BOMBARDIER
the evolution of mobility

THIRD QUARTERLY REPORT

Three- and nine-month periods ended September 30, 2016

GLOSSARY

The following table shows the abbreviations used in this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

The results of operations and cash flows for the three- and nine-month periods are not necessarily indicative of the results of operations and cash flows for the full fiscal year.

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

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

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

FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements, which may involve, but are not limited to: statements with respect to our objectives, guidance, targets, goals, priorities, market and strategies, financial position, beliefs, prospects, plans, expectations, anticipations, estimates and intentions; general economic and business outlook, prospects and trends of an industry; expected growth in demand for products and services; product development, including projected design, characteristics, capacity or performance; expected or scheduled entry-into-service of products and services, orders, deliveries, testing, lead times, certifications and project execution in general; competitive position; the expected impact of the legislative and regulatory environment and legal proceedings on our business and operations; available liquidities and ongoing review of strategic and financial alternatives; the effects of the investment by the Government of Québec in the C Series Aircraft Limited Partnership (the *C Series* Investment) and of the private placement of a minority stake in Transportation by the CDPQ (the CDPQ Investment and, with the *C Series* Investment, the Investments) on the range of options available to us, including regarding our participation in future industry consolidation; the capital and governance structure of the Transportation segment following the CDPQ Investment, and of the Commercial Aircraft segment following the *C Series* Investment; the impact and expected benefits of the Investments on our operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; and the impact of the Investments on our balance sheet and liquidity position.

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

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to, risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of the airline industry, business aircraft customers, and of the rail industry; trade policy; increased competition; political instability and force majeure), operational risks (such as risks related to developing new products and services; development of new business; the certification and homologation of products and services; fixed-price and fixed-term commitments and production and project execution; pressures on cash flows based on project-cycle fluctuations and seasonality; our ability to successfully implement and execute our strategy and transformation plan; doing business with partners; product performance warranty and casualty claim losses; regulatory and legal proceedings; the environment; dependence on certain customers and suppliers; human resources; reliance on information systems; reliance on and protection of intellectual property rights; and adequacy of insurance coverage), financing risks (such as risks related to liquidity and access to capital markets; retirement benefit plan risk; exposure to credit risk; substantial existing debt and interest payment requirements; certain restrictive debt covenants; financing support provided for the benefit of certain customers; and reliance on government support), market risks (such as risks related to foreign currency fluctuations; changing interest rates; decreases in residual values; increases in commodity prices; and inflation rate fluctuations). For more details, see the Risks and uncertainties section in Other in the MD&A of our financial report for the fiscal year ended December 31, 2015. For additional information with respect to the assumptions underlying the forward-looking statements made in this MD&A, refer to the Guidance and forward-looking statements sections in the MD&A of our financial report for the fiscal year ended December 31, 2015.

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

OVERVIEW

HIGHLIGHTS

Results of the quarter

Three-month periods ended September 30	**2016**	2015	Variance
Revenues	**$ 3,736**	$ 4,138	(10)%
EBIT	**$ 63**	$ (4,635)	nmf
EBIT margin	**1.7%**	nmf	nmf
EBIT before special items[1]	**$ 87**	$ 75	16 %
EBIT margin before special items[1]	**2.3%**	1.8 %	50 bps
EBITDA before special items[1]	**$ 172**	$ 179	(4)%
EBITDA margin before special items[1]	**4.6%**	4.3 %	30 bps
Net loss	**$ (94)**	$ (4,888)	nmf
Diluted EPS (in dollars)	**$ (0.04)**	$ (2.20)	nmf
Adjusted net income (loss)[1]	**$ (10)**	$ 2	nmf
Adjusted EPS (in dollars)[1]	**$ 0.00**	$ 0.00	—
Net additions to PP&E and intangible assets	**$ 248**	$ 501	(50)%
Cash flows from operating activities	**$ (72)**	$ (315)	77 %
Free cash flow usage[1]	**$ (320)**	$ (816)	61 %
As at	**September 30, 2016**	December 31, 2015	
Available short-term capital resources[2]	**$ 4,446**	$ 4,014	11 %

Key highlights and events

- Our operational transformation is gaining traction. Our results for the quarter reflect overall improved performance:
  - Revenues reflect our 2015 decisions to align business aircraft production rates to market demand, certain Transportation contracts nearing completion, as well as our active project and cash management in Transportation, which in turn defers revenue recognition under long-term contract accounting.
  - Overall EBIT margins before special items improved, notwithstanding the dilutive impact from the *C Series* aircraft program as production accelerates.
  - Improved free cash flow usage[1] due to higher cash flows from operating activities and reduced investment following certification of both the *CS100* and *CS300* aircraft.
- Strong execution in the first nine months of 2016 allows us to refine our 2016 revenue guidance and increase profitability[3] guidance across each operating segment. We also revised liquidity guidance. Refer to the 2016 guidance update section for more details.[4]
  - Consolidated revenue guidance refined to approximately $16.5 billion.
  - Consolidated EBIT before special items[1] guidance narrowed to between $350 million and $400 million.
  - Consolidated free cash flow usage[1] guidance revised from a range of $1.0 billion to $1.3 billion to the range of $1.15 billion to $1.45 billion, following the revised delivery forecast for the *C Series* aircraft program as a result of engine delivery delays.
- Stable available short-term capital resources[2] of $4.4 billion.
  - On September 1, 2016, we received the second $500-million installment of the $1.0-billion investment from the Government of Québec (through Investissement Québec) in the C Series Aircraft Limited Partnership (CSALP), which will carry on the operations related to our *C Series* aircraft program and will continue to be consolidated in our financial results.

(1) Non-GAAP financial measures. Refer to the Non-GAAP financial measures, Consolidated results of operations and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.
(2) Defined as cash and cash equivalents plus the amount available under the revolving credit facilities.
(3) Profitability guidance is based on EBIT before special items.
(4) See the forward-looking statements disclaimer and each reportable segment's Guidance and forward-looking statements section in the 2015 Financial Report for details regarding the assumptions on which the guidance is based, except for the level of production in Aerostructures and Engineering Services related to intersegment contracts, which is now expected to be lower in 2016 as compared to 2015.

Key highlights and events (continued)

- We continue to implement our transformation initiatives to deliver on our 2018 and 2020 financial objectives:
  - Approximately 80% of the 7,000 planned workforce reductions announced in February 2016 were achieved during the first nine months of 2016. We anticipate recording restructuring charges totalling approximately $250 million in special items related to these actions, consisting mainly of severance net of curtailment gains,(1) of which $180 million has been recorded in the first three quarters of 2016.
  - Subsequent to the end of the quarter, we announced restructuring actions, including streamlining administrative and non-production functions across the organization, workforce optimization and site specialization, leading to expected recurring savings of approximately $300 million by the end of 2018.(1) Approximately 7,500 positions are expected to be impacted through 2018, partially offset by strategic hiring to support ramp-up for key growth programs including the *C Series* aircraft program and *Global 7000* aircraft and major rail contract wins. We anticipate recording $225 million to $275 million in restructuring charges, to be reported as special items when accrued, starting in the fourth quarter of 2016 and continuing through 2017.(1)
- On November 4, 2016, we completed the successful maiden flight of the first *Global 7000* FTV, dedicated to testing basic system functionality and assessing the handling and flying qualities of the aircraft. The *Global 7000* aircraft will set the standard for a new category of large business jets. It is the first and only clean-sheet business jet with four living spaces. Engineered with a next-generation transonic wing design, the aircraft offers a steep approach capability and short field performance, coupled with highly efficient engines, the largest cabin in this category and a highly advanced cockpit.(2)

(1) Forward-looking statement. See the forward-looking statements disclaimer.
(2) See the *Global 7000* and *Global 8000* aircraft program disclaimer at the end of this MD&A.

2016 GUIDANCE UPDATE

The following is an update of guidance provided in our 2015 Financial Report.

		Guidance provided in our 2015 Financial Report	Results for the nine-month period ended September 30, 2016	2016 guidance update[1]
Consolidated	Revenues	Revenues in the range of $16.5 billion to $17.5 billion.	Revenues of $12.0 billion.	Revenues of approximately $16.5 billion.
	Profitability[2]	EBIT in the range of $200 million to $400 million.	EBIT before special items[2] of $323 million.	EBIT before special items[2] in the range of $350 million to $400 million.
	Liquidity	Free cash flow usage[3] in the range of $1.0 billion to $1.3 billion.	Free cash flow usage[3] of $1.6 billion.	Free cash flow usage[3] in the range of $1.15 billion to $1.45 billion.
Business Aircraft	Revenues and deliveries	Revenues greater than $5.0 billion. Approximately 150 deliveries.	Revenues of $4.1 billion. 109 deliveries.	Revenues of approximately $5.5 billion. Above 150 deliveries.
	Profitability[2]	EBIT margin of approximately 6%.	EBIT margin before special items[2] of 6.6%.	EBIT margin before special items[2] above 6%.
Commercial Aircraft	Revenues and deliveries	Revenues of approximately $3.0 billion. Approximately 95 deliveries.	Revenues of $1.9 billion. 63 deliveries.	Revenues of approximately $2.7 billion. Between 85 to 90 deliveries.
	Profitability[2]	Negative EBIT of approximately $550 million, mainly due to the dilutive impact of the initial years of production of the *C Series* aircraft program.[4]	Negative EBIT before special items[2] of $276 million.	Negative EBIT before special items[2] of approximately $450 million, mainly due to the dilutive impact of the initial years of production of the *C Series* aircraft program.[4]
Aerostructures and Engineering Services	Revenues	Revenues are expected to remain at approximately $1.8 billion, mainly from intersegment contracts with Business Aircraft and Commercial Aircraft.	Revenues of $1.2 billion, of which $0.9 billion is from intersegment contracts.	Revenues of approximately $1.6 billion, mainly from intersegment contracts with Business Aircraft and Commercial Aircraft.
	Profitability[2]	EBIT margin of approximately 7.5%.	EBIT margin before special items[2] of 7.6%.	EBIT margin before special items[2] of approximately 8%.
Transportation	Revenues	Revenues of approximately $8.5 billion, based on the assumption that foreign exchange rates will remain stable in 2016 compared to 2015.	Revenues of $5.8 billion excluding negative currency impacts.	Revenues of approximately $8.0 billion, based on the current foreign exchange rates in 2016.
	Profitability[2]	EBIT margin above 6%.	EBIT margin before special items[2] of 6.7%.	EBIT margin before special items[2] above 6.5%.

(1) See the forward-looking statements disclaimer and each reportable segment's Guidance and forward-looking statements section in the 2015 Financial Report for details regarding the assumptions on which the guidance is based, except for the level of production in Aerostructures and Engineering Services related to intersegment contracts, which is now expected to be lower in 2016 as compared to 2015.

(2) Profitability guidance is based on EBIT or EBIT margin before special items. Refer to the Non-GAAP financial measures section for a definition of this metric and the Consolidated results of operations section, as well as each reportable segment's Analysis of results section for reconciliations to the most comparable IFRS measures for the nine-month period ended September 30, 2016.

(3) Refer to the Non-GAAP financial measures section for a definition of this metric and the Liquidity and capital resources section for a reconciliation to the most comparable IFRS measure for the nine-month period ended September 30, 2016.

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

Consolidated[1]

On a consolidated basis, we are in line to achieve our 2016 revenue and profitability[2] guidance. We are refining our revenue guidance to approximately $16.5 billion and narrowing the range of EBIT before special items[2] to between $350 million and $400 million. Finally, we are revising our consolidated free cash flow usage[3] guidance from a range of $1.0 billion to $1.3 billion to the range of $1.15 billion to $1.45 billion, following the revised delivery forecast for the *C Series* aircraft program as a result of engine delivery delays.

Business Aircraft[1]

Business Aircraft is in line to achieve revenue, delivery and profitability[2] guidance for the year. Revenues for the nine-month period ended September 30, 2016 have benefited from a favourable mix with higher proportion of medium and large aircraft, compared to the original forecast. EBIT before special items[2] year-to-date also reflect stronger operational performance. Based on results to date, we are refining guidance for the year to revenues of approximately $5.5 billion, over 150 deliveries, and profitability[2] of greater than 6%.

Commercial Aircraft[1]

We adjusted the delivery forecast for the *C Series* aircraft program for the full year, from 15 to 7 aircraft, as a result of engine delivery delays by our supplier Pratt & Whitney. Mainly as a result of this delivery adjustment, we updated Commercial Aircraft delivery guidance for full year 2016 to between 85 to 90 aircraft and our free cash flow usage target for the *C Series* aircraft program in 2016 is now approximately $1.15 billion, of which $830 million has been spent in the first nine months. We now expect total Commercial Aircraft revenues in 2016 of approximately $2.7 billion.

Following the successful EIS of the *C Series* aircraft program, we now forecast a full year 2016 Commercial Aircraft negative EBIT before special items[2] of approximately $450 million, based on strong execution while ramping-up production and cost control during the initial months following EIS, supported by the reliability of the *CS100* aircraft in service.

Aerostructures and Engineering Services[1]

We are revising Aerostructures and Engineering Services revenue guidance for the full year 2016 to approximately $1.6 billion, mainly due to lower intersegment revenues to align production with our internal customers, Business Aircraft and Commercial Aircraft. Aerostructures and Engineering Services' EBIT margin before special items[2] for the nine-month period ended September 30, 2016 has exceeded the original forecast, mainly driven by transformation initiatives benefiting mostly the second half of 2016. As a result, we have increased our profitability guidance[2] to approximately 8%.

Transportation[1]

We are revising Transportation's full year revenue guidance for 2016 to approximately $8.0 billion, mainly due to active project management as we apply stronger cash discipline and de-risk project execution. This in turn is deferring recognition of certain costs and associated recognition of revenue under long-term contract accounting.

Transportation is in line to exceed profitability guidance. EBIT before special items[2] for the nine-month period ended September 30, 2016 has exceeded the original forecast, mainly driven by transformation initiatives and stronger contract execution. Based on results to date, we are increasing profitability guidance[2] for the year to above 6.5%.

(1) See the forward-looking statements disclaimer and each reportable segment's Guidance and forward-looking statements section in the 2015 Financial Report for details regarding the assumptions on which the guidance is based, except for the level of production in Aerostructures and Engineering Services related to intersegment contracts, which is now expected to be lower in 2016 as compared to 2015.

(2) Profitability guidance is based on EBIT or EBIT margin before special items. Refer to the Non-GAAP financial measures section for a definition of this metric and the Consolidated results of operations section, as well as each reportable segment's Analysis of results section for reconciliations to the most comparable IFRS measures for the nine-month period ended September 30, 2016.

(3) Refer to the Non-GAAP financial measures section for a definition of this metric and the Liquidity and capital resources section for a reconciliation to the most comparable IFRS measure for the nine-month period ended September 30, 2016.

CONSOLIDATED RESULTS OF OPERATIONS

Results of operations

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	**2016**	2015
Revenues	**$ 3,736**	$ 4,138	**$ 11,959**	$ 13,155
Cost of sales	**3,352**	3,721	**10,680**	11,583
Gross margin	**384**	417	**1,279**	1,572
SG&A	**281**	284	**846**	857
R&D	**58**	78	**192**	236
Share of income of joint ventures and associates	**(29)**	(19)	**(61)**	(53)
Other income	**(13)**	(1)	**(21)**	(6)
EBIT before special items[1]	**87**	75	**323**	538
Special items	**24**	4,710	**455**	4,719
EBIT	**63**	(4,635)	**(132)**	(4,181)
Financing expense	**195**	129	**547**	326
Financing income	**(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	**$ (15)**	$ 3	**$ 49**	$ 5
EPS (in dollars)				
Basic and diluted	**$ (0.04)**	$ (2.20)	**$ (0.36)**	$ (2.30)
(as a percentage of total revenues)				
EBIT before special items[1]	**2.3%**	1.8%	**2.7 %**	4.1%
EBIT	**1.7%**	nmf	**(1.1)%**	nmf

Non-GAAP financial measures[1]

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	**2016**	2015
EBITDA	**$ 148**	$ (527)	**$ 140**	$ 138
EBITDA before special items	**$ 172**	$ 179	**$ 595**	$ 853
Adjusted net income (loss)	**$ (10)**	$ 2	**$ (127)**	$ 317
Adjusted EPS	**$ 0.00**	$ 0.00	**$ (0.09)**	$ 0.14

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

Reconciliation of segment to consolidated results

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	**2016**	2015
Revenues				
Business Aircraft	**$ 1,314**	$ 1,558	**$ 4,090**	$ 4,910
Commercial Aircraft	**538**	480	**1,918**	1,751
Aerostructures and Engineering Services	**337**	411	**1,230**	1,354
Transportation	**1,782**	1,985	**5,626**	6,117
Corporate and Elimination	**(235)**	(296)	**(905)**	(977)
	$ 3,736	$ 4,138	**$ 11,959**	$ 13,155
EBIT before special items[1]				
Business Aircraft	**$ 84**	$ 54	**$ 269**	$ 280
Commercial Aircraft	**(107)**	(63)	**(276)**	(83)
Aerostructures and Engineering Services	**29**	30	**94**	113
Transportation	**140**	109	**379**	342
Corporate and Elimination	**(59)**	(55)	**(143)**	(114)
	$ 87	$ 75	**$ 323**	$ 538
Special Items				
Business Aircraft	**$ —**	$ 1,169	**$ (109)**	$ 1,180
Commercial Aircraft	**—**	3,561	**483**	3,560
Aerostructures and Engineering Services	**9**	—	**(10)**	(1)
Transportation	**15**	—	**144**	—
Corporate and Elimination	**—**	(20)	**(53)**	(20)
	$ 24	$ 4,710	**$ 455**	$ 4,719
EBIT				
Business Aircraft	**$ 84**	$ (1,115)	**$ 378**	$ (900)
Commercial Aircraft	**(107)**	(3,624)	**(759)**	(3,643)
Aerostructures and Engineering Services	**20**	30	**104**	114
Transportation	**125**	109	**235**	342
Corporate and Elimination	**(59)**	(35)	**(90)**	(94)
	$ 63	$ (4,635)	**$ (132)**	$ (4,181)

[1] Non-GAAP financial measure. Refer to the Non-GAAP financial measures section for a definition of this metric.

Analysis of consolidated results

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

Special items

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

Special items were as follows:

		Three-month periods ended September 30		**Nine-month periods ended September 30**	
	Ref	**2016**	2015	**2016**	2015
Onerous contracts provision - *C Series* aircraft program	1	**$ —**	$ —	**$ 492**	$ —
Restructuring charges	2	**24**	—	**180**	9
Pension obligation	3	**—**	—	**(139)**	—
Impairment and other charges - *Learjet 85* 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 related to the conversion option embedded in the CDPQ investment	7	**—**	—	**8**	—
Impairment and other charges - *C Series* 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 related to the conversion option embedded in the CDPQ investment	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	11	**(6)**	106	**(19)**	106
		$ 18	$ 4,857	**$ 470**	$ 4,888

1. Represents an onerous contracts provision in conjunction with the closing of *C Series* aircraft firm orders in the second quarter of 2016. The special item is net of $24 million in Corporate and Elimination.
2. In 2016, comprised restructuring charges of $26 million and $199 million for the three- and nine-month periods, respectively, partially offset by curtailment gains of $2 million and $19 million, respectively, related to the workforce optimization announced in February 2016.

   In 2015, included restructuring charges of $13 million related to the workforce reduction announced in January 2015 as a result of the decision to pause the *Learjet 85* aircraft program, partially offset by $4 million of adjustments to restructuring provisions recorded in 2014.
3. Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation amounting to $139 million was reversed.

4. In 2015, represents an impairment charge of $919 million on aerospace program tooling (including a credit of $6 million in Corporate and Elimination), 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.

   Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, in 2016 we reduced the related provisions by $54 million. 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.
8. Represents an impairment charge of $3.1 billion 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. The special item includes a credit of $14 million in Corporate and Elimination.
9. Represents an increase in provisions for credit guarantees 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 RVGs and a loss on certain financial instruments due to changes in estimated fair value.
10. Represents the loss related to the redemption of the $750-million Senior Notes.
11. In 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. These write-downs had a significant impact on the effective income tax rate.

Net financing expense

Net financing expense amounted to $181 million and $517 million, respectively, for the three- and nine-month periods ended September 30, 2016, compared to $117 million and $274 million for the corresponding periods last fiscal year.

The $64-million increase for the three-month period is mainly due to:

- lower borrowing costs capitalized to PP&E and intangible assets following type certification of the *CS100* aircraft in December 2015 ($68 million); and
- higher interest on long-term debt, after the effect of hedges ($11 million).

Partially offset by:

- lower gross accretion on other financial liabilities, mainly forgivable loans ($14 million).

The $243-million increase for the nine-month period is mainly due to:

- lower borrowing costs capitalized to PP&E and intangible assets following type certification of the *CS100* aircraft in December 2015 ($139 million);
- higher interest on long-term debt, after the effect of hedges ($54 million);
- interest related to a tax litigation provision ($26 million); and
- lower interest on loans and lease receivables, after effect of hedges ($11 million).

Partially offset by:

- a loss on repurchase of long-term debt in the corresponding period last year ($22 million); and
- a lower net loss related to certain financial instruments classified as FVTP&L ($11 million).

Income taxes

The effective income tax rates for the three- and nine-month periods ended September 30, 2016 are 20.3% and (11.2)%, respectively, compared to the statutory income tax rate in Canada of 26.8%. In the three-month period, the lower effective income tax rate is mainly due to the negative impact of permanent differences. In the nine-month period, the negative effective tax rate is mainly due to the negative impacts of the net non-recognition of income tax benefits related to tax losses and temporary differences and permanent differences.

The effective income tax rates for the three- and nine-month periods ended September 30, 2015 were (2.9)% and (4.7)%, respectively, compared to the statutory income tax rate in Canada of 26.8%. The negative effective income tax rates were due to the 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 (recorded as a special item), and the net non-recognition of income tax benefits related to tax losses and temporary differences, partially offset by the positive impacts of the income tax rate differential of foreign subsidiaries.

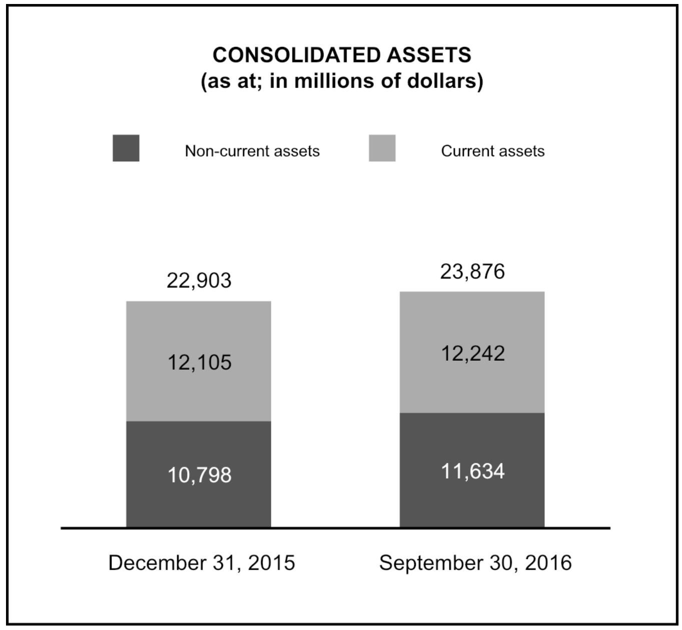
CONSOLIDATED FINANCIAL POSITION

The total assets increased by $973 million in the nine-month period, including a negative currency impact of $80 million. The $1.1-billion increase excluding the currency impact is mainly explained by:

- a $985-million increase in aerospace program tooling including $352 million of acquired development costs carried out by our vendors and recognized at the first delivery of the *CS100* aircraft. See the Investment in product development tables in Business Aircraft and Commercial Aircraft for details; and
- a $771-million increase in cash and cash equivalents. See the Free cash flow usage and the Variation in cash and cash equivalents tables for details.

Partially offset by:

- a $259-million increase in advances and progress billings related to Transportation;
- a $259-million decrease in other assets mainly related to a decrease in retirement benefit assets. See the Variation in net retirement benefit liability table for details; and
- a $235-million decrease in trade and other receivables mainly in Transportation.

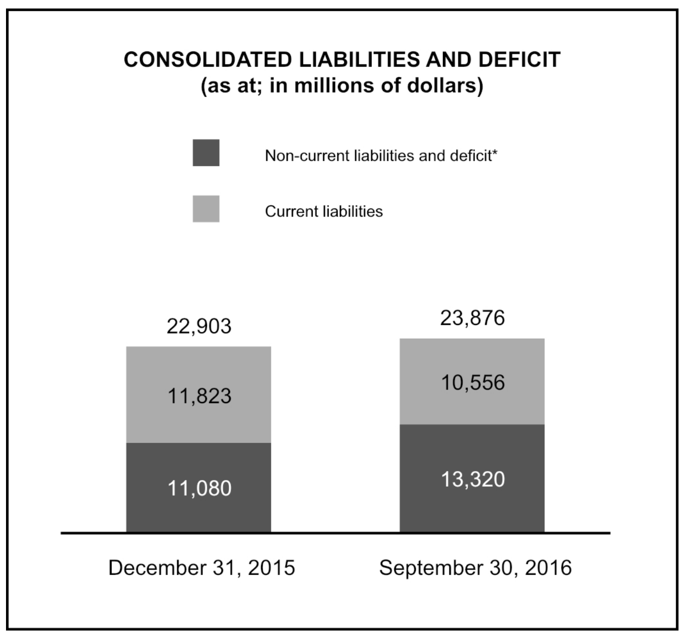


The total liabilities and deficit increased by $973 million in the nine-month period, including a currency impact of $80 million. The $1.1-billion increase excluding the currency impact is mainly explained by:

- a $1.2-billion increase in the retirement benefit liability. See the Variation in net retirement benefit liability table for details;
- a $397-million increase in provisions mainly due to the onerous contracts provision recorded in conjunction with the closing of *C Series* aircraft firm orders; and
- a $295-million decrease in deficit, mainly due to the issuance of NCI of $2.2 billion due to the sale of convertible shares of BT Holdco to CDPQ and the investment by the Government of Québec in the CSALP, partially offset by a net loss of $722 million and other comprehensive loss of $1.3 billion of which $1.4 billion relates to a loss on remeasurement of defined benefit plans.

Partially offset by:

- a $728-million decrease in trade and other payables mainly in Business Aircraft and Transportation.



*Includes a deficit of $3.9 billion as at September 30, 2016 (a deficit of $4.1 billion as at December 31, 2015).

LIQUIDITY AND CAPITAL RESOURCES

Free cash flow

Free cash flow usage(1)

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	**2016**	2015
Net loss	**$ (94)**	$ (4,888)	**$ (722)**	$ (4,663)
Non-cash items				
Amortization	**85**	104	**272**	315
Impairment charges on PP&E and intangible assets	**—**	4,004	**—**	4,004
Deferred income taxes	**(34)**	104	**(90)**	118
Share of income of joint ventures and associates	**(29)**	(19)	**(61)**	(53)
Loss on repurchase of long-term debt	**—**	—	**—**	22
Other	**4**	5	**3**	11
Dividends received from joint ventures and associates	**30**	32	**110**	59
Net change in non-cash balances	**(34)**	343	**(198)**	(863)
Cash flows from operating activities	**(72)**	(315)	**(686)**	(1,050)
Net additions to PP&E and intangible assets	**(248)**	(501)	**(874)**	(1,319)
Free cash flow usage(1)	**(320)**	(816)	**(1,560)**	(2,369)
Net interest and income taxes paid	**(195)**	(168)	**(512)**	(396)
Free cash flow usage before net interest and income taxes paid(1)	**$ (125)**	$ (648)	**$ (1,048)**	$ (1,973)

Improved free cash flow usage(1) due to higher cash flows from operating activities and reduced investment following certification of both the *CS100* and *CS300* aircraft.

The $496-million improvement of free cash flow usage(1) for the three-month period is mainly due to:

- lower net loss before non-cash items ($622 million) mainly explained by special items recorded last year to increase provisions, including credit and residual value guarantee provisions; and
- lower net additions to PP&E and intangible assets ($253 million) following certification of both the *CS100* and *CS300* aircraft.

Partially offset by:

- a negative period-over-period variation in net change in non-cash balances ($377 million) (see explanation below) mainly explained by special items recorded last year to increase provisions, including credit and residual value guarantee provisions.

The $809-million improvement of free cash flow usage(1) for the nine-month period is mainly due to:

- a positive period-over-period variation in net change in non-cash balances ($665 million) (see explanation below) notwithstanding lower special items recorded in the current year;
- lower net additions to PP&E and intangible assets ($445 million) following certification of both the *CS100* and *CS300* aircraft; and
- higher dividends received from joint ventures and associates ($51 million).

Partially offset by:

- higher net loss before non-cash items ($352 million) mainly due to lower EBITDA before special items(1) and higher net financing outflows, partially offset by lower special items recorded in the current year.

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

Net change in non-cash balances

For the three-month period ended September 30, 2016, the $34-million outflow is mainly due to:

- a decrease in trade and other payables mainly related to Business Aircraft and Commercial Aircraft.

Partially offset by:

- a decrease in Business Aircraft’s inventories, partially offset by an increase in the *C Series* aircraft program inventory, due to the ramp-up in production and including the impacts of write-downs on early production units.[(1)]

For the three-month period ended September 30, 2015, the $343-million inflow was mainly due to:

- higher Commercial Aircraft provisions mainly due to changes in estimated provisions for credit and residual value guarantees as well as other provisions recorded in special items;
- an increase in Business Aircraft’s provisions mainly as a result of the *Learjet 85* aircraft program cancellation recorded in special items;
- an increase in Transportation’s advances and progress billings on existing contracts and new orders; and
- a decrease in aerospace program inventories in all business aircraft categories but mainly in the large and light business aircraft categories partly offset by an increase in Commercial Aircraft inventories.

Partially offset by:

- a decrease in advances on aerospace programs mainly resulting from lower order intake than deliveries in the large business aircraft category; and
- an increase in Transportation’s inventories following ramp-up of production ahead of deliveries.

For the nine-month period ended September 30, 2016, the $198-million outflow is mainly due to:

- a decrease in trade and other payables in Business Aircraft, Transportation and Commercial Aircraft;
- an increase in inventories, mainly due to an increase in Transportation’s gross inventories following ramp-up in production ahead of deliveries and in Commercial Aircraft’s inventories, mainly due to the *C Series* aircraft program, due to the ramp-up in production and including the impacts of write-downs on early production units[(1)], partially offset by a decrease in regional aircraft;
- a decrease in Business Aircraft’s advances on aerospace programs;
- a change in retirement benefit liability, excluding the impact of the remeasurement of defined benefit plans included in OCI, mainly related to employer contributions and the reversal of a constructive obligation for discretionary ad hoc indexation increases to certain pensions, recorded as a special item in the second quarter, following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice; and
- a decrease in the net other financial assets and liabilities.

Partially offset by:

- a decrease in Business Aircraft’s inventories;
- an increase in Transportation’s advances and progress billings on existing contracts and new orders;
- an increase in provisions, mainly due to the *C Series* onerous contracts provision recorded as a special item in the second quarter;
- a decrease in Transportation’s trade and other receivables; and
- an increase in Commercial Aircraft’s advances on aerospace programs mainly in the *C Series* aircraft program.

For the nine-month period ended September 30, 2015, the $863-million outflow was mainly due to:

- a decrease in advances on aerospace programs mainly resulting from lower order intake than deliveries in all aircraft categories but mainly in the large and medium business aircraft categories;
- an increase in Transportation’s inventories following ramp-up of production ahead of deliveries;
- an increase in aerospace program inventories mainly in the medium and large business aircraft categories; and
- a decrease in trade and other payables mainly related to Transportation segment.

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

Partially offset by:

- an increase in Transportation's advances and progress billings on existing contracts and new orders;
- higher Commercial Aircraft provisions mainly due to changes in estimated provisions for credit and residual value guarantees as well as other provisions recorded in special items;
- a decrease in trade and other receivables mainly related to the Transportation segment;
- an increase in Business Aircraft's provisions mainly as a result of the *Learjet 85* aircraft program cancellation, recorded in special items; and
- a decrease in Business Aircraft finished product inventories mainly in pre-owned aircraft inventories.

Available short-term capital resources

Variation in cash and cash equivalents

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	**2016**	2015
Balance at the beginning of period	**$ 3,336**	$ 3,105	**$ 2,720**	$ 2,489
Net proceeds from the sale of minority stakes in subsidiaries	**487**	—	**2,419**	—
Free cash flow usage[1]	**(320)**	(816)	**(1,560)**	(2,369)
Effect of exchange rate changes on cash and cash equivalents	**(30)**	(44)	**(99)**	(68)
Net change in short-term borrowings	**(27)**	—	**84**	—
Repayments of long-term debt	**(9)**	(12)	**(56)**	(816)
Dividends paid to NCI	**(2)**	—	**(44)**	—
Dividends paid	**(5)**	(4)	**(13)**	(14)
Net proceeds from issuance of long-term debt	**—**	—	**1**	2,218
Net proceeds from issuance of shares	**—**	—	**—**	822
Proceeds from investment in financing structure	**—**	150	**—**	150
Net variation in AFS investments in securities	**—**	54	**—**	(10)
Purchase of Class B shares held in trust under the PSU and RSU plans	**(43)**	(9)	**(43)**	(9)
Other	**5**	(80)	**(17)**	(49)
Balance at the end of period	**$ 3,392**	$ 2,344	**$ 3,392**	$ 2,344

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

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

On June 30, 2016, we closed the $1.0-billion investment by the Government of Quebec (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. On June 30, 2016 and September 1, 2016, we received the investment in two installments of $500 million each. The proceeds of the investment will be used entirely for the cash flow purposes of the *C Series* aircraft program. Refer to the Strategic partnership section in Commercial Aircraft for more detail.

Available short-term capital resources

	September 30, 2016	December 31, 2015
Cash and cash equivalents	**$ 3,392**	$ 2,720
Available revolving credit facilities	**1,054**	1,294
Available short-term capital resources	**$ 4,446**	$ 4,014

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

In March and April 2016, respectively, we extended the maturity dates of Transportation’s €500-million and the $750-million[(1)] unsecured revolving credit facilities to October 2018 and June 2019, respectively. During the second quarter of 2016, Transportation’s €500-million unsecured revolving credit facility was increased to €658 million ($738 million) and the $750-million[(1)] unsecured revolving credit facility was decreased to $400 million, in light of our cash position and the investment from the Government of Québec. In October 2016, we further extended the maturity date of Transportation’s €658-million ($738-million) unsecured revolving credit facility by one year to October 2019.

(1) Available for other than Transportation’s usage.

Letter of credit facilities

In April 2016, we extended the availability periods of Transportation’s €3.64-billion and the $600-million[(1)] letter of credit facilities by one year to May 2019 and June 2019, respectively. Also in April 2016, the committed amount under the $600-million[(1)] letter of credit facility was decreased to $400 million. In May 2016, the committed amount under Transportation’s €3.64-billion letter of credit facility was decreased to €3.31 billion ($3.7 billion).

(1) Available for other than Transportation’s usage.

Financial covenants

In April 2016, the maximum net debt to EBITDA ratio required by the $400-million letter of credit facility[(1)] and the $400 million unsecured revolving facility[(1)] was replaced by maximum gross debt and minimum EBITDA thresholds. The remaining covenants requiring a minimum EBITDA to fixed charges ratio and a minimum liquidity level of $750 million at the end of each quarter all calculated based on an adjusted consolidated basis (i.e. excluding Transportation) remain unchanged.

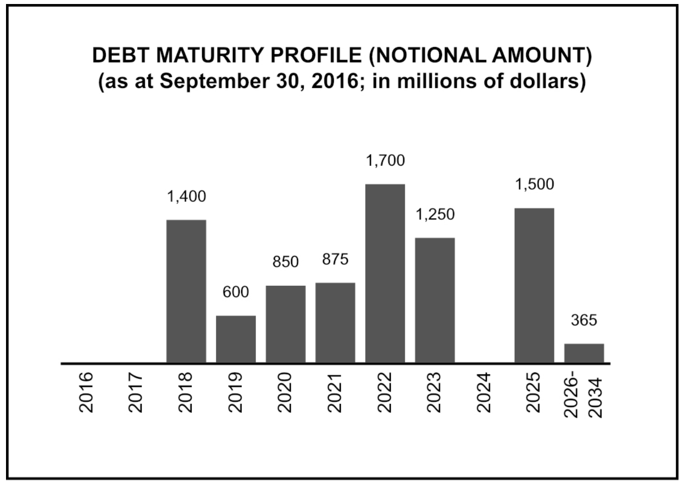
Transportation’s letter of credit facility and unsecured revolving facility continue to require a minimum liquidity level of €600 million ($673 million) at the end of each quarter, as well as a minimum equity level and a maximum debt to EBITDA ratio, all calculated on a Transportation stand-alone basis.

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

(1) Available for other than Transportation’s usage.

Future liquidity requirements

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



Creditworthiness

As at December 31, 2015, our credit ratings were five notches below investment grade. In September 2016, Standard & Poor's Rating Services changed their rating from B to B-, while Fitch Ratings Ltd. reaffirmed their B rating.

Credit Ratings

	Investment-grade rating		Bombardier Inc.'s rating
		September 30, 2016	December 31, 2015
Fitch Ratings Ltd.	BBB-	**B**	B
Moody's Investors Service, Inc.	Baa3	**B2**	B2
Standard & Poor's Rating Services	BBB-	**B-**	B

Over the long term, we believe that we will be in a good position to improve our credit ratings as we progress towards profitability targets and return to a more normalized level of investment in product development.

CAPITAL STRUCTURE

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

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

Our objectives with regard to global metrics are as follows:

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

Interest coverage ratio

	For the four quarter trailing periods ended	
	September 30, 2016	December 31, 2015
Adjusted EBIT[(1)]	**$ 530**	$ 777
Adjusted interest[(1)]	**$ 574**	$ 503
Adjusted EBIT to adjusted interest ratio	**0.9**	1.5

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

The interest coverage ratio deteriorated mainly as a result of lower adjusted EBIT, due to lower EBIT before special items (see each reporting segment's Analysis of results section for details).

Financial leverage ratio

	As at and for the four quarter trailing periods ended	
	September 30, 2016	December 31, 2015
Adjusted debt[(1)]	**$ 9,215**	$ 9,289
Adjusted EBITDA[(1)]	**$ 983**	$ 1,278
Adjusted debt to adjusted EBITDA ratio	**9.4**	7.3

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

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

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

In addition to the above global metrics, we separately monitor our net retirement benefit liability which amounted to $3.3 billion as at September 30, 2016 ($1.9 billion as at December 31, 2015). The measurement of this liability is dependent on numerous key long-term assumptions such as discount rates, future compensation increases, inflation rates and mortality rates. In recent years, this liability has been particularly volatile due to changes in discount rates. Such volatility is exacerbated by the long-term nature of the obligation. We closely monitor the impact of the net retirement benefit liability on our future cash flows and we have introduced significant risk mitigation initiatives in recent years to gradually reduce key risks associated with the retirement benefit plans. The $1.4-billion increase in the net retirement benefit liability is explained as follows:

Variation in net retirement benefit liability

Balance as at December 31, 2015	$ 1,908 [(1)]
Changes in discount rates and other financial assumptions	2,130
Other net actuarial losses on defined benefit obligations	30
Actuarial gains on pension plan assets	(665)
Employer contributions	(221)
Accretion on net retirement benefit obligation	50
Service costs[(2)]	44
Changes in foreign exchange rates	19
Other	11
Balance as at September 30, 2016	**$ 3,306** [(1)]

(1) Includes retirement benefit assets of $56 million as at September 30, 2016 ($251 million as at December 31, 2015).

(2) Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation amounting to $139 million was reversed with a corresponding offset recorded in service costs.

NON-GAAP FINANCIAL MEASURES

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

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

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

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

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

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

Reconciliation of EBITDA before special items and EBITDA to EBIT

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	**2016**	2015
EBIT	**$ 63**	$ (4,635)	**$ (132)**	$ (4,181)
Amortization	**85**	104	**272**	315
Impairment charges on PP&E and intangible assets[(1)]	**—**	4,004	**—**	4,004
EBITDA	**148**	(527)	**140**	138
Special items excluding impairment charges on PP&E and intangible assets[(1)]	**24**	706	**455**	715
EBITDA before special items	**$ 172**	$ 179	**$ 595**	$ 853

Reconciliation of adjusted net income to net income

	Three-month periods ended September 30			
	2016		2015	
		(per share)		(per share)
Net loss	**$ (94)**		$ (4,888)	
Adjustments to EBIT related to special items[(1)]	**24**	**$ 0.01**	4,710	$ 2.11
Adjustments to net financing expense related to:				
Net change in provisions arising from changes in interest rates and net loss on certain financial instruments	**50**	**0.02**	57	0.03
Accretion on net retirement benefit obligations	**16**	**0.01**	18	0.01
Tax impact of special[(1)] and other adjusting items	**(6)**	**0.00**	105	0.05
Adjusted net income (loss)	**$ (10)**		$ 2	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Three-month periods ended September 30	
	2016	2015
Diluted EPS	**$ (0.04)**	$ (2.20)
Impact of special[(1)] and other adjusting items	**0.04**	2.20
Adjusted EPS	**$ 0.00**	$ 0.00

Reconciliation of adjusted net income to net income

	Nine-month periods ended September 30			
	2016		2015	
		(per share)		(per share)
Net loss	**$ (722)**		$ (4,663)	
Adjustments to EBIT related to special items[(1)]	**455**	**$ 0.21**	4,719	$ 2.31
Adjustments to net financing expense related to:				
Net change in provisions arising from changes in interest rates and net loss on certain financial instruments	**75**	**0.03**	80	0.04
Accretion on net retirement benefit obligations	**50**	**0.02**	55	0.03
Interest related to tax litigation[(1)]	**26**	**0.01**	—	—
Transaction costs related to the conversion option embedded in the CDPQ investment[(1)]	**8**	**0.00**	—	—
Loss on repurchase of long-term debt[(1)]	**—**	**—**	22	0.01
Tax impact of special[(1)] and other adjusting items	**(19)**	**0.00**	104	0.05
Adjusted net income (loss)	**$ (127)**		$ 317	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Nine-month periods ended September 30	
	2016	2015
Diluted EPS	**$ (0.36)**	$ (2.30)
Impact of special[(1)] and other adjusting items	**0.27**	2.44
Adjusted EPS	**$ (0.09)**	$ 0.14

(1) Refer to the Consolidated results of operations section for details regarding special items.

Reconciliation of adjusted debt to long-term debt

	As at	
	September 30, 2016	December 31, 2015
Long-term debt	**$ 8,963**	$ 8,979
Adjustment for the fair value of derivatives designated (or settled derivatives) in related hedge relationships	**(373)**	(386)
Long-term debt, net	**8,590**	8,593
Short-term borrowings[1]	**84**	—
Operating lease obligations[2]	**522**	563
Sale and leaseback obligations	**19**	133
Adjusted debt	**$ 9,215**	$ 9,289

Reconciliation of adjusted EBITDA and adjusted EBIT to EBIT

	Four-quarter trailing periods ended	
	September 30, 2016	December 31, 2015
EBIT	**$ (789)**	$ (4,838)
Special items[3]	**1,128**	5,392
Interest received	**156**	156
Interest adjustment for operating leases[4]	**35**	67
Adjusted EBIT	**530**	777
Amortization	**395**	438
Amortization adjustment for operating leases[5]	**58**	63
Adjusted EBITDA	**$ 983**	$ 1,278

Reconciliation of adjusted interest to interest paid

	Four-quarter trailing periods ended	
	September 30, 2016	December 31, 2015
Interest paid	**$ 535**	$ 427
Interest adjustment for operating leases[4]	**35**	67
Accretion expense on sale and leaseback obligations	**4**	9
Adjusted interest	**$ 574**	$ 503

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

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

(3) Refer to the Consolidated results of operations section for details regarding special items for the nine-month periods ended September 30, 2016 and 2015. The special items for the fourth quarter of 2015 relate to: impairment charges on the *CRJ1000* aircraft program and the *Learjet* family of aircraft; write-off of deferred costs; termination of sales representative and distribution agreements; and a provision related to tax litigation.

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

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

BUSINESS AIRCRAFT

HIGHLIGHTS

Results of the quarter

Three-month periods ended September 30	**2016**	2015	Variance
Revenues	**$ 1,314**	$ 1,558	(16)%
Aircraft deliveries (in units)	**36**	43	(7)
Net orders (in units)	**22**	(32)	54
Book-to-bill ratio[(1)]	**0.6**	nmf	nmf
EBIT	**$ 84**	$ (1,115)	nmf
EBIT margin	**6.4%**	nmf	nmf
EBIT before special items[(2)]	**$ 84**	$ 54	56 %
EBIT margin before special items[(2)]	**6.4%**	3.5%	290 bps
EBITDA before special items[(2)]	**$ 120**	$ 99	21 %
EBITDA margin before special items[(2)]	**9.1%**	6.4%	270 bps
Net additions to PP&E and intangible assets	**$ 165**	$ 172	(4)%
As at	**September 30, 2016**	December 31, 2015	
Order backlog (in billions of dollars)	**$ 16.5**	$ 17.2	(4)%

Key highlights and events

- For the third consecutive quarter, we had strong delivery performance. In the nine-month period ended September 30, 2016, we delivered 109 aircraft and achieved a book-to-bill ratio[(1)] of 0.8.
- We realized an EBIT margin before special items[(2)] of 6.6% for the nine-month period ended September 30, 2016, driven by business model enhancements and transformation initiatives.
- Business Aircraft is in line to achieve revenue, delivery and profitability[(3)] guidance for the year. Based on results to date, we are refining guidance for the year to revenues of approximately $5.5 billion, over 150 deliveries, and EBIT margin before special items[(2)] of greater than 6%.[(4)]
- On November 4, 2016, we completed the successful maiden flight of the first *Global 7000* FTV, dedicated to testing basic system functionality and assessing the handling and flying qualities of the aircraft. The *Global 7000* aircraft will set the standard for a new category of large business jets. It is the first and only clean-sheet business jet with four living spaces. Engineered with a next-generation transonic wing design, the aircraft offers a steep approach capability and short field performance, coupled with highly efficient engines, the largest cabin in this category and a highly advanced cockpit.[(5)]

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

(2) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measures.

(3) Profitability guidance is based on EBIT margin before special items.

(4) See the forward-looking statements disclaimer and Business Aircraft's Guidance and forward-looking statements section in the 2015 Financial Report for details regarding the assumptions on which the guidance is based. Refer to the 2016 guidance update section for more details.

(5) See the *Global 7000* and *Global 8000* aircraft program disclaimer at the end of this MD&A.

2016 GUIDANCE UPDATE

The following is an update of guidance provided in our 2015 Financial Report.

	Guidance provided in our 2015 Financial Report	Results for the nine-month period ended September 30, 2016	2016 guidance update[1]
Revenues and deliveries	Revenues greater than \$5.0 billion. Approximately 150 deliveries.	Revenues of \$4.1 billion. 109 deliveries.	Revenues of approximately \$5.5 billion. Above 150 deliveries.
Profitability[2]	EBIT margin of approximately 6%.	EBIT margin before special items[2] of 6.6%.	EBIT margin before special items[2] above 6%.

Business Aircraft is in line to achieve revenue, delivery and profitability[2] guidance for the year. Revenues for the nine-month period ended September 30, 2016 have benefited from a favourable mix with higher proportion of medium and large aircraft, compared to the original forecast. EBIT before special items[2] year-to-date also reflect stronger operational performance. Based on results to date, we are refining guidance for the year to revenues of approximately \$5.5 billion, over 150 deliveries, and profitability[2] of greater than 6%.

(1) See the forward-looking statements disclaimer and Business Aircraft's Guidance and forward-looking statements section in the 2015 Financial Report for details regarding the assumptions on which the guidance is based.
(2) Profitability guidance is based on EBIT margin before special items. Refer to the Non-GAAP financial measures section for a definition of this metric and the Analysis of results section for a reconciliation to the most comparable IFRS measure for the nine-month period ended September 30, 2016.

INDUSTRY AND ECONOMIC ENVIRONMENT

The world GDP growth rate and other market indicators point to a delayed recovery and continued short-term market softness despite some improvement in the industry confidence index[1].

The world economy continues to be driven by North America while emerging markets like China, Latin America (particularly Brazil) and Russia remain softer due to economic uncertainty and geopolitical issues. In 2016, the global economy is expected to grow at a rate of 2.2% and it is forecast to grow at a rate of 2.6% in 2017.[2]

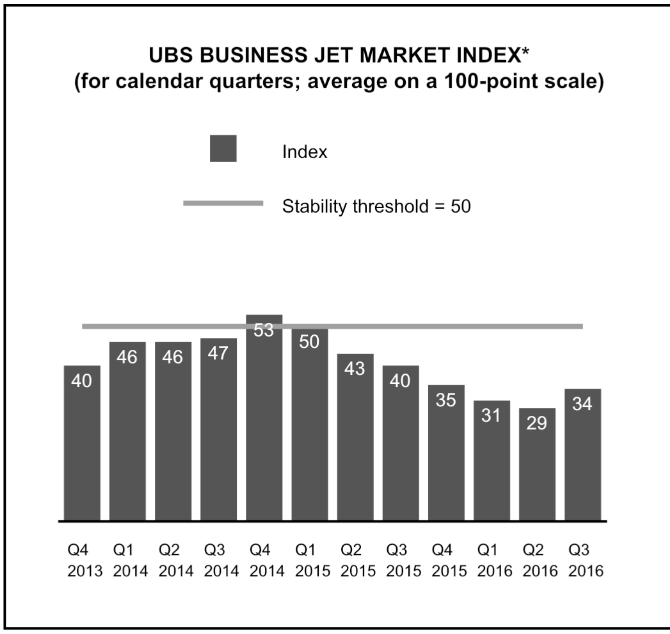
Industry confidence[1] increased two times in a row since the second quarter of 2016. The increase in the confidence index in the most recent survey issued in the third quarter of 2016 was mainly related to an increase in customer interest, particularly in North America and Europe.[3]

The total number of pre-owned aircraft available for sale as a percentage of the total in-service fleet decreased slightly to 11.8% as at September 30, 2016. We consider this level of pre-owned inventory to be within the normal range for the overall market.

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

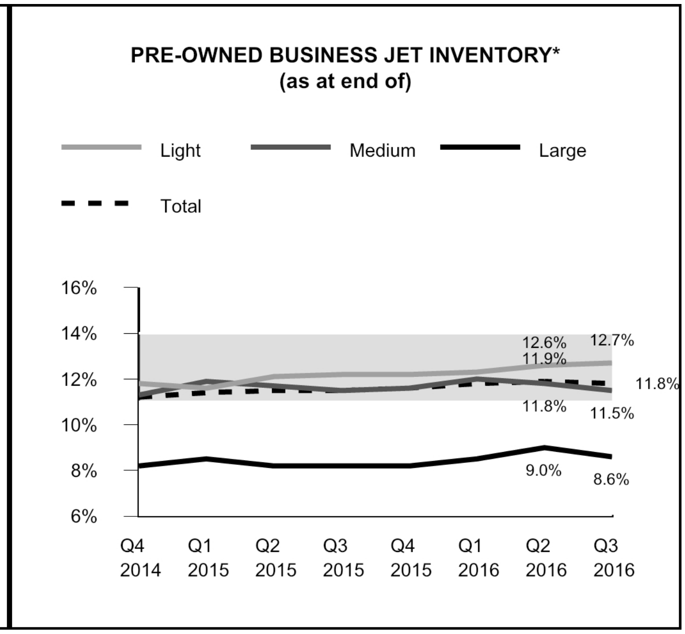
In the long term, we remain confident in the potential of the business aircraft industry. The combination of improved macro-economic factors, introduction of new programs, the acceleration of aircraft retirement and the continued development of new ownership models is expected to drive significant growth over the next 10 years.

(1) As measured by the UBS Business Jet Market Index.
(2) According to "Oxford Economics Global Data Report" dated October 11, 2016.
(3) According to the September 2016 UBS Business Jet Survey.



Source: UBS

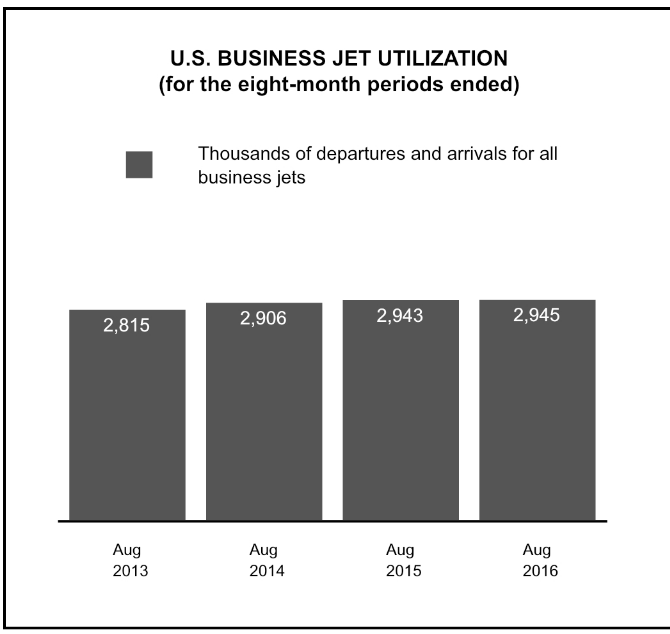
* The UBS Business Jet Market Index is a measure of market confidence from industry professionals, gathered through bi-monthly surveys of brokers, dealers, manufacturers, fractional providers, financiers and others.



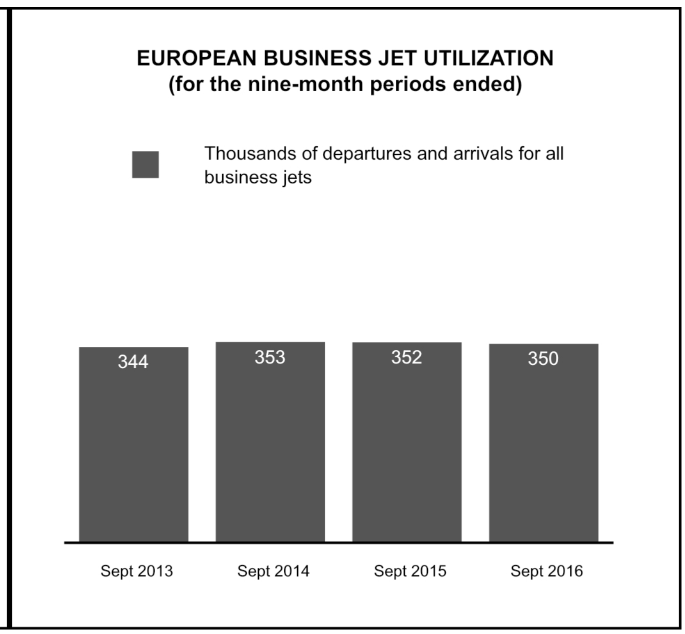
Sources: JETNET and Ascend

* As a percentage of total business jet fleet, excluding very light jets.

Shaded area indicates what we consider to be the normal range of total pre-owned business jet inventory available for sale, i.e. between 11% and 14%.



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



Source: Eurocontrol

ANALYSIS OF RESULTS

Results of operations

		Three-month periods ended September 30		Nine-month periods ended September 30	
		2016	2015	**2016**	2015
Revenues		**$ 1,314**	$ 1,558	**$ 4,090**	$ 4,910
EBITDA before special items[1]		**$ 120**	$ 99	**$ 378**	$ 409
Amortization		**36**	45	**109**	129
EBIT before special items[1]		**84**	54	**269**	280
Special items		**—**	1,169	**(109)**	1,180
EBIT		**$ 84**	$ (1,115)	**$ 378**	$ (900)
EBIT margin before special items[1]		**6.4%**	3.5 %	**6.6%**	5.7%
EBIT margin		**6.4%**	nmf	**9.2%**	nmf

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

Revenues

The $244-million decrease for the three-month period is mainly due to planned lower aircraft deliveries.

The $820-million decrease for the nine-month period is mainly due to planned lower aircraft deliveries as well as lower revenues from sales of pre-owned aircraft.

Special items

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

Special items in EBIT were as follows:

		Three-month periods ended September 30		Nine-month periods ended September 30	
	Ref	**2016**	2015	**2016**	2015
Pension obligation	1	**$ —**	$ —	**$ (63)**	$ —
Impairment and other charges - *Learjet 85* aircraft program	2	**—**	1,169	**(54)**	1,169
Restructuring charges	3	**—**	—	**8**	11
		$ —	$ 1,169	**$ (109)**	$ 1,180
EBIT margin impact		**—%**	nmf	**2.6%**	nmf

1. Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation amounting to $63 million was reversed.
2. In 2015, represents an impairment charge of $925 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. A credit of $6 million related to this special item is included in Corporate and Elimination.

   In 2016, based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, we reduced the related provisions by $54 million. The reduction in provisions is treated as a special item since the original provisions were also recorded as special charges in 2014 and 2015.

3. In 2016, represents restructuring charges related to the workforce optimization announced in February 2016.

   In 2015, the special items related to:
   - a $13-million restructuring charge related to the workforce reduction of 1,000 employees in Querétaro, Mexico and Wichita, U.S., related to the *Learjet 85* aircraft program;
   - partially offset by a $2-million adjustment to a restructuring provision recorded in 2014.

EBIT margin

There was a significant increase in EBIT margin for the three-month period compared to the same period last fiscal year, mainly due to the special items (see explanation of special items above). The EBIT margin before special items for the three-month period increased by 2.9 percentage points, mainly as a result of:
- favourable impacts of business model enhancements related to pre-owned aircraft activities.

Partially offset by:
- lower aircraft margin mainly due to an inventory write-down in the light aircraft category.

There was a significant increase in EBIT margin for the nine-month period compared to the same period last fiscal year, mainly due to the special items (see explanation of special items above). The EBIT margin before special items for the nine-month period increased by 0.9 percentage points, mainly as a result of:
- favourable impacts of business model enhancements related to pre-owned aircraft activities; and
- higher margins on customer services activities.

Partially offset by:
- lower absorption of SG&A expenses; and
- an inventory write-down in the light aircraft category, which offset the overall favourable aircraft margin.

Product development

Investment in product development

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	**2016**	2015
Program tooling(1)	**$ 167**	$ 161	**$ 490**	$ 480
R&D expense(2)	**2**	1	**4**	3
	$ 169	$ 162	**$ 494**	$ 483
As a percentage of revenues	**12.9%**	10.4%	**12.1%**	9.8%

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

The carrying amount of business aircraft program tooling(3) as at September 30, 2016 was $2.4 billion, compared to $2.0 billion as at December 31, 2015.

(1) Net amount capitalized in aerospace program tooling.
(2) Excluding amortization of aerospace program tooling of $24 million and $82 million for the three- and nine-month periods ended September 30, 2016 ($30 million and $86 million for the three- and nine-month periods ended September 30, 2015), as the related investments are already included in aerospace program tooling.
(3) Capitalized borrowing costs included in the business aircraft aerospace program tooling balance amounted to $235 million as at September 30, 2016 ($157 million as at December 31, 2015).

The *Global 7000* and *Global 8000* aircraft program
On November 4, 2016, we completed the successful maiden flight of the first *Global 7000* FTV, dedicated to testing basic system functionality and assessing the handling and flying qualities of the aircraft.

We continue to focus our efforts on the flight test program in order to bring the category-defining aircraft to market. Progress continues on building the remaining *Global 7000* FTVs, all of which are in various stages of production and assembly.

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

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

Aircraft deliveries

Aircraft deliveries

	Three-month periods ended September 30		Nine-month periods ended September 30	
(in units)	**2016**	2015	**2016**	2015
Light				
Learjet 70/75	**7**	7	**13**	21
Medium				
Challenger 350	**13**	18	**43**	50
Challenger 605/650	**6**	3	**15**	11
Challenger 850	**—**	—	**—**	1
Large				
Global 5000/Global 6000	**10**	15	**38**	52
	36	43	**109**	135

Aircraft orders

Net orders

	Three-month periods ended September 30		Nine-month periods ended September 30	
(in units)	**2016**	2015	**2016**	2015
Gross orders	**30**	41	**122**	88
Cancellations	**(8)**	(73)	**(30)**	(93)
Net orders	**22**	(32)	**92**	(5)

The net negative orders for the three- and nine-month periods ended September 30, 2015 reflect order cancellations of the *Learjet 85* aircraft program following our decision to cancel the program in October 2015. The total cancellations include 64 and 74 cancellations for the *Learjet 85* program during the three- and nine-month periods ended September 30, 2015, respectively.

Excluding the order cancellations for the *Learjet 85* aircraft program in 2015, there was a higher net order intake in all business aircraft categories in the nine-month period ended September 30, 2016 compared to the same period last fiscal year.

Order backlog and book-to-bill ratio

Order backlog

	As at	
(in billions of dollars)	**September 30, 2016**	December 31, 2015
	$ 16.5	$ 17.2

The order backlog and the production horizon for programs are monitored to align production rates to reflect market demand.

Book-to-bill ratio[1]

	Three-month periods ended September 30		**Nine-month periods ended September 30**	
	2016	2015	**2016**	2015
Net orders	**22**	(32)	**92**	(5)
Deliveries	**36**	43	**109**	135
	0.6	nmf	**0.8**	nmf

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

Book-to-bill ratio excluding *Learjet 85* aircraft order cancellations[1]

	Three-month periods ended September 30		**Nine-month periods ended September 30**	
	2016	2015	**2016**	2015
Net orders excluding *Learjet 85* aircraft order cancellations	**22**	32	**92**	69
Deliveries	**36**	43	**109**	135
	0.6	0.7	**0.8**	0.5

[1] Defined as net orders received excluding *Learjet 85* aircraft order cancellations over aircraft deliveries, in units.

COMMERCIAL AIRCRAFT

HIGHLIGHTS

Results of the quarter

Three-month periods ended September 30		2016		2015	Variance
Revenues	$	**538**	$	480	12 %
Aircraft deliveries (in units)		**16**		14	2
Net orders (in units)		**(9)**		2	(11)
Book-to-bill ratio[1]		**nmf**		0.1	nmf
EBIT	$	**(107)**	$	(3,624)	nmf
EBIT margin		**(19.9)%**		nmf	nmf
EBIT before special items[2]	$	**(107)**	$	(63)	(70)%
EBIT margin before special items[2]		**(19.9)%**		(13.1)%	(680) bps
EBITDA before special items[2]	$	**(96)**	$	(40)	(140)%
EBITDA margin before special items[2]		**(17.8)%**		(8.3)%	(950) bps
Net additions to PP&E and intangible assets	$	**47**	$	299	(84)%

Key highlights and events

- We adjusted the delivery forecast for the *C Series* aircraft program for the full year, from 15 to 7 aircraft, as a result of engine delivery delays by our supplier Pratt & Whitney. We also updated Commercial Aircraft's guidance for revenues of approximately $2.7 billion and negative EBIT before special items[2] of approximately $450 million, as well as our free cash flow usage target for the *C Series* aircraft program to $1.15 billion, for the full year 2016.[3]
- On July 11, 2016, the *CS300* aircraft obtained its type certification from Transport Canada (TC). Our focus now is improving efficiency while ramping up to full production, continuing to increase our order backlog, delivering the *C Series* aircraft and providing customer support.
- Following the first *CS100* aircraft delivery to launch operator Swiss International Air Lines (SWISS) on June 29, 2016, the aircraft achieved successful EIS on July 15, 2016 with its maiden commercial flight taking passengers from Zurich to Paris. SWISS currently has three *CS100* aircraft in service.
- In August 2016, we restructured the purchase agreement signed in 2013 with our Moscow-based leasing company customer Ilyushin Finance Co. (IFC) to align with its current market needs. The firm order has been modified from 32 *CS300* aircraft with options for an additional 10 *CS300* aircraft to 20 *CS300* aircraft and one *Q400* turboprop with options for five additional *Q400* aircraft.
- On September 1, 2016, we received the second $500-million installment of the $1.0-billion investment from the Government of Québec (through Investissement Québec) in the C Series Aircraft Limited Partnership (CSALP), which will carry on the operations related to our *C Series* aircraft program and will continue to be consolidated in our financial results.

(1) Ratio of net orders received over aircraft deliveries, in units.
(2) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measures.
(3) See the forward-looking statements disclaimer and Commercial Aircraft's Guidance and forward-looking statements section in the 2015 Financial Report for details regarding the assumptions on which the guidance is based. Refer to the 2016 guidance update section for more details.

2016 GUIDANCE UPDATE

The following is an update of guidance provided in our 2015 Financial Report.

	Guidance provided in our 2015 Financial Report	Results for the nine-month period ended September 30, 2016	2016 guidance update[(1)]
Revenues and deliveries	Revenues of approximately $3.0 billion. Approximately 95 deliveries.	Revenues of $1.9 billion. 63 deliveries.	Revenues of approximately $2.7 billion. Between 85 to 90 deliveries.
Profitability[(2)]	Negative EBIT of approximately $550 million, mainly due to the dilutive impact of the initial years of production of the *C Series* aircraft program.[(3)]	Negative EBIT before special items[(2)] of $276 million.	Negative EBIT before special items of approximately $450 million, mainly due to the dilutive impact of the initial years of production of the *C Series* aircraft program.[(3)]

We adjusted the delivery forecast for the *C Series* aircraft program for the full year, from 15 to 7 aircraft, as a result of engine delivery delays by our supplier Pratt & Whitney. Mainly as a result of this delivery adjustment, we updated Commercial Aircraft delivery guidance for full year 2016 to between 85 to 90 aircraft and our free cash flow usage target for the *C Series* aircraft program in 2016 is now approximately $1.15 billion, of which $830 million has been spent in the first nine months. We now expect total Commercial Aircraft revenues in 2016 of approximately $2.7 billion.

Following the successful EIS of the *C Series* aircraft program, we now forecast a full year 2016 Commercial Aircraft negative EBIT before special items[(2)] of approximately $450 million, based on strong execution while ramping-up production and cost control during the initial months following EIS, supported by the reliability of the *CS100* aircraft in service.

(1) See the forward-looking statements disclaimer and Commercial Aircraft's Guidance and forward-looking statements section in the 2015 Financial Report for details regarding the assumptions on which the guidance is based.
(2) Profitability guidance is based on EBIT before special items. Refer to the Non-GAAP financial measures section for a definition of this metric and the Analysis of results section for a reconciliation to the most comparable IFRS measure for the nine-month period ended September 30, 2016.
(3) Early production units in a new aircraft program require higher costs than units produced later in the program and the selling prices of early units are generally lower.

INDUSTRY AND ECONOMIC ENVIRONMENT

Since the beginning of 2016, the demand for commercial air travel, measured by revenue passenger kilometres ("RPK")[(1)], continues its solid growth compared to the same period last year.

Scheduled domestic and international commercial air travel, measured by RPK, were 5.4% and 6.3% higher, respectively, during the year-to-date period ended September 2016, compared to the same period last year. Commercial airlines worldwide achieved domestic and international passenger load factors[(2)] of 82.0% and 79.8%, respectively, during the year-to-date period ended September 2016, similar to the 81.5% and 80.3% respective levels experienced during the same period in 2015.[(3)]

For domestic commercial air travel specifically, increases in China, the U.S. and India account for most of the 5.4% increase in RPK compared to the same period last year, which was partially offset by a decline in Brazil. On the international commercial air travel side, increases in Asia-Pacific, the Middle-East and Europe account for most of the 6.3% increase in RPK compared to the same period last year.[(3)]

(1) RPK is a measure of paying passenger traffic and represents passenger demand for air transport, defined as one fare-paying passenger transported over one kilometre.
(2) Passenger load factor is defined as the percentage of available seat kilometres used (RPK divided by available seat kilometres). Available seat kilometres are measured as the number of seats multiplied by the kilometres flown, whether a passenger occupied the seat or not.
(3) Per IATA's September 2016 Air Passenger Market Analysis report.

Regional passenger traffic measured by RPK for the four leading U.S. network carriers[1] and their affiliates, which represent a major portion of the regional airline passenger traffic in the U.S., Commercial Aircraft's largest market, increased by 0.9% during the year-to-date period ended September 2016, compared to the same period last year. These airlines achieved an average passenger load factor of 80.2% during the year-to-date period ended September 2016, slightly lower compared to the 81.4% during the same period in 2015.

Demand for air travel continued to grow in September, supported by lower air fares as a function of lower oil prices and broader competitive pressures, although the growth in traffic continued to face headwinds due to the fragile global economic conditions, as well as impacts of terrorist attacks and political instability in parts of the world. Following an agreement in September 2016 by the Organization of the Petroleum Exporting Countries (OPEC) to reduce oil output, the futures market and oil analysts now expect a weak upward trend in oil prices over the foreseeable future with prices remaining relatively low until 2020.[2][3] This could lead some airlines to delay their decision to renew their fleet in the short term, but lower fuel prices should continue to help improve airline profitability, which in turn provides an opportunity for airlines to reinvest in their fleets. In addition, volatility in crude oil prices should result in continued demand for more fuel efficient aircraft. Environmental issues and regulations related to local air quality, aircraft emissions and community noise, as well as commitments by the aviation industry towards reducing carbon emissions, should speed up the retirement of older, less fuel efficient aircraft worldwide.

(1) Delta Air Lines, American Airlines, United Airlines, and Alaska Air.
(2) Per IATA's September 2016 Air Passenger Market Analysis report.
(3) Per IATA's September-October 2016 Airlines Financial Monitor report.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	**2016**	2015
Revenues	**$ 538**	$ 480	**$ 1,918**	$ 1,751
EBITDA before special items[1]	**$ (96)**	$ (40)	**$ (226)**	$ (8)
Amortization	**11**	23	**50**	75
EBIT before special items[1]	**(107)**	(63)	**(276)**	(83)
Special items	**—**	3,561	**483**	3,560
EBIT	**$ (107)**	$ (3,624)	**$ (759)**	$ (3,643)
EBIT margin before special items[1]	**(19.9)%**	(13.1)%	**(14.4)%**	(4.7)%
EBIT margin	**(19.9)%**	nmf	**(39.6)%**	nmf

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

Revenues

The $58-million and $167-million increases for the three- and nine-month periods, respectively, are mainly due to higher revenues from sales of new and pre-owned aircraft.

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

Special items in EBIT were as follows:

		Three-month periods ended September 30		Nine-month periods ended September 30	
	Ref	**2016**	2015	**2016**	2015
Onerous contracts provision - *C Series* aircraft program	1	**$ —**	$ —	**$ 516**	$ —
Pension obligation	2	**—**	—	**(33)**	—
Impairment and other charges - *C Series* aircraft program	3	**—**	3,249	**—**	3,249
Changes in estimates and fair value	4	**—**	312	**—**	312
Restructuring charges	5	**—**	—	**—**	(1)
		$ —	$ 3,561	**$ 483**	$ 3,560
EBIT margin impact		**—**	nmf	**(25.2)%**	nmf

1. In conjunction with the closing of *C Series* firm orders in the second quarter of 2016, on a consolidated basis, we recorded an onerous contracts provision of $492 million, net of $24 million included in Corporate and Elimination.
2. Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation amounting to $33 million was reversed.
3. Represents an impairment charge of $3.1 billion on aerospace program tooling, and inventory write-downs and other provisions of $179 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. An offset of $14 million related to this special item was included in Corporate and Elimination.
4. Represents an increase in provisions for credit guarantees 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 RVGs and a loss on certain financial instruments due to changes in estimated fair value.
5. In 2015, represents an adjustment to a restructuring provision recorded in 2014.

EBIT margin
There was a significant increase in EBIT margin for the three-month period compared to the same period last fiscal year, due to the special items (see explanation of special items above). The EBIT margin before special items for the three-month period decreased by 6.8 percentage points, mainly as a result of:

- losses related to the *C Series* aircraft program as a result of the ramp-up in production, mainly related to early production units(1).

Partially offset by:

- a one-time write-down of used spares inventory related to the *CRJ200* aircraft program recorded in the third quarter of 2015;
- higher margins from customer services activities; and
- lower R&D expenses, mainly due to lower amortization of aerospace program tooling as a result of the lower carrying amount of the *CRJ* aircraft family program development costs.

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

There was a significant increase in EBIT margin for the nine-month period compared to the same period last fiscal year, due to the special items (see explanation of special items above). The EBIT margin before special items for the nine-month period decreased by 9.7 percentage points, mainly as a result of:

- losses related to the *C Series* aircraft program as a result of the ramp-up in production, mainly related to early production units[(1)]; and
- lower margins related to aircraft deliveries.

Partially offset by:

- a one-time write-down of used spares inventory related to the *CRJ200* aircraft program recorded in the third quarter of 2015; and
- lower R&D expenses, mainly due to lower amortization of aerospace program tooling as a result of the lower carrying amount of the *CRJ* aircraft family program development costs.

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

Product development

Investment in product development

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	**2016**	2015
Program tooling[(1)]	**$ 27**	$ 298	**$ 252**	$ 717
R&D expense[(2)]	**1**	—	**2**	2
	$ 28	$ 298	**$ 254**	$ 719
As a percentage of revenues	**5.2%**	62.1%	**13.2%**	41.1%

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

The carrying amount of commercial aircraft program tooling[(3)] as at September 30, 2016 was $2.5 billion, compared to $1.9 billion as at December 31, 2015.

(1) Net amount capitalized in aerospace program tooling, excluding $352 million for the nine-month period ended September 30, 2016 related to acquired development costs carried out by our vendors and recognized as aerospace program tooling at the first delivery of the *CS100* aircraft in the second quarter of 2016. The amount is a non-cash item for the nine-month period ended September 30, 2016 as it is repayable upon future delivery of the aircraft and will impact the net additions to PP&E and intangible assets in the cash flow once the payments are made to the suppliers upon delivery of the aircraft.

(2) Excluding amortization of aerospace program tooling of $3 million and $14 million for the three- and nine-month periods ended September 30, 2016 ($13 million and $48 million for the three- and nine-month periods ended September 30, 2015), as the related investments are already included in aerospace program tooling.

(3) Capitalized borrowing costs included in the commercial aircraft aerospace program tooling balance amounted to $299 million as at September 30, 2016 ($294 million as at December 31, 2015).

The *C Series* aircraft program

CS100 aircraft

The *CS100* airliner obtained its European Aviation Safety Agency (EASA) and U.S. Federal Aviation Administration (FAA) type validations on June 15, 2016 following the type certification received from Transport Canada (TC). The first *CS100* aircraft was delivered to SWISS on June 29, 2016 and entered commercial service on July 15, 2016.

The aircraft delivered to SWISS are performing well with results as expected and are displaying a high level of reliability.

On September 26, 2016, an environmental product declaration (EPD®) on the *CS100* aircraft was published by the International EPD® System disclosing information about the aircraft's environmental impact throughout its life cycle. The publication of the EPD® was a first in the aerospace industry.

CS300 aircraft

On July 11, 2016, the *CS300* aircraft obtained its type certification from TC, followed by EASA type validation on October 7, 2016. Additionally, TC and EASA have conducted the operational evaluation of the *CS300* aircraft, validating that the aircraft is operationally suitable for EIS. Subsequent to the successful operational evaluation, these two authorities granted the *CS300* aircraft the same pilot type rating as the *CS100* aircraft. The same pilot type rating will allow pilots trained on one variant to fly the other variant with minimal differences in training and is a major benefit to *C Series* aircraft customers.

Type validation by the U.S. FAA is expected in the fourth quarter of 2016. The first *CS300* aircraft destined for launch operator airBaltic is in production and delivery is scheduled to take place in the coming weeks.

In September 2016, the *CS300* aircraft began a series of route-proving flights in Europe and Middle East alongside airBaltic. These route-proving exercises on airBaltic's service network were completed in October 2016.

Performance results
Flight and aircraft structural test performance results have exceeded original targets for fuel burn, payload, range and airfield performance.[1]

Production ramp-up and customer support activities
Our focus now is on ramping up to full production, delivering aircraft and providing our customers with full support as they launch their aircraft into revenue-generating service.

[1] Key performance targets under certain operating conditions when compared to aircraft currently in production for flights of 500 nautical miles. Also see the *CS300* aircraft program disclaimer at the end of this MD&A.

Aircraft deliveries

Aircraft deliveries

	Three-month periods ended September 30		Nine-month periods ended September 30	
(in units)	**2016**	2015	**2016**	2015
Regional jets				
CRJ700	**—**	—	**1**	2
CRJ900	**5**	8	**32**	32
CRJ1000	**1**	—	**5**	1
Commercial jets				
CS100	**1**	—	**2**	—
Turboprops				
Q400	**9**	5	**23**	19
Amphibious aircraft	**—**	1	**—**	2
	16	14	**63**	56

Aircraft orders

Net orders

	Three-month periods ended September 30		Nine-month periods ended September 30	
(in units)	**2016**	2015	**2016**	2015
Regional jets				
CRJ700	**—**	2	**—**	2
CRJ900	**—**	—	**19**	7
CRJ1000	**—**	—	**—**	(2)
Commercial jets				
CS100	**—**	—	**75**	—
CS300	**(12)**	—	**40**	—
Turboprops				
Q400	**3**	—	**18**	23
	(9)	2	**152**	30

The net negative orders for the three-month period ended September 30, 2016 is due to the August 2016 restructuring of the purchase agreement signed in 2013 with our Moscow-based leasing company customer Ilyushin Finance Co. (IFC) to align with their current market needs. The firm order has been modified from 32 *CS300* aircraft with options for an additional 10 *CS300* aircraft to 20 *CS300* aircraft and one *Q400* turboprop with options for five additional *Q400* aircraft.

Subsequent to the end of the third quarter, Philippine Airlines, Inc. signed a Letter of Intent to acquire up to 12 *Q400* turboprops.

The following significant orders were received during the nine-month period ended September 30, 2016:

Customer	Firm order	Value[1]	Options[2]
Second quarter			
Delta Air Lines, Inc. (U.S.)	75 *CS100*	$ 5,600	50 *CS100*
Air Canada (Canada)	45 *CS300*	$ 3,800	30 *CS300*
Air Baltic Corporation AS (Latvia)	7 *CS300*	$ 506	—
Industrial Bank Financial Leasing Co., Ltd.[3] (also known as CIB Leasing) (China)	10 *CRJ900*	$ 472	—
WestJet Encore Ltd. (Canada)	9 *Q400*	$ 293	—
Chorus Aviation Inc. (Canada)	5 *CRJ900*	$ 229	—

[1] Value of firm order based on list prices.
[2] Not included in the order backlog.
[3] Customer was previously undisclosed.

Order backlog and book-to-bill ratio

Commercial aircraft order backlog and options

				As at
	September 30, 2016		December 31, 2015	
(in units)	**Firm orders**	**Options**	Firm orders	Options
Regional jets				
CRJ700	**9**	**—**	10	—
CRJ900	**31**	**18**	44	24
CRJ1000	**20**	**—**	25	9
Commercial jets				
CS100	**121** [1]	**99**	53 [1]	49
CS300	**235** [1]	**133**	190 [1]	113
Turboprops				
Q400	**34**	**13**	39	77
	450	**263**	361	272

[1] The total of 356 orders includes 144 firm orders with conversion rights to the other *C Series* aircraft model as at September 30, 2016 (total of 243 orders included 86 firm orders with conversion rights to the other *C Series* aircraft model as at December 31, 2015).

The order backlog and the production horizon for programs are monitored to align production rates to reflect market demand.

On February 25, 2016, Republic Airways Holdings Inc. (Republic) announced that it and certain of its subsidiaries have filed voluntary petitions to reorganize under Chapter 11 of the U.S. Bankruptcy Code. On October 20, 2016, Republic and Bombardier entered into an amendment, which provides for the deferral of the scheduled aircraft payments to Bombardier and the scheduled aircraft deliveries to Republic for the 40 *CS300* aircraft under the original purchase agreement. Republic filed a motion with the U.S. Bankruptcy Court Southern District of New York to approve the amendment. The hearing of the motion is scheduled for November 17, 2016.

Book-to-bill ratio[(1)]

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	**2016**	2015
Net orders	**(9)**	2	**152**	30
Deliveries	**16**	14	**63**	56
	nmf	0.1	**2.4**	0.5

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

Negative net orders in the three-month period ended September 30, 2016 reflect the restructuring of IFC's aircraft purchase agreement in August 2016.

The increase in the book-to-bill ratio in the nine-month period ended September 30, 2016 compared to the same period last year is mainly due to significant orders for the *C Series* family of aircraft in the second quarter of 2016.

STRATEGIC PARTNERSHIP

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

On June 30, 2016, we 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.

On June 30 and September 1, 2016, we received the investment in two installments of $500 million each. 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, we have committed to invest additional capital contributions to CSALP up to a maximum amount of $1.0 billion in case of any liquidity shortfall in CSALP. Additional capital contributions by Bombardier would increase our ownership interest in CSALP.

Also on June 30 and September 1, 2016 we 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 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.

AEROSTRUCTURES AND ENGINEERING SERVICES

HIGHLIGHTS

Results of the quarter

Three-month periods ended September 30	**2016**	2015	Variance
Revenues	**$ 337**	$ 411	(18)%
External order intake	**$ 104**	$ 110	(5)%
External book-to-bill ratio[1]	**1.0**	0.9	0.1
EBIT	**$ 20**	$ 30	(33)%
EBIT margin	**5.9%**	7.3%	(140) bps
EBIT before special items[2]	**$ 29**	$ 30	(3)%
EBIT margin before special items[2]	**8.6%**	7.3%	130 bps
EBITDA before special items[2]	**$ 42**	$ 43	(2)%
EBITDA margin before special items[2]	**12.5%**	10.5%	200 bps
Net additions to PP&E and intangible assets	**$ 7**	$ 1	600 %
As at	**September 30, 2016**	December 31, 2015	
External order backlog	**$ 62**	$ 80	(23)%

Key highlights and events

- We are revising Aerostructures and Engineering Services revenue guidance to approximately $1.6 billion and EBIT margin before special items[2] guidance to approximately 8% for the full year 2016.[3]
- Approximately 60% of the 2,500 planned workforce reductions announced in February 2016 were achieved during the first nine months of 2016. The goal is to resize our organization in line with current business needs and increase our competitiveness. In the first nine months of 2016, we have recognized restructuring charges of $33 million in special items.

(1) Defined as new external orders over external revenues.
(2) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measures.
(3) See the forward-looking statements disclaimer and Aerostructures and Engineering Services' Guidance and forward-looking statements section in the 2015 Financial Report for details regarding the assumptions on which the guidance is based, except for the level of production related to intersegment contracts, which is now expected to be lower in 2016 as compared to 2015. Refer to the 2016 guidance update section for more details.

2016 GUIDANCE UPDATE

The following is an update of guidance provided in our 2015 Financial Report.

	Guidance provided in our 2015 Financial Report	Results for the nine-month period ended September 30, 2016	2016 guidance update[(1)]
Revenues	Revenues are expected to remain at approximately $1.8 billion, mainly from intersegment contracts with Business Aircraft and Commercial Aircraft.	Revenues of $1.2 billion, of which $0.9 billion is from intersegment contracts.	Revenues of approximately $1.6 billion, mainly from intersegment contracts with Business Aircraft and Commercial Aircraft.
Profitability[(2)]	EBIT margin of approximately 7.5%.	EBIT margin before special items[(2)] of 7.6%.	EBIT margin before special items[(2)] of approximately 8%.

We are revising Aerostructures and Engineering Services revenue guidance for the full year 2016 to approximately $1.6 billion, mainly due to lower intersegment revenues to align production with our internal customers, Business Aircraft and Commercial Aircraft. Aerostructures and Engineering Services' EBIT margin before special items[(2)] for the nine-month period ended September 30, 2016 has exceeded the original forecast, mainly driven by transformation initiatives benefiting mostly the second half of 2016. As a result, we have increased our profitability guidance[(2)] to approximately 8%.

(1) See the forward-looking statements disclaimer and Aerostructures and Engineering Services' Guidance and forward-looking statements section in the 2015 Financial Report for details regarding the assumptions on which the guidance is based, except for the level of production related to intersegment contracts, which is now expected to be lower in 2016 as compared to 2015.

(2) Profitability guidance is based on EBIT margin before special items. Refer to the Non-GAAP financial measures section for a definition of this metric and the Analysis of results section for a reconciliation to the most comparable IFRS measure for the nine-month period ended September 30, 2016.

INDUSTRY AND ECONOMIC ENVIRONMENT

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

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

The current status of some market drivers could potentially have a mixed impact over the short-term for the aerostructures industry. Demand for commercial air travel continues to grow, and load factors remain stable. Lower oil prices have benefited travellers through lower fares and should continue to help improve airline profitability. These factors could have a positive impact on commercial aircraft orders despite continued signs of weakness in global economic conditions. Meanwhile, market indicators continue to point to a delayed recovery and softness in the business jet market, despite some improvement in the industry confidence.[(1)] Overall, we remain confident in the long-term potential for significant growth in the aircraft industry.

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

ANALYSIS OF RESULTS

Results of operations

		Three-month periods ended September 30			Nine-month periods ended September 30	
		2016	2015		**2016**	2015
Revenues						
External revenues	**$**	**102**	$ 119	**$**	**326**	$ 385
Intersegment revenues		**235**	292		**904**	969
		337	411		**1,230**	1,354
EBITDA before special items(1)	**$**	**42**	$ 43	**$**	**133**	$ 151
Amortization		**13**	13		**39**	38
EBIT before special items(1)		**29**	30		**94**	113
Special items		**9**	—		**(10)**	(1)
EBIT	**$**	**20**	$ 30	**$**	**104**	$ 114
EBIT margin before special items(1)		**8.6%**	7.3%		**7.6%**	8.3%
EBIT margin		**5.9%**	7.3%		**8.5%**	8.4%

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

Revenues

The $74-million and $124-million decreases for the three- and nine-month periods are due to:

- lower intersegment revenues ($57 million and $65 million, respectively) mainly due to lower volume for business aircraft related to production rate decreases implemented in 2015, partially offset by higher volume for the *C Series* aircraft program related to the production ramp-up; and
- lower external revenues ($17 million and $59 million, respectively), mainly due to lower volume, partially offset by an increase in aftermarket sales.

Special items

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

The special item for the three-month period ended September 30, 2016 represents restructuring charges related to the workforce optimization announced in February 2016.

The special items for the nine-month period ended September 30, 2016 represent:

- a $43-million decrease in the pension obligation. Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation was reversed; and
- restructuring charges of $33 million related to the workforce optimization announced in February 2016.

The special item for the nine-month period ended September 30, 2015 related to an adjustment to a restructuring provision recorded in 2014.

EBIT margin

The EBIT margin for the three-month period decreased by 1.4 percentage points compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items above) for the three-month period increased by 1.3 percentage points, mainly as a result of:

- higher margins on intersegment business aircraft contracts, mainly due to lower costs resulting from improved performance; and
- higher margins on external contracts, mainly due to improved pricing.

Partially offset by:

- lower margins on intersegment commercial aircraft contracts, mainly due to ramp-up of the *C Series* aircraft program; and
- lower absorption of SG&A expenses.

The EBIT margin for the nine-month period increased by 0.1 percentage points compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items above) for the nine-month period decreased by 0.7 percentage points, mainly as a result of:

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

Partially offset by:

- higher margins on external contracts, mainly due to improved pricing; and
- higher margins on intersegment business aircraft contracts, mainly due to lower costs resulting from improved performance.

Order backlog and book-to-bill ratio

External order backlog

		As at
	September 30, 2016	December 31, 2015
	$ 62	$ 80

External order intake and book-to-bill ratio

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	**2016**	2015
External order intake	**$ 104**	$ 110	**$ 308**	$ 371
External book-to-bill ratio(1)	**1.0**	0.9	**0.9**	1.0

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

TRANSPORTATION

HIGHLIGHTS

Results of the quarter

Three-month periods ended September 30	**2016**	2015	Variance
Revenues	**$ 1,782**	$ 1,985	(10)%
Order intake (in billions of dollars)	**$ 2.9**	$ 2.2	32 %
Book-to-bill ratio[(1)]	**1.6**	1.1	0.5
EBIT	**$ 125**	$ 109	15 %
EBIT margin	**7.0%**	5.5%	150 bps
EBIT before special items[(2)]	**$ 140**	$ 109	28 %
EBIT margin before special items[(2)]	**7.9%**	5.5%	240 bps
EBITDA before special items[(2)]	**$ 164**	$ 131	25 %
EBITDA margin before special items[(2)]	**9.2%**	6.6%	260 bps
Net additions to PP&E and intangible assets	**$ 28**	$ 29	(3)%
As at	**September 30, 2016**	December 31, 2015	
Order backlog (in billions of dollars)	**$ 31.0**	$ 30.4	2 %

Key highlights and events

- Our operational transformation is gaining traction. During the three-month period ended September 30, 2016, the EBIT margin before special items[(2)] further improved to 7.9%, for an EBIT margin before special items[(2)] of 6.7% for the nine-month period.
- Transportation is in line to exceed profitability guidance. Based on results to date, we are increasing profitability guidance for the year to above 6.5% and revising Transportation's full year revenue guidance for 2016 to approximately $8.0 billion.[(3)]
- InnoTrans, the world's largest fair for transport technology, was held in September 2016 in Berlin, Germany. As an innovation driver, we launched new state-of-the-art mobility solutions such as our *TALENT* 3 trains and introduced our *MOVIA* Maxx platform concept and *OPTIFLO* signalling system.
- In September 2016, we signed contracts with Angel Trains and Abellio Greater Anglia in the U.K. to supply 665 *AVENTRA* vehicles and maintenance services for Abellio's East Anglia rail franchise. The contracts are valued at a total of approximately $1.2 billion, leading to a book-to-bill ratio[(1)] of 1.6 for the quarter.
- In September 2016, we signed a strategic agreement with the Chinese rolling stock manufacturer, China Railway Rolling Stock Corporation (CRRC), to expand and deepen our relationship. The agreement establishes a framework to leverage our complementary strengths for selected projects in order to provide additional value to customers, better serve the growing global rail transportation equipment market and support mutual long-term growth objectives. Areas of potential future cooperation include Chinese and international market development and shared manufacturing resources.
- Approximately 80% of the 3,200 planned workforce reductions announced in February 2016 were achieved during the first nine months of 2016. The goal is to resize our organization in line with current business needs and increase our competitiveness. In the first nine months of 2016, we have recognized restructuring charges of $139 million in special items.

(1) Defined as new orders over revenues.
(2) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measures.
(3) See the forward-looking statements disclaimer and Transportation's Guidance and forward-looking statements section in the 2015 Financial Report for details regarding the assumptions on which the guidance is based. Refer to the 2016 guidance update section for more details.

2016 GUIDANCE UPDATE

The following is an update of guidance provided in our 2015 Financial Report.

	Guidance provided in our 2015 Financial Report	Results for the nine-month period ended September 30, 2016	2016 guidance update[1]
Revenues	Revenues of approximately $8.5 billion, based on the assumption that foreign exchange rates will remain stable in 2016 compared to 2015.	Revenues of $5.8 billion excluding negative currency impacts.	Revenues of approximately $8.0 billion, based on the current foreign exchange rates in 2016.
Profitability[2]	EBIT margin above 6%.	EBIT margin before special items[2] of 6.7%.	EBIT margin before special items[2] above 6.5%.

We are revising Transportation's full year revenue guidance for 2016 to approximately $8.0 billion, mainly due to active project management as we apply stronger cash discipline and de-risk project execution. This in turn is deferring recognition of certain costs and associated recognition of revenue under long-term contract accounting.

Transportation is in line to exceed profitability guidance. EBIT before special items[2] for the nine-month period ended September 30, 2016 has exceeded the original forecast, mainly driven by transformation initiatives and stronger contract execution. Based on results to date, we are increasing profitability guidance[2] for the year to above 6.5%.

(1) See the forward-looking statements disclaimer and Transportation's Guidance and forward-looking statements section in the 2015 Financial Report for details regarding the assumptions on which the guidance is based.
(2) Profitability guidance is based on EBIT margin before special items. Refer to the Non-GAAP financial measures section for a definition of this metric and the Analysis of results section for a reconciliation to the most comparable IFRS measure for the nine-month period ended September 30, 2016.

INDUSTRY AND ECONOMIC ENVIRONMENT

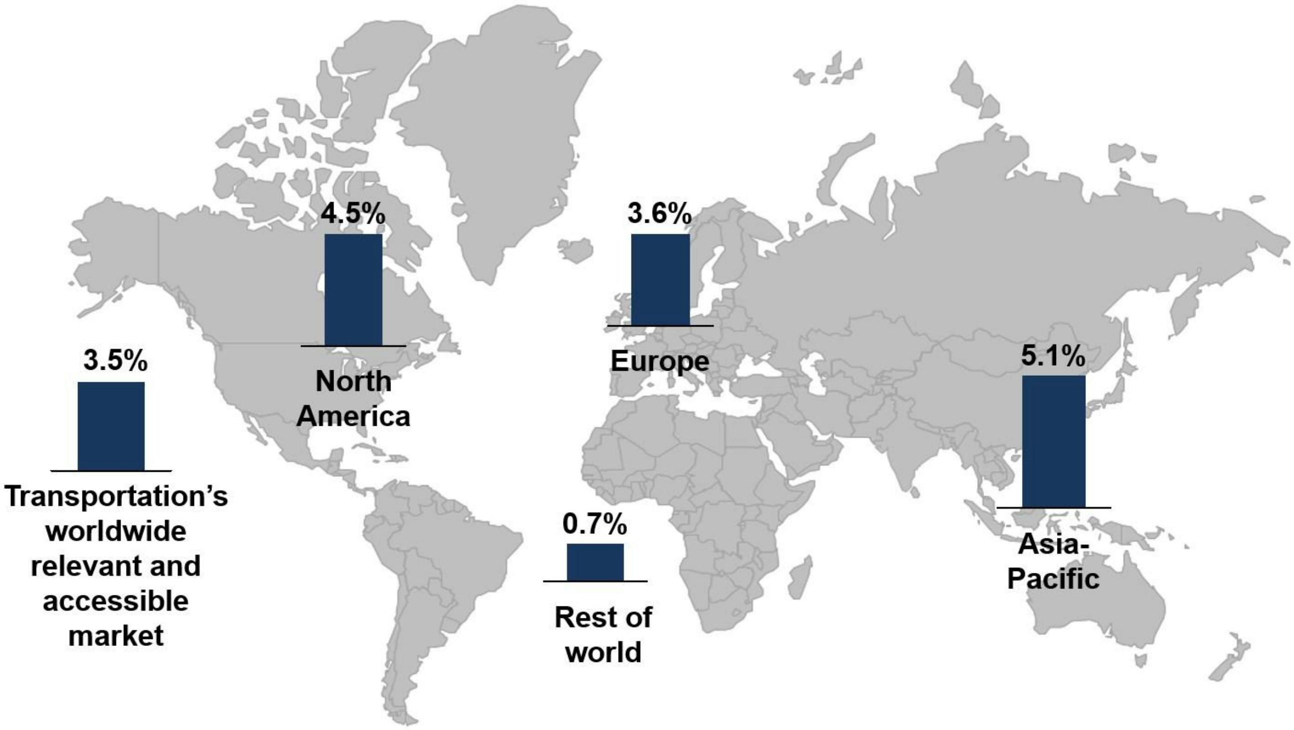
The Association of the European Rail Industry (UNIFE) confirmed its positive outlook for the global rail industry in its World Rail Market Study published in September 2016. The study expects the overall accessible rail market[1] to grow with a CAGR of 3.2% over the next five years, compared to a CAGR of 2.7% in the previous survey from 2014. Transportation's relevant and accessible market[1] is expected to grow even faster with a CAGR of 3.5% over the next 5 years, compared to a CAGR of 2.5% in the previous survey.[2]

The positive market outlook is mainly based on mature rail markets such as Western Europe and North America, which are consistently investing in the modernization and replacement of their rolling stock fleets. Furthermore, investments to upgrade and modernize signalling systems will further drive established rail markets such as Western Europe. The accessible rail control market is also expected to pursue high relative growth in Eastern Europe, Asia-Pacific and the CIS. Supported by a growing rolling stock installed base and gradual liberalization, the services market is expected to grow. Particularly in mature markets, smaller private rail operators emerge and often outsource their maintenance requirements while larger incumbents tend to further outsource their services needs which, to date, were mostly performed in-house.

From a legislation point of view, initiatives such as the Fourth Railway Package of the European Union Commission and other regulations regarding the implementation of Positive Train Control in the U.S. will further support the rail industry to continue to improve the degree of liberalization and safety of rail transportation.

(1) The overall accessible rail market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition. Transportation's relevant and accessible market also excludes the infrastructure, freight wagon and shunter segments. UNIFE data is based on 60 countries representing more than 95% of the world rail market.
(2) As large rail projects may significantly impact yearly volume, single year market volumes can be subject to a high degree of volatility. UNIFE therefore focuses on three-year average annual market volumes in order to facilitate comparison between different periods.

Our relevant and accessible market forecast growth for next five years



Source: Based on UNIFE World Rail Market Study published in September 2016. CAGR from 2013-2015 to 2019-2021 for Transportation's relevant and accessible rail market by region.
The Rest of world region includes South America, Central America, Africa, the Middle East and the CIS.

In Europe, the year to date volume maintained a similar level compared to the same period in 2015 driven by large orders in the commuter and regional trains segment in Italy, Germany and the U.K. During the third quarter, large contracts were awarded in the Netherlands for intercity trains, as well as for regional trains in Italy. In the upcoming quarters, large orders are expected for high-speed trains in France and Spain. In the U.K. and France large order placements are anticipated in the metro and commuter trains segments to further develop networks in London and Paris. In Eastern Europe, contracts were awarded for metro cars in Istanbul, Turkey, and for regional trains in Hungary. Despite less activity in Eastern Europe in the third quarter as compared to the second quarter, further investments are expected in the metro, high-speed trains and services segments in Turkey. Furthermore, aging fleets in Eastern Europe still denote high potential for modernizations and replacements. Investments are expected in Hungary, Poland and Romania in the commuter and regional trains as well as in the metro and light rail vehicle segments.

In North America, the year to date volume has strongly increased compared to the same period last year primarily driven by large orders for urban solutions both in Canada and the U.S. In the third quarter of 2016, contracts have been awarded in the high-speed trains segment in the U.S. as well as for the renewal of metro fleets in Mexico. During the next quarters, investments across all segments are expected in the U.S. In Canada, services and signalling contracts are expected to be awarded while Mexico remains a promising market in the metro and light rail vehicles segments.

In Asia-Pacific, reduced investment in the high-speed rail network in China has significantly impacted the year to date volume in the region compared to last year. In the third quarter many investments in urban solutions were made across the region. A large contract for new commuter trains was awarded in Australia, as well as several contracts for new metro fleets and signalling solutions in China, Malaysia and Thailand. Further investments will be made for urban solutions in China, India, Thailand and the Philippines. In Australia, maintenance outsourcing is expected to create significant services opportunities.

In the Rest of world region, the year to date volume is lower compared to the same period last year due to a large contract awarded in Doha, Qatar in the first quarter of 2015. In the third quarter, a significant investment for light rail vehicles was made in Russia and in South America, contracts were awarded to provide new metro cars to the cities of Lima, Peru, and Quito, Ecuador. Further contracts are expected to be tendered for new urban mobility solutions and turnkey systems in the Middle East and South America.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2016	2015	**2016**	2015
Revenues				
External revenues	**$ 1,780**	$ 1,985	**$ 5,621**	$ 6,113
Intersegment revenues	**2**	—	**5**	4
	1,782	1,985	**5,626**	6,117
EBITDA before special items[1]	**$ 164**	$ 131	**$ 452**	$ 414
Amortization	**24**	22	**73**	72
EBIT before special items[1]	**140**	109	**379**	342
Special items	**15**	—	**144**	—
EBIT	**$ 125**	$ 109	**$ 235**	$ 342
EBIT margin before special items[1]	**7.9%**	5.5%	**6.7%**	5.6%
EBIT margin	**7.0%**	5.5%	**4.2%**	5.6%

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

Revenues

Total external revenues for the three- and nine-month periods ended September 30, 2016, have decreased by $205 million and $492 million, respectively. Excluding negative currency impacts of $49 million and $144 million, respectively, revenues have decreased by $156 million, or 7.9%, and $348 million, or 5.7%, for the three- and nine-month periods, respectively, compared to the same periods last fiscal year.

The $156-million decrease excluding currency impact for the three-month period is mainly explained by:

- lower activities in systems and in signalling in the Rest of world region and Asia-Pacific, and in systems in North America, mainly due to contracts nearing completion ($121 million); and
- lower activities in rolling stock in North America following completion of some metro contracts ($25 million).

The $348-million decrease excluding currency impact for the nine-month period is mainly explained by:

- lower activities in systems and in signalling in the Rest of world region and Asia-Pacific, and in systems in Europe and North America, mainly due to contracts nearing completion ($285 million); and
- lower activities in rolling stock in Europe and North America following completion of some locomotive and metro contracts in both regions, some light rail vehicle contracts in Europe and some commuter and regional train contracts in North America, as well as overall optimization of our supply chain, which delayed recognition of certain costs and therefore delayed recognition of revenue under long-term contract accounting, partly compensated by ramp-up in production related to some commuter and regional train contracts in Europe and some light rail vehicle contracts in North America ($195 million).

Partially offset by:

- higher activities in rolling stock in the Rest of world region and Asia-Pacific mainly due to ramp-up in production related to some locomotive contracts in the Rest of world region and some commuter and regional train and metro contracts in Asia-Pacific ($150 million).

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

The special items for the three- and nine-month periods ended September 30, 2016 represent:

- restructuring charges of $139 million related to the workforce optimization announced in February 2016, of which $15 million were recorded in the third quarter; and
- a foreign exchange loss of $5 million related to the reorganization of Transportation under one holding entity necessary to facilitate the placement of a minority stake in Transportation recorded in the first quarter.

EBIT margin
The EBIT margin for the three-month period increased by 1.5 percentage points compared to the same period last year. The EBIT margin before special items (see explanation of special items above) for the three-month period increased by 2.4 percentage points, mainly as a result of:

- higher margin in rolling stock, services and signalling; and
- a higher share of income from joint ventures and associates.

Partially offset by:

- lower margin in systems mainly due to adjustments on certain contracts.

The EBIT margin for the nine-month period decreased by 1.4 percentage points, compared to the same period last year. The EBIT margin before special items (see explanation of special items above) for the nine-month period increased by 1.1 percentage points, mainly as a result of:

- higher margin in rolling stock, services and signalling.

Partially offset by:

- lower margin in systems mainly due to adjustments on certain contracts.

Orders and backlog

Order backlog

	As at	
(in billions of dollars)	**September 30, 2016**	December 31, 2015
	$ 31.0	$ 30.4

The $0.6 billion increase in order backlog is due to higher order intake than revenues.

Order intake and book-to-bill ratio

	Three-month periods ended September 30		**Nine-month periods ended September 30**	
	2016	2015	**2016**	2015
Order intake (in billions of dollars)	**$ 2.9**	$ 2.2	**$ 6.2**	$ 5.4
Book-to-bill ratio[1]	**1.6**	1.1	**1.1**	0.9

[1] Ratio of new orders over revenues.

Excluding negative currency impacts, the order intake for the three- and nine-month periods increased by $0.8 billion and $1.0 billion, respectively, compared to the same periods last fiscal year. This increase is mainly explained by the significant order signed with Angel Trains Ltd, U.K., in the third quarter of 2016, for $1.1 billion. The order intake for the three- and nine-month periods ended September 30, 2016 reflect negative currency impacts of $159 million and $238 million, respectively.

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

[1] Based on a rolling 36-month order intake with latest data published by companies publishing order intake for at least 36 months.
[2] The overall accessible rail market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition. Our accessible market also excludes the infrastructure, freight wagon and shunter segments.

The significant orders obtained during the nine-month period ended September 30, 2016 were as follows:

Customer	Country	Product or service	Number of cars	Market segment	Value	
Third quarter						
Angel Trains Ltd	U.K.	*AVENTRA* Electrical Multiple Units (EMU)	665	Rolling stock	$ 1,100	
Metrolinx	Canada	*BiLevel* commuter rail cars	125	Rolling stock	$ 328	
Arriva CrossCountry Trains (XC)	U.K.	Fleet maintenance services	n/a	Services	$ 302	
Abellio Greater Anglia	U.K.	Fleet maintenance services	n/a	Services	$ 108	
Second quarter						
Landesnahverkehrsgesellschaft Niedersachsen mbH (LNVG)	Germany	Fleet maintenance services	n/a	Services	$ 393	
Abellio Rail Südwest GmbH	Germany	*TALENT* 2 EMUs	167	Rolling stock	$ 244	
Akiem S.A.	France	*TRAXX* locomotives	26	Rolling stock	$ 107	(1)
First quarter						
City of Edmonton	Canada	*FLEXITY* trams, signalling and related depot equipment; O&M services[2]	n/a	Rolling stock, Services, System and signalling	$ 280	(3)
Israel Railways (ISR)	Israel	*TWINDEXX* Vario double-deck coaches	60	Rolling stock	$ 120	

(1) Based on list price.
(2) Operations and maintenance of the light rail transit system performed together with other consortium partners over a 30-year period.
(3) Contract signed as part of a consortium. Only our share of the value is stated.
n/a: Not applicable

OTHER

OFF-BALANCE SHEET ARRANGEMENTS

Factoring facilities

In the normal course of its business, Transportation has set up factoring facilities, under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €913 million ($1.0 billion) were outstanding under such facilities as at September 30, 2016 (€871 million ($948 million) as at December 31, 2015). During the three- and nine-month periods ended September 30, 2016, trade receivables of €234 million ($261 million) and €770 million ($859 million), respectively, were sold to these facilities (€312 million ($346 million) and €1.0 billion ($1.2 billion), respectively, during the three- and nine-month periods ended September 30, 2015).

Other arrangements

In the normal course of operations, we maintain other off-balance sheet arrangements including credit and residual value guarantees, financing commitments and financing structures related to the sale of commercial aircraft. There was no significant change in these arrangements during the nine-month period ended September 30, 2016. Refer to the Off-balance sheet arrangements section in Other of our Financial Report for the year ended December 31, 2015 for a description of these arrangements, and to Note 21, Commitments and Contingencies, to the interim consolidated financial statements for further details.

RISKS AND UNCERTAINTIES

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

There was no significant change to these risks and uncertainties during the nine-month period ended September 30, 2016, other than those described elsewhere in this MD&A. Also refer to Note 21, Commitments and contingencies, to our interim consolidated financial statements, for information regarding current litigation proceedings related to the investigation in Brazil.

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

ACCOUNTING AND REPORTING DEVELOPMENTS

Future changes in accounting policies

Financial instruments

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

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

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

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

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

Revenue Recognition

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

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

Leases

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

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

CONTROLS AND PROCEDURES

No changes were made to our internal controls over financial reporting during the nine-month period ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

FOREIGN EXCHANGE RATES

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

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

	September 30, 2016	December 31, 2015	Increase (Decrease)
Euro	**1.1221**	1.0887	3%
Canadian dollar	**0.7642**	0.7202	6%
Pound sterling	**1.3027**	1.4833	(12%)

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

	September 30, 2016	September 30, 2015	Increase (Decrease)
Euro	**1.1163**	1.1116	—
Canadian dollar	**0.7675**	0.7651	—
Pound sterling	**1.3142**	1.5509	(15%)

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

	September 30, 2016	September 30, 2015	Increase (Decrease)
Euro	**1.1159**	1.1138	—
Canadian dollar	**0.7566**	0.7950	(5%)
Pound sterling	**1.3943**	1.5315	(9%)

SELECTED FINANCIAL INFORMATION

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

Fiscal years			**2016**				2015	2014
	Third	Second	First	Fourth	Third	Second	First	Fourth
Revenues	**$ 3,736**	$ 4,309	$ 3,914	$ 5,017	$ 4,138	$ 4,620	$ 4,397	$ 5,960
Net income (loss)	**$ (94)**	$ (490)	$ (138)	$ (677)	$ (4,888)	$ 125	$ 100	$ (1,590)
EPS (in dollars)								
Basic and diluted	**$ (0.04)**	$ (0.24)	$ (0.07)	$ (0.31)	$ (2.20)	$ 0.06	$ 0.05	$ (0.92)
Adjusted net income (loss)(1)	**$ (10)**	$ (83)	$ (34)	$ 9	$ 2	$ 145	$ 170	$ 83
Adjusted EPS (in dollars)(1)	**$ 0.00**	$ (0.06)	$ (0.03)	$ 0.00	$ 0.00	$ 0.06	$ 0.09	$ 0.04

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

SHAREHOLDER INFORMATION

At the annual and special meeting of the shareholders of the Corporation held on April 29, 2016, the shareholders approved a proposal for a consolidation (also known as a “reverse stock split”) of the Class A shares (multiple voting) (Class A Shares), issued and unissued, and Class B shares (subordinate voting) (Class B Subordinate Voting Shares), issued and unissued (the Share Consolidation), to be implemented at such time as the Board of Directors would deem appropriate. The Board of Directors has decided not to implement the proposed Share Consolidation.

Authorized, issued and outstanding share data, as at November 8, 2016

	Authorized	Issued and outstanding
Class A Shares (multiple voting)[1]	2,742,000,000	313,900,550
Class B Shares (subordinate voting)[2]	2,742,000,000	1,879,142,745 [3]
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,692,521
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,307,479
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

(1) Ten votes each, convertible at the option of the holder into one Class B Subordinate Voting Share.
(2) Convertible at the option of the holder into one Class A Share under certain conditions.
(3) Net of 53,533,118 Class B Subordinate Voting Shares purchased and held in trust in connection with the PSU and RSU plans.

Warrant, share option, PSU, DSU and RSU data as at September 30, 2016

Warrants issued and outstanding	205,851,872
Options issued and outstanding under the share option plans	98,286,245
PSUs, DSUs and RSUs issued and outstanding under the PSU, DSU and RSU plans	65,147,149
Class B Subordinate Voting Shares held in trust to satisfy PSU and RSU obligations	53,533,118

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

Financial Report, for the fiscal year ending December 31, 2016	February 16, 2017
First Quarterly Report, for the period ending March 31, 2017	May 11, 2017
Second Quarterly Report, for the period ending June 30, 2017	July 28, 2017
Third Quarterly Report, for the period ending September 30, 2017	November 2, 2017

Information

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November 9, 2016

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

The *CS300* and *Global 7000* and *Global 8000* aircraft programs are currently in development, and as such are subject to changes in family strategy, branding, capacity, performance, design and/or systems. All specifications and data are approximate, may change without notice and are subject to certain operating rules, assumptions and other conditions. This document does not constitute an offer, commitment, representation, guarantee or warranty of any kind.

The printed version of this quarterly report uses Rolland Enviro100 paper, containing 100% post-consumer fibres, certified Eco-Logo, processed chlorine free and FSC recycled. Using this paper, instead of virgin paper, saves the equivalent of 15 mature trees, 659 kg of waste, 2,161 kg of CO_2 emissions (equivalent to 14,452 kilometres driven) and 53,729 litres of water.

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine-month period ended September 30, 2016
(Unaudited)
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

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					
	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 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					
	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)	—	—	—	(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 - *C Series* aircraft program[(1)]	**$ —**	$ —	**$ 492**	$ —
Restructuring charges[(2)]	**24**	—	**180**	9
Pension obligation[(3)]	**—**	—	**(139)**	—
Impairment and other charges - *Learjet 85* 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 - *C Series* 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 :				
Gain (loss)	**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**
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.