BOMBARDIER INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

For the three-month period ended March 31, 2016

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(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.