BOMBARDIER
the evolution of mobility

FIRST QUARTERLY REPORT
Three-month period ended March 31, 2014

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	GDP	Gross domestic product
BA	Bombardier Aerospace	HFT	Held for trading
BT	Bombardier Transportation	IAS	International Accounting Standard(s)
CCTD	Cumulative currency translation difference	IASB	International Accounting Standards Board
CGU	Cash generating unit	IFRIC	International Financial Reporting Interpretation Committee
CIS	Commonwealth of Independent States	IFRS	International Financial Reporting Standard(s)
DDHR	Derivative designated in a hedge relationship	L&R	Loans and receivables
DSU	Deferred share unit	MD&A	Management's discussion and analysis
EBIT	Earnings before financing expense, financing income and income taxes	NCI	Non-controlling interests
		OCI	Other comprehensive income
EBITDA	Earnings before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets	PP&E	Property, plant and equipment
		PSG	Performance security guarantee
		PSU	Performance share unit
EBT	Earnings before income taxes	R&D	Research and development
EIS	Entry-into-service	RVG	Residual value guarantee
EPS	Earnings per share attributable to equity holders of Bombardier Inc.	SG&A	Selling, general and administrative
		U.K.	United Kingdom
FVTP&L	Fair value through profit and loss	U.S.	United States of America

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"). 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 reportable segment: BA and BT, and then by market segment, which is reflective of our organizational structure.

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 the Analysis of results sections in BA and BT).

Materiality for disclosures
We determine if 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.

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, our 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; our competitive position; and the expected impact of the legislative and regulatory environment and legal proceedings on our business and operations. Forward-looking statements generally can 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 us 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 forecasted results. While we consider our assumptions to be reasonable and appropriate based on information currently available, there is a 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 risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of the airline industry and rail industry, political instability and force majeure), operational risks (such as risks related to developing new products and services; fixed-price commitments and production and project execution; 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), financing risks (such as risks related to liquidity and access to capital markets, retirement benefit plan risk, exposure to credit risk, certain restrictive debt covenants, financing support provided for the benefit of certain customers and reliance on government support) and market risks (such as risks related to foreign currency fluctuations, changing interest rates, decreases in residual values and increases in commodity prices). 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, 2013. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect our expectations as at the date of this report and are subject to change after such date. Unless otherwise required by applicable securities laws, we expressly disclaim any intention, and assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OVERVIEW

HIGHLIGHTS

Results of the quarter

- Revenues of $4.4 billion, compared to $4.3 billion for the same period last fiscal year.
- EBIT of $207 million, or 4.8% of revenues, compared to $240 million, or 5.5%, for the same period last fiscal year.
- EBIT before special items[1] of $219 million, or 5.0%, compared to $240 million, or 5.5%, for the same period last fiscal year.
- Net income of $115 million (diluted EPS of $0.06), compared to $148 million (diluted EPS of $0.08) for the same period last fiscal year.
- Adjusted net income[1] of $151 million (adjusted EPS[1] of $0.08), compared to $156 million (adjusted EPS of $0.08) for the same period last fiscal year.
- Net investment of $500 million in PP&E and intangible assets, including $430 million related to aerospace program tooling, compared to $514 million including $444 million related to aerospace program tooling, for the same period last fiscal year.
- Free cash flow usage[1] of $915 million, compared to a usage of $590 million for the same period last fiscal year.
- Available short-term capital resources of $3.9 billion, including cash and cash equivalents of $2.5 billion, as at March 31, 2014 ($4.5 billion and $3.0 billion on a pro forma basis[2]), compared to $4.8 billion and $3.4 billion, respectively, as at December 31, 2013.
- Record-level order backlog of $76.9 billion as at March 31, 2014, compared to $69.7 billion as at December 31, 2013.

(1) Non-GAAP financial measure. Refer to the Non-GAAP financial measures and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.
(2) See the Liquidity and capital resources section for details.

Key events

- In April 2014, we increased our financial flexibility by issuing an aggregate of $1.8 billion of unsecured Senior Notes, comprised of $600 million of 4.75% notes due April 2019 and $1.2 billion of 6.00% notes due October 2022. The net proceeds will be used to refinance approximately $1.3 billion of existing debt and for general corporate purposes.
- In March 2014, we extended the availability periods of BT and BA's letter of credit facilities and our revolving credit facilities by one year each.
- The first *Learjet 85* flight test vehicle completed its maiden flight on April 9, 2014, achieving a major milestone of the aircraft development program.
- During the first quarter, BT received $8.0 billion in new orders, including several significant contracts across various regions and product segments.

CONSOLIDATED RESULTS OF OPERATIONS

The results of operations and cash flows for the three-month periods are not necessarily indicative of the results of operations and cash flows for the full fiscal year. The fourth quarter has generally been the strongest in terms of revenues, profitability and cash flows.

Results of operations

	Three-month periods ended March 31	
	2014	2013
Revenues	**$ 4,354**	$ 4,339
Cost of sales	**3,761**	3,723
Gross margin	**593**	616
SG&A	**338**	344
R&D	**76**	70
Share of income of joint ventures and associates	**(22)**	(44)
Other expense (income)	**(18)**	6
EBIT before special items[1]	**219**	240
Special items	**12**	-
EBIT	**207**	240
Financing expense	**51**	75
Financing income	**(17)**	(40)
EBT	**173**	205
Income taxes	**58**	57
Net income	**$ 115**	$ 148
Attributable to		
Equity holders of Bombardier Inc.	**$ 113**	$ 143
NCI	**$ 2**	$ 5
EPS (in dollars)		
Basic and diluted	**$ 0.06**	$ 0.08

Non-GAAP financial measures[1]

	Three-month periods ended March 31	
	2014	2013
EBITDA	**$ 300**	$ 331
EBITDA before special items	**$ 312**	$ 331
Adjusted net income	**$ 151**	$ 156
Adjusted EPS	**$ 0.08**	$ 0.08

Revenues, EBIT margin and EBIT margin before special items[1]

	Three-month periods ended March 31	
	2014	2013
Revenues		
BA	**$ 2,089**	$ 2,258
BT	**$ 2,265**	$ 2,081
Consolidated	**$ 4,354**	$ 4,339
EBIT margin		
BA	**4.5%**	4.5%
BT	**5.0%**	6.7%
Consolidated	**4.8%**	5.5%
EBIT margin before special items[1]		
BA	**5.0%**	4.5%
BT	**5.0%**	6.7%
Consolidated	**5.0%**	5.5%

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

Analysis of consolidated results

A detailed analysis of revenues and EBIT is provided in the Analysis of results sections in BA and BT.

Net financing expense

Net financing expense amounted to $34 million for the three-month period ended March 31, 2014, compared to $35 million for the corresponding period last fiscal year.

The $1-million decrease is mainly due to:

- higher borrowing costs capitalized to PP&E and intangible assets ($16 million); and
- lower accretion on net retirement benefit obligations ($10 million).

Partially offset by:

- a net loss on certain financial instruments compared to a net gain in the corresponding period last fiscal year ($22 million).

Income taxes

The effective income tax rates for the three-month periods ended March 31, 2014 and March 31, 2013 were 33.5% and 27.8%, respectively, compared to the statutory income tax rate in Canada of 26.8%. The higher effective income tax rates are mainly due to the negative net impact of the non-recognition of income tax benefits related to tax losses and temporary differences, partially offset by net positive permanent differences.

LIQUIDITY AND CAPITAL RESOURCES

Reconciliation of segmented free cash flow to cash flows from operating activities

	Three-month periods ended March 31	
	2014	2013
Segmented free cash flow		
BA	**$ (545)**	$ (461)
BT	**(256)**	(73)
Segmented free cash flow usage	**(801)**	(534)
Net income taxes and net interest paid[(1)]	**(114)**	(56)
Free cash flow usage	**(915)**	(590)
Add back: Net additions to PP&E and intangible assets	**500**	514
Cash flows from operating activities	**$ (415)**	$ (76)

(1) Not allocated to reportable segments.

Variation in cash and cash equivalents

	Three-month periods ended March 31	
	2014	2013
Balance at the beginning of period	**$ 3,397**	$ 2,557
Free cash flow usage	**(915)**	(590)
Dividends paid	**(46)**	(49)
Net proceeds from issuance of long-term debt	**27**	1,970
Net proceeds from disposal of a business[1]	**25**	-
Effect of exchange rates on cash and cash equivalents	**(11)**	(57)
Repayments of long-term debt	**(7)**	(10)
Additions to AFS investments in securities	**-**	(70)
Other	**18**	(18)
Balance at the end of period	**$ 2,488**	$ 3,733

[1] Represents the balance of sale price related to the sale of the main assets and related liabilities of our Flexjet activities.

Available short-term capital resources

			As at
	March 31, 2014 pro forma [1]	**March 31, 2014**	December 31, 2013
Cash and cash equivalents	$ 3,043	**$ 2,488**	$ 3,397
Available revolving credit facility	1,439	**1,439**	1,440
Available short-term capital resources	$ 4,482	**$ 3,927**	$ 4,837

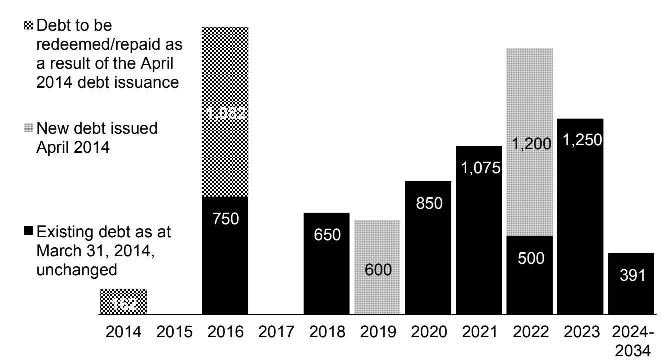
Our available short-term capital resources include cash and cash equivalents and the amounts available under our two unsecured revolving credit facilities. These facilities are available for cash drawings for the general needs of the Corporation. Under these facilities, we must meet the same financial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

In March 2014, we extended the availability periods of our BT and BA letter of credit facilities by an additional year to May 2017 and June 2017, respectively. The maturity dates of the BT €500-million ($689-million) and the $750-million unsecured revolving credit facilities were also extended by one year to March 2016 and June 2017, respectively.

In April 2014, we issued an aggregate $1.8 billion of unsecured Senior Notes, at par, comprised of $600 million of 4.75% notes due on April 15, 2019 and $1.2 billion of 6.00% notes due on October 15, 2022. The net proceeds of the issuance will be used to early redeem the €785-million Senior Notes ($1,082 million as at March 31, 2014) due on November 15, 2016, to repay the $162-million Notes due on May 1, 2014 at maturity and for general corporate purposes.

We have improved our financial flexibility as a result of this transaction by extending by approximately one year the weighted average maturity of our debt to 7.1 years and adding approximately $0.5 billion to our available short-term capital resources.

DEBT MATURITY PROFILE
(in millions of dollars; pro forma[1])



We consider that our expected cash flows from operating activities, combined with our available short-term capital resources of $4.5 billion on a pro forma basis[1], 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.

[1] The pro forma amounts give effect to our April 2014 issuance of $1.8 billion of Senior Notes as well as the redemption of our €785-million Senior Notes ($1,082 million as at March 31, 2014) and the repayment at maturity of our $162-million Notes due on May 1, 2014 together with the termination of the related derivatives.

CAPITAL STRUCTURE

We analyze our capital structure using global metrics, which are based on a broad economic view of the Corporation. We believe that these metrics should be used to assess the creditworthiness of the Corporation. We manage and monitor our global metrics so as to achieve an investment-grade profile over the medium to long term.

Reconciliations of these measures to the most comparable IFRS financial measures are in the Non-GAAP financial measures section. The 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 we believe are not representative of our core performance.

Our objectives with regard to our 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.

Global metrics[(1)]

	March 31 2014 pro forma [(3)]	**March 31 2014**	December 31 2013	**Explanation of significant variances**
Interest coverage ratio				
Adjusted EBIT[(2)]	$ 952	**$ 951**	$ 967	Deteriorated due to higher interest paid.
Adjusted interest[(2)]	$ 426	**$ 383**	$ 346	
Adjusted EBIT to adjusted interest ratio	2.2	**2.5**	2.8	
Financial leverage ratio				
Adjusted debt	$ 8,508	**$ 7,991**	$ 7,912	Deteriorated due to higher long-term debt.
Adjusted EBITDA[(2)]	$ 1,442	**$ 1,441**	$ 1,454	
Adjusted debt to adjusted EBITDA ratio	5.9	**5.5**	5.4	

(1) Refer to the Non-GAAP financial measures section for definitions and reconciliations to the most comparable IFRS measures.
(2) For the four-quarter trailing periods.
(3) The pro forma amounts give effect to our April 2014 issuance of $1.8 billion of Senior Notes, as well as the redemption of our €785-million Senior Notes ($1,082 million as at March 31, 2014) and the repayment at maturity of our $162-million Notes due on May 1, 2014 together with the termination of the related derivatives, as if these had been effective as at April 1, 2013.

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 covenants to ensure that they are all met.

In addition to the above global metrics, we separately monitor our net retirement benefit liability which amounted to $2.2 billion as at March 31, 2014 ($2.0 billion as at December 31, 2013). The measurement of this liability is dependent on numerous key long-term assumptions such as current 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. The $210-million increase in the net retirement benefit liability is explained as follows:

Variation in net retirement benefit liability

Balance as at December 31, 2013	$ 1,987 [(1)]
Changes in discount rates	472
Actuarial gains on pension plan assets	(182)
Employer contributions	(116)
Service costs	66
Changes in foreign exchange rates	(30)
Accretion on net retirement benefit obligation	19
Other	(19)
Balance as at March 31, 2014	**$ 2,197** [(1)]

(1) Includes retirement benefit assets of $196 million as at March 31, 2014 ($174 million as at December 31, 2013).

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 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	Net income 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	Cash flows from operating activities less net additions to PP&E and intangible assets.
Adjusted debt	Long-term debt as presented in our consolidated statements of financial position adjusted for the fair value of derivatives (or settled derivatives) designated in related hedge relationships plus sale and leaseback obligations and the net present value of operating lease obligations.
Adjusted EBIT	EBIT before special items plus interest adjustment for operating leases and interest received (as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of fair value hedge derivatives before their contractual maturity dates).
Adjusted EBITDA	Adjusted EBIT plus amortization and impairment charges on PP&E and intangible assets, and amortization adjustment for operating leases.
Adjusted interest	Interest paid, as per the supplemental information provided in the consolidated statements of cash flows, plus accretion expense on sale and leaseback obligations and interest adjustment for operating leases.

We believe that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of our interim consolidated financial statements with enhanced understanding of our results and related trends and increases transparency and clarity into the core results of the business. For these reasons a significant number of users of our 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, in our opinion, our core performance and help users of our MD&A to better analyze our results, enabling better comparability of our results from one period to another and with peers.

Non-GAAP 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 use similarly named non-GAAP measures of other entities to compare the performance of those entities to our performance.

Reconciliations 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 table in BA and the Consolidated results of operations section; and
- free cash flow usage to cash flows from operating activities – see the respective Free cash flow usage tables in BA and in BT and the Reconciliation of segmented free cash flow usage to cash flow from operating activities table in the Liquidity and capital resources section.

Reconciliation of EBITDA before special items and EBITDA to EBIT

	For the three-month periods ended March 31	
	2014	2013
EBIT	**$ 207**	$ 240
Amortization	**93**	91
EBITDA	**300**	331
Special items		
Restructuring charge[1]	**22**	-
Gain on resolution of a litigation in connection with capital tax[2]	**(10)**	-
EBITDA before special items	**$ 312**	$ 331

[1] Relates to the workforce reduction announced in January 2014 of approximately 1,700 positions at BA, mostly in Canada and the U.S., affecting both contractual and permanent employees.

[2] Represents a gain at BA upon the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital.

Reconciliation of adjusted net income to net income

	For the three-month periods ended March 31			
	2014		2013	
	(in millions of dollars)	**(per share)**	(in millions of dollars)	(per share)
Net income	**$ 115**		$ 148	
Adjustments to EBIT related to special items	**12**	**$ 0.01**	-	$ -
Adjustments to net financing expense related to:				
Accretion on net retirement benefit obligations	**19**	**0.01**	29	0.01
Net change in provisions arising from changes in interest rates and net loss (gain) on certain financial instruments	**7**	**-**	(17)	(0.01)
Tax impact of special and other adjusting items	**(2)**	**-**	(4)	-
Adjusted net income	**$ 151**		$ 156	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	For the three-month periods ended March 31	
	2014	2013
Diluted EPS	**$ 0.06**	$ 0.08
Impact of special and other adjusting items	**0.02**	-
Adjusted EPS	**$ 0.08**	$ 0.08

Reconciliation of adjusted debt to long-term debt

			As at
	March 31, 2014 pro forma [2]	**March 31, 2014**	December 31, 2013
Long-term debt	$ 7,720	**$ 7,272**	$ 7,203
Adjustment for the fair value of derivatives designated (or settled derivatives) in related hedge relationships	(274)	**(343)**	(293)
Long-term debt, net	7,446	**6,929**	6,910
Sale and leaseback obligations	192	**192**	138
Operating lease obligations[1]	870	**870**	864
Adjusted debt	$ 8,508	**$ 7,991**	$ 7,912

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

[2] The pro forma amounts give effect to our April 2014 issuance of $1.8 billion of Senior Notes, as well as the redemption of our €785-million Senior Notes ($1,082 million as at March 31, 2014) and the repayment at maturity of our $162-million Notes due on May 1, 2014 together with the termination of the related derivatives, as if these had been effective as at April 1, 2013.

Reconciliation of adjusted EBITDA and adjusted EBIT to EBIT

		Four-quarter trailing periods ended	
	March 31, 2014 pro forma [4]	**March 31, 2014**	December 31, 2013
EBIT	$ 890	**$ 890**	$ 923
Special items[1]	(18)	**(18)**	(30)
Interest received	40	**39**	36
Interest adjustment for operating leases[2]	40	**40**	38
Adjusted EBIT	952	**951**	967
Amortization adjustment for operating leases[3]	97	**97**	96
Amortization	393	**393**	391
Adjusted EBITDA	$ 1,442	**$ 1,441**	$ 1,454

(1) Refer to Reconciliation of EBITDA before special items and EBITDA to EBIT above for details on these special items.
(2) Represents the interest cost of a debt equivalent to operating lease obligations included in adjusted debt, bearing interest at the average five-year U.S. swap rate plus the average credit default swap spread for the related period, given our credit rating.
(3) Represents a straight-line amortization of the amount included in adjusted debt for operating leases, based on a nine-year amortization period.
(4) The pro forma amounts give effect to our April 2014 issuance of $1.8 billion of Senior Notes, as well as the redemption of our €785-million Senior Notes ($1,082 million as at March 31, 2014) and the repayment at maturity of our $162-million Notes due on May 1, 2014 together with the termination of the related derivatives, as if these had been effective as at April 1, 2013.

Reconciliation of adjusted interest to interest paid

		Four-quarter trailing periods ended	
	March 31, 2014 pro forma [2]	**March 31, 2014**	December 31, 2013
Interest paid	$ 381	**$ 338**	$ 303
Accretion expense on sale and leaseback obligations	5	**5**	5
Interest adjustment for operating leases[1]	40	**40**	38
Adjusted interest	$ 426	**$ 383**	$ 346

(1) 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.
(2) The pro forma amounts give effect to our April 2014 issuance of $1.8 billion of Senior Notes, as well as the redemption of our €785-million Senior Notes ($1,082 million as at March 31, 2014) and the repayment at maturity of our $162-million Notes due on May 1, 2014 together with the termination of the related derivatives, as if these had been effective as at April 1, 2013.

CONSOLIDATED FINANCIAL POSITION

	March 31 2014	December 31 2013	Increase (decrease) Foreign exchange impact	Variance excluding foreign exchange	Explanation of significant variances other than foreign exchange
Cash and cash equivalents	**$ 2,488**	$ 3,397	$ (11)	$ (898)	See the Variation in cash and cash equivalents table and Free cash flow in BA and BT for details
Trade and other receivables	**1,690**	1,492	3	195	$ 158 Higher level in BT 37 Higher level in BA
Gross inventories	**14,453**	13,659	20	774	$ 490 Increase in BT following ramp-up in production ahead of deliveries in a few contracts 284 Increase in BA, primarily finished products mainly due to business aircraft not associated with a firm order
Advances and progress billings related to long-term contracts	**(8,163)**	(7,777)	15	371	Higher advances and progress billings on new orders and existing contracts
Advances on aerospace programs	**(5,305)**	(4,916)	-	389	Mainly due to higher order intake than deliveries in the medium business aircraft category and in commercial aircraft
PP&E	**2,085**	2,066	2	17	$ 63 Net additions (46) Amortization
Aerospace program tooling	**7,004**	6,606	-	398	$ 430 Net additions (32) Amortization
Goodwill	**2,381**	2,381	-	-	No variance
Deferred income tax asset	**1,245**	1,231	-	14	No significant variance
Investments in joint ventures & associates	**311**	318	(4)	(3)	No significant variance
Other financial assets	**2,314**	2,205	1	108	$ 59 Increase in assets related to derivative financial instruments 21 Increase in investments in financing structures
Other assets	**1,451**	1,433	-	18	No significant variance
Trade and other payables	**(3,920)**	(4,089)	4	(173)	$ (213) Lower level in BA 40 Higher level in BT
Provisions	**(1,437)**	(1,465)	1	(29)	Mainly due to utilization of provisions for credit and residual value guarantees
Long-term debt	**(7,057)**	(6,988)	(6)	75	Mainly due to $55 million of fair value hedge movements and net issuance of $20 million
Retirement benefit liability	**(2,393)**	(2,161)	-	232	See the Variation in net retirement benefit liability table for details
Other financial liabilities	**(1,719)**	(1,726)	2	(9)	No significant variance
Other liabilities	**(3,176)**	(3,217)	(2)	(39)	$ (101) Decrease in income and other taxes payable 69 Increase in employee benefits payable
Equity	**(2,252)**	(2,449)	not applicable	(197)	$ (270) OCI - mainly due to net actuarial losses on retirement benefits 115 Net income (48) Dividends 6 Other

AEROSPACE

HIGHLIGHTS

Results of the quarter

- Revenues of $2.1 billion, compared to $2.3 billion for the same period last fiscal year.
- EBIT of $93 million, or 4.5% of revenues, compared to $101 million, or 4.5%, for the same period last fiscal year.
- EBIT before special items[(1)] of $105 million, or 5.0% of revenues, compared to $101 million, or 4.5%, for the same period last fiscal year.
- EBITDA before special items[(1)] of $168 million, or 8.0% of revenues, compared to $162 million, or 7.2%, for the same period last fiscal year.
- Free cash flow usage[(1)] of $545 million, compared to a usage of $461 million for the same period last fiscal year.
- Net investment of $484 million in PP&E and intangible assets, including $430 million related to aerospace program tooling, compared to $503 million for the same period last fiscal year, including $444 million related to aerospace program tooling.
- 56 aircraft deliveries, compared to 53 for the same period last fiscal year.
- 91 net orders (book-to-bill ratio[(2)] of 1.6), compared to 28 net orders for the same period last fiscal year.
- Record order backlog of $38.5 billion as at March 31, 2014, compared to $37.3 billion as at December 31, 2013.

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

Key events

Business aircraft

- In January 2014, we signed a firm order with an undisclosed customer for three *Global 6000*, two *Global 7000* and three *Global 8000* business jets. Based on list prices, the value of the firm order is $537 million.
- On April 9, 2014, the first *Learjet 85* flight test vehicle (FTV1) successfully completed its maiden flight. The first flight proceeded as expected and no major issues were identified. An update on the EIS date will be provided once our review of the flight test program timeline has been completed.

Commercial aircraft

- In January 2014, we signed a firm order with Al Qahtani Aviation Company from the Kingdom of Saudi Arabia for 16 *CS300* aircraft, with options for an additional 10. Based on list price, the firm order is valued at $1.2 billion.
- In the first quarter of 2014, we received a total of 17 firm orders for *Q400 NextGen* turboprops from six customers from North America, the Middle East and Asia-Pacific.
- Following the first flights of the second and third *CS100* FTVs, three FTVs are now included in the flight test program. To date, flight test results are in line with our expectations.

Workforce

- The workforce reduction of approximately 1,700 positions announced in January 2014 has been substantially completed and a related expense of $22 million was recorded as a special item in the first quarter of 2014.

INDUSTRY AND ECONOMIC ENVIRONMENT

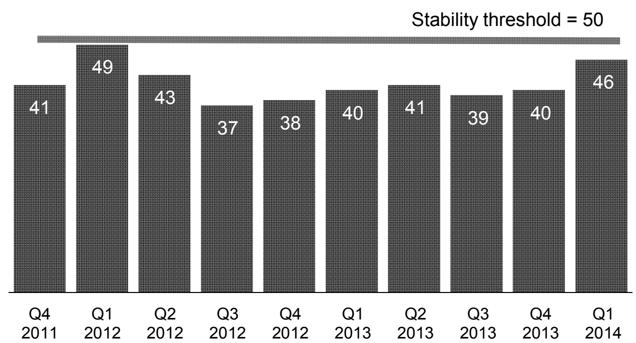
Business aircraft

There have been some improvements in market indicators; however, there are no significant changes in the overall market conditions in the first quarter of 2014 compared to the fourth quarter of 2013.

Industry confidence[(1)] has increased during the first quarter but remains below the threshold of market stability. The total number of pre-owned aircraft available for sale as a percentage of the total in-service fleet has been trending downwards over the last two quarters and is standing at 12.4% as at March 31, 2014. We consider this level of pre-owned inventory to be within the normal range for the overall market. The level of large pre-owned aircraft inventory has increased in the first quarter of 2014 but remains below what we consider to be the normal range for the overall market. In the two-month period ended February 28, 2014, business jet utilization in the U.S. increased slightly compared to the same periods in the last three years. Business jet utilization in Europe remained essentially unchanged in the three-month period ended March 31, 2014 compared to the same period last year and is slightly lower than the same periods in 2012 and 2011.

(1) As measured by the UBS Business Jet Market Index.

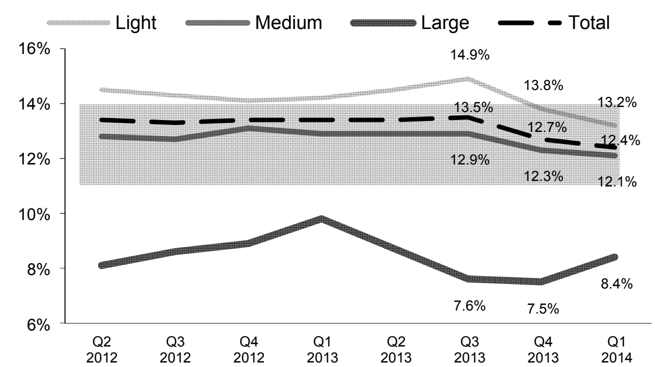
UBS BUSINESS JET MARKET INDEX[(1)]
(average on a 100-point scale)



Source: UBS

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

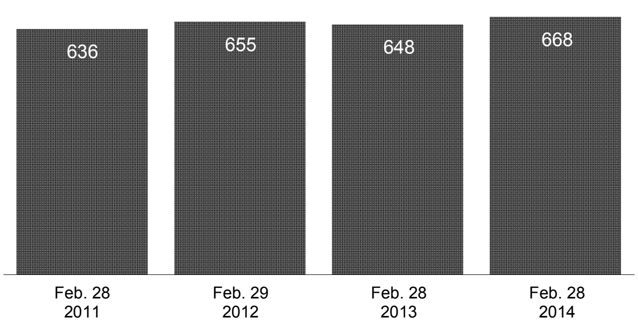
PRE-OWNED BUSINESS JET INVENTORY
(as a percentage of total business jet fleet, excluding very light jets)



Sources: JETNET and Ascend Online

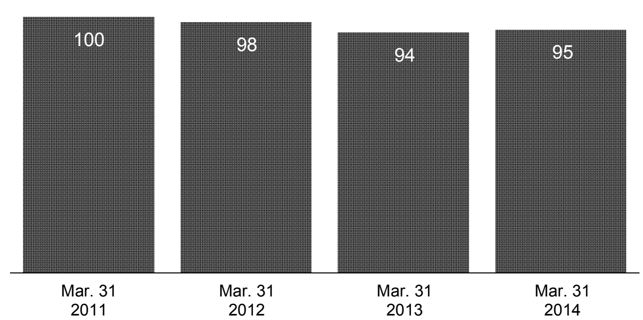
Shaded area indicates what we consider to be a normal range of total pre-owned business jet inventory available for sale, i.e. between 11% and 14%.

U.S. BUSINESS JET UTILIZATION
(for the two-month periods ended; in thousands of departures and arrivals for all business jets)



Source: latest data available from the U.S. Federal Aviation Administration (FAA) website

EUROPEAN BUSINESS JET UTILIZATION
(for the three-month periods ended; in thousands of departures and arrivals for all business jets)



Source: latest data available from Eurocontrol

Commercial aircraft

Overall passenger traffic indicators improved in the first quarter of 2014 compared to the same period last year. International Air Transport Association ("IATA") predicts that airline financial performance will continue to improve in 2014 compared to 2013.[(1)]

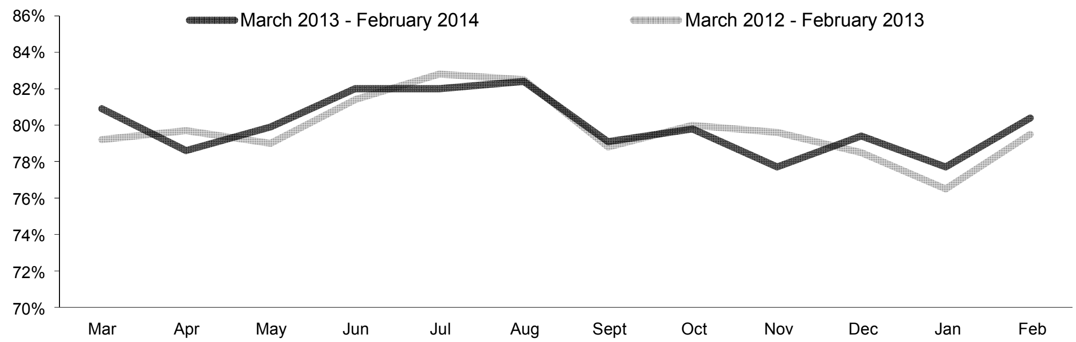
Scheduled domestic and international commercial air travel, measured by revenue passenger kilometres ("RPK")[(2)], were 6.8% and 6.9% higher, respectively, during the year-to-date period ended February 28, 2014 compared to the same period last year. Commercial airlines worldwide achieved domestic and international passenger load factors[(2)] of 79.0% and 77.7%, respectively, during the year-to-date period ended February 2014, compared to the 77.6% and 76.9% respective levels experienced during the same period ended February 2013.[(3)]

Regional passenger traffic measured by RPK for the four leading U.S. network carriers[(4)] and their affiliates, which represent a major portion of the regional airline passenger traffic in the U.S., our largest market, remained essentially unchanged during the year-to-date period ended March 31, 2014 compared to the same period last year. These airlines achieved an average passenger load factor of 78.6% during the year-to-date period ended March 2014, up from the 76.0% experienced during the same period ended March 2013.

IATA has lowered its 2014 forecast for commercial airline profits from $19.7 billion previously projected in its December 2013 Financial Forecast to $18.7 billion compared to the $12.9 billion of profits forecast for 2013. This revision is the result of upward pressure on oil prices created by the crisis in the Ukraine and slower than expected growth in a number of emerging economies, in spite of solid momentum in the recent global economic upturn. IATA has also raised its forecast for average Brent crude oil prices in 2014 to $108 per barrel, up from the $105 per barrel previously forecast. North American airlines are forecast to generate the highest profits in terms of dollars and percentage of revenues. Asia-Pacific airlines will generate the second highest profits in terms of dollars, followed by European airlines, but will have lower profit margins as a percentage of revenues than airlines in the Middle East and Latin America.[(1)]

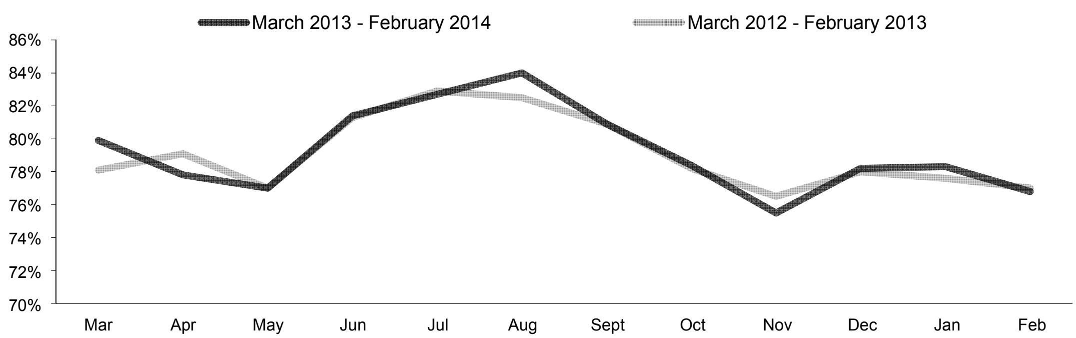
[(1)] As stated in the IATA March 2014 Financial Forecast.
[(2)] Refer to the table below for definitions of these measures.
[(3)] Per IATA's February 2014 Air Passenger Market Analysis report.
[(4)] Delta Air Lines, American Airlines, United Airlines, and Alaska Air.

DOMESTIC PASSENGER LOAD FACTOR
(as a percentage of available seat kilometres in the month)



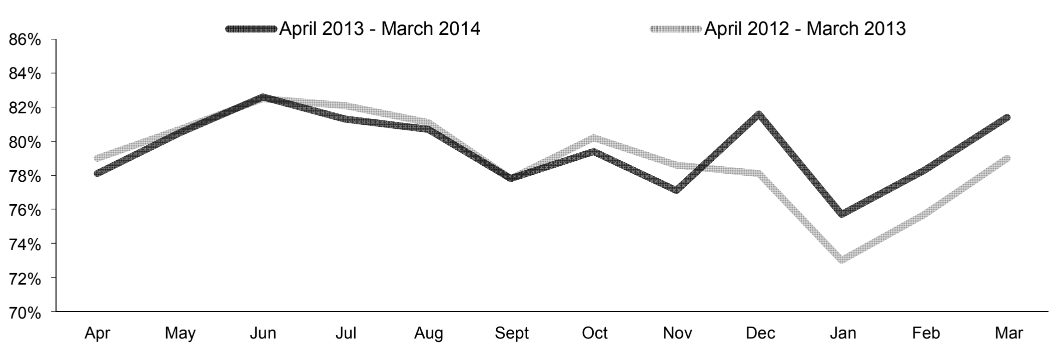
Source: latest available data from IATA statistics for domestic air travel.

INTERNATIONAL PASSENGER LOAD FACTOR
(as a percentage of available seat kilometres in the month)



Source: latest available data from IATA statistics for international air travel.

U.S. REGIONAL PASSENGER LOAD FACTOR FOR THE FOUR LEADING U.S. NETWORK CARRIERS AND THEIR AFFILIATES
(as a percentage of available seat kilometres in the month)



Source: U.S. regional load factors published by the four leading U.S. network carriers (Delta Air Lines, American Airlines, United Airlines, and Alaska Air) and their affiliates.

Passenger load factor is defined as the percentage of available seat kilometres used (revenue passenger kilometres divided by available seat kilometres).

Revenue passenger kilometres (RPK) is a measure of paying passenger traffic and represents passenger demand for air transport, defined as one fare-paying passenger transported one kilometre.

Available seat kilometres are measured as the number of seats multiplied by the kilometres flown, whether a passenger occupied the seat or not.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended March 31	
	2014	2013 [7]
Revenues		
Manufacturing		
Business aircraft	**$ 1,177**	$ 1,162
Commercial aircraft	**295**	301
Other	**114**	147
Total manufacturing	**1,586**	1,610
Services[1]	**399**	438
Other[2]	**104**	210
Total revenues	**2,089**	2,258
Cost of sales	**1,802**	1,951
Gross margin	**287**	307
SG&A	**157**	158
R&D	**40**	42
Other expense (income)[3]	**(15)**	6
EBIT before special items[4]	**105**	101
Special items[5]	**12**	-
EBIT	**93**	101
Amortization[6]	**63**	61
EBITDA[4]	**$ 156**	$ 162
EBITDA before special items[4]	**$ 168**	$ 162
(as a percentage of total revenues)		
Gross margin	**13.7%**	13.6%
EBIT before special items	**5.0%**	4.5%
EBIT	**4.5%**	4.5%
EBITDA before special items	**8.0%**	7.2%
EBITDA	**7.5%**	7.2%

(1) Includes revenues from parts services, Flexjet fractional ownership and hourly flight entitlement programs' service activities (prior to disposal on December 4, 2013), product support activities (including aircraft maintenance and commercial training), Specialized Aircraft Solutions and Military Aviation Training.

(2) Includes mainly sales of pre-owned aircraft.

(3) Includes i) net loss (gain) on certain financial instruments measured at fair value and changes in estimates related to certain provisions or certain financial instruments, excluding the losses (gains) arising from changes in interest rates; ii) severance and other involuntary termination costs (including changes in estimates); and iii) gains on disposals of PP&E; except when such items are reported as special items.

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

(5) The special items relate to a $22-million expense for the previously announced workforce reduction of approximately 1,700 positions, located mostly in Canada and the U.S., and a $10-million gain following the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital.

(6) Amortization is included in cost of sales, SG&A and R&D expense based on the underlying function of the asset.

(7) Comparative revenue figures have been reclassified to conform to the presentation adopted in the current period.

Total aircraft deliveries

	Three-month periods ended March 31	
(in units)	**2014**	2013
Business aircraft	**43**	39
Commercial aircraft	**13**	13
Amphibious aircraft	**-**	1
	56	53

Manufacturing revenues
The $24-million decrease is mainly due to one fewer delivery of amphibious aircraft recorded in other manufacturing revenues.

Services revenues
The $39-million decrease is mainly due to:

- The sale of our Flexjet fractional ownership and hourly flight entitlement programs' service activities in the fourth quarter of 2013.

Partially offset by:

- higher volume of activities from parts services and product support activities.

Other revenues
The $106-million decrease is mainly due to lower deliveries and unfavourable mix of pre-owned business aircraft.

EBIT margin
The EBIT margin before special items (see explanation of special items below) increased by 0.5 percentage points mainly as a result of:

- a net positive variance of provisions for credit and residual value guarantees and other financial assets recognized in other expense (income) mainly due to improved credit ratings for certain customers; and
- higher margins from service activities.

Partially offset by:

- lower absorption of SG&A expense.

For the three-month period ended March 31, 2014, special items negatively impacted the EBIT margin by 0.5 percentage points related to a $22-million restructuring expense for the previously announced workforce reduction of approximately 1,700 positions, partially offset by a $10-million gain following the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital.

Free cash flow

Free cash flow usage

	Three-month periods ended March 31	
	2014	2013
EBIT	**$ 93**	$ 101
Amortization	**63**	61
EBITDA	**156**	162
Other non-cash items		
Gains on disposals of PP&E	**-**	(1)
Share-based expense	**3**	5
Net change in non-cash balances	**(220)**	(124)
Cash flows from operating activities	**(61)**	42
Net additions to PP&E and intangible assets	**(484)**	(503)
Free cash flow usage	**$ (545)**	$ (461)

The $84-million decrease is mainly due to a negative period-over-period variation in the net change in non-cash balances ($96 million) (see explanation below).

Net change in non-cash balances
For the three-month period ended March 31, 2014, the $220-million cash outflow is mainly due to:

- a decrease in trade and other payables;
- an increase in finished product inventories, mainly due to business aircraft not associated with a firm order; and
- a decrease in other financial liabilities.

Partially offset by:

- an increase in advances on aerospace programs mainly resulting from higher order intake than deliveries in the medium business aircraft category and in commercial aircraft.

For the three-month period ended March 31, 2013, the $124-million cash outflow was mainly due to:

- an increase in aerospace program work-in-process inventories and finished products in both new and pre-owned business aircraft, mainly in the medium and large categories.

Partially offset by:

- an increase in trade and other payables.

Product development

Investment in product development

	Three-month periods ended March 31	
	2014	2013
Program tooling[1]	**$ 430**	$ 444
R&D expense[2]	**8**	7
	$ 438	$ 451
As a percentage of manufacturing revenues	**27.6%**	28.0%

(1) Net amount capitalized in aerospace program tooling.
(2) Excluding amortization of aerospace program tooling of $32 million for the three-month period ended March 31, 2014 ($35 million for the three-month period ended March 31, 2013), as the related investments are already included in aerospace program tooling.

Our program tooling additions essentially relate to the development of the *CSeries* family of aircraft, the *Learjet 85* aircraft, as well as the *Global 7000* and *Global 8000* aircraft programs.

The following tables explain the key elements of our product development process and the status of our most significant programs under development.

OUR PRODUCT DEVELOPMENT PROCESS		
Stage		**Description**
Conceptual definition	**JTAP**	**Joint Technical Assessment Phase -** Preliminary review with our potential partners and suppliers to analyze technologies desired to build or modify an aircraft.
	JCDP	**Joint Conceptual Definition Phase -** Cooperative effort with our potential partners and suppliers to perform a configuration trade-off study and define the system architecture and functionality.
Launch preparation		Continuation of the design definition and technical activities. Creation of a project plan to define the schedule, cost, scope, statement of work and resource requirements for the program.
Preliminary definition	**JDP**	**Joint Definition Phase -** Joint determination with our partners and suppliers of the technical design of the aircraft and sharing of the work required. Optimization of the aircraft design with respect to manufacturing, assembly and total life-cycle costs.
Detail definition	**DDP**	**Detailed Design Phase -** Preparation of detailed production drawings and confirmation of the design based on the preliminary design definition agreed in the previous phase.
Product definition release		Formal issue of the engineering drawings to manufacturing, allowing for the completion of tool designs and the assembly of the first produced aircraft.
Product certification		Completion of certification activities to demonstrate that the aircraft complies with the original design requirements and all regulatory airworthiness standards.
Program completion		Conclusion of final design activity. Preparation for EIS.

THE *CSERIES* AIRCRAFT PROGRAMS	
The *CS100* aircraft program is in the product certification phase, and the *CS300* aircraft program is transitioning from the detailed design phase to the product definition release phase. The *CS100* aircraft's EIS is scheduled for the second half of 2015 and the *CS300* aircraft's EIS will follow approximately six months afterwards.	
Production and testing	The second and third flight test vehicles (FTV2 and FTV3) completed their successful first flights on January 3, 2014 and March 3, 2014, respectively. The initial on-the-ground and flight test performance results are in line with our expectations and no major design changes have been identified. The data received to date confirms that the aircraft development programs are on track to reach key performance targets.[1]
	FTV4 is expected to complete its first flight in the coming weeks and FTV5, which is in fabrication and assembly, will join the flight test program in the coming months. Additionally, the fabrication and assembly of the first *CS300* FTV and *CS100* production aircraft have started.
Suppliers	Both our internal and external suppliers are fabricating production components. Components and systems continue to be tested worldwide.

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

THE *LEARJET 85* AIRCRAFT PROGRAM	
The *Learjet 85* aircraft program has moved into the product certification phase. An update on the EIS date of the *Learjet 85* aircraft will be provided once our review of the flight test program timeline has been completed.	
Production and testing	FTV1 successfully completed its maiden flight on April 9, 2014. Additional flights have since occurred. The flights proceeded as expected and no major issues were identified.
	Other flight test vehicles are in various stages of fabrication and assembly.
Suppliers	All suppliers are underway with the fabrication and delivery of components to the final assembly line. Components and systems continue to be tested worldwide.

THE *GLOBAL 7000* AND *GLOBAL 8000* AIRCRAFT PROGRAMS	
The *Global 7000* and *Global 8000* aircraft programs are in the detailed design phase. EIS is scheduled in 2016 and 2017, respectively.	
Production and testing	Our product development team and our suppliers' representatives, co-located at our Aerospace Product Development Centre in Montréal, are making progress as planned on the design definition of the aircraft. The experimental and ground test teams are progressing on the design and build of the various ground test rigs that will be used throughout the development and certification of the aircraft.
Suppliers	Major structural suppliers are active in the fabrication of production parts, fabrication and installation of assembly tools, and preparing their facilities to build FTVs. The fabrication and assembly of the cockpit, centre and rear fuselages of FTV1 has begun.
	System suppliers have begun commissioning test rigs and fabrication of parts for the FTVs.

THE *CHALLENGER 350* AIRCRAFT PROGRAM	
The *Challenger 350* aircraft program is in the product certification phase and is progressing towards EIS in the summer of 2014.	
Production and testing	As at March 31, 2014, the flight test vehicles have logged approximately 95% of the flight test program.
	The first *Challenger 350* production aircraft completed its first flight on December 27, 2013.

Carrying amount of program tooling[1]

		As at
	March 31, 2014	December 31, 2013
Business aircraft	**$ 3,101**	$ 2,860
Commercial aircraft		
CRJ Series	**421**	435
CSeries	**3,482**	3,311
	$ 7,004	$ 6,606

(1) Capitalized borrowing costs included in the aerospace program tooling balance amounted to $667 million as at March 31, 2014 ($609 million as at December 31, 2013).

Aircraft deliveries

Business aircraft deliveries

	Three-month periods ended March 31	
(in units)	**2014**	2013
Light		
Learjet 70/75 and Learjet 40 XR/45 XR	**6**	1
Learjet 60 XR	**-**	2
Medium		
Challenger 300	**14**	14
Challenger 605	**6**	5
Large		
Global 5000/Global 6000	**17**	17
	43	39

Deliveries of business aircraft in the three-month period increased by 10% compared to the same period last year, mainly due to the transition to the *Learjet 75* and *Learjet 70* aircraft, which negatively impacted the deliveries of *Learjet* aircraft in the first quarter of the previous fiscal year.

Commercial aircraft deliveries

	Three-month periods ended March 31	
(in units)	**2014**	2013
Regional jets		
CRJ700 NextGen	**-**	1
CRJ900 NextGen	**8**	2
CRJ1000 NextGen	**1**	2
Turboprops		
Q400 NextGen	**4**	8
	13	13

Aircraft orders

Total aircraft net orders

Three-month periods ended		**March 31, 2014**			March 31, 2013	
(in units)	**Gross orders**	**Cancellations**	**Net orders**	Gross orders	Cancellations	Net orders
Business aircraft	**55**	**(9)**	**46**	36	(9)	27
Commercial aircraft	**44**	**(1)**	**43**	4	(3)	1
Amphibious aircraft	**2**	**-**	**2**	-	-	-
	101	**(10)**	**91**	40	(12)	28

Business aircraft

The increase in net order intake for business aircraft in the three-month period is mainly due to the strong demand in our medium and large business jet categories, partially offset by weaker demand in our light business jet category.

The following significant order was received during the three-month period ended March 31, 2014:

Customer	**Firm order**	**Value**[(1)]
Undisclosed customer	3 *Global 6000* 2 *Global 7000* 3 *Global 8000*	$ 537

[(1)] Value of firm order based on list prices.

Commercial aircraft

Commercial aircraft net orders

	Three-month periods ended March 31	
(in units)	**2014**	2013
Regional jets		
CRJ700 NextGen	**1**	-
CRJ900 NextGen	**4**	-
Commercial jets		
CS100	**-**	(3)
CS300	**21**	-
Turboprops		
Q400 NextGen	**17**	4
	43	1

The increase in commercial aircraft orders for the three-month period compared to the same period last year is mainly due to the order from Al Qahtani Aviation Company for 16 *CS300* aircraft and a total of 17 orders for *Q400 NextGen* turboprops from six customers (including a lessor) in North America, the Middle East and Asia-Pacific.

The following significant order was received during the three-month period ended March 31, 2014:

Customer	Firm order	Value[(1)]	Options[(2)]
Al Qahtani Aviation Company (Kingdom of Saudi Arabia)	16 *CS300*	$ 1,210	10 *CS300*

(1) Value of firm order based on list price.
(2) Not included in the order backlog.

Book-to-bill ratio and order backlog

Book-to-bill ratio[(1)]

	Three-month periods ended March 31	
	2014	2013
Business aircraft	**1.1**	0.7
Commercial aircraft	**3.3**	0.1
Total	**1.6**	0.5

(1) Defined as net orders received over aircraft deliveries, in units.

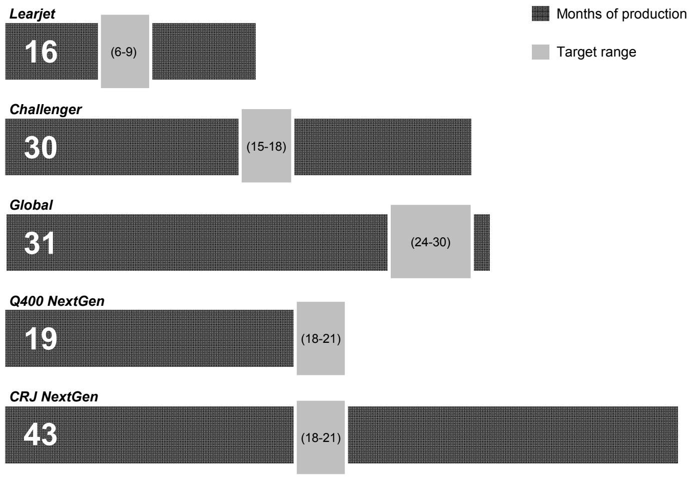
The book-to-bill ratio for business aircraft for the three-month period mainly reflects the strong order intake for medium and large business jet categories, partially offset by weaker demand in our light business jet category. The book-to-bill ratio for commercial aircraft for the three-month period mainly reflects the significant orders received for *CSeries* and *Q400 NextGen* aircraft.

Order backlog

		As at
(in billions of dollars)	**March 31, 2014**	December 31, 2013
Aircraft programs	**$ 35.2**	$ 33.9
Long-term maintenance and spares support agreements	**2.9**	2.9
Military Aviation Training	**0.4**	0.5
	$ 38.5	$ 37.3

The increase in our order backlog as at March 31, 2014 is a result of the order intake for the *CSeries* family of aircraft and higher net orders than deliveries for medium and large business aircraft and turboprops, partially offset by lower order intake than deliveries for regional jets and light business aircraft. We continue to monitor our order backlog and the production horizon for our programs and to align our production rates to reflect market demand.

ORDER BACKLOG IN MONTHS OF PRODUCTION[1]
(as at March 31, 2014)



[1] The number of months in production is calculated by dividing the order backlog in units as at March 31, 2014 for each family of aircraft (excluding orders for the *Learjet 85, Global 7000* and *Global 8000* aircraft) by the number of aircraft delivered in the previous 12 months, converted into an equivalent number of months. Our order backlog in months of production provides insight on the depth of our order backlog based on the last 12-month production rates. This metric is not forward-looking, and does not take into account potential changes in production rates or the ability of our customers to take delivery of the aircraft and the timing of such delivery.

Commercial aircraft order backlog and options

				As at
	March 31, 2014		December 31, 2013	
(in units)	**Firm orders**	**Options**	Firm orders	Options
Regional jets				
CRJ700 NextGen	**17**	**-**	16	-
CRJ900 NextGen	**56**	**73**	60	73
CRJ1000 NextGen	**34**	**22**	35	22
Commercial jets				
CS100	**63** [1]	**49**	63 [2]	49
CS300	**140** [1]	**103**	119 [2]	93
Turboprops				
Q400 NextGen	**39**	**91**	26	90
	349	**338**	319	327

[1] The total of 203 orders includes 81 firm orders with conversion rights to the other *CSeries* aircraft model.
[2] The total of 182 orders includes 80 firm orders with conversion rights to the other *CSeries* aircraft model.

The total *CSeries* firm order backlog comprises 203 aircraft with 13 customers in 12 countries as at March 31, 2014. As at the date of this report, we have signed firm orders and other agreements[1] for a total of 447 *CSeries* aircraft with 18 customers and operators in 15 countries, including 203 firm orders.

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

Expansion of our global presence

We enhanced our worldwide customer services network with the opening of a commercial aircraft Regional Support Office (RSO) in Singapore and a business aircraft RSO in Mexico in February 2014 and March 2014, respectively.

TRANSPORTATION

HIGHLIGHTS

Results of the quarter

- Revenues increased by 7% excluding currency impacts to $2.3 billion, compared to $2.1 billion for the same period last fiscal year.
- EBIT of $114 million, or 5.0% of revenues, compared to $139 million, or 6.7%, for the same period last fiscal year.
- EBITDA[(1)] of $144 million, or 6.4% of revenues, compared to $169 million, or 8.1%, for the same period last fiscal year.
- Free cash flow usage[(1)] of $256 million, compared to a usage of $73 million for the same period last fiscal year.
- $8.0 billion in new orders (book-to-bill ratio[(2)] of 3.5), compared to $2.0 billion for the same period last fiscal year.
- Record order backlog of $38.4 billion as at March 31, 2014, compared to $32.4 billion as at December 31, 2013.

(1) Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview and Analysis of results section for a definition of this metric and a reconciliation to the most comparable IFRS measure.
(2) Defined as new orders over revenues.

Key events of the quarter

- During the first quarter of 2014 we received several significant orders across various regions and product segments resulting in a record order backlog for BT:
  - As part of a consortium, we signed a contract with the State of Queensland, Australia, for the New Generation Rollingstock project. Our share of the contract, which consists of the supply of electrical multiple units (EMUs), construction of a purpose-built depot and fleet maintenance services, is valued at approximately $2.7 billion;
  - We signed a contract with Transport for London (TfL), U.K., to provide *AVENTRA* trains, a purpose-built depot and fleet maintenance services for the London Crossrail project, valued at approximately $2.1 billion;
  - We signed a contract with Transnet Freight Rail (TFR), South Africa, for the delivery of electric *TRAXX* locomotives, valued at approximately $1.2 billion; and
  - The San Francisco Bay Area Rapid Transit District (BART), U.S., exercised an option for additional metro cars, valued at approximately $639 million.
- In March 2014, the first electric bus equipped with our *PRIMOVE* technology began revenue service in the city of Braunschweig, Germany, marking another important milestone for our technology's practical application. *PRIMOVE* is the world's first inductive 200 kW fast-charging system in passenger operation.

INDUSTRY AND ECONOMIC ENVIRONMENT

The industry activity in the first quarter of 2014 reached high levels across all regions and product segments. The most significant growth was experienced in the regions of Asia-Pacific and Rest of world, namely South Africa; Europe and North America also experienced growth compared to the same period last year. For the remainder of 2014, we expect a strong rail market.

In Western Europe, growth in the first quarter in 2014 compared to the same period last year has been driven by the U.K., where a significant order (the London Crossrail project) was awarded. The outlook for the region remains positive, as we expect rail investment in the region to continue especially in Germany, France and the U.K. in all product segments. In Eastern Europe, the potential for new orders remains high driven by aging fleets that need modernization and replacements. However, the concrete timing of these projects is challenging to forecast. In Turkey the government is expected to continue to invest in expanding its high speed rail network.

The rail market in North America continues to show a good level of order activities. This positive development results from stronger investments in the U.S., particularly in the commuter and metro segments. In the next quarters, we expect the U.S. market to continue to grow mainly in the metros, light rail vehicles and services segments. In Canada, the first quarter represented a low activity period, but investment is expected during the next quarters in light rail and signalling solutions. In addition, a number of light rail and commuter train projects are currently being developed in Mexico, as well as a high speed train project.

The positive market development in Asia-Pacific in the first quarter resulted mainly from a large order awarded by the State of Queensland, Australia, representing the largest rail project in Australia's history. During the next quarters, China, India and Australia are expected to place orders in the mass transit, commuter trains, locomotives and signalling segments. China is also expected to drive the investment in the high speed train segment in the region over the next years.

In the Rest of world region, investments in the first quarter of 2014 showed significant growth compared to the same period in 2013 with orders awarded across all geographies, particularly in South Africa with large locomotive contracts awarded by TFR representing the largest locomotive supply project in South Africa's history. Large urban development projects are planned and ongoing in the Middle East and Brazil. The strong need for mobility to support rapid urbanization and continued economic growth has led to an increased interest in public rail transport as a solution for traffic congestion.

Upcoming key opportunities for BT in all regions

Key projects Europe	
Metro projects in London	United Kingdom
Options for regional and commuter trains for SNCF	France
Call-offs from Deutsche Bahn for double decks; new commuter trains	Germany

Key projects North America	
Metro, signalling, light rail vehicle and operation and maintenance	USA
Light rail vehicle and signalling projects	Canada
Commuter trains	Mexico

Key projects Rest of world	
Locomotives, monorails	Brazil
Light rail vehicles	Israel
Mass transit and signalling	GCC[(1)]

Key projects Asia-Pacific	
Mass transit and locomotives	India
Commuter trains and signalling	Australia
Commuter trains, services, light rail vehicles and automated people movers	China

[(1)] Gulf Cooperation Council. Member states: United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended March 31	
	2014	2013
Revenues		
Rolling stock[1]	**$ 1,464**	$ 1,378
Services[2]	**442**	370
System and signalling[3]	**359**	333
Total revenues	**2,265**	2,081
Cost of sales	**1,959**	1,772
Gross margin	**306**	309
SG&A	**181**	186
R&D	**36**	28
Share of income of joint ventures and associates	**(22)**	(44)
Other income[4]	**(3)**	-
EBIT	**114**	139
Amortization[5]	**30**	30
EBITDA[6]	**$ 144**	$ 169
(as a percentage of total revenues)		
Gross margin	**13.5%**	14.8%
EBIT	**5.0%**	6.7%
EBITDA	**6.4%**	8.1%

(1) Comprised of revenues from light rail vehicles, metros, commuter and regional trains, intercity trains, high speed and very high speed trains, locomotives, propulsion and controls and bogies.
(2) Comprised of revenues from fleet maintenance, refurbishment and overhaul and material solutions.
(3) Comprised of revenues from mass transit and airport systems, mainline systems, operation and maintenance services, e-mobility solutions, mass transit signalling and mainline signalling. Excludes the rolling stock portion of system orders manufactured by our other divisions.
(4) Includes severance and other involuntary termination costs (including changes in estimates).
(5) Amortization is included in cost of sales, SG&A and R&D expense, based on the nature of the underlying function of the asset.
(6) Non-GAAP financial measure. Refer to Non-GAAP financial measures sections in Overview for a definition of this metric.

Revenues by geographic region

	Three-month periods ended March 31			
	2014		2013	
Europe[1]	**$ 1,521**	**67%**	$ 1,399	67%
North America	**422**	**19%**	371	18%
Asia-Pacific[1]	**180**	**8%**	212	10%
Rest of world[1] [2]	**142**	**6%**	99	5%
	$ 2,265	**100%**	$ 2,081	100%

(1) The increase in Europe reflects a positive currency impact of $55 million for the first quarter ended March 31, 2014, while the variances in Asia-Pacific and Rest of world reflect negative currency impacts of $8 million and $6 million, respectively.
(2) The Rest of world region includes South America, Central America, Africa, the Middle East and the CIS.

Revenues excluding currency impact[1]

	Three-month periods ended March 31				Variance
	2014			2013	
	Revenues	**Currency impact**	**Revenues excluding currency impact**	Revenues	
Revenues					
Rolling stock	**$ 1,464**	**$ 33**	**$ 1,431**	$ 1,378	**$ 53**
Services	**442**	**10**	**432**	370	**62**
System and signalling	**359**	**(2)**	**361**	333	**28**
	$ 2,265	**$ 41**	**$ 2,224**	$ 2,081	**$ 143**

(1) The results of operations of entities using functional currencies other than the U.S. dollar (mainly the euro, pound sterling and other European currencies) are translated into U.S. dollars using the average exchange rates for the relevant periods. The impact of lower exchange rates of foreign currencies compared to the U.S. dollar negatively affects revenues and positively affects expenses, while higher exchange rates have the opposite impacts (defined as “negative currency impact” and “positive currency impact”). See the Foreign exchange rates section in Other for the average exchange rates used to translate revenues and expenses.

The following analysis is based on revenues excluding currency impact.

Revenues for the three-month period ended March 31, 2014 have increased by $143 million, or 7%, compared to the first quarter of last fiscal year due to ramp-up in production related to contracts received in past quarters in Europe, North America and the Rest of world region.

Rolling stock revenues
The increase for the first quarter is mainly due to:

- higher activities in Europe mainly due to the ramp-up of production related to some propulsion and controls, metro, high speed train and commuter and regional train contracts, and in the Rest of world region mainly due to ramp-up of production in a commuter and regional train contract, partially offset by some locomotive contracts in Europe nearing completion ($96 million).

Partially offset by:

- lower activities in Asia-Pacific following completion of some high speed train and light rail vehicle contracts ($58 million).

Services revenues
The 17% increase for the first quarter is mainly explained by higher activities in Europe and North America.

System and signalling revenues
The increase for the first quarter is mainly due to:

- higher activities in the Rest of world region, North America and Asia-Pacific, mostly due to increased activities in systems ($51 million).

Partially offset by:

- lower activities in Europe, mostly due to completion of a signalling contract following a joint release agreement with the customer at the end of last fiscal year ($23 million).

EBIT margin
The EBIT margin decreased by 1.7 percentage points mainly as a result of:

- a lower gross margin in rolling stock due to contracts with execution issues; and
- a lower share of income of joint ventures and associates.

Partially offset by:

- higher absorption of lower SG&A expenses.

Free cash flow

Free cash flow usage

	Three-month periods ended March 31	
	2014	2013
EBIT	**$ 114**	$ 139
Amortization	**30**	30
EBITDA	**144**	169
Other non-cash items		
Share of income of joint ventures and associates	**(22)**	(44)
Share-based expense	**3**	6
Dividends received from joint ventures and associates	**-**	10
Net change in non-cash balances	**(365)**	(203)
Cash flows from operating activities	**(240)**	(62)
Net additions to PP&E and intangible assets	**(16)**	(11)
Free cash flow usage	**$ (256)**	$ (73)

The $183 million deterioration in free cash flow is mainly due to:

- a negative period-over-period variation in net change in non-cash balances related to operations ($162 million) (see explanations below); and
- lower EBITDA ($25 million).

Net change in non-cash balances

For the three-month period ended March 31, 2014, the $365-million cash outflow is mainly due to:

- an increase in inventories following ramp-up in production ahead of deliveries in a few contracts; and
- an increase in trade and other receivables.

Partially offset by:

- an increase in advances and progress billings on new orders and existing contracts.

For the three-month period ended March 31, 2013, the $203-million cash outflow was mainly due to:

- an increase in inventories following ramp-up in production ahead of deliveries in a few contracts.

Partially offset by:

- an increase in advances and progress billings on existing contracts and new orders; and
- a reduction in trade and other receivables.

Orders and backlog

Order intake and book-to-bill ratio

	Three-month periods ended March 31	
Order intake (in billions of dollars)	**2014**	2013
Rolling stock	**$ 5.0**	$ 1.1
Services	**2.6**	0.6
System and signalling	**0.4**	0.3
	$ 8.0	$ 2.0
Book-to-bill ratio[1]	**3.5**	0.9

[1] Ratio of new orders over revenues.

The order intake for the three-month period ended March 31, 2014 reflects a negative currency impact of $219 million.

In the first quarter of 2014, we won several orders across various regions and product segments and maintained a leading position in the rail industry.[1] The significant orders during the three-month period ended March 31, 2014 were as follows:

Customer	**Country**	**Product or service**	**Number of cars**	**Market segment**	**Value**
State of Queensland	Australia	Construction of a depot and fleet maintenance	n/a	Services	$ 1,700 [2]
		Electrical Multiple Units (EMUs)	450	Rolling stock	$ 1,000 [2]
Transport for London (TfL)	U.K.	*AVENTRA* trains	585	Rolling stock	$ 1,400
		Construction of a depot and fleet maintenance	n/a	Services	$ 700
Transnet Freight Rail (TFR)	South Africa	*TRAXX* locomotives	240	Rolling stock	$ 1,200
San Francisco Bay Area Rapid Transit District (BART)	U.S.	Metro cars	365	Rolling stock	$ 639
Deutsche Bahn AG (DB)	Germany	*TALENT 2* EMUs	107	Rolling stock	$ 203

[1] Based on a rolling 36-month order intake with latest data published by companies publishing order intake for at least 36 months.
[2] Contract signed as part of a consortium. Only the value of our share is stated.
n/a: Not applicable

Order backlog

		As at
(in billions of dollars)	**March 31, 2014**	December 31, 2013
Rolling stock	**$ 24.8**	$ 21.1
Services	**9.6**	7.4
System and signalling	**4.0**	3.9
	$ 38.4	$ 32.4

The $6.0 billion increase in order backlog is mainly due to very large orders obtained across various regions and product segments.

OTHER

OFF-BALANCE SHEET ARRANGEMENTS

Factoring facilities

In the normal course of its business, BT has set up factoring facilities in Europe, under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €928 million ($1.3 billion) were outstanding under such facilities as at March 31, 2014 (€1.1 billion ($1.5 billion) as at December 31, 2013). During the three-month period ended March 31, 2014, trade receivables of €231 million ($317 million) were sold to these facilities (€252 million ($323 million) during the three-month period ended March 31, 2013).

Other arrangements

In the normal course of operations, we maintain other off-balance sheet arrangements including credit and residual value guarantees, financing commitments and financing structures related to the sale of commercial aircraft. There was no significant change in these arrangements during the three-month period ended March 31, 2014. Refer to the Off-balance sheet arrangements section of the Financial Report for the year ended December 31, 2013 in Other for a description of these arrangements.

RISKS AND UNCERTAINTIES

We operate in industry segments that have a variety of risk factors and uncertainties. The risks and uncertainties that could materially affect our business, financial condition and results of operations are described in the Financial Report for the fiscal year ended December 31, 2013 in Other, but are not necessarily the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, may also adversely affect our business.

There was no significant change to these risks and uncertainties during the three-month period ended March 31, 2014, other than those described elsewhere in this MD&A. Also refer to Note 20, Commitments and contingencies, to the interim consolidated financial statements for information regarding current litigation proceedings including the S-Bahn claim and the allegations of cartel activity in Brazil.

ACCOUNTING AND REPORTING DEVELOPMENTS

Future changes in accounting policies

Financial instruments
In October 2010, the IASB released the complete first part of a three-part project to replace IAS 39, *Financial instruments: recognition and measurement* by IFRS 9, *Financial instruments*. This first part only covers classification and measurement of financial assets and financial liabilities. In November 2013, the IASB released the hedge accounting part (the second part), which introduced a new hedge accounting model, together with corresponding disclosures about risk management activities.

The first part of 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. The IASB is currently considering making limited modifications to the first part of IFRS 9. Those limited modifications include the introduction of a fair value through OCI category for debt instruments that would be based on an entity's business model.

The second part, 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. The third part, impairment of financial assets, is still under development.

The IASB tentatively decided to require an entity to apply IFRS 9 for annual periods beginning on or after January 1, 2018, but early adoption is permitted. We have not yet assessed the impact of the adoption of this standard on our consolidated financial statements.

Employee benefits
In November 2013, the IASB amended IAS 19, *Employee benefits*, in order to simplify the accounting for contributions of defined benefit plans that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This amendment will be effective for our fiscal year beginning on January 1, 2015, with earlier application permitted. We have started to assess the impact the adoption of this standard will have on our consolidated financial statements and no significant impact is expected.

CONTROLS AND PROCEDURES

No changes were made to our internal controls over financial reporting during the three-month period ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

FOREIGN EXCHANGE RATES

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

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

	March 31, 2014	December 31, 2013	Increase (decrease)
Euro	**1.3788**	1.3791	(0%)
Canadian dollar	**0.9056**	0.9400	(4%)
Pound sterling	**1.6648**	1.6542	1%

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

	March 31, 2014	March 31, 2013	Increase (decrease)
Euro	**1.3697**	1.3222	4%
Canadian dollar	**0.9066**	0.9938	(9%)
Pound sterling	**1.6546**	1.5568	6%

SELECTED FINANCIAL INFORMATION

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

Fiscal years	**2014**			2013			2012	
	First	Fourth	Third	Second	First	Fourth	Third	Second
Revenues	**$ 4,354**	$ 5,324	$ 4,058	$ 4,430	$ 4,339	$ 4,625	$ 4,211	$ 4,097
Net income (loss)	**$ 115**	$ 97	$ 147	$ 180	$ 148	$ (4)	$ 172	$ 147
EPS (in dollars)								
Basic and diluted	**$ 0.06**	$ 0.05	$ 0.08	$ 0.10	$ 0.08	$ (0.01)	$ 0.09	$ 0.08

SHAREHOLDER INFORMATION

Authorized, issued and outstanding share data, as at April 29, 2014

	Authorized	Issued and outstanding	
Class A Shares (multiple voting)[(1)]	1,892,000,000	314,511,891	
Class B Shares (subordinate voting)[(2)]	1,892,000,000	1,424,778,081	[(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 Share (subordinate voting).
(2) Convertible at the option of the holder into one Class A Share (multiple voting) under certain conditions.
(3) Net of 18,736,908 Class B Shares (subordinate voting) purchased and held in trust in connection with the PSU plan.

Share option, PSU and DSU data as at March 31, 2014

Options issued and outstanding under the share option plans	29,424,687
PSUs and DSUs issued and outstanding under the PSU and DSU plans	31,718,236
Class B Shares held in trust to satisfy PSU obligations	18,736,908

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

Second Quarterly Report, for the period ending June 30, 2014	July 31, 2014
Third Quarterly Report, for the period ending September 30, 2014	October 30, 2014
Financial Report, for the fiscal year ending December 31, 2014	February 12, 2015
First Quarterly Report, for the period ending March 31, 2015	April 30, 2015

Information

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April 30, 2014

Additional information relating to Bombardier, including the Corporation's 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 *CSeries* family of aircraft, *Learjet 85* aircraft, *Global 7000* and *Global 8000* aircraft and *Challenger 350* 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, 658 kg of solid waste, 2,158 kg of atmospheric emissions (equivalent to 14,432 kilometres by car) and 53,655 litres of water.

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2014

(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 March 31	
	Notes	**2014**	2013
Revenues		**$ 4,354**	$ 4,339
Cost of sales	10	**3,761**	3,723
Gross margin		**593**	616
SG&A		**338**	344
R&D	4	**76**	70
Share of income of joint ventures and associates		**(22)**	(44)
Other expense (income)	5	**(18)**	6
Special items	6	**12**	-
EBIT		**207**	240
Financing expense	7	**51**	75
Financing income	7	**(17)**	(40)
EBT		**173**	205
Income taxes		**58**	57
Net income		**$ 115**	$ 148
Attributable to			
Equity holders of Bombardier Inc.		**$ 113**	$ 143
NCI		**2**	5
		$ 115	$ 148
EPS (in dollars)	8		
Basic and diluted		**$ 0.06**	$ 0.08

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

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

		Three-month periods ended March 31		
		2014		2013
Net income	**$**	**115**	$	148
OCI				
Items that may be reclassified to net income				
Net change in cash flow hedges				
Foreign exchange re-evaluation		**-**		6
Net loss on derivative financial instruments		**(124)**		(98)
Reclassification to income or to the related non-financial asset		**40**		37
Income taxes		**20**		19
		(64)		(36)
AFS financial assets				
Net unrealized gain		**4**		3
CCTD				
Net investments in foreign operations		**10**		(102)
Net gain on related hedging items		**1**		29
		11		(73)
Items that are never reclassified to net income				
Retirement benefits				
Net actuarial gains (losses)		**(239)**		251
Income taxes		**18**		(48)
		(221)		203
Total OCI		**(270)**		97
Total comprehensive income (loss)	**$**	**(155)**	$	245
Attributable to				
Equity holders of Bombardier Inc.	**$**	**(157)**	$	242
NCI		**2**		3
	$	**(155)**	$	245

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

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

	Notes	**March 31 2014**	December 31 2013	January 1 2013
Assets				
Cash and cash equivalents		**$ 2,488**	$ 3,397	$ 2,557
Trade and other receivables		**1,690**	1,492	1,311
Inventories	10	**8,713**	8,234	7,540
Other financial assets	11	**699**	637	443
Other assets	12	**890**	881	680
Current assets		**14,480**	14,641	12,531
PP&E		**2,085**	2,066	1,933
Aerospace program tooling		**7,004**	6,606	4,770
Goodwill		**2,381**	2,381	2,316
Deferred income taxes		**1,245**	1,231	1,421
Investments in joint ventures and associates		**311**	318	311
Other financial assets	11	**1,615**	1,568	1,339
Other assets	12	**561**	552	554
Non-current assets		**15,202**	14,722	12,644
		$ 29,682	$ 29,363	$ 25,175
Liabilities				
Trade and other payables		**$ 3,920**	$ 4,089	$ 3,310
Provisions	13	**855**	881	1,000
Advances and progress billings in excess of long-term contract inventories		**2,423**	2,352	1,763
Advances on aerospace programs		**3,588**	3,228	3,053
Other financial liabilities	14	**1,006**	1,009	455
Other liabilities	15	**2,162**	2,227	2,212
Current liabilities		**13,954**	13,786	11,793
Provisions	13	**582**	584	608
Advances on aerospace programs		**1,717**	1,688	1,600
Long-term debt		**7,057**	6,988	5,360
Retirement benefits		**2,393**	2,161	2,999
Other financial liabilities	14	**713**	717	601
Other liabilities	15	**1,014**	990	957
Non-current liabilities		**13,476**	13,128	12,125
		27,430	26,914	23,918
Equity				
Attributable to equity holders of Bombardier Inc.		**2,227**	2,426	1,211
Attributable to NCI		**25**	23	46
		2,252	2,449	1,257
		$ 29,682	$ 29,363	$ 25,175
Commitments and contingencies	20			

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

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

	Attributable to equity holders of Bombardier Inc.										
	Share capital		Retained earnings (deficit)			Accumulated OCI					
	Preferred shares	Common shares	Other retained earnings	Net actuarial losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	Total Equity
As at December 31, 2013	$ 347	$ 1,380	$ 2,598	$ (1,970)	$ 92	$ 5	$ (203)	$ 177	$ 2,426	$ 23	$ 2,449
Total comprehensive income											
Net income	-	-	113	-	-	-	-	-	113	2	115
OCI	-	-	-	(221)	-	4	(64)	11	(270)	-	(270)
	-	-	113	(221)	-	4	(64)	11	(157)	2	(155)
Dividends	-	-	(48)	-	-	-	-	-	(48)	-	(48)
Share-based expense	-	-	-	-	6	-	-	-	6	-	6
As at March 31, 2014	**$ 347**	**$ 1,380**	**$ 2,663**	**$ (2,191)**	**$ 98**	**$ 9**	**$ (267)**	**$ 188**	**$ 2,227**	**$ 25**	**$ 2,252**
As at January 1, 2013	$ 347	$ 1,342	$ 2,239	$ (2,794)	$ 109	$ 10	$ (197)	$ 155	$ 1,211	$ 46	$ 1,257
Total comprehensive income											
Net income	-	-	143	-	-	-	-	-	143	5	148
OCI	-	-	-	203	-	3	(36)	(71)	99	(2)	97
	-	-	143	203	-	3	(36)	(71)	242	3	245
Options exercised	-	3	-	-	(1)	-	-	-	2	-	2
Dividends	-	-	(51)	-	-	-	-	-	(51)	-	(51)
Share-based expense	-	-	-	-	11	-	-	-	11	-	11
As at March 31, 2013	$ 347	$ 1,345	$ 2,331	$ (2,591)	$ 119	$ 13	$ (233)	$ 84	$ 1,415	$ 49	$ 1,464

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 March 31	
	Notes	**2014**	2013
Operating activities			
Net income		**$ 115**	$ 148
Non-cash items			
Amortization		**93**	91
Deferred income taxes		**24**	35
Gains on disposals of PP&E	5	**-**	(1)
Share of income of joint ventures and associates		**(22)**	(44)
Share-based expense	16	**6**	11
Dividends received from joint ventures and associates		**-**	10
Net change in non-cash balances	17	**(631)**	(326)
Cash flows from operating activities		**(415)**	(76)
Investing activities			
Additions to PP&E and intangible assets		**(509)**	(528)
Proceeds from disposals of PP&E		**9**	14
Additions to AFS investments in securities		**-**	(70)
Net proceeds from disposal of a business[1]		**25**	-
Other		**-**	(20)
Cash flows from investing activities		**(475)**	(604)
Financing activities			
Net proceeds from issuance of long-term debt		**27**	1,970
Repayments of long-term debt		**(7)**	(10)
Dividends paid[2]		**(46)**	(49)
Other		**18**	2
Cash flows from financing activities		**(8)**	1,913
Effect of exchange rates on cash and cash equivalents		**(11)**	(57)
Net increase (decrease) in cash and cash equivalents		**(909)**	1,176
Cash and cash equivalents at beginning of period		**3,397**	2,557
Cash and cash equivalents at end of period		**$ 2,488**	$ 3,733
Supplemental information[3][4]			
Cash paid for			
Interest		**$ 90**	$ 55
Income taxes		**$ 30**	$ 9
Cash received for			
Interest		**$ 10**	$ 7
Income taxes		**$ 1**	$ 1

(1) Represents the balance of sale price related to the sale of the main assets and related liabilities of the Corporation's Flexjet activities.
(2) $6 million of dividends paid relate to preferred shares for the three-month periods ended March 31, 2014 and 2013.
(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 receivable after the effect of hedges, if any, the interest portion of a gain related to the resolution of a litigation in connection with part IV of the Quebec Income Tax Act, the Tax on Capital.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2014
(Unaudited)
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

1. BASIS OF PREPARATION

Bombardier Inc. ("the Corporation") is incorporated under the laws of Canada. The Corporation is a manufacturer of transportation equipment, including business and commercial aircraft and rail transportation equipment and systems, and is a provider of related services. The Corporation carries out its operations in two distinct segments, the aerospace segment (BA) and the transportation segment (BT).

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, 2013.

These interim consolidated financial statements for the three-month period ended March 31, 2014 were authorized for issuance by the Board of Directors on April 30, 2014.

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 fourth quarter has generally been the strongest in terms of revenues, profitability and cash flows.

The comparative period includes the results of the Corporation's Flexjet activities which have been disposed of on December 4, 2013.

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

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

	Exchange rates as at		
	March 31, 2014	December 31, 2013	January 1, 2013
Euro	**1.3788**	1.3791	1.3194
Canadian dollar	**0.9056**	0.9400	1.0043
Pound sterling	**1.6648**	1.6542	1.6167

	Average exchange rates for the three-month periods ended March 31	
	2014	2013
Euro	**1.3697**	1.3222
Canadian dollar	**0.9066**	0.9938
Pound sterling	**1.6546**	1.5568

2. FUTURE CHANGES IN ACCOUNTING POLICIES

Financial instruments
In October 2010, the IASB released the complete first part of a three-part project to replace IAS 39, *Financial instruments: recognition and measurement* by IFRS 9, *Financial instruments*. This first part only covers classification and measurement of financial assets and financial liabilities. In November 2013, the IASB released the hedge accounting part (the second part), which introduced a new hedge accounting model, together with corresponding disclosures about risk management activities.

The first part of 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. The IASB is currently considering making limited modifications to the first part of IFRS 9. Those limited modifications include the introduction of a fair value through OCI category for debt instruments that would be based on an entity’s business model.

The second part, 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. The third part, impairment of financial assets, is still under development.

The IASB tentatively decided to require an entity to apply IFRS 9 for annual periods beginning on or after January 1, 2018, but early adoption is permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

Employee benefits
In November 2013, the IASB amended IAS 19, *Employee benefits*, in order to simplify the accounting for contributions of defined benefit plans that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This amendment will be effective for the Corporation’s fiscal year beginning on January 1, 2015, with earlier application permitted. The Corporation has started to assess the impact the adoption of this standard will have on its consolidated financial statements and no significant impact is expected.

3. SEGMENT DISCLOSURE

The Corporation has two reportable segments: BA and BT. Each reportable segment offers different products and services and requires different technology and marketing strategies.

BA	BT
BA is a world leader in the design, manufacture and support of innovative aviation products. BA's aircraft portfolio includes a comprehensive line of business aircraft, commercial aircraft including regional jets, turboprops and single-aisle mainline jets, as well as specialized and amphibious aircraft. BA also offers aftermarket services. BA was also offering Flexjet fractional ownership and flight entitlement programs up to December 4, 2013.	BT is a world leader in the design, manufacture and support of rail equipment and systems, offering a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides bogies, electric propulsion, control equipment and maintenance services, as well as complete rail transportation systems and rail control solutions.

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, 2013.

Management assesses segment performance based on EBIT and EBIT before special items. Corporate charges are allocated to segments mostly based on each segment's revenues. The segmented results of operations and other information are as follows:

	Three-month periods ended March 31					
			2014			2013
	BA	**BT**	**Total**	BA	BT	Total
Results of operations						
Revenues	**$ 2,089**	**$ 2,265**	**$ 4,354**	$ 2,258	$ 2,081	$ 4,339
Cost of sales	**1,802**	**1,959**	**3,761**	1,951	1,772	3,723
Gross margin	**287**	**306**	**593**	307	309	616
SG&A	**157**	**181**	**338**	158	186	344
R&D	**40**	**36**	**76**	42	28	70
Share of income of joint ventures and associates	**-**	**(22)**	**(22)**	-	(44)	(44)
Other expense (income)	**(15)**	**(3)**	**(18)**	6	-	6
EBIT before special items	**105**	**114**	**219**	101	139	240
Special items[1]	**12**	**-**	**12**	-	-	-
EBIT	**$ 93**	**$ 114**	**207**	$ 101	$ 139	240
Financing expense			**51**			75
Financing income			**(17)**			(40)
EBT			**173**			205
Income taxes			**58**			57
Net income			**$ 115**			$ 148
Other information						
Net additions to PP&E and intangible assets[2]	**$ 484**	**$ 16**	**$ 500**	$ 503	$ 11	$ 514
Amortization	**$ 63**	**$ 30**	**$ 93**	$ 61	$ 30	$ 91

[1] See Note 6 – Special items for more details.
[2] As per the consolidated statements of cash flows.

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

	March 31, 2014	December 31, 2013	January 1, 2013
Assets			
Total assets	**$ 29,682**	$ 29,363	$ 25,175
Assets not allocated to segments			
Cash and cash equivalents	**2,488**	3,397	2,557
Income tax receivable[1]	**22**	27	-
Deferred income taxes	**1,245**	1,231	1,421
Segmented assets	**25,927**	24,708	21,197
Liabilities			
Total liabilities	**27,430**	26,914	23,918
Liabilities not allocated to segments			
Interest payable[2]	**99**	116	66
Income taxes payable[3]	**186**	198	109
Long-term debt[4]	**7,272**	7,203	5,405
Deferred income taxes[3]	**-**	-	46
Segmented liabilities	**$ 19,873**	$ 19,397	$ 18,292
Net segmented assets			
BA	**$ 5,316**	$ 4,921	$ 2,618
BT	**$ 738**	$ 390	$ 287

[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.

The Corporation's revenues by market segments are as follows:

	Three-month periods ended March 31	
	2014	2013 (6)
BA		
Manufacturing		
Business aircraft	**$ 1,177**	$ 1,162
Commercial aircraft	**295**	301
Other	**114**	147
Total manufacturing	**1,586**	1,610
Services(1)	**399**	438
Other(2)	**104**	210
	2,089	2,258
BT		
Rolling stock(3)	**1,464**	1,378
Services(4)	**442**	370
System and signalling(5)	**359**	333
	2,265	2,081
	$ 4,354	$ 4,339

(1) Includes revenues from parts services, Flexjet fractional ownership and hourly flight entitlement programs' service activities (prior to disposal on December 4, 2013), product support activities (including aircraft maintenance and commercial training), Specialized Aircraft Solutions and Military Aviation Training.

(2) Includes mainly sales of pre-owned aircraft.

(3) Comprised of revenues from light rail vehicles, metros, commuter and regional trains, intercity trains, high speed and very high speed trains, locomotives, propulsion and controls, and bogies.

(4) Comprised of revenues from fleet maintenance, refurbishment and overhaul, and material solutions.

(5) Comprised of revenues from mass transit and airport systems, mainline systems, operation and maintenance systems, e-mobility solutions, mass transit signalling and mainline signalling. Excludes the rolling stock portion of system orders manufactured by the other divisions of the Corporation.

(6) Comparative figures have been reclassified to conform to the presentation adopted in the current period.

4. RESEARCH AND DEVELOPMENT

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

	Three-month periods ended March 31	
	2014	2013
R&D expenditures	**$ 474**	$ 479
Less: development expenditures capitalized to aerospace program tooling	**(430)**	(444)
	44	35
Add: amortization of aerospace program tooling	**32**	35
	$ 76	$ 70

5. OTHER EXPENSE (INCOME)

Other expense (income) was as follows:

	Three-month periods ended March 31	
	2014	2013
Changes in estimates and fair value(1)	**$ (15)**	$ 9
Severance and other involuntary termination costs (including changes in estimates)	**(3)**	3
Gains on disposals of PP&E	**-**	(1)
Other	**-**	(5)
	$ (18)	$ 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.

6. SPECIAL ITEMS

Special items were as follows:

	Three-month periods ended March 31	
	2014	2013
Restructuring charge[1]	**$ 22**	$ -
Gain on resolution of a litigation[2]	**(10)**	-
	$ 12	$ -

(1) Relates to the BA workforce reduction announced in January 2014 of approximately 1,700 positions, located mostly in Canada and the U.S., affecting both contractual and permanent employees.

(2) Represents a gain at BA upon the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital.

7. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows:

	Three-month periods ended March 31	
	2014	2013
Financing expense		
Accretion on net retirement benefit obligations	**$ 19**	$ 29
Net loss on certain financial instruments[1]	**5**	-
Amortization of letter of credit facility costs	**4**	4
Accretion on other financial liabilities	**3**	7
Accretion on provisions	**2**	1
Changes in discount rates of provisions	**2**	-
Other	**5**	3
	40	44
Interest on long-term debt, after effect of hedges	**11**	31
	$ 51	$ 75
Financing income		
Net gain on certain financial instruments[1]	**$ -**	$ (17)
Other	**(4)**	(8)
	(4)	(25)
Interest on loans and lease receivables - after effect of hedges	**(8)**	(8)
Income from investment in securities	**(3)**	(3)
Interest on cash and cash equivalents	**(2)**	(4)
	(13)	(15)
	$ (17)	$ (40)

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

Borrowing costs capitalized to PP&E and intangible assets totalled $72 million for the three-month period ended March 31, 2014, using an average capitalization rate of 4.91% ($56 million and 5.36% for the three-month period ended March 31, 2013). 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. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows:

	Three-month periods ended March 31			
(Number of shares, stock options, PSUs and DSUs, in thousands)		**2014**		2013
Net income attributable to equity holders of Bombardier Inc.	**$**	**113**	$	143
Preferred share dividends, including taxes		**(8)**		(9)
Net income attributable to common equity holders of Bombardier Inc.	**$**	**105**	$	134
Weighted-average number of common shares outstanding		**1,741,746**		1,737,684
Net effect of stock options, PSUs and DSUs		**873**		1,697
Weighted-average diluted number of common shares		**1,742,619**		1,739,381
EPS (in dollars)				
Basic and diluted	**$**	**0.06**	$	0.08

The effect of the exercise of stock options, PSUs and DSUs was included in the calculation of diluted EPS in the above table, except for 46,391,326 stock options, PSUs and DSUs for the three-month period ended March 31, 2014 (36,556,115 stock options, PSUs and DSUs for the three-month period ended March 31, 2013) 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.

9. FINANCIAL INSTRUMENTS

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

	FVTP&L						
	HFT	Designated	AFS	Amortized cost [(1)]	DDHR	Total carrying value	Fair value
March 31, 2014							
Financial assets							
Cash and cash equivalents	**$ 2,488**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,488**	**$ 2,488**
Trade and other receivables	**-**	**-**	**-**	**1,690**	**-**	**1,690**	**1,690**
Other financial assets	**140**	**705**	**321**	**437**	**711**	**2,314**	**2,299**
	$ 2,628	**$ 705**	**$ 321**	**$ 2,127**	**$ 711**	**$ 6,492**	**$ 6,477**
Financial liabilities							
Trade and other payables	**$ -**	**$ -**	**n/a**	**$ 3,920**	**$ -**	**$ 3,920**	**$ 3,920**
Long-term debt[(2)]	**-**	**-**	**n/a**	**7,272**	**-**	**7,272**	**7,330**
Other financial liabilities	**20**	**139**	**n/a**	**851**	**494**	**1,504**	**1,596**
	$ 20	**$ 139**	**n/a**	**$ 12,043**	**$ 494**	**$ 12,696**	**$ 12,846**
December 31, 2013							
Financial assets							
Cash and cash equivalents	$ 3,397	$ -	$ -	$ -	$ -	$ 3,397	$ 3,397
Trade and other receivables	-	-	-	1,492	-	1,492	1,492
Other financial assets	129	673	315	425	663	2,205	2,203
	$ 3,526	$ 673	$ 315	$ 1,917	$ 663	$ 7,094	$ 7,092
Financial liabilities							
Trade and other payables	$ -	$ -	n/a	$ 4,089	$ -	$ 4,089	$ 4,089
Long-term debt[(2)]	-	-	n/a	7,203	-	7,203	7,346
Other financial liabilities	25	142	n/a	958	386	1,511	1,656
	$ 25	$ 142	n/a	$ 12,250	$ 386	$ 12,803	$ 13,091
January 1, 2013							
Financial assets							
Cash and cash equivalents	$ 2,557	$ -	$ -	$ -	$ -	$ 2,557	$ 2,557
Trade and other receivables	-	-	-	1,311	-	1,311	1,311
Other financial assets	92	697	217	133	643	1,782	1,782
	$ 2,649	$ 697	$ 217	$ 1,444	$ 643	$ 5,650	$ 5,650
Financial liabilities							
Trade and other payables	$ -	$ -	n/a	$ 3,310	$ -	$ 3,310	$ 3,310
Long-term debt[(2)]	-	-	n/a	5,405	-	5,405	5,272
Other financial liabilities	15	158	n/a	712	126	1,011	1,146
	$ 15	$ 158	n/a	$ 9,427	$ 126	$ 9,726	$ 9,728

[(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

10. INVENTORIES

Inventories were as follows, as at:

	March 31, 2014	December 31, 2013	January 1, 2013
Aerospace programs	**$ 4,869**	$ 4,847	$ 4,345
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	**7,554**	7,064	5,387
Less: advances and progress billings	**(5,731)**	(5,406)	(4,014)
	1,823	1,658	1,373
Service contracts			
Cost incurred and recorded margins	**436**	420	408
Less: advances and progress billings	**(9)**	(19)	(15)
	427	401	393
Finished products[1]	**1,594**	1,328	1,429
	$ 8,713	$ 8,234	$ 7,540

(1) Finished products include 16 new aircraft not associated with a firm order and 39 pre-owned aircraft, totalling $647 million as at March 31, 2014 (11 new aircraft and 43 pre-owned aircraft, totalling $535 million as at December 31, 2013 and 3 new aircraft and 74 pre-owned aircraft, totalling $551 million as at January 1, 2013).

Finished products as at March 31, 2014 include $188 million of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities ($134 million as at December 31, 2013 and $147 million as at January 1, 2013). The related sales proceeds are accounted for as sale and leaseback obligations.

The amount of inventories recognized as cost of sales totalled $3,520 million for the three-month period ended March 31, 2014 ($3,398 million for the three-month period ended March 31, 2013). These amounts include $31 million of write-downs for the three-month period ended March 31, 2014 ($30 million for the three-month period ended March 31, 2013).

11. OTHER FINANCIAL ASSETS

Other financial assets were as follows, as at:

	March 31, 2014	December 31, 2013	January 1, 2013
Derivative financial instruments	**$ 851**	$ 792	$ 735
Aircraft loans and lease receivables[1]	**410**	400	423
Investments in financing structures[1]	**352**	331	329
Investments in securities[1] [2]	**340**	335	243
Long-term contract receivables[3]	**334**	319	-
Restricted cash	**18**	19	25
Other	**9**	9	27
	$ 2,314	$ 2,205	$ 1,782
Of which current	**$ 699**	$ 637	$ 443
Of which non-current	**1,615**	1,568	1,339
	$ 2,314	$ 2,205	$ 1,782

(1) Carried at fair value, except for $12 million of aircraft loans and lease receivables, $19 million of investments in securities and $45 million of investment in financing structures carried at amortized cost as at March 31, 2014 ($12 million, $20 million and $46 million, respectively, as at December 31, 2013 and $11 million, $26 million and $44 million, respectively, as at January 1, 2013).

(2) Includes $70 million of securities to secure contingent capital contributions to be made in relation to guarantees issued in connection with the sale of aircraft as at March 31, 2014 ($70 million as at December 31, 2013, and nil as at January 1, 2013).

(3) Represents incentive payments related to the reliability of manufactured trains. The carrying value of the receivable is based on estimates of future variations in the relevant index and reassessment of the achievement of the reliability targets, if any. Also, termination of a related service contract in case of our non-performance would extinguish our right to future payments.

12. OTHER ASSETS

Other assets were as follows, as at:

	March 31, 2014	December 31, 2013	January 1, 2013
Prepaid expenses	**$ 650**	$ 620	$ 366
Sales tax and other taxes	**322**	344	281
Retirement benefits	**196**	174	38
Intangible assets other than aerospace program tooling and goodwill	**176**	186	210
Deferred financing charges	**96**	100	103
Flexjet fractional ownership deferred costs	**-**	-	206
Other	**11**	9	30
	$ 1,451	$ 1,433	$ 1,234
Of which current	**$ 890**	$ 881	$ 680
Of which non-current	**561**	552	554
	$ 1,451	$ 1,433	$ 1,234

13. PROVISIONS

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

	Product warranties	**Credit and residual value guarantees**	**Restructuring, severance and other termination benefits**	**Other [1]**	**Total**
Balance as at December 31, 2013	**$ 863**	**$ 463**	**$ 81**	**$ 58**	**$ 1,465**
Additions	**77**	**-**	**28 [2]**	**2**	**107**
Utilization	**(71)**	**(21)**	**(27)**	**(1)**	**(120)**
Reversals	**(9)**	**(2)**	**(5)**	**(4)**	**(20)**
Accretion expense	**-**	**2**	**-**	**-**	**2**
Effect of changes in discount rates	**-**	**2**	**-**	**-**	**2**
Effect of foreign currency exchange rate changes	**1**	**-**	**-**	**-**	**1**
Balance as at March 31, 2014	**$ 861**	**$ 444**	**$ 77**	**$ 55**	**$ 1,437**
Of which current	**$ 714**	**$ 46**	**$ 73**	**$ 22**	**$ 855**
Of which non-current	**147**	**398**	**4**	**33**	**582**
	$ 861	**$ 444**	**$ 77**	**$ 55**	**$ 1,437**

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other [1]	Total
Balance as at January 1, 2013	$ 907	$ 483	$ 127	$ 91	$ 1,608
Additions	106	12	4	2	124
Utilization	(83)	(2)	(11)	(4)	(100)
Reversals	(42)	-	(1)	(4)	(47)
Accretion expense	-	1	-	-	1
Effect of foreign currency exchange rate changes	(17)	-	(3)	(2)	(22)
Balance as at March 31, 2013	$ 871	$ 494	$ 116	$ 83	$ 1,564
Of which current	$ 732	$ 91	$ 112	$ 42	$ 977
Of which non-current	139	403	4	41	587
	$ 871	$ 494	$ 116	$ 83	$ 1,564

(1) Includes litigations and claims, as well as environmental liabilities.
(2) See Note 6 – Special items for more details on the addition related to BA restructuring charges.

14. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	March 31, 2014	December 31, 2013	January 1, 2013
Derivative financial instruments	**$ 514**	$ 411	$ 141
Government refundable advances	**474**	481	398
Current portion of long-term debt	**215**	215	45
Sale and leaseback obligations	**192**	138	168
Lease subsidies	**139**	142	158
Vendor non-recurring costs	**36**	38	53
Other	**149**	301	93
	$ 1,719	$ 1,726	$ 1,056
Of which current	**$ 1,006**	$ 1,009	$ 455
Of which non-current	**713**	717	601
	$ 1,719	$ 1,726	$ 1,056

15. OTHER LIABILITIES

Other liabilities were as follows, as at:

	March 31, 2014	December 31, 2013	January 1, 2013
Employee benefits	**$ 819**	$ 750	$ 645
Accruals for long-term contract costs	**610**	630	677
Supplier contributions to aerospace programs	**539**	529	364
Deferred revenues	**438**	460	499
Income and other taxes payable	**267**	368	252
Deferred income taxes	**-**	-	46
Flexjet fractional ownership deferred revenues	**-**	-	241
Other	**503**	480	445
	$ 3,176	$ 3,217	$ 3,169
Of which current	**$ 2,162**	$ 2,227	$ 2,212
Of which non-current	**1,014**	990	957
	$ 3,176	$ 3,217	$ 3,169

16. SHARE-BASED PLANS

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

	Three-month periods ended March 31			
	2014		2013	
	PSU	**DSU**	PSU	DSU
Balance at beginning of period	**23,596,681**	**8,169,850**	24,179,840	6,673,447
Granted	**101,569**	**15,132**	-	7,412
Cancelled	**(164,996)**	**-**	(279,387)	-
Balance at end of period	**23,533,254**	**8,184,982** [(1)]	23,900,453	6,680,859 [(1)]

(1) Of which 2,463,704 DSUs are vested as at March 31, 2014 (1,183,396 as at March 31, 2013).

The compensation expense, with respect to the PSU and DSU plans, amounted to $4 million during the three-month period ended March 31, 2014 ($9 million during the three-month period ended March 31, 2013).

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

	Three-month periods ended March 31	
	2014	2013
Balance at beginning of period	**29,355,757**	28,490,089
Granted	**188,092**	-
Exercised	**-**	(749,860)
Cancelled	**(57,593)**	(265,349)
Expired	**(61,569)**	(55,000)
Balance at end of period	**29,424,687**	27,419,880

A compensation expense of $2 million was recorded during the three-month periods ended March 31, 2014 and 2013 with respect to share option plans.

17. NET CHANGE IN NON-CASH BALANCES

Net change in non-cash balances was as follows:

	Three-month periods ended March 31	
	2014	2013
Trade and other receivables	**$ (195)**	$ (12)
Inventories	**(472)**	(349)
Other financial assets and liabilities, net	**(135)**	45
Other assets	**(27)**	(125)
Trade and other payables	**(173)**	189
Provisions	**(29)**	(21)
Advances and progress billings in excess of long-term contract inventories	**70**	(170)
Advances on aerospace programs	**389**	2
Retirement benefits liability	**11**	13
Other liabilities	**(70)**	102
	$ (631)	$ (326)

18. CREDIT FACILITIES

In March 2014, the availability periods of the BT and the BA letter of credit facilities were extended by one year to May 2017 and June 2017, respectively. In addition, the maturity dates of the €500-million ($689-million) and the $750-million unsecured revolving credit facilities were also extended by one year to March 2016 and June 2017, respectively.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

The Corporation uses an option-adjusted spread model and a discounted cash flow model to estimate the fair value of call features on long-term debt, using market data such as interest-rate swap curves and external quotations.

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

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

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

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

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

Fair value hierarchy

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

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

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment. The fair value of financial assets and liabilities by level of hierarchy was as follows, as at March 31, 2014:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	$ 398	$ -	$ -	$ 398
Derivative financial instruments[1]	851	-	851	-
Investments in securities	306 [2]	33	273	-
Investments in financing structures	307	-	150	157
	$ 1,862	$ 33	$ 1,274	$ 555
Financial liabilities				
Lease subsidies	$ (139)	$ -	$ -	$ (139)
Derivative financial instruments[1]	(514)	-	(514)	-
	$ (653)	$ -	$ (514)	$ (139)

[1] Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements, and cross-currency interest-rate swap agreements and embedded derivatives.

[2] Excludes $15 million of AFS investments carried at cost.

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

		Aircraft loans and lease receivables		Investments in financing structures		Lease subsidies
Balance as at December 31, 2013	**$**	**388**	**$**	**135**	**$**	**(142)**
Net gains (losses) and interest included in net income[1]		**16**		**22**		**(3)**
Issuances		**2**		**-**		**-**
Settlements		**(8)**		**-**		**6**
Balance as at March 31, 2014	**$**	**398**	**$**	**157**	**$**	**(139)**

		Aircraft loans and lease receivables		Investments in financing structures		Lease subsidies
Balance as at January 1, 2013	$	412	$	135	$	(158)
Net gains and interest included in net income[1]		1		5		2
Issuances		3		-		-
Settlements		(7)		-		9
Balance as at March 31, 2013	$	409	$	140	$	(147)

[1] Of which an amount of $3 million represents realized gains for the three-month period ended March 31, 2014 ($9 million represents realized losses for the three-month period ended March 31, 2013).

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 relate to credit risks of customers without published credit rating and marketability adjustments to discount rates specific to our financial assets.

These main assumptions are as follows as at March 31, 2014:

Main assumptions (weighted average)	**Aircraft loans and lease receivables**	**Investments in financing structures**	**Lease subsidies**
Internally assigned credit rating	Between BB- to C (B+)	Between BB- to CCC+ (B+)	Between BBB- to C (B)
Discount rate adjustments for marketability	Between 2.84% and 4.73% (4.35%)	Between 1.42% and 6.63% (5.09%)	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.

Sensitivity to selected changes of assumptions for Level 3 hierarchy

These assumptions, not derived from an observable market, are established by management using estimates and judgments that can have a significant effect on revenues, expenses, assets and liabilities. Changing one or more of these assumptions to other reasonably possible alternative assumptions, for which the impact on their fair value would be significant, would change their fair value as follows as at March 31, 2014:

Impact on EBT								
			Change of assumptions					
Gain (loss)		**Change in fair value recognized in EBT for the three-month period ended March 31, 2014**		**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	$	9	$	(5)	$	(14)	$	(20)
Investment in financing structures	$	19	$	(4)	$	(10)	$	(11)
Lease subsidies	$	(2)		n/a	$	2		n/a

n/a: not applicable

20. COMMITMENTS AND CONTINGENCIES

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

	March 31, 2014	December 31, 2013	January 1, 2013
Aircraft sales			
Residual value	**$ 1,825**	$ 1,828	$ 1,812
Credit	**1,293**	1,297	1,218
Mutually exclusive exposure[1]	**(642)**	(639)	(594)
Total credit and residual value exposure	**$ 2,476**	$ 2,486	$ 2,436
Trade-in commitments	**$ 3,562**	$ 3,416	$ 3,098
Conditional repurchase obligations	**$ 363**	$ 472	$ 489
Other			
Credit	**$ 48**	$ 48	$ 47
Performance guarantees	**$ 43**	$ 43	$ 41

(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 amounted to $444 million as at March 31, 2014 ($463 million as at December 31, 2013 and $483 million as at January 1, 2013) have been established to cover the risks from these guarantees. In addition, lease subsidies, which would be extinguished in the event of credit default by certain customers, amounted to $139 million as at March 31, 2014 ($142 million as at December 31, 2013 and $158 million as at January 1, 2013).

Litigation

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

While the Corporation cannot predict the final outcome of all legal proceedings pending as at March 31, 2014, 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.

S-Bahn claim

On March 4, 2013, S-Bahn Berlin GMBH (“SB”) filed a claim against Bombardier Transportation GmbH, a wholly owned subsidiary of the Corporation, in the Berlin District Court (“Landgericht Berlin”), concerning the trains of the 481 Series delivered to SB between 1996 and 2004.

This lawsuit alleges damages of an aggregate value of €348 million ($480 million) related to allegedly defective wheels and braking systems. The claim is for payment of €241 million ($332 million) and also for a declaratory judgment obliging the Corporation to compensate SB for further damages. SB currently alleges such further damages to be €107 million ($148 million).

It is the Corporation’s position that this claim i) is filed in absence of any defect, ii) is not founded on any enforceable warranty, iii) is filed after the expiry of any statute of limitations and iv) is based on inapplicable standards. The lawsuit contains allegations against the Corporation which the Corporation rejects as unfounded and defamatory.

The Corporation intends to vigorously defend its position and will undertake all actions necessary to protect its reputation.

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.

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

21. EVENT AFTER THE REPORTING DATE

In April 2014, the Corporation issued, at par, unsecured Senior Notes comprised of $600 million, bearing interest at 4.75%, due on April 15, 2019 and $1,200 million, bearing interest at 6.00%, due on October 15, 2022.

The Corporation intends to use the net proceeds of $1,774 million to early redeem the €785-million ($1,082 million) Senior Notes due November 15, 2016 pursuant to an optional redemption exercised on April 4, 2014, to finance the repayment at maturity of the $162-million Notes due May 1, 2014 and the remainder for general corporate purposes.

Following the early redemption of the €785-million ($1,082 million) Senior Notes, the Corporation expects to record a related loss of approximately $40 million, which will be treated as a special item.