

BOMBARDIER INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three- and nine-month periods ended September 30, 2016

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine-month period ended September 30, 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 September 30		Nine-month periods ended September 30	
	Notes	2016	2015	2016	2015
Revenues		\$ 3,736	\$ 4,138	\$ 11,959	\$ 13,155
Cost of sales	11	3,352	3,721	10,680	11,583
Gross margin		384	417	1,279	1,572
SG&A		281	284	846	857
R&D	4	58	78	192	236
Share of income of joint ventures and associates		(29)	(19)	(61)	(53)
Other income	5	(13)	(1)	(21)	(6)
Special items	6	24	4,710	455	4,719
EBIT		63	(4,635)	(132)	(4,181)
Financing expense	7	195	129	547	326
Financing income	7	(14)	(12)	(30)	(52)
EBT		(118)	(4,752)	(649)	(4,455)
Income taxes		(24)	136	73	208
Net loss		\$ (94)	\$ (4,888)	\$ (722)	\$ (4,663)
Attributable to					
Equity holders of Bombardier Inc.		\$ (79)	\$ (4,891)	\$ (771)	\$ (4,668)
NCI	8	(15)	3	49	5
		\$ (94)	\$ (4,888)	\$ (722)	\$ (4,663)
EPS (in dollars)	9				
Basic and diluted		\$ (0.04)	\$ (2.20)	\$ (0.36)	\$ (2.30)

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 September 30		Nine-month periods ended September 30	
	Note	2016	2015	2016	2015
Net loss		\$ (94)	\$ (4,888)	\$ (722)	\$ (4,663)
OCI					
Items that may be reclassified to net income					
Net change in cash flow hedges					
Foreign exchange re-evaluation		(4)	20	(11)	10
Net gain (loss) on derivative financial instruments		(2)	(47)	125	(396)
Reclassification to income or to the related non-financial asset		54	116	244	335
Income taxes		(13)	(6)	(88)	(5)
		35	83	270	(56)
AFS financial assets					
Net unrealized gain (loss)		—	(1)	5	(6)
CCTD					
Net investments in foreign operations		(25)	(119)	(146)	(49)
Net gain on related hedging items		—	—	—	1
		(25)	(119)	(146)	(48)
Items that are never reclassified to net income					
Retirement benefits					
Remeasurement of defined benefit plans ⁽¹⁾		(344)	(222)	(1,515)	237
Income taxes		27	41	100	18
		(317)	(181)	(1,415)	255
Total OCI		(307)	(218)	(1,286)	145
Total comprehensive loss		\$ (401)	\$ (5,106)	\$ (2,008)	\$ (4,518)
Attributable to					
Equity holders of Bombardier Inc.		\$ (398)	\$ (5,108)	\$ (2,059)	\$ (4,523)
NCI	8	(3)	2	51	5
		\$ (401)	\$ (5,106)	\$ (2,008)	\$ (4,518)

⁽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	September 30 2016	December 31 2015	January 1 2015
Assets				
Cash and cash equivalents		\$ 3,392	\$ 2,720	\$ 2,489
Trade and other receivables		1,248	1,473	1,538
Inventories	11	6,765	6,978	7,970
Other financial assets	12	378	450	530
Other assets	13	459	484	592
Current assets		12,242	12,105	13,119
PP&E		1,998	2,061	2,092
Aerospace program tooling		4,960	3,975	6,823
Goodwill		1,959	1,978	2,127
Deferred income taxes		876	761	875
Investments in joint ventures and associates		343	356	294
Other financial assets	12	929	870	1,328
Other assets	13	569	797	956
Non-current assets		11,634	10,798	14,495
		\$ 23,876	\$ 22,903	\$ 27,614
Liabilities				
Trade and other payables		\$ 3,287	\$ 4,040	\$ 4,216
Provisions	14	1,077	1,108	990
Advances and progress billings in excess of long-term contract inventories		1,511	1,408	1,698
Advances on aerospace programs		1,939	2,002	3,339
Other financial liabilities	15	715	991	1,010
Other liabilities	16	2,027	2,274	2,182
Current liabilities		10,556	11,823	13,435
Provisions	14	1,350	918	562
Advances on aerospace programs		1,458	1,534	1,608
Long-term debt		8,923	8,908	7,627
Retirement benefits		3,362	2,159	2,629
Other financial liabilities	15	979	619	602
Other liabilities	16	1,113	996	1,096
Non-current liabilities		17,185	15,134	14,124
		27,741	26,957	27,559
Equity (deficit)				
Attributable to equity holders of Bombardier Inc.		(5,728)	(4,067)	42
Attributable to NCI	8	1,863	13	13
		(3,865)	(4,054)	55
		\$ 23,876	\$ 22,903	\$ 27,614
Commitments and contingencies	21			

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				Total	NCI	Total equity (deficit)
	Preferred shares	Common shares	Warrants	Other retained earnings (deficit)	Remeasurement losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD				
As at June 30, 2016	\$ 347	\$ 2,195	\$ 40	\$ (4,679)	\$ (3,178)	\$ 116	\$ 12	\$ (140)	\$ (159)	\$ (5,446)	\$ 1,528	\$ (3,918)	
Total comprehensive income													
Net loss	—	—	—	(79)	—	—	—	—	—	(79)	(15)	(94)	
OCI	—	—	—	—	(314)	—	—	35	(40)	(319)	12	(307)	
	—	—	—	(79)	(314)	—	—	35	(40)	(398)	(3)	(401)	
Issuance of warrants ⁽¹⁾	—	—	33	—	—	—	—	—	—	33	—	33	
Issuance of NCI ⁽¹⁾	—	—	—	125	—	—	—	—	—	125	340	465	
Dividends	—	—	—	(7)	—	—	—	—	—	(7)	—	(7)	
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(2)	(2)	
Shares purchased - PSU plan	—	(43)	—	—	—	—	—	—	—	(43)	—	(43)	
Share-based expense	—	—	—	—	—	8	—	—	—	8	—	8	
As at September 30, 2016	\$ 347	\$ 2,152	\$ 73	\$ (4,640)	\$ (3,492)	\$ 124	\$ 12	\$ (105)	\$ (199)	\$ (5,728)	\$ 1,863	\$ (3,865)	
As at June 30, 2015	\$ 347	\$ 2,203	\$ —	\$ 1,360	\$ (2,225)	\$ 100	\$ 7	\$ (461)	\$ 112	\$ 1,443	\$ 16	\$ 1,459	
Total comprehensive income													
Net income (loss)	—	—	—	(4,891)	—	—	—	—	—	(4,891)	3	(4,888)	
OCI	—	—	—	—	(181)	—	(1)	83	(118)	(217)	(1)	(218)	
	—	—	—	(4,891)	(181)	—	(1)	83	(118)	(5,108)	2	(5,106)	
Dividends	—	—	—	(7)	—	—	—	—	—	(7)	—	(7)	
Capital distribution	—	—	—	—	—	—	—	—	—	—	(3)	(3)	
Shares purchased - RSU plan	—	(9)	—	—	—	—	—	—	—	(9)	—	(9)	
Share-based expense	—	—	—	—	—	6	—	—	—	6	—	6	
As at September 30, 2015	\$ 347	\$ 2,194	\$ —	\$ (3,538)	\$ (2,406)	\$ 106	\$ 6	\$ (378)	\$ (6)	\$ (3,675)	\$ 15	\$ (3,660)	

⁽¹⁾ Related to the minority stake in the C Series Aircraft Limited Partnership issued to the Government of Québec. 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 CHANGES IN EQUITY

(Unaudited)

For the nine-month periods ended

(in millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.												
	Share capital			Retained earnings (deficit)			Accumulated OCI				Total	NCI	Total equity (deficit)
	Preferred shares	Common shares	Warrants	Other retained earnings (deficit)	Remea- surement losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD				
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)	—	—	—	(771)	—	—	—	—	—	(771)	49	(722)	
OCI	—	—	—	—	(1,412)	—	5	270	(151)	(1,288)	2	(1,286)	
	—	—	—	(771)	(1,412)	—	5	270	(151)	(2,059)	51	(2,008)	
Issuance of warrants ⁽¹⁾	—	—	73	—	—	—	—	—	—	73	—	73	
Issuance of NCI ⁽¹⁾	—	—	—	368	—	—	—	—	—	368	1,843	2,211	
Dividends	—	—	—	(18)	—	—	—	—	—	(18)	—	(18)	
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(44)	(44)	
Shares purchased - PSU plan	—	(43)	—	—	—	—	—	—	—	(43)	—	(43)	
Share-based expense	—	—	—	—	—	18	—	—	—	18	—	18	
As at September 30, 2016	\$ 347	\$ 2,152	\$ 73	\$ (4,640)	\$ (3,492)	\$ 124	\$ 12	\$ (105)	\$ (199)	\$ (5,728)	\$ 1,863	\$ (3,865)	
As at January 1, 2015	\$ 347	\$ 1,381	\$ —	\$ 1,151	\$ (2,661)	\$ 92	\$ 12	\$ (322)	\$ 42	\$ 42	\$ 13	\$ 55	
Total comprehensive income													
Net income (loss)	—	—	—	(4,668)	—	—	—	—	—	(4,668)	5	(4,663)	
OCI	—	—	—	—	255	—	(6)	(56)	(48)	145	—	145	
	—	—	—	(4,668)	255	—	(6)	(56)	(48)	(4,523)	5	(4,518)	
Issuance of share capital	—	822	—	—	—	—	—	—	—	822	—	822	
Dividends	—	—	—	(21)	—	—	—	—	—	(21)	—	(21)	
Capital distribution	—	—	—	—	—	—	—	—	—	—	(3)	(3)	
Shares purchased - RSU plan	—	(9)	—	—	—	—	—	—	—	(9)	—	(9)	
Share-based expense	—	—	—	—	—	14	—	—	—	14	—	14	
As at September 30, 2015	\$ 347	\$ 2,194	\$ —	\$ (3,538)	\$ (2,406)	\$ 106	\$ 6	\$ (378)	\$ (6)	\$ (3,675)	\$ 15	\$ (3,660)	

⁽¹⁾ Related to the convertible shares issued to the CDPQ in relation to the sale of a minority stake in Transportation, which are compound instruments, and the minority stake in the C Series Aircraft Limited Partnership issued to the Government of Québec. 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)

		Three-month periods ended September 30		Nine-month periods ended September 30	
	Notes	2016	2015	2016	2015
Operating activities					
Net loss		\$ (94)	\$ (4,888)	\$ (722)	\$ (4,663)
Non-cash items					
Amortization		85	104	272	315
Impairment charges on PP&E and intangible assets	6	—	4,004	—	4,004
Deferred income taxes		(34)	104	(90)	118
Gains on disposals of PP&E and intangible assets	5	(4)	(1)	(15)	(3)
Share of income of joint ventures and associates		(29)	(19)	(61)	(53)
Share-based expense	17	8	6	18	14
Loss on repurchase of long-term debt	7	—	—	—	22
Dividends received from joint ventures and associates		30	32	110	59
Net change in non-cash balances	18	(34)	343	(198)	(863)
Cash flows from operating activities		(72)	(315)	(686)	(1,050)
Investing activities					
Additions to PP&E and intangible assets		(264)	(502)	(913)	(1,331)
Proceeds from disposals of PP&E and intangible assets		16	1	39	12
Proceeds from investment in financing structure		—	150	—	150
Additions to AFS investments in securities		—	—	—	(64)
Proceeds from disposal of AFS investments in securities		—	54	—	54
Other		20	8	21	(2)
Cash flows from investing activities		(228)	(289)	(853)	(1,181)
Financing activities					
Net proceeds from issuance of long-term debt		—	—	1	2,218
Repayments of long-term debt		(9)	(12)	(56)	(816)
Net change in short-term borrowings	15	(27)	—	84	—
Dividends paid ⁽¹⁾		(5)	(4)	(13)	(14)
Purchase of Class B shares held in trust under the PSU and RSU plans		(43)	(9)	(43)	(9)
Net proceeds from issuance of shares		—	—	—	822
Issuance of NCI, net of transaction costs ⁽²⁾		487	—	2,419	—
Dividends to NCI		(2)	—	(44)	—
Other		(15)	(88)	(38)	(47)
Cash flows from financing activities		386	(113)	2,310	2,154
Effect of exchange rates on cash and cash equivalents		(30)	(44)	(99)	(68)
Net increase (decrease) in cash and cash equivalents		56	(761)	672	(145)
Cash and cash equivalents at beginning of period		3,336	3,105	2,720	2,489
Cash and cash equivalents at end of period		\$ 3,392	\$ 2,344	\$ 3,392	\$ 2,344
Supplemental information⁽³⁾⁽⁴⁾					
Cash paid for					
Interest		\$ 177	\$ 153	\$ 451	\$ 343
Income taxes		\$ 25	\$ 22	\$ 82	\$ 72
Cash received for					
Interest		\$ 6	\$ 5	\$ 16	\$ 16
Income taxes		\$ 1	\$ 2	\$ 5	\$ 3

⁽¹⁾ Related to preferred shares.

⁽²⁾ Related to the convertible shares issued to the CDPQ in relation to the sale of a minority stake in Transportation, which are compound instruments, and the minority stake in the C Series Aircraft Limited Partnership issued to the Government of Québec. 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 nine-month period ended September 30, 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- and nine-month periods ended September 30, 2016 were authorized for issuance by the Board of Directors on November 9, 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		
	September 30, 2016	December 31, 2015	January 1, 2015
Euro	1.1221	1.0887	1.2141
Canadian dollar	0.7642	0.7202	0.8633
Pound sterling	1.3027	1.4833	1.5587

	Average exchange rates for the three-month periods ended		Average exchange rates for the nine-month periods ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Euro	1.1163	1.1116	1.1159	1.1138
Canadian dollar	0.7675	0.7651	0.7566	0.7950
Pound sterling	1.3142	1.5509	1.3943	1.5315

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 September 30, 2016						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Results of operations						
External revenues	\$ 1,780	\$ 1,314	\$ 538	\$ 102	\$ 2	\$ 3,736
Intersegment revenues	2	—	—	235	(237)	—
Total revenues	1,782	1,314	538	337	(235)	3,736
EBIT before special items	140	84	(107)	29	(59)	87
Special items ⁽¹⁾	15	—	—	9	—	24
EBIT	\$ 125	\$ 84	\$ (107)	\$ 20	\$ (59)	63
Financing expense						195
Financing income						(14)
EBT						(118)
Income taxes						(24)
Net loss						\$ (94)
Other information						
R&D ⁽²⁾	\$ 21	\$ 26	\$ 4	\$ 1	\$ 6	\$ 58
Net additions to PP&E and intangible assets ⁽³⁾	\$ 28	\$ 165	\$ 47	\$ 7	\$ 1	\$ 248
Amortization	\$ 24	\$ 36	\$ 11	\$ 13	\$ 1	\$ 85

Three-month period ended September 30, 2015						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Results of operations						
External revenues	\$ 1,985	\$ 1,557	\$ 477	\$ 119	\$ —	\$ 4,138
Intersegment revenues	—	1	3	292	(296)	—
Total revenues	1,985	1,558	480	411	(296)	4,138
EBIT before special items	109	54	(63)	30	(55)	75
Special items ⁽¹⁾	—	1,169	3,561	—	(20)	4,710
EBIT	\$ 109	\$ (1,115)	\$ (3,624)	\$ 30	\$ (35)	(4,635)
Financing expense						129
Financing income						(12)
EBT						(4,752)
Income taxes						136
Net loss						\$ (4,888)
Other information						
R&D ⁽²⁾	\$ 30	\$ 31	\$ 13	\$ 4	\$ —	\$ 78
Net additions to PP&E and intangible assets ⁽³⁾	\$ 29	\$ 172	\$ 299	\$ 1	\$ —	\$ 501
Amortization	\$ 22	\$ 45	\$ 23	\$ 13	\$ 1	\$ 104
Impairment charges on intangible assets ⁽¹⁾	\$ —	\$ 925	\$ 3,070	\$ —	\$ (6)	\$ 3,989
Impairment charges on PP&E ⁽¹⁾	\$ —	\$ 15	\$ —	\$ —	\$ —	\$ 15

⁽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.

Nine-month period ended September 30, 2016						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Results of operations						
External revenues	\$ 5,621	\$ 4,089	\$ 1,918	\$ 326	\$ 5	\$ 11,959
Intersegment revenues	5	1	—	904	(910)	—
Total revenues	5,626	4,090	1,918	1,230	(905)	11,959
EBIT before special items	379	269	(276)	94	(143)	323
Special items ⁽¹⁾	144	(109)	483	(10)	(53)	455
EBIT	\$ 235	\$ 378	\$ (759)	\$ 104	\$ (90)	(132)
Financing expense						547
Financing income						(30)
EBT						(649)
Income taxes						73
Net loss						\$ (722)
Other information						
R&D ⁽²⁾	\$ 71	\$ 86	\$ 16	\$ 5	\$ 14	\$ 192
Net additions to PP&E and intangible assets ⁽³⁾	\$ 80	\$ 480	\$ 297	\$ 15	\$ 2	\$ 874
Amortization	\$ 73	\$ 109	\$ 50	\$ 39	\$ 1	\$ 272

Nine-month period ended September 30, 2015						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Results of operations						
External revenues	\$ 6,113	\$ 4,909	\$ 1,748	\$ 385	\$ —	\$ 13,155
Intersegment revenues	4	1	3	969	(977)	—
Total revenues	6,117	4,910	1,751	1,354	(977)	13,155
EBIT before special items	342	280	(83)	113	(114)	538
Special items ⁽¹⁾	—	1,180	3,560	(1)	(20)	4,719
EBIT	\$ 342	\$ (900)	\$ (3,643)	\$ 114	\$ (94)	(4,181)
Financing expense						326
Financing income						(52)
EBT						(4,455)
Income taxes						208
Net loss						\$ (4,663)
Other information						
R&D ⁽²⁾	\$ 88	\$ 89	\$ 50	\$ 9	\$ —	\$ 236
Net additions to PP&E and intangible assets ⁽³⁾	\$ 62	\$ 508	\$ 732	\$ 21	\$ (4)	\$ 1,319
Amortization	\$ 72	\$ 129	\$ 75	\$ 38	\$ 1	\$ 315
Impairment charges on intangible assets ⁽¹⁾	\$ —	\$ 925	\$ 3,070	\$ —	\$ (6)	\$ 3,989
Impairment charges on PP&E ⁽¹⁾	\$ —	\$ 15	\$ —	\$ —	\$ —	\$ 15

⁽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:

	September 30, 2016	December 31, 2015	January 1, 2015
Assets			
Total assets	\$ 23,876	\$ 22,903	\$ 27,614
Assets not allocated to segments			
Cash and cash equivalents	3,392	2,720	2,489
Income tax receivable ⁽¹⁾	60	56	64
Deferred income taxes	876	761	875
Segmented assets	19,548	19,366	24,186
Liabilities			
Total liabilities	27,741	26,957	27,559
Liabilities not allocated to segments			
Interest payable ⁽²⁾	107	154	124
Income taxes payable ⁽³⁾	303	224	248
Long-term debt ⁽⁴⁾	8,963	8,979	7,683
Segmented liabilities	\$ 18,368	\$ 17,600	\$ 19,504
Net segmented assets			
Transportation	\$ (118)	\$ 354	\$ 226
Business Aircraft	\$ 1,368	\$ 395	\$ 440
Commercial Aircraft	\$ 318	\$ 467	\$ 3,693
Aerostructures and Engineering Services	\$ (12)	\$ 434	\$ 204
Corporate and Elimination	\$ (376)	\$ 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 September 30		Nine-month periods ended September 30	
	2016	2015	2016	2015
R&D expenditures	\$ 225	\$ 498	\$ 1,177	\$ 1,311
Less: development expenditures capitalized to aerospace program tooling	(195)	(463)	(1,083)	(1,210)
	30	35	94	101
Add: amortization of aerospace program tooling	28	43	98	135
	\$ 58	\$ 78	\$ 192	\$ 236

5. OTHER INCOME

Other income was as follows:

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	2016	2015
Gains on disposals of PP&E and intangible assets	\$ (4)	\$ (1)	\$ (15)	\$ (3)
Changes in estimates and fair value ⁽¹⁾	(8)	2	(3)	(6)
Severance and other involuntary termination costs (including changes in estimates) ⁽²⁾	(1)	9	(3)	14
Other	—	(11)	—	(11)
	\$ (13)	\$ (1)	\$ (21)	\$ (6)

⁽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 September 30		Nine-month periods ended September 30	
	2016	2015	2016	2015
Onerous contracts provision - <i>C Series</i> aircraft program ⁽¹⁾	\$ —	\$ —	\$ 492	\$ —
Restructuring charges ⁽²⁾	24	—	180	9
Pension obligation ⁽³⁾	—	—	(139)	—
Impairment and other charges - <i>Learjet 85</i> aircraft program ⁽⁴⁾	—	1,163	(54)	1,163
Tax litigation ⁽⁵⁾	—	—	40	—
Foreign exchange gains related to the sale of a minority stake in Transportation ⁽⁶⁾	—	—	(38)	—
Transaction costs ⁽⁷⁾	—	—	8	—
Impairment and other charges - <i>C Series</i> aircraft program ⁽⁸⁾	—	3,235	—	3,235
Changes in estimates and fair value ⁽⁹⁾	—	353	—	353
Loss on repurchase of long-term debt ⁽¹⁰⁾	—	—	—	22
Tax impacts of special items ⁽¹¹⁾	(6)	106	(19)	106
	\$ 18	\$ 4,857	\$ 470	\$ 4,888
Of which is presented in				
Special items in EBIT	\$ 24	\$ 4,710	\$ 455	\$ 4,719
Financing expense - interests related to tax litigation ⁽⁵⁾	—	—	26	—
Financing expense - transaction costs ⁽⁷⁾	—	—	8	—
Financing expense - loss on financial instruments ⁽⁹⁾	—	41	—	41
Financing expense - loss on repurchase of long-term debt ⁽¹⁰⁾	—	—	—	22
Income taxes - effect of special items	(6)	106	(19)	106
	\$ 18	\$ 4,857	\$ 470	\$ 4,888

⁽¹⁾ Represents provision for onerous contracts in conjunction with the closing of *C Series* aircraft firm orders in the second quarter of 2016.

⁽²⁾ For the three- and nine-month periods ended September 30, 2016, represents restructuring charges of \$26 million and \$199 million and curtailment gains of \$2 million and \$19 million related to the workforce optimization announced in February 2016, respectively. For the nine-month period ended September 30, 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.

⁽³⁾ The Corporation had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that the Corporation does not expect to grant such increases in the foreseeable future in line with the Corporation's current practice, the constructive obligation amounting to \$139 million was reversed.

⁽⁴⁾ Represents an impairment charge of \$919 million on aerospace program tooling, and inventory write-downs, write-downs of other assets, PP&E and other intangible assets, other provisions and other financial liabilities of \$244 million, as a result of the cancellation of the *Learjet 85* aircraft program due to the lack of sales following the prolonged market weakness for the nine-month period ended September 30, 2015. See Note 11 - Inventories and Note 14 - Provisions. Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, the Corporation reduced the related provisions by \$54 million for the nine-month period ended September 30, 2016. The reduction in provisions is treated as a special item since the original provisions were also recorded as special charges in 2014 and 2015.

⁽⁵⁾ Represents a change in the estimates used to determine the provision related to tax litigation.

⁽⁶⁾ 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.

⁽⁷⁾ 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.

⁽⁸⁾ Represents an impairment charge of \$3,070 million on aerospace program tooling, and inventory write-downs and other provisions of \$165 million, following the completion of an in-depth review of the *C Series* aircraft program as well as discussions with the Government of Québec which resulted in the October 2015 memorandum of understanding for the nine-month period ended September 30, 2015. See Note 11 - Inventories and Note 14 - Provisions.

⁽⁹⁾ Related to an increase in provisions for credit and RVGs as a result of changes in assumptions concerning residual value curves of regional aircraft due to difficult market conditions for regional pre-owned aircraft and a higher probability that the guaranteed party will exercise the RVG given the recent experience with respect to RVG guarantees and a loss on certain financial instruments due to changes in estimated fair value for the nine-month period ended September 30, 2015.

⁽¹⁰⁾ Represents the loss related to the redemption of the \$750-million Senior Notes.

⁽¹¹⁾ For the three- and nine-month period ended September 30, 2015, represents net write-downs of deferred income tax assets, mainly due to the reorganization and consolidation of Transportation under one holding entity necessary to facilitate the planned placement of a minority stake in Transportation.

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 as special items. As at September 30 2016, approximately 80% of the planned reductions were achieved. 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.

Subsequent to the end of the quarter, the Corporation announced restructuring actions. The Corporation will streamline its administrative and non-production functions across the organization. Approximately 7,500 positions will be impacted as the Corporation executes its workforce optimization and site specialization actions through 2018. The impact of these restructuring actions on overall employment will be partially offset by strategic hiring to support the ramp-up for key growth programs, including the *C Series* and *Global 7000*, as well as to support major rail contract wins. The Corporation anticipates recording \$225 million to \$275 million in restructuring charges that will be reported as special items, starting in the fourth quarter of 2016 and continuing through 2017.

7. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows:

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	2016	2015
Financing expense				
Net loss on certain financial instruments ⁽¹⁾	\$ 53	\$ 54	\$ 66	\$ 77
Accretion on net retirement benefit obligations	16	18	50	55
Accretion on other financial liabilities	16	6	43	18
Tax litigation ⁽²⁾	—	—	26	—
Amortization of letter of credit facility costs	4	4	20	11
Changes in discount rates of provisions	—	3	9	3
Transaction costs ⁽³⁾	—	—	8	—
Accretion on provisions	2	2	7	5
Loss on repurchase of long-term debt ⁽⁴⁾	—	—	—	22
Other	12	5	43	17
	103	92	272	208
Interest on long-term debt, after effect of hedges	92	37	275	118
	\$ 195	\$ 129	\$ 547	\$ 326
Financing income				
Changes in discount rates of provisions	\$ (3)	\$ —	\$ —	\$ —
Other	(3)	(2)	(7)	(17)
	(6)	(2)	(7)	(17)
Interest on cash and cash equivalents	(4)	(2)	(9)	(5)
Income from investment in securities	(3)	(3)	(8)	(13)
Interest on loans and lease receivables, after effect of hedges	(1)	(5)	(6)	(17)
	(8)	(10)	(23)	(35)
	\$ (14)	\$ (12)	\$ (30)	\$ (52)

⁽¹⁾ Net losses (gains) on certain financial instruments classified as FVTP&L, including losses (gains) arising from changes in interest rates.

⁽²⁾ Represents a change in the estimates used to determine the provision related to tax litigation. See Note 6 – Special items for more details.

⁽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, which was recorded as a special item.

Borrowing costs capitalized to PP&E and intangible assets totalled \$30 million and \$89 million for the three- and nine-month periods ended September 30, 2016, using an average capitalization rate of 5.57% and 5.42%, respectively (\$98 million and \$228 million and 5.31% and 4.95% for the three- and nine-month periods ended September 30, 2015, respectively). 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 BT Holdco, which has significant NCI, was as follows, as at:

	September 30, 2016
	BT Holdco
Current assets	\$ 4,082
Non-current assets	4,108
Total assets	\$ 8,190
Current liabilities	\$ 5,650
Non-current liabilities	1,736
Total liabilities	\$ 7,386
Net assets	\$ 804

The selected income and cash flow information for BT Holdco, which has significant NCI, was as follows:

	Three-month period ended September 30, 2016
	BT Holdco
Revenues	\$ 1,782
Net income	\$ 59
Comprehensive loss	\$ (104)
Cash flows from operating activities	\$ 234
Cash flows from investing activities	\$ (31)
Cash flows from financing activities	\$ 46
	Nine-month period ended September 30, 2016
	BT Holdco
Revenues	\$ 5,626
Net loss	\$ (19)
Comprehensive loss	\$ (605)
Cash flows from operating activities	\$ 196
Cash flows from investing activities	\$ (42)
Cash flows from financing activities	\$ (51)

The changes to the accumulated NCI for BT Holdco, which has significant NCI, were as follows:

	BT Holdco
Balance as at December 31, 2015	\$ —
Issuance of NCI	1,281
Minimum return entitlement	105
OCI	5
Dividends	(42)
Balance as at September 30, 2016	\$ 1,349

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 continues 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 performance targets 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 the 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 the CDPQ's shares will be adjusted so that, immediately prior to the IPO, the 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. The 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, the 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 included 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 warrant. The fair value of each warrant 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 was assigned to its respective equity and derivative liability components so that no gain or loss arose 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.

Government of Québec investment in the C Series aircraft program

On June 30, 2016, Bombardier closed the \$1.0-billion investment by the Government of Québec (through Investissement Québec) in return for a 49.5% equity stake in a newly-created limited partnership, the C Series Aircraft Limited Partnership (CSALP), to which we have transferred the assets, liabilities and obligations of the C Series aircraft program. CSALP is 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. CSALP continues to be consolidated in our financial results.

Bombardier received the investment in two installments of \$500-million each on June 30, 2016 and September 1, 2016. The proceeds of the investment will be used entirely for cash flow purposes of the C Series aircraft program. Under the terms of the limited partnership agreement, the Corporation has committed to invest additional capital contributions in CSALP up to a maximum amount of \$1.0 billion in case of any liquidity shortfall in CSALP. Additional capital contributions by the Corporation would increase its ownership interest in CSALP.

The investment contemplates a continuity undertaking providing that we maintain in the Province of Québec, for a period of 20 years, CSALP'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.

As at September 30, 2016 CSALP had total assets amounting to \$3,805 million, of which \$2,451 million was aerospace program tooling (\$3,322 million as at June 30, 2016 of which 2,425 million was aerospace program tooling). CSALP has no long-term debt.

Warrants

Also on June 30 and September 1, 2016 Bombardier issued, in the name of Investissement Québec, warrants exercisable for a total number of 100,000,000 Class B Subordinate Voting Shares in the capital of Bombardier Inc., exercisable for a period of five years at an exercise price per share equal to \$1.72 U.S. dollars, being the equivalent of \$2.21 Canadian dollars using the exchange rate at the date of execution of the subscription agreement.

The warrants contain market standard adjustment provisions, including in the event of corporate changes, stock splits, reverse stock splits, non-cash dividends or distributions of rights, options or warrants to all or substantially all shareholders.

Fair value of warrants

The fair value of warrants as at June 30, 2016 was \$0.58 per warrant and as at September 1, 2016 was \$0.66 per warrant. The fair value of each warrant was determined using a Black-Scholes option pricing model, which incorporates the share price at the issuance date, and the following assumptions, as at June 30, 2016 and as at September 1, 2016:

	September 1, 2016	June 30, 2016
Risk-free interest rate	0.64%	0.57%
Expected life	5 years	5 years
Expected volatility in market price of shares	48.84%	49.41%
Expected dividend yield	0.00%	0.00%

9. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows:

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	2016	2015
(Number of shares, stock options, PSUs, DSUs, RSUs and warrants, in thousands)				
Net loss attributable to equity holders of Bombardier Inc.	\$ (79)	\$ (4,891)	\$ (771)	\$ (4,668)
Preferred share dividends, including taxes	(7)	(7)	(18)	(21)
Net loss attributable to common equity holders of Bombardier Inc.	\$ (86)	\$ (4,898)	\$ (789)	\$ (4,689)
Weighted-average number of common shares outstanding	2,210,085	2,225,636	2,217,102	2,040,938
Net effect of stock options, PSUs, DSUs, RSUs and warrants	—	—	—	—
Weighted-average diluted number of common shares	2,210,085	2,225,636	2,217,102	2,040,938
EPS (in dollars)				
Basic and diluted	\$ (0.04)	\$ (2.20)	\$ (0.36)	\$ (2.30)

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 300,855,145 and 228,088,432 stock options, PSUs, DSUs, RSUs and warrants for the three- and nine-month periods ended September 30, 2016, respectively (83,819,411 and 66,112,810 stock options, PSUs, DSUs and RSUs for the three- and nine-month periods ended September 30, 2015, respectively) 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	
September 30, 2016								
Financial assets								
Cash and cash equivalents	\$ 3,392	\$ —	\$ —	\$ —	\$ —	\$ 3,392	\$ 3,392	
Trade and other receivables	—	—	—	1,248	—	1,248	1,248	
Other financial assets	83	240	366	326	292	1,307	1,339	
	\$ 3,475	\$ 240	\$ 366	\$ 1,574	\$ 292	\$ 5,947	\$ 5,979	
Financial liabilities								
Trade and other payables	\$ —	\$ —	n/a	\$ 3,287	\$ —	\$ 3,287	\$ 3,287	
Long-term debt ⁽²⁾	—	—	n/a	8,963	—	8,963	8,243	
Other financial liabilities	228	144	n/a	971	311	1,654	1,693	
	\$ 228	\$ 144	n/a	\$ 13,221	\$ 311	\$ 13,904	\$ 13,223	
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:

	September 30, 2016	December 31, 2015	January 1, 2015
Aerospace programs	\$ 3,731	\$ 4,215	\$ 4,600
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	7,696	7,064	7,369
Less: advances and progress billings	(5,837)	(5,490)	(5,558)
	1,859	1,574	1,811
Service contracts			
Cost incurred and recorded margins	226	223	310
Less: advances and progress billings	(10)	(17)	(17)
	216	206	293
Finished products ⁽¹⁾	959	983	1,266
	\$ 6,765	\$ 6,978	\$ 7,970

⁽¹⁾ Finished products include 8 new aircraft not associated with a firm order and 19 pre-owned aircraft, totaling \$147 million as at September 30, 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 September 30, 2016 include \$15 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 \$3,156 million and \$9,952 million for the three- and nine-month periods ended September 30, 2016, respectively (\$3,458 million and \$10,795 million for the three- and nine-month periods ended September 30, 2015, respectively). These amounts include \$74 million and \$184 million of write-downs for the three- and nine-month periods ended September 30, 2016, respectively (\$136 million and \$219 million for the three- and nine-month periods ended September 30, 2015, respectively). In addition, for the three- and nine-month periods ended September 30, 2015, an additional write-down of \$57 million was recognized as a special item.

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 €440 million (\$494 million) as at September 30, 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:

	September 30, 2016	December 31, 2015	January 1, 2015
Derivative financial instruments	\$ 375	\$ 362	\$ 528
Investments in securities ⁽¹⁾⁽²⁾	372	359	346
Long-term contract receivables	249	298	321
Investments in financing structures ⁽¹⁾	220	197	360
Aircraft loans and lease receivables ⁽¹⁾	68	81	275
Restricted cash	12	11	17
Other	11	12	11
	\$ 1,307	\$ 1,320	\$ 1,858
Of which current	\$ 378	\$ 450	\$ 530
Of which non-current	929	870	1,328
	\$ 1,307	\$ 1,320	\$ 1,858

⁽¹⁾ Carried at fair value, except for \$2 million of aircraft loans and lease receivables, \$6 million of investments in securities and \$46 million of investment in financing structures carried at amortized cost as at September 30, 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 September 30, 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:

	September 30, 2016	December 31, 2015	January 1, 2015
Prepaid expenses and deferred costs	\$ 428	\$ 414	\$ 760
Sales tax and other taxes	188	244	238
Deferred financing charges	151	173	138
Intangible assets other than aerospace program tooling and goodwill	111	114	156
Income taxes receivable	60	56	64
Retirement benefits	56	251	159
Other	34	29	33
	\$ 1,028	\$ 1,281	\$ 1,548
Of which current	\$ 459	\$ 484	\$ 592
Of which non-current	569	797	956
	\$ 1,028	\$ 1,281	\$ 1,548

14. PROVISIONS

Changes in provisions were as follows, for the three- and nine-month periods ended September 30:

	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	109	2	175 ⁽²⁾	555 ⁽³⁾	841
Utilization	(106)	(10)	(40)	(90)	(246)
Reversals	(53)	(22)	(6) ⁽²⁾	(57) ⁽⁴⁾	(138)
Accretion expense	1	4	—	—	5
Effect of changes in discount rates	1	11	—	—	12
Effect of foreign currency exchange rate changes	3	—	(4)	—	(1)
Balance as at June 30, 2016	\$ 680	\$ 655	\$ 191	\$ 973	\$ 2,499
Additions	74	3	30 ⁽²⁾	160	267
Utilization	(68)	(22)	(54)	(149)	(293)
Reversals	(6)	—	(4) ⁽²⁾	(40)	(50)
Accretion expense	—	1	—	1	2
Effect of changes in discount rates	(1)	(2)	—	—	(3)
Effect of foreign currency exchange rate changes	3	—	3	(1)	5
Balance as at September 30, 2016	\$ 682	\$ 635	\$ 166	\$ 944	\$ 2,427
Of which current	\$ 541	\$ 68	\$ 165	\$ 303	\$ 1,077
Of which non-current	141	567	1	641	1,350
	\$ 682	\$ 635	\$ 166	\$ 944	\$ 2,427

	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	160	4	20 ⁽²⁾	14	198
Utilization	(116)	(23)	(44)	(10)	(193)
Reversals	(50)	(6)	(5) ⁽²⁾	(9)	(70)
Accretion expense	—	3	—	—	3
Effect of foreign currency exchange rate changes	(32)	—	(5)	(2)	(39)
Balance as at June 30, 2015	\$ 735	\$ 434	\$ 83	\$ 199	\$ 1,451
Additions	55	250 ⁽⁵⁾	7	310 ⁽³⁾	622
Utilization	(59)	(12)	(8)	(2)	(81)
Reversals	(14)	—	—	(2)	(16)
Accretion expense	1	1	—	—	2
Effect of changes in discount rates	1	2	—	—	3
Effect of foreign currency exchange rate changes	(4)	—	(1)	(1)	(6)
Balance as at September 30, 2015	\$ 715	\$ 675	\$ 81	\$ 504	\$ 1,975
Of which current	\$ 559	\$ 69	\$ 79	\$ 395	\$ 1,102
Of which non-current	156	606	2	109	873
	\$ 715	\$ 675	\$ 81	\$ 504	\$ 1,975

⁽¹⁾ Mainly comprised of onerous contract provisions, claims and litigations.

⁽²⁾ See Note 6 – Special items for more details on additions and reversals related to restructuring charges.

⁽³⁾ See Note 6 – Special items for more details on the addition related to the *C Series* aircraft program onerous contracts provision and to the tax litigation provision for the nine-month period ended September 30, 2016 and to the addition of other provisions related to the *C Series* aircraft program and to the cancellation of the *Learjet 85* program for the nine-month period ended September 30, 2015.

⁽⁴⁾ See Note 6 – Special items for more details on the reversal of *Learjet 85* aircraft program cancellation provisions.

⁽⁵⁾ See Note 6 – Special items for more details on changes in estimates and fair value related to Credit and residual value guarantees.

15. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	September 30, 2016	December 31, 2015	January 1, 2015
Derivative financial instruments	\$ 539	\$ 702	\$ 665
Government refundable advances	401	411	363
Vendor non-recurring costs	351	20	36
Lease subsidies	144	135	172
Short-term borrowings ⁽¹⁾	84	—	—
Current portion of long-term debt	40	71	56
Sale and leaseback obligations	19	133	260
Other	116	138	60
	\$ 1,694	\$ 1,610	\$ 1,612
Of which current	\$ 715	\$ 991	\$ 1,010
Of which non-current	979	619	602
	\$ 1,694	\$ 1,610	\$ 1,612

⁽¹⁾ Relates to amounts drawn under Transportation's €658-million (\$738 million) unsecured revolving credit facility. Also see Note 19 - Credit facilities.

16. OTHER LIABILITIES

Other liabilities were as follows, as at:

	September 30, 2016	December 31, 2015	January 1, 2015
Supplier contributions to aerospace programs	\$ 610	\$ 606	\$ 601
Employee benefits	589	647	661
Accruals for long-term contract costs	553	606	631
Deferred revenues	436	397	450
Income taxes payable	303	224	248
Other taxes payable	135	212	119
Other	514	578	568
	\$ 3,140	\$ 3,270	\$ 3,278
Of which current	\$ 2,027	\$ 2,274	\$ 2,182
Of which non-current	1,113	996	1,096
	\$ 3,140	\$ 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 September 30			
			2016		2015	
	PSU	DSU	RSU	PSU	DSU	RSU
Balance at beginning of period	15,083,308	4,026,599	23,203,111	25,084,158	6,989,586	—
Granted	31,198,310	—	—	—	—	22,390,685
Exercised	—	(102,178)	—	—	—	—
Forfeited	(6,528,719)	(1,133,703)	(599,579)	(9,084,923)	(1,589,531)	(67,382)
Balance at end of period	39,752,899	2,790,718 ⁽¹⁾	22,603,532	15,999,235	5,400,055 ⁽¹⁾	22,323,303

			Nine-month periods ended September 30			
			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	31,198,310	—	1,659,631	248,757	—	22,390,685
Exercised	(65,790)	(351,061)	—	—	(168,486)	—
Forfeited	(7,006,838)	(1,742,050)	(1,388,781)	(10,295,458)	(2,097,923)	(67,382)
Balance at end of period	39,752,899	2,790,718 ⁽¹⁾	22,603,532	15,999,235	5,400,055 ⁽¹⁾	22,323,303

⁽¹⁾ Of which 1,260,639 DSUs are vested as at September 30, 2016 (1,783,649 as at September 30, 2015).

The compensation expense, with respect to the PSU, DSU and RSU plans, amounted to \$5 million and \$11 million during the three- and nine-month periods ended September 30, 2016, respectively (\$4 million and \$9 million during the three- and nine-month periods ended September 30, 2015, respectively).

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 September 30		Nine-month periods ended September 30	
	2016	2015	2016	2015
Balance at beginning of period	73,572,041	32,558,998	74,347,206	31,446,124
Granted	26,532,128	44,722,033	29,195,107	48,762,044
Forfeited	(796,924)	(209,785)	(3,239,068)	(1,995,532)
Expired	(1,021,000)	(2,583,400)	(2,017,000)	(3,724,790)
Balance at end of period	98,286,245	74,487,846	98,286,245	74,487,846

A compensation expense of \$3 million and \$7 million was recorded during the three- and nine-month periods ended September 30, 2016, respectively, with respect to share option plans (\$2 million and \$5 million for the three- and nine-month periods ended September 30, 2015, respectively).

18. NET CHANGE IN NON-CASH BALANCES

Net change in non-cash balances was as follows:

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	2016	2015
Trade and other receivables	\$ 10	\$ 15	\$ 235	\$ 208
Inventories	127	(68)	291	(298)
Other financial assets and liabilities, net	17	173	(148)	119
Other assets	31	156	221	(102)
Trade and other payables	(321)	(57)	(759)	(148)
Provisions	(78)	528	395	467
Advances and progress billings in excess of long-term contract inventories	205	36	121	(203)
Advances on aerospace programs	(27)	(181)	(139)	(941)
Retirement benefit liability	(7)	(50)	(248)	134
Other liabilities	9	(209)	(167)	(99)
	\$ (34)	\$ 343	\$ (198)	\$ (863)

19. CREDIT FACILITIES

In April 2016, the availability periods of Transportation's €3,640-million (\$4,084-million using the exchange rate as at September 30, 2016) 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 (\$561-million using the exchange rate as at September 30, 2016) 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 (\$561-million using the exchange rate as at September 30, 2016) unsecured revolving credit facility was increased to €608 million (\$682 million using the exchange rate as at September 30, 2016) 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 \$400-million letter of credit facility and the \$400-million unsecured revolving credit facility, which are available for the Corporation excluding Transportation, was 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 (\$673 million) at the end of each quarter, all calculated based on Transportation stand-alone financial data.

In May 2016, the committed amount under Transportation's €3,640-million (\$4,084-million using the exchange rate as at September 30, 2016) letter of credit facility decreased to €3,310-million (\$3,714-million using the exchange rate as at September 30, 2016).

Effective in June 2016, Transportation's €608-million (\$682-million) unsecured revolving credit facility was increased to €658 million (\$738 million). Short-term borrowings of €75 million (\$84 million) remain outstanding under Transportation's €658-million (\$738-million) unsecured revolving credit facility as at September 30, 2016 (nil as at December 31, 2015 and January 1, 2015).

In October 2016, the maturity date of Transportation's €658-million (\$738-million) unsecured revolving credit facility was extended by one year to October 2019.

20. 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, short-term borrowings 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 September 30, 2016:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	\$ 66	\$ —	\$ —	\$ 66
Derivative financial instruments ⁽¹⁾	375	—	375	—
Investments in securities	352 ⁽²⁾	45	307	—
Investments in financing structures	174	—	—	174
	\$ 967	\$ 45	\$ 682	\$ 240
Financial liabilities				
Lease subsidies	\$ (144)	\$ —	\$ —	\$ (144)
Derivative financial instruments ⁽¹⁾	(539)	—	(370)	(169)
	\$ (683)	\$ —	\$ (370)	\$ (313)

⁽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- and nine-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⁾	2	24	—	(21)	(3)
Issuances	—	—	(6)	—	(120)
Settlements	(8)	—	7	11	—
Balance as at June 30, 2016	\$ 73	\$ 175	\$ —	\$ (145)	\$ (123)
Net gains (losses) and interest included in net income ⁽¹⁾	2	7	—	(5)	(46)
Settlements	(9)	(8)	—	6	—
Balance as at September 30, 2016	\$ 66	\$ 174	\$ —	\$ (144)	\$ (169)

	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⁾	16	15	—	2	—
Issuances	—	—	(6)	—	—
Settlements	(28)	—	18	11	—
Balance as at June 30, 2015	\$ 251	\$ 180	\$ (6)	\$ (159)	\$ —
Net gains (losses) and interest included in net income ⁽¹⁾	(81)	(27)	—	19	—
Issuances	4	—	—	—	—
Settlements	(6)	(1)	4	7	—
Balance as at September 30, 2015	\$ 168	\$ 152	\$ (2)	\$ (133)	\$ —

⁽¹⁾ Of which nil and \$2 million represents realized gains for the three- and nine-month periods ended September 30, 2016, which are recorded in financing income (\$3 million and \$7 million represents realized gains for the three- and nine-month periods ended September 30, 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 September 30, 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 7.5% and 9.84% (9.32%)	Between 1.75% and 8.17% (6.48%)	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 September 30, 2016:

Impact on EBT			Change of assumptions		
Change in fair value recognized in EBT for the :					
	Three-month period ended September 30, 2016	Nine-month period ended September 30, 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
Gain (loss)					
Aircraft loans and lease receivables	\$ 1	\$ (2)	\$ (1)	\$ (2)	\$ (3)
Investment in financing structures	\$ 3	\$ 21	\$ (4)	\$ (11)	\$ (10)
Lease subsidies	\$ (3)	\$ (18)	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 nine-month period ended September 30, 2016 of \$16 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 nine-month period ended September 30, 2016 of \$18 million.

21. COMMITMENTS AND CONTINGENCIES

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

	September 30, 2016	December 31, 2015	January 1, 2015
Aircraft sales			
Residual value	\$ 1,591	\$ 1,669	\$ 1,749
Credit	1,235	1,248	1,275
Mutually exclusive exposure ⁽¹⁾	(588)	(598)	(628)
Total credit and residual value exposure	\$ 2,238	\$ 2,319	\$ 2,396
Trade-in commitments	\$ 1,799	\$ 1,818	\$ 2,696
Conditional repurchase obligations	\$ 197	\$ 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 \$635 million as at September 30, 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 \$144 million as at September 30, 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 September 30, 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.