		177	(263)
AFS financial assets			
Net unrealized gain		**4**	3
CCTD			
Net investments in foreign operations		**(75)**	(7)
Net gain on related hedging items		**—**	1
		(75)	(6)
Items that are never reclassified to net income			
Retirement benefits			
Remeasurement of defined benefit plans[(1)]		**(609)**	(161)
Income taxes		**6**	15
		(603)	(146)
Total OCI		**(497)**	(412)
Total comprehensive loss		**$ (635)**	$ (312)
Attributable to			
Equity holders of Bombardier Inc.		**$ (659)**	$ (314)
NCI	8	**24**	2
		$ (635)	$ (312)

(1) Includes net actuarial gains (losses).

The notes are an integral part of these interim consolidated financial statements.

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)
As at
(in millions of U.S. dollars)

	Notes		**March 31 2016**		December 31 2015		January 1 2015
Assets							
Cash and cash equivalents		**$**	**3,359**	$	2,720	$	2,489
Trade and other receivables			**1,272**		1,473		1,538
Inventories	11		**7,167**		6,978		7,970
Other financial assets	12		**434**		450		530
Other assets	13		**511**		484		592
Current assets			**12,743**		12,105		13,119
PP&E			**2,043**		2,061		2,092
Aerospace program tooling			**4,202**		3,975		6,823
Goodwill			**2,023**		1,978		2,127
Deferred income taxes			**728**		761		875
Investments in joint ventures and associates			**328**		356		294
Other financial assets	12		**921**		870		1,328
Other assets	13		**679**		797		956
Non-current assets			**10,924**		10,798		14,495
		$	**23,667**	$	22,903	$	27,614
Liabilities							
Trade and other payables		**$**	**3,786**	$	4,040	$	4,216
Provisions	14		**1,160**		1,108		990
Advances and progress billings in excess of long-term contract inventories			**1,454**		1,408		1,698
Advances on aerospace programs			**2,050**		2,002		3,339
Other financial liabilities	15		**807**		991		1,010
Other liabilities	16		**2,144**		2,274		2,182
Current liabilities			**11,401**		11,823		13,435
Provisions	14		**925**		918		562
Advances on aerospace programs			**1,338**		1,534		1,608
Long-term debt			**8,978**		8,908		7,627
Retirement benefits			**2,715**		2,159		2,629
Other financial liabilities	15		**731**		619		602
Other liabilities	16		**1,021**		996		1,096
Non-current liabilities			**15,708**		15,134		14,124
			27,109		26,957		27,559
Equity (deficit)							
Attributable to equity holders of Bombardier Inc.			**(4,718)**		(4,067)		42
Attributable to NCI	8		**1,276**		13		13
			(3,442)		(4,054)		55
		$	**23,667**	$	22,903	$	27,614
Commitments and contingencies	20						

The notes are an integral part of these interim consolidated financial statements.

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)
For the three-month periods ended
(in millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.											
	Share capital			Retained earnings (deficit)			Accumulated OCI					
	Preferred shares	Common shares	Warrants	Other retained earnings (deficit)	Remea-surement losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	Total equity (deficit)
As at December 31, 2015	$ 347	$ 2,195	$ —	$ (4,219)	$ (2,080)	$ 106	$ 7	$ (375)	$ (48)	$ (4,067)	$ 13	$ (4,054)
Total comprehensive income												
Net income (loss)	—	—	—	(161)	—	—	—	—	—	(161)	23	(138)
OCI	—	—	—	—	(603)	—	4	177	(76)	(498)	1	(497)
	—	—	—	(161)	(603)	—	4	177	(76)	(659)	24	(635)
Issuance of warrants	—	—	10	—	—	—	—	—	—	10	—	10
Issuance of NCI[1]	—	—	—	—	—	—	—	—	—	—	1,281	1,281
Dividends	—	—	—	(5)	—	—	—	—	—	(5)	—	(5)
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(42)	(42)
Share-based expense	—	—	—	—	—	3	—	—	—	3	—	3
As at March 31, 2016	**$ 347**	**$ 2,195**	**$ 10**	**$ (4,385)**	**$ (2,683)**	**$ 109**	**$ 11**	**$ (198)**	**$ (124)**	**$ (4,718)**	**$ 1,276**	**$ (3,442)**
As at January 1, 2015	$ 347	$ 1,381	$ —	$ 1,151	$ (2,661)	$ 92	$ 12	$ (322)	$ 42	$ 42	$ 13	$ 55
Total comprehensive income												
Net income	—	—	—	98	—	—	—	—	—	98	2	100
OCI	—	—	—	—	(146)	—	3	(263)	(6)	(412)	—	(412)
	—	—	—	98	(146)	—	3	(263)	(6)	(314)	2	(312)
Issuance of share capital	—	822	—	—	—	—	—	—	—	822	—	822
Dividends	—	—	—	(7)	—	—	—	—	—	(7)	—	(7)
Share-based expense	—	—	—	—	—	4	—	—	—	4	—	4
As at March 31, 2015	$ 347	$ 2,203	$ —	$ 1,242	$ (2,807)	$ 96	$ 15	$ (585)	$ 36	$ 547	$ 15	$ 562

[1] Related to the convertible shares issued to the CDPQ in relation to the sale of a minority stake in Transportation, which are a compound instrument. See Note 8 – Non-controlling interest for more details.

The notes are an integral part of these interim consolidated financial statements.

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions of U.S. dollars)

	Notes	Three-month periods ended March 31 **2016**	2015
Operating activities			
Net income (loss)		**$ (138)**	$ 100
Non-cash items			
Amortization		**89**	108
Deferred income taxes		**(4)**	12
Gains on disposals of PP&E	5	**(7)**	(3)
Share of income of joint ventures and associates		**(14)**	(16)
Share-based expense	17	**3**	4
Loss on repurchase of long-term debt		**—**	22
Dividends received from joint ventures and associates		**46**	4
Net change in non-cash balances	18	**(431)**	(597)
Cash flows from operating activities		**(456)**	(366)
Investing activities			
Additions to PP&E and intangible assets		**(308)**	(383)
Proceeds from disposals of PP&E and intangible assets		**14**	4
Additions to AFS investments in securities		**—**	(10)
Other		**(3)**	(12)
Cash flows from investing activities		**(297)**	(401)
Financing activities			
Net proceeds from issuance of long-term debt		**—**	2,218
Repayments of long-term debt		**(8)**	(8)
Dividends paid[1]		**(4)**	(5)
Net proceeds from issuance of shares		**—**	822
Issuance of NCI, net of transaction cost[2]		**1,466**	—
Dividends to NCI		**(42)**	—
Other		**(11)**	100
Cash flows from financing activities		**1,401**	3,127
Effect of exchange rates on cash and cash equivalents		**(9)**	(116)
Net increase in cash and cash equivalents		**639**	2,244
Cash and cash equivalents at beginning of period		**2,720**	2,489
Cash and cash equivalents at end of period		**$ 3,359**	$ 4,733
Supplemental information[3][4]			
Cash paid for			
Interest		**$ 175**	$ 91
Income taxes		**$ 35**	$ 20
Cash received for			
Interest		**$ 5**	$ 5
Income taxes		**$ 2**	$ 1

(1) $4 million of dividends paid relate to preferred shares for the three-month period ended March 31, 2016 ($5 million for the three-month period ended March 31, 2015).
(2) Related to the convertible shares issued to the CDPQ in relation to the sale of a minority stake in Transportation, which are a compound instrument. See Note 8 – Non-controlling interest for more details.
(3) Amounts paid or received for interest are reflected as cash flows from operating activities, except if they were capitalized in PP&E or intangible assets, in which case they are reflected as cash flows from investing activities. Amounts paid or received for income taxes are reflected as cash flows from operating activities.
(4) Interest paid comprises interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debts or credit facilities. Interest received comprises interest received related to cash and cash equivalents, investments in securities, loans and lease receivables after the effect of hedges and the interest portion related to the settlement of an interest-rate swap, if any.

The notes are an integral part of these interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2016
(Unaudited)
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

1. BASIS OF PREPARATION

Bombardier Inc. ("the Corporation" or "our" or "we") is incorporated under the laws of Canada. The Corporation is a manufacturer of transportation equipment, including business and commercial aircraft, as well as major aircraft structural components, and rail transportation equipment and systems, and is a provider of related services. The Corporation carries out its operations in four distinct segments: Business Aircraft, Commercial Aircraft, Aerostructures and Engineering Services and Transportation.

The interim consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IAS 34, *Interim financial reporting*, as issued by the IASB. The interim consolidated financial statements follow the same accounting policies as the most recent annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's Financial Report for the fiscal year ended December 31, 2015.

These interim consolidated financial statements for the three-month period ended March 31, 2016 were authorized for issuance by the Board of Directors on April 27, 2016.

The results of operations and cash flows for the interim periods are not necessarily indicative of the results of operations and cash flows for the full fiscal year.

The Corporation is subject to currency fluctuations from the translation of revenues, expenses, assets and liabilities of its foreign operations with non-U.S. dollar functional currencies, mainly the euro, pound sterling and other European currencies, and from transactions denominated in foreign currencies, mainly the Canadian dollar and pound sterling.

The exchange rates for the major currencies used in the preparation of the interim consolidated financial statements were as follows:

			Exchange rates as at
	March 31, 2016	December 31, 2015	January 1, 2015
Euro	**1.1324**	1.0887	1.2141
Canadian dollar	**0.7675**	0.7202	0.8633
Pound sterling	**1.4411**	1.4833	1.5587

	Average exchange rates for the three-month periods ended	
	March 31, 2016	March 31, 2015
Euro	**1.1014**	1.1278
Canadian dollar	**0.7264**	0.8076
Pound sterling	**1.4315**	1.5156

2. FUTURE CHANGES IN ACCOUNTING POLICIES

Financial instruments
In July 2014, the IASB completed the three-part project to replace IAS 39, *Financial instruments: recognition and measurement* by issuing IFRS 9, *Financial instruments*. IFRS 9, *Financial instruments* includes classification and measurement of financial assets and financial liabilities, a forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at FVTP&L, will be presented in OCI rather than in the statement of income.

IFRS 9 also introduced a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

Lastly, IFRS 9 introduced a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

IFRS 9 will be effective for the Corporation's fiscal year beginning on January 1, 2018, with earlier application permitted. The Corporation is assessing the impact of the adoption of this standard on its consolidated financial statements.

Revenue Recognition
In May 2014, the IASB released IFRS 15, *Revenue from contracts with customers*, which supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenues*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC-31, *Revenue – Barter Transactions Involving Advertising Services***.** The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised 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. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

IFRS 15 will be effective for the Corporation's fiscal year beginning on January 1, 2018, with earlier application permitted. The Corporation is assessing the impact of the adoption of this standard on its consolidated financial statements.

Leases
In January 2016, the IASB released IFRS 16, *Leases*, to replace the previous leases Standard, IAS 17, *Leases,* and related Interpretations**.** IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. IFRS 16 also substantially carries forward the lessor accounting requirements. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will be effective for the Corporation's fiscal year beginning on January 1, 2019, with earlier application permitted only if the Corporation applies IFRS 15, *Revenue from contracts with customers*. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

3. SEGMENT DISCLOSURE

The Corporation has four reportable segments: Business Aircraft, Commercial Aircraft, Aerostructures and Engineering Services and Transportation. Each reportable segment offers different products and services and mostly requires different technology and marketing strategies.

Business Aircraft

A global leader in the design, manufacture and aftermarket support for three families of business jets (*Learjet, Challenger* and *Global)*, spanning from the light to large categories.

Commercial Aircraft

Commercial Aircraft designs and manufactures a broad portfolio of commercial aircraft in the 60- to 150-seat categories, including the *Q400* turboprops, the *CRJ700, CRJ900* and *CRJ1000* regional jets as well as the clean-sheet *CS100* and *CS300* mainline jets. Commercial Aircraft provides aftermarket support for these aircraft as well as for the 20- to 59-seat range category.

Aerostructures and Engineering Services

Aerostructures and Engineering Services designs and manufactures major aircraft structural components (such as engine nacelles, fuselages and wings) and provides aftermarket component repair and overhaul as well as other engineering services for both internal and external clients.

Transportation

Transportation, a global leader in rail technology, offers the broadest portfolio in the rail industry and delivers innovative products and services.

The segmented information is prepared using the same accounting policies as those described in the annual consolidated financial statements for the fiscal year ended December 31, 2015.

Management assesses segment performance based on EBIT and EBIT before special items. The segmented results of operations and other information were as follows:

	Three-month period ended March 31, 2016					
	Transportation	**Business Aircraft**	**Commercial Aircraft**	**Aerostructures and Engineering Services**	**Corporate and Elimination**	**Total**
Results of operations						
External revenues	**$ 1,879**	**$ 1,303**	**$ 616**	**$ 115**	**$ 1**	**$ 3,914**
Intersegment revenues	**1**	**—**	**—**	**353**	**(354)**	**—**
Total revenues	**1,880**	**1,303**	**616**	**468**	**(353)**	**3,914**
EBIT before special items	**115**	**87**	**(66)**	**35**	**(41)**	**130**
Special items[1]	**92**	**5**	**—**	**20**	**(43)**	**74**
EBIT	**$ 23**	**$ 82**	**$ (66)**	**$ 15**	**$ 2**	**56**
Financing expense						**170**
Financing income						**(10)**
EBT						**(104)**
Income taxes						**34**
Net loss						**$ (138)**
Other information						
R&D[2]	**$ 23**	**$ 26**	**$ 6**	**$ 2**	**$ 3**	**$ 60**
Net additions to PP&E and intangible assets[3]	**$ 23**	**$ 153**	**$ 113**	**$ 4**	**$ 1**	**$ 294**
Amortization	**$ 24**	**$ 25**	**$ 26**	**$ 14**	**$ —**	**$ 89**

	Three-month period ended March 31, 2015					
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Results of operations						
External revenues	$ 2,039	$ 1,537	$ 673	$ 148	$ —	$ 4,397
Intersegment revenues	2	—	—	323	(325)	—
Total revenues	2,041	1,537	673	471	(325)	4,397
EBIT before special items	118	107	(10)	41	(19)	237
Special items[1]	—	11	(1)	(1)	—	9
EBIT	$ 118	$ 96	$ (9)	$ 42	$ (19)	228
Financing expense						108
Financing income						(23)
EBT						143
Income taxes						43
Net income						$ 100
Other information						
R&D[2]	$ 27	$ 28	$ 21	$ 3	$ —	$ 79
Net additions to PP&E and intangible assets[3]	$ 12	$ 159	$ 194	$ 14	$ —	$ 379
Amortization	$ 26	$ 42	$ 28	$ 12	$ —	$ 108

[1] See Note 6 – Special items for more details.
[2] Includes tooling amortization. See Note 4 – Research and development for more details.
[3] As per the consolidated statements of cash flows.

The reconciliation of total assets and total liabilities to segmented assets and liabilities is as follows, as at:

	March 31, 2016	December 31, 2015	January 1, 2015
Assets			
Total assets	**$ 23,667**	$ 22,903	$ 27,614
Assets not allocated to segments			
Cash and cash equivalents	**3,359**	2,720	2,489
Income tax receivable[1]	**67**	56	64
Deferred income taxes	**728**	761	875
Segmented assets	**19,513**	19,366	24,186
Liabilities			
Total liabilities	**27,109**	26,957	27,559
Liabilities not allocated to segments			
Interest payable[2]	**107**	154	124
Income taxes payable[3]	**236**	224	248
Long-term debt[4]	**9,051**	8,979	7,683
Segmented liabilities	**$ 17,715**	$ 17,600	$ 19,504
Net segmented assets			
Transportation	**$ 368**	$ 354	$ 226
Business Aircraft	**$ 894**	$ 395	$ 440
Commercial Aircraft	**$ 630**	$ 467	$ 3,693
Aerostructures and Engineering Services	**$ 267**	$ 434	$ 204
Corporate and Elimination	**$ (361)**	$ 116	$ 119

(1) Included in other assets.
(2) Included in trade and other payables.
(3) Included in other liabilities.
(4) The current portion of long-term debt is included in other financial liabilities.

4. RESEARCH AND DEVELOPMENT

R&D expense, net of government assistance, was as follows:

	Three-month periods ended March 31	
	2016	2015
R&D expenditures	**$ 287**	$ 381
Less: development expenditures capitalized to aerospace program tooling	**(258)**	(348)
	29	33
Add: amortization of aerospace program tooling	**31**	46
	$ 60	$ 79

5. OTHER INCOME

Other income was as follows:

	Three-month periods ended March 31	
	2016	2015
Changes in estimates and fair value[1]	**$ (8)**	$ (10)
Gains on disposals of PP&E	**(7)**	(3)
Severance and other involuntary termination costs (including changes in estimates)[2]	**1**	1
Other	**—**	2
	$ (14)	$ (10)

[1] Includes net loss (gain) on certain financial instruments measured at fair value and changes in estimates related to certain provisions or certain financial instruments, excluding losses (gains) arising from changes in interest rates.
[2] Excludes those presented in special items.

6. SPECIAL ITEMS

Special items comprise items which do not reflect the Corporation's core performance or where their separate presentation will assist users of the consolidated financial statements in understanding the Corporation's results for the period. Such items include, among others, the impact of restructuring charges and significant impairment charges and reversals.

Special items were as follows:

	Three-month periods ended March 31	
	2016	2015
Restructuring charges[1]	**$ 112**	$ 9
Foreign exchange gains related to the sale of a minority stake in Transportation[2]	**(38)**	—
Transaction costs[3]	**8**	—
Loss on repurchase of long-term debt[4]	**—**	22
Tax impacts of special items	**(10)**	—
	$ 72	$ 31
Of which is presented in		
Special items in EBIT	**$ 74**	$ 9
Financing expense - transaction costs	**8**	—
Financing expense - loss on repurchase of long-term debt	**—**	22
Income taxes - effect of special items	**(10)**	—
	$ 72	$ 31

[1] Represents restructuring charges of $125 million and a curtailment gain of $13 million related to the workforce optimization announced in February 2016, for the three-month period ended March 31, 2016. For the three-month period ended March 31, 2015, represents restructuring charges of $13 million related to the workforce reduction announced in January 2015 as a result of the decision to pause the *Learjet 85* aircraft program, and a reversal of restructuring provisions taken in prior year of $4 million.
[2] Represents foreign exchange gains related to the reorganization of Transportation under one holding entity necessary to facilitate the placement of a minority stake in Transportation.
[3] Represents transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco. See Note 8 – Non-controlling interest for more details.
[4] Represents the loss related to the redemption of the $750-million Senior Notes.

Restructuring
As the Corporation moves forward with its transformation plan, in February 2016 the Corporation decided to optimize its workforce with a combination of manpower reductions and strategic hiring. The goal is to resize the organization in line with current business needs and increase its competitiveness. The company plans to reduce its workforce by an estimated 7,000 production and non-production employees throughout 2016 and 2017. The manpower reduction includes approximately 2,000 contractual workers and 800 product development engineers, the latter of which, are not allocated to a reportable segment. Over the course of the resizing, we expect to record restructuring charges consisting mainly of severance of approximately $250 million to $300 million as special items, primarily in 2016. During the first quarter of 2016, approximately 30% of the planned reductions were completed. To date, the Corporation has recognized restructuring charges of $112 million, net of a curtailment gain, which include the completed workforce reductions. These workforce reductions will be partially offset by hiring in certain growth areas, notably to support the ramp-up of strategic programs and projects worldwide.

7. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows:

	Three-month periods ended March 31	
	2016	2015
Financing expense		
Accretion on net retirement benefit obligations	**$ 17**	$ 19
Accretion on other financial liabilities	**14**	5
Changes in discount rates of provisions	**9**	3
Transaction costs[1]	**8**	—
Net loss on certain financial instruments[2]	**6**	18
Amortization of letter of credit facility costs	**5**	3
Accretion on provisions	**3**	2
Loss on repurchase of long-term debt[3]	**—**	22
Other	**14**	5
	76	77
Interest on long-term debt, after effect of hedges	**94**	31
	$ 170	$ 108
Financing income		
Interest on cash and cash equivalents	**$ (4)**	$ (1)
Interest on loans and lease receivables, after effect of hedges	**(2)**	(5)
Income from investment in securities	**—**	(6)
	(6)	(12)
Other	**(4)**	(11)
	$ (10)	$ (23)

(1) Represents transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco. See Note 8 – Non-controlling interest for more details.
(2) Net losses (gains) on certain financial instruments classified as FVTP&L, including losses (gains) arising from changes in interest rates.
(3) Represents the loss related to the redemption of the $750-million Senior Notes, which was recorded as a special item.

Borrowing costs capitalized to PP&E and intangible assets totalled $26 million for the three-month period ended March 31, 2016, using an average capitalization rate of 5.08% ($63 million and 4.56% for the three-month period ended March 31, 2015). Capitalized borrowing costs are deducted from the related interest expense (i.e. interest on long-term debt or accretion on other financial liabilities, if any).

8. NON-CONTROLLING INTEREST

The summarized statement of financial position for the Corporation's subsidiary with significant NCI were as follows, as at:

	March 31, 2016
	BT Holdco
Current assets	$ 3,991
Non-current assets	4,288
Total assets	**$ 8,279**
Current liabilities	$ 5,749
Non-current liabilities	1,410
Total liabilities	**$ 7,159**
Net assets	**$ 1,120**

The selected income and cash flow information for the Corporation's subsidiary with significant NCI were as follows:

	Three-month period ended March 31, 2016
	BT Holdco
Revenues	$ 1,880
Net loss	$ (46)
Comprehensive loss	$ (262)
Cash flows from operating activities	$ 76
Cash flows from investing activities	$ 17
Cash flows from financing activities	$ (165)

The changes to the accumulated NCI for the Corporation's subsidiary with significant NCI were as follows:

	BT Holdco
Balance as at December 31, 2015	$ —
Issuance of NCI	1,281
Net income	23
Dividends	(42)
Balance as at March 31, 2016	**$ 1,262**

CDPQ investment in BT Holdco

On February 11, 2016, Bombardier closed the sale to the CDPQ of a $1.5-billion convertible share investment in Bombardier Transportation's newly-created holding company, Bombardier Transportation (Investment) UK Ltd (BT Holdco). Under the terms of the investment, Bombardier Inc. sold voting shares convertible into a 30% common equity stake of BT Holdco to the CDPQ, subject to annual adjustments related to performance.

Following the completion of the previously-announced corporate reorganization, BT Holdco owns essentially all of the assets and liabilities of Bombardier's Transportation business segment, its operational headquarters remains in Germany and it will continue to be consolidated in Bombardier's financial results.

Key terms of the investment

The CDPQ will be entitled to its pro-rata portion (on an as-converted basis, initially equal to 30% of BT Holdco common shares) of any future dividends declared.

Dividends will be payable in cash or, subject to certain conditions, in additional convertible shares at the option of BT Holdco (any such issuance to increase the CDPQ's participation).

Performance incentives
The terms of the transaction provide strong performance incentives for Bombardier Transportation. For each of the first five years following the closing date, the CDPQ's ownership (on conversion) and return may be subject to upward or downward annual adjustments, based on a performance target jointly agreed to as part of Bombardier Transportation's business plan.

If Bombardier Transportation outperforms its business plan, the CDPQ's percentage of ownership on conversion of its shares decreases by 2.5% annually, down to a minimum threshold of 25%. In this circumstance, the convertible shares' minimum return also decreases from 9.5% to a floor of 7.5%.

Conversely, should Bombardier Transportation underperform relative to its plan, the CDPQ's percentage of ownership on conversion of its shares will increase by 2.5% annually, up to a maximum of 42.5% over a five-year period. In this case, the convertible shares' minimum return also increases from 9.5% up to 12%.

Shareholders rights and exit
Under the terms of the investment, the CDPQ has standard minority protection rights, including: pre-emptive rights, a right of first offer, and tag-along rights, and Bombardier has a right of first offer and customary drag-along rights, in each case subject to certain conditions.

Bombardier has the ability to buy back the CDPQ's investment upon specified terms at any time on or after the third anniversary of the closing of the investment, at the higher of the fair market value (on an as-converted basis) or a minimum of 15% compounded annual return to the CDPQ.

At any time on or after the fifth anniversary of the closing of the investment, and provided that Bombardier has not exercised its right to buy back CDPQ's investment before then, the CDPQ will have the right to cause BT Holdco to proceed with a secondary initial public offering (IPO) or a sale of 100% of its shares.

In the case of an IPO, the conversion ratio of CDPQ's shares will be adjusted so that, immediately prior to the IPO, CDPQ, receives shares having a value equal to the higher of: (i) the value of its shares, on an as-converted basis, based on the implied value of the IPO; or (ii) the minimum return adjusted for any distributions, in both cases taking into account changes, if any, resulting from the effect of the performance incentives. CDPQ's shares would be sold in priority to Bombardier's shares as part of the secondary IPO.

In the case of a sale of 100% of the BT Holdco shares, CDPQ will have the right to receive an amount equal to the higher of: (i) the value of its shares, on an as-converted basis, based on the implied value of the sale to a third party; or (ii) the minimum return adjusted for any distributions, in both cases taking into account changes, if any, resulting from the effect of the performance incentives.

Upon a change of control of Bombardier Inc. or, in certain circumstances, of BT Holdco, the CDPQ will have the right to require an IPO or a sale of 100% of the BT Holdco shares and to receive the higher of: (i) the value of the common shares held by the CDPQ on an as-converted basis, based on the implied value of the IPO or sale to a third party, as discussed above; or (ii) a minimum three-year 15% compounded annual return (or at any time after three years, a 15% compounded annual return).

Other details of the transaction
The parties have agreed to a consolidated Bombardier cash position at the end of each quarter of at least $1.25 billion. In the event Bombardier's cash position falls below that level, the Board of directors of Bombardier will create a Special Initiatives Committee composed of three independent directors acceptable to the CDPQ, who would be responsible to develop an action plan to improve cash. The implementation of the plan, once agreed with the CDPQ, would be overseen by the Special Initiatives Committee.

Warrants
The investment includes the issuance by Bombardier to the CDPQ of warrants exercisable for a total number of 105,851,872 Class B shares (subordinate voting) in the capital of Bombardier Inc. (Class B Subordinate Voting Shares), equivalent to a 4.5% ownership of all outstanding Class A shares (multiple voting) in the capital of Bombardier Inc. (Class A Shares) and Class B Subordinate Voting Shares (after giving effect to the exercise of such warrants) (and approximately 4.7% of the aggregate outstanding Class A Shares and Class B Subordinate Voting Shares on a non-diluted basis). The warrants are exercisable for a period of seven years from the date of their issuance at an exercise price per Class B Subordinate Voting Share equal to $1.66, the U.S. dollar equivalent

of $2.21 CDN at the date of execution of the subscription agreement, which represents a premium to the 5-day VWAP of the Class B Subordinate Voting Shares on the Toronto Stock Exchange (TSX) as of October 16, 2015.

Fair value of warrants
The fair value of warrants as at February 11, 2016 was $0.10 per option. The fair value of each option was determined using a Black-Scholes option pricing model, which incorporates the share price at the issuance date, and the following assumptions, as at February 11, 2016:

Risk-free interest rate	0.79%
Expected life	7 years
Expected volatility in market price of shares	42.96%
Expected dividend yield	0.00%

CDPQ equity and derivative liability components
The convertible shares issued to the CDPQ contain no obligation for Bombardier to deliver cash or other financial assets to the CDPQ. The convertible shares are considered to be a compound instrument comprised of an equity component, representing the discretionary dividends and liquidation preference, and a liability component that reflects a derivative to settle the instrument by delivering a variable number of common shares of BT Holdco. The Corporation presents convertible shares in its equity (NCI) and derivative liability components on the statements of financial position.

The fair value of the convertible shares at issuance is assigned to its respective equity and derivative liability components so that no gain or loss arises from recognizing each component separately. The fair value of the derivative liability is established first, using an internal valuation model based on stochastic simulations. The equity component is determined by deducting the fair value of the derivative liability component from the fair value on the date of issuance of the compound instrument as a whole. The derivative liability is subsequently marked to market with changes in fair value recorded in financing expense or income.

9. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows:

	Three-month periods ended March 31	
	2016	2015
(Number of shares, stock options, PSUs, DSUs, RSUs and warrants, in thousands)		
Net income (loss) attributable to equity holders of Bombardier Inc.	**$ (161)**	$ 98
Preferred share dividends, including taxes	**(5)**	(7)
Net income (loss) attributable to common equity holders of Bombardier Inc.	**$ (166)**	$ 91
Weighted-average number of common shares outstanding	**2,221,787**	1,761,987
Net effect of stock options, PSUs, DSUs, RSUs and warrants	**—**	—
Weighted-average diluted number of common shares	**2,221,787**	1,761,987
EPS (in dollars)		
Basic and diluted	**$ (0.07)**	$ 0.05

The effect of the exercise of stock options, PSUs, DSUs, RSUs and warrants was included in the calculation of diluted EPS in the above table, except for 159,424,103 stock options, PSUs, DSUs, RSUs and warrants for the three-month period ended March 31, 2016 (52,492,043 stock options, PSUs and DSUs for the three-month period ended March 31, 2015) since the average market value of the underlying shares was lower than the exercise price, or because the predetermined target market price thresholds of the Corporation’s Class B Shares (subordinate voting) or predetermined financial performance targets had not been met or the effect of the exercise would be antidilutive.

10. FINANCIAL INSTRUMENTS

The classification of financial instruments and their carrying amounts and fair values were as follows, as at:

	FVTP&L						
	HFT	Designated	AFS	Amortized cost [1]	DDHR	Total carrying value	Fair value
March 31, 2016							
Financial assets							
Cash and cash equivalents	**$ 3,359**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 3,359**	**$ 3,359**
Trade and other receivables	**—**	**—**	**—**	**1,272**	**—**	**1,272**	**1,272**
Other financial assets	**25**	**240**	**358**	**357**	**375**	**1,355**	**1,371**
	$ 3,384	**$ 240**	**$ 358**	**$ 1,629**	**$ 375**	**$ 5,986**	**$ 6,002**
Financial liabilities							
Trade and other payables	**$ —**	**$ 6**	**n/a**	**$ 3,780**	**$ —**	**$ 3,786**	**$ 3,786**
Long-term debt[2]	**—**	**—**	**n/a**	**9,051**	**—**	**9,051**	**7,171**
Other financial liabilities	**169**	**139**	**n/a**	**712**	**445**	**1,465**	**1,394**
	$ 169	**$ 145**	**n/a**	**$ 13,543**	**$ 445**	**$ 14,302**	**$ 12,351**
December 31, 2015							
Financial assets							
Cash and cash equivalents	$ 2,720	$ —	$ —	$ —	$ —	$ 2,720	$ 2,720
Trade and other receivables	—	—	—	1,473	—	1,473	1,473
Other financial assets	13	230	348	380	349	1,320	1,326
	$ 2,733	$ 230	$ 348	$ 1,853	$ 349	$ 5,513	$ 5,519
Financial liabilities							
Trade and other payables	$ —	$ 1	n/a	$ 4,039	$ —	$ 4,040	$ 4,040
Long-term debt[2]	—	—	n/a	8,979	—	8,979	6,767
Other financial liabilities	41	135	n/a	702	661	1,539	1,426
	$ 41	$ 136	n/a	$ 13,720	$ 661	$ 14,558	$ 12,233
January 1, 2015							
Financial assets							
Cash and cash equivalents	$ 2,489	$ —	$ —	$ —	$ —	$ 2,489	$ 2,489
Trade and other receivables	—	—	—	1,538	—	1,538	1,538
Other financial assets	43	578	330	422	485	1,858	1,869
	$ 2,532	$ 578	$ 330	$ 1,960	$ 485	$ 5,885	$ 5,896
Financial liabilities							
Trade and other payables	$ —	$ 18	n/a	$ 4,198	$ —	$ 4,216	$ 4,216
Long-term debt[2]	—	—	n/a	7,683	—	7,683	7,692
Other financial liabilities	73	172	n/a	719	592	1,556	1,655
	$ 73	$ 190	n/a	$ 12,600	$ 592	$ 13,455	$ 13,563

[1] Financial assets are classified as L&R and financial liabilities as other than HFT.

[2] Includes the current portion of long-term debt.

n/a: Not applicable

11. INVENTORIES

Inventories were as follows, as at:

	March 31, 2016	December 31, 2015	January 1, 2015
Aerospace programs	**$ 4,143**	$ 4,215	$ 4,600
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	**7,623**	7,064	7,369
Less: advances and progress billings	**(5,906)**	(5,490)	(5,558)
	1,717	1,574	1,811
Service contracts			
Cost incurred and recorded margins	**229**	223	310
Less: advances and progress billings	**(18)**	(17)	(17)
	211	206	293
Finished products[(1)]	**1,096**	983	1,266
	$ 7,167	$ 6,978	$ 7,970

(1) Finished products include 7 new aircraft not associated with a firm order and 48 pre-owned aircraft, totaling $271 million as at March 31, 2016 (4 new aircraft and 54 pre-owned aircraft, totaling $279 million as at December 31, 2015 and 1 new aircraft and 57 pre-owned aircraft, totaling $485 million as at January 1, 2015).

Finished products as at March 31, 2016 include $74 million of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities ($81 million as at December 31, 2015 and $248 million as at January 1, 2015). The related sales proceeds are accounted for as sale and leaseback obligations.

The amount of inventories recognized as cost of sales totalled $3,323 million for the three-month period ended March 31, 2016 ($3,575 million for the three-month period ended March 31, 2015). These amounts include $89 million of write-downs for the three-month period ended March 31, 2016 ($31 million for the three-month period ended March 31, 2015).

In connection with certain long-term contracts, Transportation enters into arrangements whereby amounts are received from third-party advance providers in exchange for the rights to customer payments. There is no recourse to Transportation if the customer defaults on its payment obligations assigned to the third-party advance provider. Amounts received under these arrangements are included as advances and progress billings in reduction of long-term contracts (production contracts) inventories and amounted to €390 million ($442 million) as at March 31, 2016 (€334 million ($364 million) as at December 31, 2015). The third-party advance providers could request repayment of these amounts if Transportation fails to perform its contractual obligations under the related long-term contract.

12. OTHER FINANCIAL ASSETS

Other financial assets were as follows, as at:

	March 31, 2016	December 31, 2015	January 1, 2015
Derivative financial instruments	**$ 400**	$ 362	$ 528
Investments in securities[1][2]	**366**	359	346
Long-term contract receivables	**279**	298	321
Investments in financing structures[1]	**207**	197	360
Aircraft loans and lease receivables[1]	**81**	81	275
Restricted cash	**12**	11	17
Other	**10**	12	11
	$ 1,355	$ 1,320	$ 1,858
Of which current	**$ 434**	$ 450	$ 530
Of which non-current	**921**	870	1,328
	$ 1,355	$ 1,320	$ 1,858

(1) Carried at fair value, except for $2 million of aircraft loans and lease receivables, $8 million of investments in securities and $46 million of investment in financing structures carried at amortized cost as at March 31, 2016 ($2 million, $11 million and $46 million, respectively, as at December 31, 2015 and $12 million, $16 million and $45 million, respectively, as at January 1, 2015).

(2) Includes $78 million of securities to secure contingent capital contributions to be made in relation to guarantees issued in connection with the sale of aircraft as at March 31, 2016 ($80 million as at December 31, 2015, and $70 million as at January 1, 2015).

13. OTHER ASSETS

Other assets were as follows, as at:

	March 31, 2016	December 31, 2015	January 1, 2015
Prepaid expenses and deferred costs	**$ 421**	$ 414	$ 760
Sales tax and other taxes	**239**	244	238
Retirement benefits	**167**	251	159
Deferred financing charges	**162**	173	138
Intangible assets other than aerospace program tooling and goodwill	**106**	114	156
Income taxes receivable	**67**	56	64
Other	**28**	29	33
	$ 1,190	$ 1,281	$ 1,548
Of which current	**$ 511**	$ 484	$ 592
Of which non-current	**679**	797	956
	$ 1,190	$ 1,281	$ 1,548

14. PROVISIONS

Changes in provisions were as follows, for the three-month periods ended March 31:

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other[1]	Total
Balance as at December 31, 2015	$ 725	$ 670	$ 66	$ 565	$ 2,026
Additions	53	—	126 [2]	10	189
Utilization	(51)	(3)	(15)	(1)	(70)
Reversals	(10)	(22)	(2)	(56)	(90)
Accretion expense	—	3	—	—	3
Effect of changes in discount rates	1	8	—	—	9
Effect of foreign currency exchange rate changes	15	—	2	1	18
Balance as at March 31, 2016	$ 733	$ 656	$ 177	$ 519	$ 2,085
Of which current	$ 573	$ 76	$ 176	$ 335	$ 1,160
Of which non-current	160	580	1	184	925
	$ 733	$ 656	$ 177	$ 519	$ 2,085

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other[1]	Total
Balance as at January 1, 2015	$ 773	$ 456	$ 117	$ 206	$ 1,552
Additions	78	—	17 [2]	13	108
Utilization	(56)	(6)	(30)	(1)	(93)
Reversals	(32)	(6)	(4) [2]	(2)	(44)
Accretion expense	—	2	—	—	2
Effect of changes in discount rates	—	3	—	—	3
Effect of foreign currency exchange rate changes	(44)	—	(6)	(4)	(54)
Balance as at March 31, 2015	$ 719	$ 449	$ 94	$ 212	$ 1,474
Of which current	$ 553	$ 65	$ 92	$ 189	$ 899
Of which non-current	166	384	2	23	575
	$ 719	$ 449	$ 94	$ 212	$ 1,474

[1] Mainly comprised of claims, onerous contract provisions and litigations.

[2] See Note 6 – Special items for more details on the addition and the reversal related to restructuring charges.

15. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	March 31, 2016	December 31, 2015	January 1, 2015
Derivative financial instruments	**$ 614**	$ 702	$ 665
Government refundable advances	**422**	411	363
Lease subsidies	**139**	135	172
Sale and leaseback obligations	**122**	133	260
Current portion of long-term debt	**73**	71	56
Vendor non-recurring costs	**14**	20	36
Other	**154**	138	60
	$ 1,538	$ 1,610	$ 1,612
Of which current	**$ 807**	$ 991	$ 1,010
Of which non-current	**731**	619	602
	$ 1,538	$ 1,610	$ 1,612

16. OTHER LIABILITIES

Other liabilities were as follows, as at:

	March 31, 2016	December 31, 2015	January 1, 2015
Employee benefits	**$ 651**	$ 647	$ 661
Accruals for long-term contract costs	**632**	606	631
Supplier contributions to aerospace programs	**609**	606	601
Deferred revenues	**418**	397	450
Income taxes payable	**236**	225	249
Other taxes payable	**114**	211	118
Other	**505**	578	568
	$ 3,165	$ 3,270	$ 3,278
Of which current	**$ 2,144**	$ 2,274	$ 2,182
Of which non-current	**1,021**	996	1,096
	$ 3,165	$ 3,270	$ 3,278

17. SHARE-BASED PLANS

PSU, DSU and RSU plans
The number of PSUs, DSUs and RSUs has varied as follows:

	Three-month periods ended March 31					
	2016			2015		
	PSU	**DSU**	**RSU**	PSU	DSU	RSU
Balance at beginning of period	**15,627,217**	**4,883,829**	**22,332,682**	26,045,936	7,666,464	—
Granted	**—**	**—**	**588,466**	218,573	—	—
Exercised	**—**	**(87,003)**	**—**	—	(73,855)	—
Forfeited	**(327,966)**	**(142,207)**	**(429,125)**	(456,073)	(328,224)	—
Balance at end of period	**15,299,251**	**4,654,619** [(1)]	**22,492,023**	25,808,436	7,264,385 [(1)]	—

[(1)] Of which 1,524,697 DSUs are vested as at March 31, 2016 (1,934,272 as at March 31, 2015).

The compensation expense, with respect to the PSU, DSU and RSU plans, amounted to $2 million during the three-month period ended March 31, 2016 ($3 million during the three-month period ended March 31, 2015).

Share option plans
The number of options issued and outstanding to purchase Class B Shares (Subordinate Voting) has varied as follows:

	Three-month periods ended March 31	
	2016	2015
Balance at beginning of period	**74,347,206**	31,446,124
Granted	**1,067,207**	2,025,773
Forfeited	**(612,487)**	(1,331,460)
Expired	**—**	(253,017)
Balance at end of period	**74,801,926**	31,887,420

A compensation expense of $1 million was recorded during the three-month period ended March 31, 2016, with respect to share option plans ($1 million for the three-month period ended March 31, 2015).

18. NET CHANGE IN NON-CASH BALANCES

Net change in non-cash balances was as follows:

	Three-month periods ended March 31	
	2016	2015
Trade and other receivables	**$ 220**	$ 347
Inventories	**(119)**	(111)
Other financial assets and liabilities, net	**(11)**	120
Other assets	**61**	(19)
Trade and other payables	**(283)**	(427)
Provisions	**41**	(23)
Advances and progress billings in excess of long-term contract inventories	**27**	(113)
Advances on aerospace programs	**(149)**	(375)
Retirement benefits liability	**(93)**	34
Other liabilities	**(125)**	(30)
	$ (431)	$ (597)

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value amounts disclosed in these consolidated financial statements represent the Corporation's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value is determined by reference to quoted prices in the principal market for that instrument to which the Corporation has immediate access. However, there is no active market for most of the Corporation's financial instruments. In the absence of an active market, the Corporation determines fair value based on internal or external valuation models, such as stochastic models, option-pricing models and discounted cash flow models. Fair value determined using valuation models requires the use of assumptions concerning the amount and timing of estimated future cash flows, discount rates, the creditworthiness of the borrower, the aircraft's expected future value, default probability, generic industrial bond spreads and marketability risk. In determining these assumptions, the Corporation uses primarily external, readily observable market inputs, including factors such as interest rates, credit ratings, credit spreads, default probabilities, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are unavailable. These calculations represent management's best estimates. Since they are based on estimates, the fair values may not be realized in an actual sale or immediate settlement of the instruments.

Methods and assumptions
The methods and assumptions used to measure fair value for items recorded at FVTP&L and AFS are as follows:

Aircraft loans and lease receivables and investments in financing structures – The Corporation uses an internal valuation model based on stochastic simulations and discounted cash flow analysis to estimate fair value. Fair value is calculated using market data for interest rates, published credit ratings when available, yield curves and default probabilities. The Corporation uses market data to determine the marketability adjustments and also uses internal assumptions to take into account factors that market participants would consider when pricing these financial assets. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit rating. In addition, the Corporation uses aircraft residual value curves reflecting specific factors of the current aircraft market and a balanced market in the medium and long term.

Investments in securities – The Corporation uses discounted cash flow models to estimate the fair value of unquoted investments in fixed-income securities, using market data such as interest-rate.

Lease subsidies – The Corporation uses an internal valuation model based on stochastic simulations to estimate fair value of lease subsidies incurred in connection with the sale of commercial aircraft. Fair value is calculated using market data for interest rates, published credit ratings when available, default probabilities from rating agencies and the Corporation's credit spread. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit rating.

Derivative financial instruments – Fair value of derivative financial instruments generally reflects the estimated amounts that the Corporation would receive to sell favourable contracts i.e. taking into consideration the counterparty credit risk, or pays to transfer unfavourable contracts i.e. taking into consideration the Corporation's credit risk, at the reporting dates. The Corporation uses discounted cash flow analyses and market data such as interest rates, credit spreads and foreign exchange spot rate to estimate the fair value of forward agreements and interest-rate derivatives.

The Corporation uses option-pricing models and discounted cash flow models to estimate the fair value of embedded derivatives using applicable market data.

The Corporation uses an internal valuation model based on stochastic simulations to estimate the fair value of the conversion option embedded in the convertible shares. The fair value of the embedded conversion option is based on the difference in value between: the convertible shares' accrued liquidation preference based on the minimum return; and the fair value of the common shares on an as converted basis. This value is dependent on the Transportation segment meeting the performance incentives agreed upon with the CDPQ and the timing of exercise of the conversion rights and the applicable conversion rate. The simulation model generates multiple

Transportation performance scenarios over the expected term of the option. Fair value of the shares on an as converted basis is calculated using an EBIT multiple, which is based on market data, to determine the enterprise value. The discount rate used is also determined using market data. The Corporation uses internal assumptions to determine the term of the instrument and the future performance of the Transportation segment.

The methods and assumptions used to measure fair value for items recorded at amortized cost are as follows:

Financial instruments whose carrying value approximates fair value – The fair values of trade and other receivables, certain aircraft loans and lease receivables, certain investments in securities, certain investments in financing structures, restricted cash, trade and other payables, and sales and leaseback obligations measured at amortized cost, approximate their carrying value due to the short-term maturities of these instruments, because they bear variable interest-rate or because the terms and conditions are comparable to current market terms and conditions for similar items.

Long-term contract receivables – The Corporation uses discounted cash flow analyses to estimate the fair value using market data for interest rates.

Long-term debt – The fair value of long-term debt is estimated using public quotations, when available, or discounted cash flow analyses, based on the current corresponding borrowing rate for similar types of borrowing arrangements.

Government refundable advances and vendor non-recurring costs – The Corporation uses discounted cash flow analyses to estimate the fair value using market data for interest rates and credit spreads.

Fair value hierarchy

The following tables present financial assets and financial liabilities measured at fair value on a recurring basis categorized using the fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs from observable markets other than quoted prices included in Level 1, including indirectly observable data (Level 2); and
- inputs for the asset or liability that are not based on observable market data (Level 3).

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment. The fair value of financial assets and liabilities by level of hierarchy was as follows, as at March 31 2016:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	$ 79	$ —	$ —	$ 79
Derivative financial instruments[1]	400	—	400	—
Investments in securities	344 [2]	43	301	—
Investments in financing structures	161	—	—	161
	$ 984	$ 43	$ 701	$ 240
Financial liabilities				
Trade and other payables	$ (6)	$ —	$ —	$ (6)
Lease subsidies	(139)	—	—	(139)
Derivative financial instruments[1]	(614)	—	(492)	(122)
	$ (759)	$ —	$ (492)	$ (267)

[1] Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements and embedded derivatives.
[2] Excludes $14 million of AFS investments carried at cost.

Changes in the fair value of Level 3 financial instruments were as follows, for the three-month periods ended:

	Aircraft loans and lease receivables	Investments in financing structures	Trade and other payables	Lease subsidies	Conversion option
Balance as at December 31, 2015	**$ 79**	**$ 151**	**$ (1)**	**$ (135)**	**$ —**
Net gains (losses) and interest included in net income[1]	**5**	**10**	**—**	**(12)**	**(2)**
Issuances	**—**	**—**	**(6)**	**—**	**(120)**
Settlements	**(5)**	**—**	**1**	**8**	**—**
Balance as at March 31, 2016	**$ 79**	**$ 161**	**$ (6)**	**$ (139)**	**$ (122)**

	Aircraft loans and lease receivables	Investments in financing structures	Trade and other payables	Lease subsidies	Conversion option
Balance as at January 1, 2015	$ 263	$ 165	$ (18)	$ (172)	$ —
Net gains and interest included in net income[1]	11	12	—	1	—
Issuances	—	—	(3)	—	—
Settlements	(11)	—	18	5	—
Balance as at March 31, 2015	$ 263	$ 177	$ (3)	$ (166)	$ —

[1] Of which $1 million represents realized gains for the three-month period ended March 31, 2016, which are recorded in financing income ($1 million represents realized gains for the three-month period ended March 31, 2015, which are recorded in financing income).

Main assumptions developed internally for Level 3 hierarchy

When measuring Level 3 financial instruments at fair value, some assumptions are not derived from an observable market. The main assumptions developed internally for aerospace segments' level 3 financial instruments relate to credit risks of customers without published credit rating and marketability adjustments to discount rates specific to our financial assets.

These main assumptions are as follows as at March 31, 2016:

Main assumptions (weighted average)	Aircraft loans and lease receivables	Investments in financing structures	Lease subsidies
Internally assigned credit rating	Between BB to CCC (B)	Between BB- to CCC+ (B+)	Between BB- to CCC (B+)
Discount rate adjustments for marketability	Between 7.85% and 10.41% (9.94%)	Between 1.92% and 8.97% (6.97%)	n/a

Also, aircraft residual value curves are important inputs in assessing the fair value of certain financial instruments. These curves are prepared by management based on information obtained from external appraisals and reflect specific factors of the current aircraft market and a balanced market in the medium and long term.

The projected future performance of the Transportation segment is an important input for the determination of the fair value of the embedded derivative option in the convertible shares issued to the CDPQ. The projected future performance of the Transportation segment is prepared by management based on budget and strategic plan.

Sensitivity to selected changes of assumptions for Level 3 hierarchy

These assumptions, not derived from an observable market, are established by management using estimates and judgments that can have a significant effect on revenues, expenses, assets and liabilities. Changing one or more of these assumptions to other reasonably possible alternative assumptions, for which the impact on their fair value would be significant, would change their fair value as follows as at March 31, 2016:

Impact on EBT		**Change of assumptions**		
Gain (loss)	**Change in fair value recognized in EBT for the three-month period ended March 31, 2016**	**Decrease in aircraft residual value curves by 5%**	**Downgrade the internally assigned credit rating of unrated customers by 1 notch**	**Increase the marketability adjustments by 100 bps**
Aircraft loans and lease receivables	$ 2	$ (2)	$ (2)	$ (3)
Investment in financing structures	$ 6	$ (3)	$ (10)	$ (9)
Lease subsidies	$ (9)	n/a	$ 2	n/a

n/a: not applicable

Conversion option

Sensitivity analysis

A 5% decrease in the expected future performance of the Transportation segment would have resulted in a decrease in the fair value with a corresponding gain recognized in EBT for the three-month period ended March 31, 2016 of $12 million.

A 5% increase in the expected future performance of the Transportation segment would have resulted in an increase in the fair value with a corresponding loss recognized in EBT for the three-month period ended March 31, 2016 of $11 million.

20. COMMITMENTS AND CONTINGENCIES

The table below presents the maximum potential exposure for each major group of exposure, as at:

	March 31, 2016	December 31, 2015	January 1, 2015
Aircraft sales			
Residual value	**$ 1,642**	$ 1,669	$ 1,749
Credit	**1,247**	1,248	1,275
Mutually exclusive exposure[(1)]	**(595)**	(598)	(628)
Total credit and residual value exposure	**$ 2,294**	$ 2,319	$ 2,396
Trade-in commitments	**$ 1,662**	$ 1,818	$ 2,696
Conditional repurchase obligations	**$ 217**	$ 192	$ 204
Other			
Credit	**$ 48**	$ 48	$ 48
Performance guarantees	**$ —**	$ —	$ 38

(1) Some of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise. Therefore, the guarantees must not be added together to calculate the combined maximum exposure for the Corporation.

Provisions for anticipated losses amounting to $656 million as at March 31, 2016 ($670 million as at December 31, 2015 and $456 million as at January 1, 2015) have been established to cover the risks from credit and residual value guarantees. In addition, lease subsidies, which would be extinguished in the event of credit default by certain customers, amounted to $139 million as at March 31, 2016 ($135 million as at December 31, 2015 and $172 million as at January 1, 2015).

Litigation

In the normal course of operations, the Corporation is a defendant in certain legal proceedings currently pending before various courts in relation to product liability and contract disputes with customers and other third parties. The Corporation intends to vigorously defend its position in these matters.

While the Corporation cannot predict the final outcome of all legal proceedings pending as at March 31, 2016, based on information currently available, management believes that the resolution of these legal proceedings will not have a material adverse effect on its financial position.

Investigation in Brazil

On March 20, 2014, Bombardier Transportation Brasil Ltda ("BT Brazil"), a wholly owned subsidiary of the Corporation, received notice that it was among the 18 companies and over 100 individuals named in administrative proceedings initiated by governmental authorities in Brazil, including the Administrative Council for Economic Protection ("CADE"), and the Sao Paulo Public Prosecutor's office, following previously disclosed investigations carried on by such governmental authorities with respect to allegations of cartel activity in the public procurement of railway equipment and the construction and maintenance of railway lines in Sao Paulo and other areas. Since the service of process in 2014 on BT Brazil, the competition authority has decided to detach the proceedings against 43 individuals whom it claims to have been difficult to serve process and has also issued additional technical notes dealing with various procedural objections raised by the defendant corporations and individuals. BT Brazil is currently contesting before the courts both the decision to detach the proceedings against 43 individuals and decisions by CADE restricting physical access to some of the forensic evidence.

BT Brazil as a result of the administrative proceedings initiated by CADE in 2014 became a party as defendant to legal proceedings brought by the Sao Paulo State prosecution service against it and other companies for alleged 'administrative improbity' in relation to refurbishment contracts awarded in 2009 by the Sao Paulo metro operator CMSP and for 'cartel' in relation to a five year-maintenance contract with the Sao Paulo urban transit operator CPTM signed in 2002. In September 2015, the prosecution service of Sao Paulo announced a second public civil action for 'cartel' in relation to the follow-on five year maintenance contract covering the period 2007 to 2012. In addition, BT Brazil was served notice and joined in December 2014 a civil suit as co-defendant first commenced by the Sao Paulo state government against Siemens AG in the fall of 2013 and with which the State government seeks to recover loss for alleged cartel activities.

Companies found to have engaged in unlawful cartel conduct are subject to administrative fines, state actions for repayment of overcharges and potentially disqualification for a certain period. The Corporation and BT Brazil continue to cooperate with investigations relating to the administrative proceedings and intend to defend themselves vigorously.

21. SIGNIFICANT TRANSACTION

Ministère de l'Économie, de l'Innovation et des Exportations du Québec

In October 2015, the Corporation entered into a memorandum of understanding which contemplates a $1.0 billion equity investment by the Ministère de l'Économie, de l'Innovation et des Exportations du Québec (through Investissement Québec) (the Government of Québec) for a 49.5% equity stake in a newly-created limited partnership to which we would transfer the assets, liabilities and obligations of the *C Series* aircraft program. This newly created limited partnership will be owned 50.5% by Bombardier Inc. and, as a subsidiary of Bombardier Inc., will carry on the operations related to our *C Series* aircraft program. After the investment, the newly created limited partnership will be consolidated in our financial results. The investment remains conditional upon the completion of definitive agreements, the receipt of consents from third parties, the completion of an internal pre-closing reorganization, the receipt of required regulatory approvals and other customary conditions precedent.

The proceeds of the investment will be used entirely for cash flow purposes of the *C Series* aircraft program.

The investment also includes the issuance of warrants to the Government of Québec exercisable to acquire up to 200,000,000 Class B shares (subordinate voting) in the capital of Bombardier Inc., at an exercise price per share equal to the U.S. dollar equivalent of $2.21 Canadian dollars, using the exchange rate on the date of execution of definitive agreements. The warrants will have a five-year term from the date of issue and will not be listed on the Toronto Stock Exchange.

The closing of the investment is expected to take place in the second quarter of 2016.

The investment contemplates a continuity undertaking providing that we maintain in the Province of Québec, for a period of 20 years, the newly-created limited partnership's operational, financial and strategic headquarters, manufacturing and engineering activities, policies, practices and investment plans for research and development, in each case in respect of the design, manufacture and marketing of the *CS100* and *CS300* aircraft and after-sales services for these aircraft and that we will operate the facilities located in Mirabel, Canada for these purposes.

22. EVENTS AFTER THE REPORTING DATE

Credit facilities

In April 2016, the availability periods of Transportation's €3,640-million ($4,122-million) letter of credit facility and the $600-million letter of credit facility, which is available for the Corporation excluding Transportation, were extended by one year to May 2019 and June 2019, respectively. In addition, the maturity dates of Transportation's €500-million ($566-million) unsecured revolving credit facility and the $750-million unsecured revolving credit facility, which is available for the Corporation excluding Transportation, were also extended by one year to October 2018 and June 2019, respectively.

Also, in April 2016, the committed amount under the $600-million letter of credit facility, which is available for the Corporation excluding Transportation, was decreased to $400 million. In addition, Transportation's €500-million ($566-million) unsecured revolving credit facility was increased to €608 million ($688 million) and the $750-million unsecured revolving credit facility, which is available for the Corporation excluding Transportation, was decreased to $400 million.

Effective in April 2016, the maximum net debt to EBITDA ratio required by the $600-million letter of credit facility and the $750-million unsecured revolving credit facility, which are available for the Corporation excluding Transportation, is being replaced by maximum gross debt and minimum EBITDA thresholds. The remaining covenants requiring a minimum EBITDA to fixed charges ratio as well as a minimum liquidity requirement of $750 million at the end of each quarter, all calculated based on an adjusted consolidated basis (i.e. excluding Transportation) remain unchanged. In addition, the Transportation letter of credit and revolving credit facilities financial covenants continue to require a minimum equity, a maximum debt to EBITDA ratio as well as minimum liquidity of €600 million ($679 million) at the end of each quarter, all calculated based on Transportation stand-alone financial data.

***C Series* orders**

In April 2016, the Corporation signed a firm order with Delta Air Lines, Inc. for 75 *CS100* aircraft with options for an additional 50 *CS100* aircraft. In February 2016, the Corporation signed a Letter of Intent with Air Canada and in the second quarter of 2016, the Corporation expects to sign a firm purchase agreement for 45 *CS300* aircraft with options for an additional 30 *CS300* aircraft, including conversion rights to the *CS100* aircraft. In April 2016, Air Baltic Corporation AS converted its remaining seven options to firm orders of *CS300* aircraft.

The Corporation expects to record an onerous contract provision of approximately $500 million as a special item in the second quarter of 2016, in conjunction with the closing of the anticipated 127 firm purchase agreements.

Bombardier, Challenger, Challenger 350, Challenger 605, Challenger 650, CRJ, CRJ700, CRJ900, CRJ1000, C Series, CS100, CS300, FLEXITY, Global, Global 5000, Global 6000, Global 7000, Global 8000, Learjet, Learjet 70, Learjet 75, Learjet 85, Q400, The Evolution of Mobility and *TWINDEXX* are trademarks of Bombardier Inc. or its subsidiaries.