BOMBARDIER

SECOND QUARTERLY REPORT

Three- and six-month periods ended June 30, 2021

GLOSSARY

The following table shows the abbreviations used in this report.

Term	Description	Term	Description
ACLP	Airbus Canada Limited Partnership	GAAP	Generally accepted accounting principles
bps	Basis points	IAS	International Accounting Standard(s)
BT Holdco	Bombardier Transportation (Investment) UK Limited	IASB	International Accounting Standards Board
CCTD	Cumulative currency translation difference	IFRS	International Financial Reporting Standard(s)
CDPQ	Caisse de dépôt et placement du Québec	MD&A	Management's discussion and analysis
DDHR	Derivative designated in a hedge relationship	n/a	Not applicable
DSU	Deferred share unit	NCI	Non-controlling interests
EBIT	Earnings (loss) before financing expense, financing income and income taxes	nmf	Information not meaningful
		OCI	Other comprehensive income (loss)
EBITDA	Earnings (loss) before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets	PP&E	Property, plant and equipment
		PSU	Performance share unit
		R&D	Research and development
EBT	Earnings (loss) before income taxes	RSU	Restricted share unit
EPS	Earnings (loss) per share attributable to equity holders of Bombardier Inc.	SG&A	Selling, general and administrative
		U.K.	United Kingdom
FVOCI	Fair value through other comprehensive income (loss)	U.S.	United States of America
FVTP&L	Fair value through profit and loss		

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors of Bombardier Inc. (the "Corporation" or "Bombardier" or "our" or "we"). 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 and Risk Committee. The Audit and Risk Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors. The Audit and Risk 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 under one reportable segment: Bombardier, which is reflective of our organizational structure.

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

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

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

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

FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements, which may involve, but are not limited to: statements with respect to our objectives, anticipations and outlook or guidance in respect of various financial and global metrics and sources of contribution thereto, targets, goals, priorities, market and strategies, financial position, financial performance, market position, capabilities, competitive strengths, credit ratings, beliefs, prospects, plans, expectations, anticipations, estimates and intentions; general economic and business outlook, prospects and trends of an industry; customer value; expected demand for products and services; growth strategy; 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 execution of orders in general; competitive position; expectations regarding revenue and backlog mix; the expected impact of the legislative and regulatory environment and legal proceedings; strength of capital profile and balance sheet, creditworthiness, available liquidities and capital resources, expected financial requirements, and ongoing review of strategic and financial alternatives; the introduction of, productivity enhancements, operational efficiencies, cost reduction and restructuring initiatives, and anticipated costs, intended benefits and timing thereof; the anticipated business transition to growth cycle and cash generation; expectations, objectives and strategies regarding debt repayment, refinancing of maturities and interest cost reduction; expectations regarding availability of government assistance programs, compliance with restrictive debt covenants; expectations regarding the declaration and payment of dividends on our preferred shares; intentions and objectives for our programs, assets and operations; and the impact of the COVID-19 pandemic on the foregoing and the effectiveness of plans and measures we have implemented in response thereto; and expectations regarding gradual market and economic recovery in the aftermath of the COVID-19 pandemic. As it relates to the sale of the Transportation business to Alstom, this MD&A also contains forward-looking statements with respect to the benefits of such transaction, the use of the proceeds derived from the transaction and its impact on our outlook, guidance and targets, operations, infrastructure, opportunities, financial condition, business plan and overall strategy.

Forward-looking statements can generally be identified by the use of forward-looking terminology such as “may”, “will”, “shall”, “can”, “expect”, “estimate”, “intend”, “anticipate”, “plan”, “foresee”, “believe”, “continue”, “maintain” or “align”, the negative of these terms, variations of them or similar terminology. Forward-looking statements are presented for the purpose of assisting investors and others in understanding certain key elements of our current objectives, strategic priorities, expectations, outlook and plans, and in obtaining a better understanding of our business and anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

By their nature, forward-looking statements require management to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecast results set forth in forward-looking statements. While management considers these assumptions to be reasonable and appropriate based on information currently available, there is risk that they may not be accurate. The assumptions underlying the forward-looking statements made in this MD&A include the following material assumptions: the deployment of the proceeds from the sale of the Transportation business to Alstom on terms allowing the Corporation, when combined to other financing sources and free cash flow generation, to repay or otherwise manage its various maturities for the next three years; growth of the business aviation market and increase of the Corporation’s share of such market; proper identification of recurring cost savings and executing on our cost reduction plan; optimization of our real estate portfolio, including through the sale or other transaction in respect of real estate assets on favorable terms; and access to working capital facilities on market terms. For additional information, including with respect to other assumptions underlying the forward-looking statements made in this MD&A, refer to the Forward-looking statements — Assumptions section in the MD&A of our financial report for the fiscal year ended December 31, 2020. Given the impact of the changing circumstances surrounding the COVID-19 pandemic and the related response from the Corporation, governments (federal, provincial and municipal), regulatory authorities, businesses, suppliers, customers, counterparties and third-party service providers, there is inherently more uncertainty associated with the Corporation’s assumptions as compared to prior years.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to, risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of business aircraft customers; trade policy; increased competition; political instability and force majeure events or global climate change), operational risks (such as risks related to developing new products and services; development of new business ; order backlog; the transition to a pure-play business aviation company; the certification of products and services; the execution of orders; pressures on cash flows and capital expenditures based on seasonality and cyclicality; execution of our strategy, productivity enhancements, operational efficiencies, restructuring and cost reduction initiatives; doing business with partners; product performance warranty and casualty claim losses; regulatory and legal proceedings; environmental, health and safety risks; dependence on certain customers, contracts and suppliers; supply chain risks; human resources; reliance on information systems; reliance on and protection of intellectual property rights; reputation risks; risk management; tax matters; and adequacy of insurance coverage), financing risks (such as risks related to liquidity and access to capital markets; retirement benefit plan risk; exposure to credit risk; substantial debt and interest payment requirements; restrictive debt covenants; reliance on debt management and interest cost reduction strategies; and reliance on government support), market risks (such as foreign currency fluctuations; changing interest rates; increases in commodity prices; and inflation rate fluctuations). For more details, see the Risks and uncertainties section in Other in this MD&A. Any one or more of the foregoing factors may be exacerbated by the ongoing COVID-19 outbreak and may have a significantly more severe impact on the Corporation's business, results of operations and financial condition than in the absence of such outbreak. As a result of the current COVID-19 pandemic, additional factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to: risks related to the impact and effects of the COVID-19 pandemic on economic conditions and financial markets and the resulting impact on our business, operations, capital resources, liquidity, financial condition, margins, prospects and results; uncertainty regarding the magnitude and length of economic disruption as a result of the COVID-19 outbreak and the resulting effects on the demand environment for our products and services; uncertainty regarding market and economic recovery in the aftermath of the COVID-19 pandemic; emergency measures and restrictions imposed by public health authorities or governments, fiscal and monetary policy responses by governments and financial institutions; disruptions to global supply chain, customers, workforce, counterparties and third-party service providers; further disruptions to operations, orders and deliveries; technology, privacy, cyber security and reputational risks; and other unforeseen adverse events.

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. Other risks and uncertainties not presently known to us or that we presently believe are not material could also cause actual results or events to differ materially from those expressed or implied in our forward-looking statements. The forward-looking statements set forth herein reflect management's expectations as at the date of this report and are subject to change after such date. Unless otherwise required by applicable securities laws, we expressly disclaim any intention, and assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OVERVIEW

HIGHLIGHTS

On January 29, 2021, the Corporation closed the sale of the Transportation business to Alstom. The results of the Transportation business were classified as discontinued operations for the three- and six-month periods ended June 30, 2021 and 2020. Refer to Note 17 - Disposal of businesses to our Interim consolidated financial statements for more details.

Results of the quarter

Three-month periods ended June 30	2021	2020 restated[1]	Variance
Revenues[2]	**$ 1,524**	$ 1,223	25 %
Adjusted EBITDA[2][3]	**$ 143**	$ 31	361 %
Adjusted EBITDA margin[2][3]	**9.4 %**	2.5 %	690 bps
Adjusted EBIT[2][3]	**$ 32**	$ (44)	nmf
Adjusted EBIT margin[2][3]	**2.1 %**	(3.6)%	570 bps
EBIT[2]	**$ 36**	$ 403	(91)%
EBIT margin[2]	**2.4 %**	33.0 %	(3060) bps
Net income from continuing operations	**$ 139**	$ 150	(7)%
Net income (loss) from discontinued operations	**$ —**	$ (373)	100 %
Net income (loss)	**$ 139**	$ (223)	162 %
Diluted EPS from continuing operations (in dollars)	**$ 0.05**	$ 0.06	$ (0.01)
Diluted EPS from discontinued operations (in dollars)	**$ 0.01**	$ (0.19)	$ 0.20
	$ 0.06	$ (0.13)	$ 0.19
Adjusted net loss[2][3]	**$ (137)**	$ (248)	45 %
Adjusted EPS (in dollars)[2][3]	**$ (0.06)**	$ (0.11)	$ 0.05
Cash flows from operating activities			
Continuing operations	**$ 155**	$ (692)	nmf
Discontinued operations	**$ —**	$ (265)	100 %
	$ 155	$ (957)	nmf
Net additions to PP&E and intangible assets			
Continuing operations	**$ 64**	$ 58	10 %
Discontinued operations	**$ —**	$ 21	(100)%
	$ 64	$ 79	(19)%
Free cash flow (usage)[3]			
Continuing operations	**$ 91**	$ (750)	nmf
Discontinued operations	**$ —**	$ (286)	100 %
	$ 91	$ (1,036)	nmf

As at	**June 30, 2021**	December 31, 2020	Variance
Cash and cash equivalents excluding Transportation	**$ 2,288**	$ 1,779	29 %
Cash and cash equivalents from Transportation	**$ —**	$ 671	(100)%
	$ 2,288	$ 2,450	(7)%
Available short-term capital resources[4]	**$ 2,288**	$ 3,203	(29)%
Aviation order backlog (in billions of dollars)			
Business aircraft[5]	**$ 10.7**	$ 10.7	— %

[(1)] Restated for the sale of Transportation, refer to Note 17 – Disposal of business to our Interim consolidated financial statements for more details.
[(2)] Includes continuing operations only.
[(3)] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and to the Analysis of consolidated results section and Liquidity and capital resources section in Overview for reconciliations to the most comparable IFRS measures.
[(4)] Defined as cash and cash equivalents as at June 30, 2021; defined as cash and cash equivalents including cash and cash equivalents from Transportation plus the undrawn amounts under Transportation's revolving credit facility and our senior secured term loan as at December 31, 2020.
[(5)] Includes order backlog for both manufacturing and services.

Key highlights and events

- Raising full year 2021 guidance: (i) aircraft deliveries expected to reach ~120 units, and revenues expected to exceed $5.8 billion; (ii) profitability guidance increased to greater than $175 million for adjusted EBIT[(1)], compared to the previously announced $100 million, and adjusted EBITDA[(1)] expected to be greater than $575 million, compared to the previously announced $500 million, and (iii) free cash flow usage[(1)] now expected to be better than $300 million for the year, compared to the previously announced $500 million.[(2)]

- Business jet revenues continue the positive trend; the second quarter year-over-year revenues up by 50%, totaling $1.5 billion, mainly driven by a 45% increase in deliveries and greater contribution from services as flight hours continue their industry-wide climb. Adjusted EBITDA[(1)] for the quarter up by $112 million year-over-year to $143 million. Reported EBIT from continuing operations for the quarter was $36 million.

- Strong free cash flow[(1)] generation for the quarter of $91 million from continuing operations, including the negative impact of approximately $60 million non-recurring cash items[(3)] and representing an improvement of $841 million year-over-year. Reported cash flows from operating activities - continuing operations for the quarter was $155 million and net additions to PP&E and intangible assets - continuing operations for the quarter were $64 million.

- Second quarter unit book-to-bill[(4)] climbed to approximately 1.8 on strong sales activity throughout the portfolio and increased interest in business aviation.

- Pro-forma liquidity[(5)] at quarter end was approximately $2.1 billion and pro-forma net debt[(5)] was approximately $5.3 billion, including $1.0 billion maturing in the next three years. The Corporation continues to evaluate various options to address other debt maturities in an opportunistic manner.

[(1)] Non-GAAP financial measures. Refer to the Non-GAAP financial measures and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.
[(2)] See the forward-looking statements disclaimer.
[(3)] Non-recurring cash items include the impact of payments of residual value guarantee liability, consent fee with respect to the Consent Solicitations process conducted by the Corporation, and restructuring costs.
[(4)] Defined as net new aircraft orders in units over aircraft deliveries in units.
[(5)] Non-GAAP measures. Pro-forma liquidity is defined as cash and cash equivalents as at June 30, 2021 of $2.3 billion, plus $0.4 billion of short-term restricted cash as collateral for bank guarantees, and less $0.6 billion paid to repurchase certain of outstanding Senior Notes in July 2021. Pro-forma net debt is defined as long-term debt as at June 30, 2021 of $8.0 billion, less $0.6 billion paid to redeem certain outstanding Senior Notes in July 2021, and less pro-forma liquidity of approximately $2.1 billion.

GUIDANCE UPDATE[1]

2021 Guidance[1]

The following is an update on 2021 Guidance initially provided in our 2020 Financial Report.

Continuing operations only	2021 Guidance provided in our 2020 Financial Report[2]	Results for the six-month period ended June 30, 2021	2021 guidance update
Aircraft deliveries (in units)	110 – 120	55	~ 120
Revenues	> $5.6 billion	$2.9 billion	> $5.8 billion
Adjusted EBIT[3]	> $100 million	$61 million	> $175 million
Adjusted EBITDA[3]	> $500 million	$266 million	> $575 million
EBIT	n/a	$55 million	n/a
Free cash flow usage[3]	Usage better than $500 million including ~$200 million of non-recurring outflows[4]	Usage of $314 million including ~$160 million of non-recurring outflows[5]	Usage better than $300 million including ~$200 million of non-recurring outflows[5]
Cash flows from operating activities	n/a	$(217) million	n/a
Net additions to PP&E and intangible assets	n/a	$97 million	n/a

Following the first half of 2021, we expect to be in line to exceed our original 2021 deliveries, revenues, profitability and free cash flow usage[3] guidance. We are revising our delivery estimates to the upper end at 120 aircraft. We are increasing our revenues guidance by approximately $200 million to greater than $5.8 billion, in line with our revised deliveries guidance and positive trends in aftermarket recovery, and increasing our profitability guidance by approximately $75 million to greater than $175 million for adjusted EBIT[3] and greater than $575 million for adjusted EBITDA[3], respectively, supported by positive market momentum in the first half of the year, faster achievement of cost reduction actions and strong year to date results. We are also increasing our free cash flow[3] guidance by approximately $200 million to a usage better than $300 million due to increased profitability, coupled with stronger working capital performance and increased certainty surrounding interest costs.

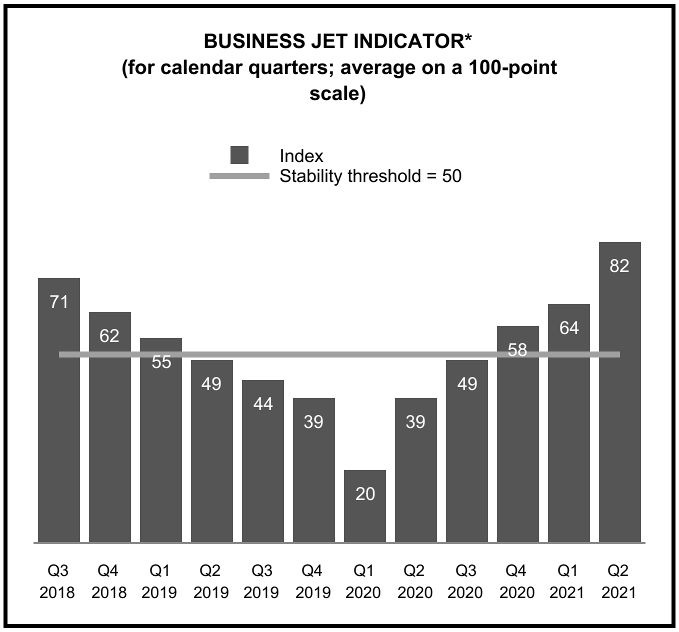
(1) See the forward-looking statements disclaimer.
(2) Refer to our 2020 Financial Report for further details.
(3) Non-GAAP financial measures. Refer to the Non-GAAP financial measures and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.
(4) Non-recurring items include legacy outflows related to credit and residual value guarantee liabilities and reverse factoring, and approximately $50 million of restructuring costs for the full year of 2021.
(5) Non-recurring cash items include the impact of payments of residual value guarantee liability, consent fee with respect to the Consent Solicitations process conducted by the Corporation, and restructuring costs.

INDUSTRY AND ECONOMIC ENVIRONMENT

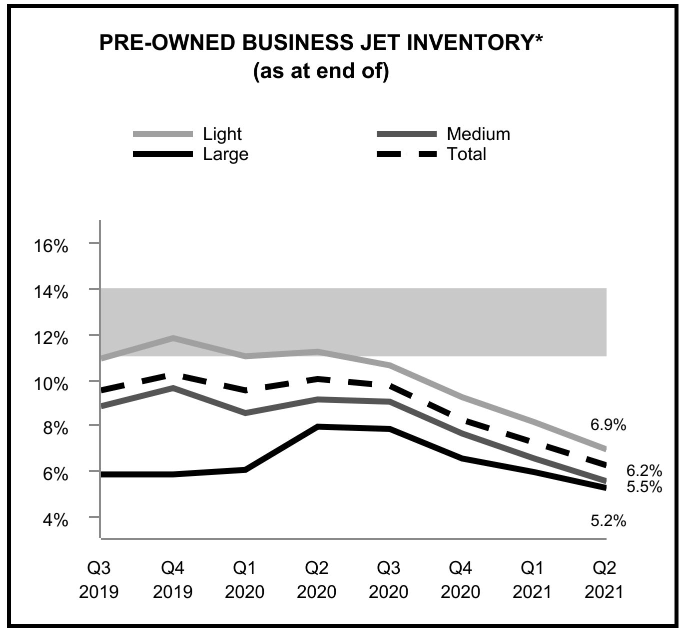
In the second quarter of 2021, we observed an estimated 16% increase in industry deliveries year-over-year, reflecting a strong improvement in market conditions compared to the second quarter of 2020, which was heavily impacted by the COVID-19 pandemic.(1) All industry indicators have continued to show signs of recovery. Industry confidence levels have increased from 64 in March 2021 to 82 in June 2021, reaching a new all-time high and well above the 50 point threshold, indicative of strengthening market conditions.(2) Pre-owned aircraft levels continued to remain at a very healthy levels in the second quarter. The total number of pre-owned aircraft available for sale, as a percentage of the total in-service fleet, was estimated at 6.2% as of June 30, 2021, its lowest level since 2000.(3) The marginal variance of 1.0 percentage point, compared to 7.2% for the first quarter of 2021, was largely driven by a drop in the available pre-owned aircraft in all categories. In the U.S., business jet utilization increased by 40.8%, year-over-year for the first five months of the year. In Europe, business jet utilization increased by 24.6% for the first six months of the year. For both regions, the increase is primarily driven by vaccination and easing travel restrictions.(4)

Despite the global shock caused by the COVID-19 pandemic, the business aviation industry is expected to grow in the long term driven by continued wealth creation and introduction of new aircraft models and technologies. With its installed base of more than 4,900 aircraft and its industry leading product portfolio, Bombardier is well positioned as a pure play business aircraft company.

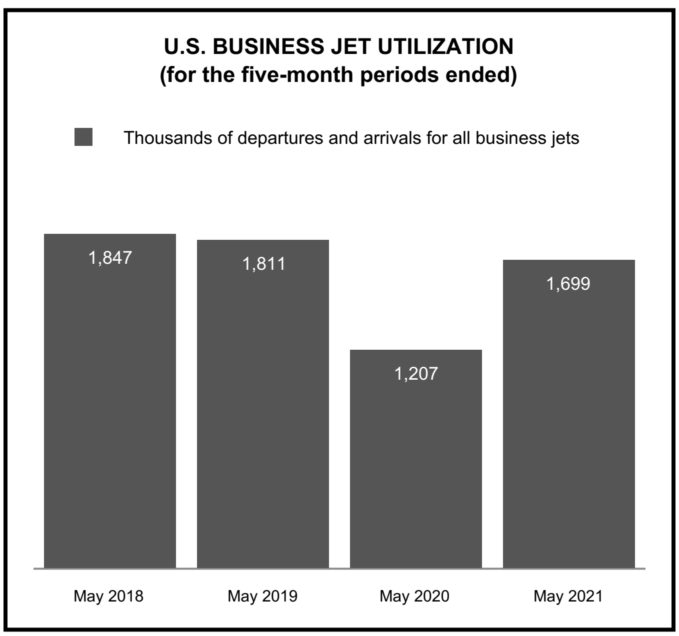
(1) Based on our estimates, public disclosure records of certain competitors, the General Aviation Manufacturers Association (GAMA) shipment reports and Ascend (by Cirium).
(2) According to the Barclays Business Jet Survey dated June 30, 2021.
(3) According to JETNET and Ascend online.
(4) According to the U.S. Federal Aviation Administration (FAA) and Eurocontrol websites.



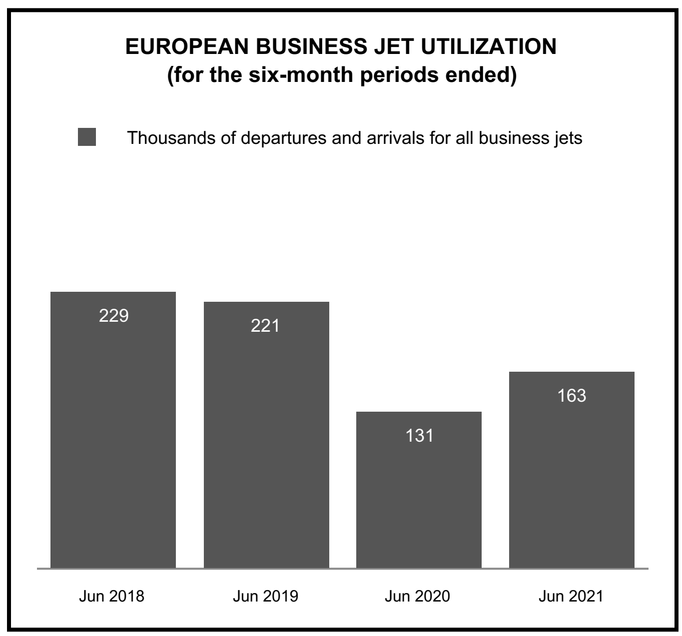
Source: Barclays
* The Business Jet Indicator is a measure of market confidence from industry professionals, gathered through regular surveys of brokers, dealers, manufacturers, fractional providers, financiers and others.



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



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



Source: Eurocontrol. All years are restated due to Brexit where UK flights have been removed from business jet utilization.

CONSOLIDATED RESULTS OF OPERATIONS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020 restated[1]	**2021**	2020 restated[1]
Revenues				
Business aircraft				
Manufacturing and other[2]	**$ 1,205**	$ 769	**$ 2,255**	$ 1,618
Services[3]	**295**	229	**564**	502
Others[4]	**24**	225	**46**	625
Total revenues	**1,524**	1,223	**2,865**	2,745
Cost of sales	**1,309**	1,129	**2,466**	2,486
Gross margin	**215**	94	**399**	259
SG&A	**87**	93	**168**	206
R&D	**92**	50	**166**	100
Other loss (income)	**4**	(5)	**4**	(12)
Adjusted EBIT[5]	**32**	(44)	**61**	(35)
Special items	**(4)**	(447)	**6**	(543)
EBIT	**36**	403	**55**	508
Financing expense	**286**	215	**576**	610
Financing income	**(389)**	(11)	**(413)**	(16)
EBT	**139**	199	**(108)**	(86)
Income taxes	**—**	49	**4**	45
Net income (loss) from continuing operations	**$ 139**	$ 150	**$ (112)**	$ (131)
Net income (loss) from discontinued operations	**—**	(373)	**5,321**	(292)
Net income (loss)	**$ 139**	$ (223)	**$ 5,209**	$ (423)
Attributable to				
Equity holders of Bombardier Inc.	**$ 139**	$ (298)	**$ 5,180**	$ (556)
NCI[6]	**$ —**	$ 75	**$ 29**	$ 133
EPS (in dollars)				
Basic	**$ 0.05**	$ (0.13)	**$ 2.13**	$ (0.24)
Diluted	**$ 0.06**	$ (0.13)	**$ 2.09**	$ (0.24)
EPS from continuing operations (in dollars)				
Basic and diluted	**$ 0.05**	$ 0.06	**$ (0.05)**	$ (0.06)
As a percentage of total revenues				
Gross margin	**14.1 %**	7.7 %	**13.9 %**	9.4 %
Adjusted EBITDA margin[5]	**9.4 %**	2.5 %	**9.3 %**	4.3 %
Adjusted EBIT margin[5]	**2.1 %**	(3.6)%	**2.1 %**	(1.3)%
EBIT margin	**2.4 %**	33.0 %	**1.9 %**	18.5 %

(1) Restated for the sale of Transportation. Refer to Note 17 – Disposal of business to our Interim consolidated financial statements for more details.
(2) Includes revenues from sale of new aircraft, specialized aircraft solutions and pre-owned aircraft.
(3) Includes revenues from aftermarket services including parts, *Smart Services*, service centres, training and technical publication.
(4) Includes revenues related to Aerostructure prior to the disposal of the Aerostructure business on October 30, 2020 and to Commercial aircraft prior to the disposal of the CRJ businesses on June 1, 2020. Includes also revenues from sale of components related to commercial aircraft programs.
(5) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.
(6) Net income attributable to NCI is related to discontinued operations. Refer to Note 17 – Disposal of business to our Interim consolidated financial statements for more details.

Non-GAAP financial measures[1]

		Three-month periods ended June 30				Six-month periods ended June 30		
		2021		2020		**2021**		2020
				restated[2]				*restated*[2]
Adjusted EBITDA	**$**	**143**	$	31	**$**	**266**	$	117
Adjusted net loss	**$**	**(137)**	$	(248)	**$**	**(310)**	$	(430)
Adjusted EPS	**$**	**(0.06)**	$	(0.11)	**$**	**(0.13)**	$	(0.18)

(1) Refer to the Non-GAAP financial measures section for definitions of these metrics and reconciliations to the most comparable IFRS measures.
(2) Restated for the sale of Transportation. Refer to Note 17 – Disposal of business to our Interim consolidated financial statements for more details.

Analysis of consolidated results

Revenues[1]

For the three- and six-month periods ended June 30, 2021,

- revenues from business aircraft manufacturing and other increased by $436 million and $637 million, respectively, mainly due to higher deliveries of large aircraft.
- revenues from business aircraft services increased by $66 million and $62 million, respectively, mainly due to increased fleet flight hours resulting from easing travel restrictions and progress on vaccination.
- revenues from others decreased by $201 million and $579 million, respectively, mainly due to the divestitures of the CRJ aircraft program to Mitsubishi Heavy Industries, Ltd. and the aerostructures businesses to Spirit AeroSystems Holding, Inc. in 2020.

Gross margin[1]

Gross margin as a percentage of revenues for the three- and six-month periods ended June 30, 2021 increased by 6.4% and 4.5%, respectively, mainly as a result of higher contribution from business aircraft manufacturing and other mainly due to higher deliveries of large aircraft as well as improved margins which includes the benefit of progress on the *Global 7500* learning curve, and higher contribution from business aircraft services mainly due to increased fleet flight hours resulting from easing travel restrictions and progress on vaccination.

(1) 2020 was restated for the sale of Transportation. Refer to Note 17 – Disposal of business to our Interim consolidated financial statements for more details.

Special items

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

The special items recorded as (gains) losses were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020 [1]	**2021**	2020 [1]
Loss on repurchase of long-term debt[2]	**$ 107**	$ —	**$ 183**	$ —
Restructuring charges[3]	**7**	34	**30**	45
Gain on sale of EWIS[4]	**(1)**	—	**(14)**	—
Reversal of divestitures provisions[5]	**(10)**	—	**(10)**	—
Gain on disposal of a business - CRJ Series business[6]	**—**	(496)	**—**	(496)
Gain on exit of ACLP and related aerostructures activities[7]	**—**	—	**—**	(119)
Transaction costs[8]	**—**	15	**—**	27
Disruption costs[9]	**—**	—	**—**	4
Reversal of *Learjet 85* aircraft program cancellation provisions[10]	**—**	—	**—**	(4)
Income taxes	**—**	44	**—**	44
	$ 103	$ (403)	**$ 189**	$ (499)
Of which is presented in				
Special items in EBIT	**$ (4)**	$ (447)	**$ 6**	$ (543)
Financing expense - loss on repurchase of long-term debt[2]	**107**	—	**183**	—
Income taxes - effect of special items	**—**	44	**—**	44
	$ 103	$ (403)	**$ 189**	$ (499)

1. Restated, refer to Note 17 - Disposal of business for more details.
2. Represents the losses related to the repayment of the senior secured term loan, and the partial repayments of the 8.75% Senior Notes due December 2021, 5.75% Senior Notes due March 2022, the 6.00% Senior Notes due October 2022 and the 6.125% Senior Notes due January 2023. Refer to Note 6 - Financing expense and Financing income and Note 16 - Long-term debt for more information.
3. For the three- and six-month periods ended June 30, 2021, represents severance charges of $7 million and $35 million, impairment of PP&E of nil and $3 million, partially offset by curtailment gains of nil and $8 million. For the three- and six-month periods ended June 30, 2020, represents severance charges of $41 million and $41 million primarily following the announcement of Aviation for workforce adjustments in response to the COVID-19 pandemic, $8 million and $19 million of impairment of right-of-use assets related to a lease contract as a consequence of previously-announced restructuring actions, and other related charges of $4 million and $4 million, partially offset by curtailment gains of $19 million and $19 million.
4. The sale of the Corporation's Electrical Wiring and Interconnection Systems (EWIS) business in Mexico for a total net consideration of $37 million resulted in an accounting gain of $1 million and $14 million for the three- and six-month periods ended June 30, 2021.
5. Based on the ongoing activities with respect to the past divestitures, the Corporation reduced some related provisions.

6. Represents the sale of the CRJ Series aircraft program assets for gross proceeds of $585 million, at closing, including certain closing adjustments. The transaction resulted in a pre-tax accounting gain of $496 million ($448 million after tax impact) for the three- and six-month periods ended June 30, 2020.
7. The sale of the Corporation's remaining interest in ACLP and its aerostructures activities supporting A220 and A330 resulted in a pre-tax accounting gain of nil and $119 million for the three- and six-month periods ended June 30, 2020.
8. Represents direct and incremental costs incurred in respect of transactions for the sale of the Transportation business to Alstom SA and for the sale of CRJ business to MHI of $15 million and $27 million for the three- and six-month periods ended June 30, 2020.
9. Due to the COVID-19 pandemic, in the second half of March 2020, the Corporation temporarily suspended operations at various production facilities. As a result of the pandemic, nil and $4 million were recorded as special items in the three- and six-month periods ended June 30, 2020. These costs do not represent the full impact of the COVID-19 pandemic on the results of operations since it does not reflect the impact of lost or deferred revenues and associated margins.
10. Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, the Corporation reduced the related provisions by nil and $4 million for the three- and six-month periods ended June 30, 2020.

EBIT margin(1)

Adjusted EBIT margin(2) for the three-month period increased by 5.7 percentage points mainly due to:

- higher contribution from business aircraft manufacturing and other, mainly due to higher deliveries of large aircraft as well as improved margins which includes the benefit of progress on the *Global 7500* learning curve. This was partially offset by an increase in amortization of aerospace program tooling mainly due to increased deliveries of the *Global 7500* aircraft.
- higher contribution from business aircraft services, mainly due to increased fleet flight hours resulting from easing travel restrictions and progress on vaccination consistent with the increase in revenues.

Including the impact of special items (see explanation of special items above), the EBIT margin for the three-month period decreased by 30.6 percentage points compared to the same period last year.

Adjusted EBIT margin(2) for the six-month period increased by 3.4 percentage points mainly due to:

- higher contribution from business aircraft manufacturing and other, mainly due to higher deliveries and a higher mix of large aircraft as well as improved margins which includes the benefit of progress on the *Global 7500* learning curve. This was partially offset by an increase in amortization of aerospace program tooling mainly due to increased deliveries of the *Global 7500* aircraft.
- higher contribution from business aircraft services, mainly due to increased fleet flight hours resulting from easing travel restrictions and progress on vaccination consistent with the increase in revenues.
- lower SG&A expenses mainly due to improvements in the cost structure.

Including the impact of special items (see explanation of special items above), the EBIT margin for the six-month period decreased by 16.6 percentage points compared to the same period last year.

(1) 2020 was restated for the sale of Transportation. Refer to Note 17 – Disposal of business to our Interim consolidated financial statements for more details.

(2) Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric.

Net financing expense (income)[1]

Net financing expense (income) amounted to $(103) million and $163 million, respectively, for the three- and six-month periods ended June 30, 2021, compared to $204 million and $594 million for the corresponding periods last fiscal year.

The $307 million decrease in net financing expense for the three-month period is mainly due to:

- higher net gains on certain financial instruments classified as FVTP&L ($383 million), mainly due to a non-cash change in fair value of call options on long-term debt in 2021; and
- lower interest on long-term debt, after the effect of hedge ($29 million).

Partially offset by:

- losses related to the partial repayments of the 8.75% Senior Notes due December 2021, 5.75% Senior Notes due March 2022, the 6.00% Senior Notes due October 2022 and the 6.125% Senior Notes due January 2023, all of which were presented as special items in 2021 ($107 million).

The $431 million decrease in net financing expense for the six-month period is mainly due to:

- higher net gains on certain financial instruments classified as FVTP&L ($564 million), mainly due to a non-cash change in fair value of call options on long-term debt.

Partially offset by:

- losses related to the repayment of the senior secured term loan, the partial repayments of the 8.75% Senior Notes due December 2021, 5.75% Senior Notes due March 2022, the 6.00% Senior Notes due October 2022 and the 6.125% Senior Notes due January 2023, all of which were presented as special items in 2021 ($183 million).

Income taxes[1]

The effective income tax rates for the three- and six-month periods ended June 30, 2021 were nil and (3.7)% respectively, compared to the statutory income tax rate in Canada of 26.5%. In the three-month period, the effective income tax rate is due to the positive impact of the permanent difference offset by the net non-recognition of tax benefits related to tax losses and temporary differences. In the six-month period, the effective income tax rate is due to the negative impact of the net non-recognition of tax benefits related to tax losses and temporary differences partially offset by the permanent differences.

The effective income tax rates for the three- and six-month periods ended June 30, 2020 were 24.6% and (52.3)%, respectively, compared to the statutory income tax rate in Canada of 26.5%. In the three- and six-month periods, the effective income tax rate is due to the negative impact of the net non-recognition of income tax benefits related to tax losses and temporary differences and the write-down of deferred tax assets related to the closing of the CRJ business deal ($48 million) partially offset by the permanent differences.

(1) 2020 was restated for the sale of Transportation. Refer to Note 17 – Disposal of business to our Interim consolidated financial statements for more details.

Product development

Investment in product development

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020	**2021**	2020
Program tooling[1]	**$ 23**	$ 34	**$ 35**	$ 74
R&D expense[2]	**3**	2	**8**	6
	$ 26	$ 36	**$ 43**	$ 80
As a percentage of revenues	**1.7%**	2.9%	**1.5%**	2.9%

[1] Net amount capitalized in aerospace program tooling, as well as the amount that was paid to suppliers based on reception of parts for acquired development costs carried out by them.
[2] Excluding amortization of aerospace program tooling of $89 million and $158 million, respectively, for the three- and six-month periods ended June 30, 2021 ($48 million and $94 million for the three- and six-month periods ended June 30, 2020), as the related investments are already included in aerospace program tooling.

Bombardier is coming off a substantial period of heavy investment cycle that saw the company introduce innovative technologies and industry-leading new products and services. This period included the entry into service of the *Global 7500*, *Global 6500* and *Global 5500*, in addition to ongoing major enhancements to the *Challenger 350* platform. Going forward, Bombardier will continue to explore incremental, competitive product enhancements and develop new service programs throughout its product portfolio.

Aircraft deliveries and order backlog

Aircraft deliveries

	Three-month periods ended June 30		Six-month periods ended June 30	
(in units)	**2021**	2020	**2021**	2020
Business aircraft				
Light	**3**	2	**4**	5
Medium	**9**	9	**18**	23
Large	**17**	9	**33**	18
	29	20	**55**	46
Commercial aircraft				
Regional jets[1]	**—**	—	**—**	5
	29	20	**55**	51

[1] On June 1, 2020, the Corporation completed the sale of the regional jet program to MHI.

Order backlog

		As at
(in billions of dollars)	**June 30, 2021**	December 31, 2020
Business aircraft[1]	**$ 10.7**	$ 10.7

[1] Includes order backlog for both manufacturing and services.

The order backlog and the production horizon for business aircraft programs are monitored to align production rates to reflect market demand. We maintained a strong business aircraft order backlog at the end of the second quarter.

CONSOLIDATED FINANCIAL POSITION

The total assets decreased by $9.2 billion in the six-month period[(1)], including a negative currency impact of $56 million. The $9.1-billion decrease excluding the currency impact is mainly explained by[(2)]:

- a $10.4-billion decrease in Assets held for sale due to the sale of the Transportation business on January 29, 2021;
- a $140-million decrease in aerospace program tooling mainly due to amortization; and
- a $117-million net decrease in inventories mainly due to an increase in aircraft deliveries.

Partially offset by:

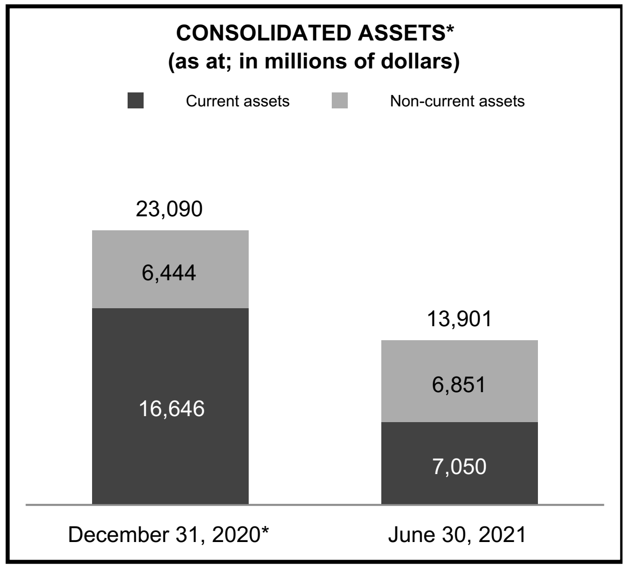
- a $912-million increase in other financial assets primarily due to a $416-million increase in restricted cash related to collateral supporting various bank guarantees and a $388-million increase in embedded derivatives related to call options on long-term debt; and
- a $524-million increase in cash and cash equivalents excluding Transportation[(3)]. Refer to the Consolidated Statements of Cash Flows for the period ended June 30, 2021 and the Available short-term capital resources section of this MD&A.

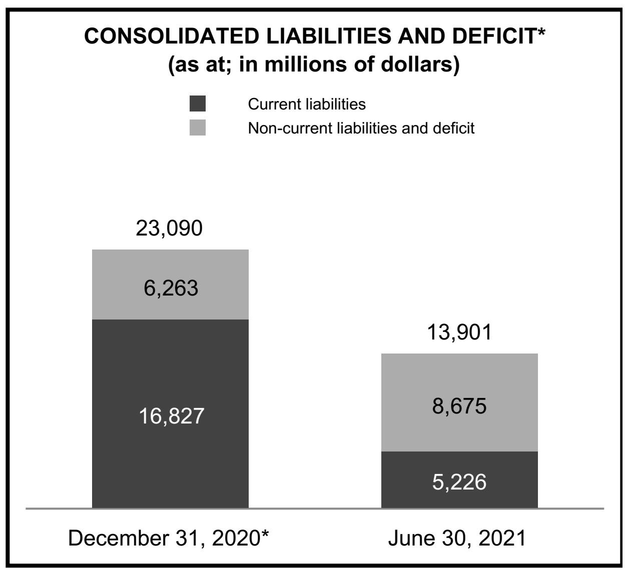
The total liabilities and deficit decreased by $9.2 billion in the six-month period[(1)], including a currency impact of $56 million. The $9.1-billion decrease in total liabilities excluding the currency impact is mainly explained by[(2)]:

- a $10.1-billion decrease in liabilities directly associated with assets held for sale, due to the sale of the Transportation business on January 29, 2021;
- a $2.1-billion decrease in long-term debt obligations[(3)] due to the partial repayments of various Senior Notes due 2021, 2022 and 2023 and the outstanding balance of the senior secured term loan with HPS Investment Partners, LLC., partially offset by issuance of Senior Notes due 2026 and 2034; and
- a $458-million decrease in retirement benefits mainly due to remeasurement of defined benefits plans.

Partially offset by:

- a $3.8-billion increase in equity mainly due to the gain on sale of the Transportation business, the remeasurement of defined benefits plans, and the change in CCTD, partially offset by a decrease in NCI related to the disposal of the Transportation business.





* The total assets and the total liabilities in the above graphs as at December 31, 2020 include $10.4 billion and $10.1 billion, respectively, related to the Transportation business presented under Assets held for sale and liabilities directly associated with assets held for sale. Refer to Note 17 - Disposal of business in our Interim consolidated financial statements for further details.

(1) For the purpose of the Consolidated financial position explanations included in this section, assets and liabilities include assets and liabilities related to the Transportation business reclassified as Assets held for sale as at December 31, 2020. Refer to Note 17 - Disposal of business in our Interim consolidated financial statements for further details.

(2) For the purpose of the Consolidated financial position explanations included in this section do not include the impact of the back-to-back agreements the Corporation has with ACLP related to certain government refundable advances and MHI related to certain assets and liabilities. Refer to Reshaping the Portfolio section in Aviation, Note 11 - Other financial assets and Note 14 - Other financial liabilities in our Interim consolidated financial statements for further details.

(3) In July, 2021, the Corporation redeemed all of the remaining notional outstanding of its $1,018 million Notes due December 2021 and of its $500 million Notes due March 2022, as well as $475 million aggregate principal amount of the outstanding $1,200 million Notes due October 2022 for total consideration of $634 million.

LIQUIDITY AND CAPITAL RESOURCES

Free cash flow[1]

Free cash flow (usage)[1][2]

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020	**2021**	2020
Net income (loss)	**$ 139**	$ 150	**$ (112)**	$ (131)
Non-cash items[2]				
Amortization	**111**	75	**205**	152
Impairment charges on PP&E and intangible assets	**—**	8	**3**	19
Deferred income taxes	**(3)**	106	**(1)**	71
Losses on disposals of PP&E	**—**	—	**1**	—
Gains on disposal of investment in associate and businesses	**(1)**	(496)	**(15)**	(615)
Share of expense (income) of joint ventures and associates	**1**	—	**—**	(2)
Loss on repurchase of long-term debt	**107**	—	**183**	—
Share-based expense (income)	**4**	(8)	**9**	(4)
Other	**1**	(7)	**3**	(4)
Net change in non-cash balances[2]	**(204)**	(520)	**(493)**	(864)
Cash flows from operating activities - continuing operations	**155**	(692)	**(217)**	(1,378)
Net additions to PP&E and intangible assets[2]	**(64)**	(58)	**(97)**	(134)
Free cash flow (usage) - continuing operations[1]	**$ 91**	$ (750)	**$ (314)**	$ (1,512)

(1) Non-GAAP financial measure. Refer to the Non-GAAP financial measures section for a definition of this metric.
(2) Includes continuing operations only.

Cash flows from operating activities - continuing operations

The $847-million increase in cash flows from operating activities for the three-month period is mainly due to:

- higher net income before the above-listed non-cash items ($531 million); and
- a positive period-over-period variation in net change in non-cash balances ($316 million) (see explanations below).

The $1.2-billion increase in cash flows from operating activities for the six-month period is mainly due to:

- higher net income before the above-listed non-cash items ($790 million); and
- a positive period-over-period variation in net change in non-cash balances ($371 million) (see explanations below).

Net change in non-cash balances - continuing operations

For the three-month period ended June 30, 2021, the $204-million net change is mainly due to:

- an increase in other financial assets mainly due to a non-cash change in fair value of embedded derivatives related to call options on long-term debt[1]; and
- a decrease in trade and other payables.

Partially offset by:

- an increase in contract liabilities mainly due to advances on aerospace programs as a result of higher order intake; and
- a decrease in inventory mainly due to higher aircraft deliveries.

(1) Refer to the Net financing expense (income) section in Analysis of consolidated results of this MD&A for more information.

For the three-month period ended June 30, 2020, the $520-million net change is mainly due to:

- a decrease in trade and other payables; and
- a decrease in contract liabilities mainly due to lower order intake.

Partially offset by:

- a decrease in inventories mainly due to lower production activity as a result of the temporary suspension of operations due to COVID-19 pandemic.

For the six-month period ended June 30, 2021, the $493-million net change is mainly due to:

- an increase in other financial assets mainly due to a non-cash change in fair value of embedded derivatives related to call options on long-term debt[1].

For the six-month period ended June 30, 2020, the $864-million net change is mainly due to:

- an increase in inventories mainly due to lower aircraft deliveries as a result of the COVID-19 pandemic;
- a decrease in contract liabilities mainly due to lower order intake; and
- a decrease in trade and other payables.

(1) Refer to the Net financing expense (income) section in Analysis of consolidated results of this MD&A for more information.

Net additions to PP&E and intangible assets[1]

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020	**2021**	2020
Additions to PP&E and intangible assets[1]	**$ (64)**	$ (61)	**$ (101)**	$ (137)
Proceeds from disposals of PP&E and intangible assets[1]	**—**	3	**4**	3
Net additions to PP&E and intangible assets[1]	**$ (64)**	$ (58)	**$ (97)**	$ (134)

(1) Includes continuing operations only.

The $37-million decrease in net additions to PP&E and intangible assets for the six-month period ended June 30, 2021 is mainly due to lower investments in aerospace program tooling.

Available short-term capital resources

Variation in cash and cash equivalents

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020	**2021**	2020
Balance at the beginning of period	**$ 3,153**	$ 2,069	**2,450** (2)	$ 2,629
Free cash flow (usage) from continuing operations[1]	**91**	(750)	**(314)**	(1,512)
Free cash flow (usage) from discontinued operations[1]	**—**	(286)	**(621)**	(1,166)
Net proceeds from disposal of investment in associate and businesses[2]	**(41)**	580	**2,868**	1,111
Deconsolidation of cash and cash equivalents related to Transportation	**—**	—	**(279)**	—
Investments in non-voting units of ACLP	**—**	—	**—**	(100)
Additions to restricted cash[3]	**—**	—	**(477)**	—
Proceeds from sale of Alstom Shares	**611**	—	**611**	—
Net proceeds from issuance of long-term debt	**1,443**	—	**1,443**	—
Repayments of long-term debt	**(2,903)**	—	**(3,698)**	—
Net change in short-term borrowings related to Transportation	**—**	138	**365**	551
Payment of lease liabilities	**(7)**	(26)	**(15)**	(52)
Dividends paid - Preferred shares	**(5)**	(5)	**(10)**	(10)
Issuance of NCI	**—**	—	**—**	386
Dividends to NCI	**—**	(1)	**—**	(1)
Purchase of Class B shares held in trust under the PSU and RSU plans	**(8)**	—	**(8)**	—
Effect of exchange rate changes on cash and cash equivalents	**(9)**	12	**(13)**	(111)
Other	**(37)**	(7)	**(14)**	(1)
Balance at the end of period	**$ 2,288**	$ 1,724	**$ 2,288**	$ 1,724
Reclassified as assets held for sale	**—**	50	**—**	50
Balance at the end of period	**$ 2,288**	$ 1,674	**$ 2,288**	$ 1,674

Available short-term capital resources

	June 30, 2021	December 31, 2020
Cash and cash equivalents excluding Transportation	**$ 2,288**	$ 1,779
Available senior secured term loan	**—**	135 (4)
	$ 2,288	$ 1,914
Cash and cash equivalents from Transportation	**—**	671
Available Transportation revolving credit facilities	**—**	618 (5)
	$ —	$ 1,289
Available short-term capital resources	**$ 2,288**	$ 3,203

In addition to the available short-term capital resources shown above as at June 30, 2021, the Corporation had approximately $0.4 billion of cash collateral supporting various bank guarantees. Following the first half year results, as well as the deployment actions towards debt repayments, the Corporation's pro-forma liquidity[6] remains strong at approximately $2.1 billion.

(1) Non-GAAP financial measure. Refer to the Non-GAAP financial measures section for a definition of this metric and the Free cash flow usage table above for reconciliations to the most comparable IFRS measure.
(2) Refer to Note 17 - Disposal of business in our Interim consolidated financial statements for further details.
(3) Includes cash collateral supporting various bank guarantees.
(4) Based on collateral available at December 31, 2020.
(5) Included undrawn amount under Transportation's €1,154 million unsecured revolving credit facility. This facility is no longer available for the Corporation following the sale of Transportation business to Alstom on January 29, 2021. Refer to Note 17 – Disposal of business to our Interim consolidated financial statements for more details.
(6) Non-GAAP measure. Pro-forma liquidity is defined as cash and cash equivalents as at June 30, 2021 of $2.3 billion, plus $0.4 billion of short-term restricted cash as collateral for bank guarantees, and less $0.6 billion paid to repurchase certain of outstanding Senior Notes in July 2021.

Future liquidity requirements

Following the significant debt repayment actions performed or announced in the first half of 2021, the notional amount of long-term debt due in the next twelve months as of June 30, 2021 was $629 million, which was all redeemed in July 2021.

On August 19, 2020, the Corporation closed the three-year $1.0 billion senior secured term loan (the "Facility") with HPS Investment Partners, LLC, acting as administrative agent, collateral agent and the lead lender for a group that included investment funds and accounts managed by HPS Investment Partners LLC and Apollo Capital Management, L.P., or their respective affiliates, and Special Opportunities and Direct Lending Funds managed by Ares Management LLC.

On February 19, 2021, the Corporation repaid the total outstanding balance of $750 million drawn on the Facility including all accrued interest and associated fees which resulted in a loss of $76 million recognized in Financing expense and financing income. See Note 6 - Financing expense and financing income and Note 5 - Special items, to our Interim consolidated financial statements, for more information.

On May 18, 2021, the Corporation completed the issuance and sale to an institutional accredited investor of $260 million aggregate principal amount of its 7.45% Senior Notes due 2034 at a purchase price of par. Following this private placement, the aggregate principal amount outstanding under the 2034 Notes is $510 million.

On June 8, 2021, the Corporation completed the closing of its offering of $1.2 billion aggregate principal amount of Senior Notes due 2026. The new Senior Notes carry a coupon of 7.125% per annum and were sold at par. The net proceeds were used to finance the below repayment of Notes.

During the second quarter of 2021, the Corporation repurchased and retired through cash tender offers an amount of $956 million aggregate principal amount of the outstanding $1,018 million Senior Notes due December 2021, $407 million aggregate principal amount of the outstanding $500 million Senior Notes due March 2022, $716 million aggregate principal amount of the outstanding $1,250 million Senior Notes due January 2023, and $210 million aggregate principal amount of the outstanding $1,200 million Senior Notes due October 2022 for a total consideration of $2,398 million which resulted in a loss of $107 million recognized in Financing expense and financing income, see Note 6 - Financing expense and financing income and Note 5 - Special items, to our Interim consolidated financial statements, for more information.

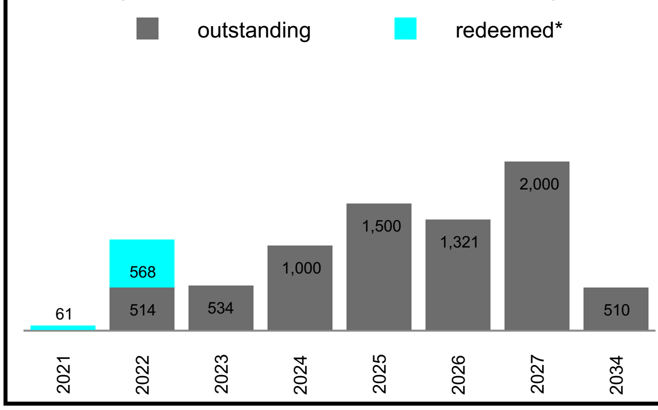
In July 2021, the Corporation redeemed all of the remaining notional outstanding of its $1,018 million Senior Notes due December 2021 and of its $500 million Senior Notes due March 2022, as well as $475 million aggregate principal amount of the outstanding $1,200 million Senior Notes due October 2022 for total consideration of $634 million.

In summary, since December 31, 2020, long-term debt has been reduced by a net amount of approximately $2,700 million, as of August 4, 2021.

We believe our available short-term capital resources will give us sufficient liquidity to execute our plan in the short-term. We currently anticipate that these resources will enable the development and upgrade of products to enhance our competitiveness and support our growth; will enable us to meet currently anticipated financial requirements in the foreseeable future; and will allow the payment of dividends on preferred shares, if and when declared by the Board of Directors.[1]

[1] See the forward-looking statements disclaimer.

DEBT MATURITY PROFILE (NOTIONAL AMOUNT)
(as at June 30, 2021; in millions of dollars)



* Represents the amounts redeemed by the Corporation in July 2021. Refer to Note 16 - Long-term debt, to our Interim consolidated financial statements, for more details.

CAPITAL STRUCTURE

Following the sale of the Transportation business on January 29, 2021, and the subsequent Investor Day, the Corporation emphasized its phased plan to make deleveraging as one of its key priorities, and will execute on its plan through a phased approach.[1]

The Corporation made significant progress on its debt reduction and deleveraging priorities throughout the first half of 2021. Pro-forma liquidity[2] at quarter end was approximately $2.1 billion and pro-forma net debt[2] of approximately $5.3 billion, including $1.0 billion maturing in the next three years.

Since December 31, 2020, long-term debt has been reduced by a net amount of approximately $2,700 million, as of August 4, 2021.

Bombardier continues to evaluate various options to address other debt maturities in an opportunistic manner.

Over the longer term, the Corporation's capital allocation strategy will focus on deploying, in a disciplined manner, the free cash flow[3] generated from the business towards investments in the Corporation's products and services, and to debt reduction.

As the Corporation progressively reshapes its business and reap the benefit from its various initiatives, it aims to lower net debt to EBITDA multiple to approximately 3x by 2025.[1]

(1) See the forward-looking statements disclaimer.
(2) Non-GAAP measures. Pro-forma liquidity is defined as cash and cash equivalents as at June 30, 2021 of $2.3 billion, plus $0.4 billion of short-term restricted cash as collateral for bank guarantees, and less $0.6 billion paid to repurchase certain of outstanding Senior Notes in July 2021. Pro-forma net debt is defined as long-term debt as at June 30, 2021 of $8.0 billion, less $0.6 billion paid to redeem certain outstanding Senior Notes in July 2021, and less pro-forma liquidity of approximately $2.1 billion.
(3) Non-GAAP financial measure. Refer to the Liquidity and capital resources section for reconciliations to the most comparable IFRS measure.

In addition to the deleveraging transaction above, we separately monitor our net retirement benefit liability which amounted to $1.0 billion as at June 30, 2021 ($2.7 billion including $1.1 billion from Transportation[1] as at December 31, 2020). The measurement of this liability is dependent on numerous key long-term assumptions such as discount rates, future compensation increases, inflation rates and mortality rates. In recent years, this liability has been particularly volatile due to changes in discount rates. Such volatility is exacerbated by the long-term nature of the obligation. We closely monitor the impact of the net retirement benefit liability on our future cash flows and we have introduced significant risk mitigation initiatives in recent years to gradually reduce key risks associated with the retirement benefit plans. The $1,702-million decrease in the net retirement benefit liability is explained as follows:

Variation in net retirement benefit liability		
Balance as at December 31, 2020	$	2,667 [1][2]
Disposal of Transportation businesses[3]		(1,136)
Changes in discount rates and other financial assumptions		(518)
Service costs		54
Accretion on net retirement benefit obligation		20
Changes in foreign exchange rates		31
Actuarial gains on pension plan assets		(34)
Employer contributions		(67)
Net gains on curtailment and settlement		(10)
Other net actuarial gains on defined benefit obligations		(47)
Other		5
Balance as at June 30, 2021	**$**	**965** [2]

(1) Opening balance includes net retirement benefit liabilities amounting to $1,136 million related to the Transportation business reclassified as liabilities directly associated with assets held for sale as at December 31, 2020. Refer to Note 17 – Disposal of business to our Interim consolidated financial statements for more details.
(2) Includes retirement benefit assets of $175 million as at June 30, 2021 ($124 million including $49 million from Transportation as at December 31, 2020).
(3) Refer to Note 17 – Disposal of business to our Interim consolidated financial statements for more details.

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	
Adjusted EBIT	EBIT excluding special items. Special items comprise items which do not reflect the Corporation's core performance or where their separate presentation will assist users of the consolidated financial statements in understanding the Corporation's results for the period. Such items include, among others, the impact of restructuring charges, impact of business disposals and significant impairment charges and reversals.
Adjusted EBITDA	Adjusted EBIT plus amortization and impairment charges on PP&E and intangible assets.
Adjusted net income (loss)	Net income (loss) excluding special items, accretion on net retirement benefit obligations, certain net gains and losses arising from changes in measurement of provisions and of financial instruments carried at FVTP&L and the related tax impacts of these items.
Adjusted EPS	EPS calculated based on adjusted net income attributable to equity holders of Bombardier Inc., using the treasury stock method, giving effect to the exercise of all dilutive elements.
Free cash flow (usage)	Cash flows from operating activities less net additions to PP&E and intangible assets.

Non-GAAP financial measures are mainly derived from the 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. Other entities in our industry may define the above measures differently than we do. In those cases, it may be difficult to compare the performance of those entities to ours based on these similarly-named non-GAAP measures.

Adjusted EBIT, adjusted EBITDA, adjusted net income (loss) and adjusted EPS
Management uses adjusted EBIT, adjusted EBITDA, adjusted net income (loss) and adjusted EPS for purposes of evaluating underlying business performance. Management believes these non-GAAP earnings measures in addition to IFRS measures provide users of our Financial Report with enhanced understanding of our results and related trends and increases the transparency and clarity of the core results of our business. Adjusted EBIT, adjusted EBITDA, adjusted net income (loss) and adjusted EPS exclude items that do not reflect our core performance or where their exclusion will assist users in understanding our results for the period. For these reasons, a significant number of users of the MD&A analyze our results based on these financial measures. Management believes these measures help users of MD&A to better analyze results, enabling better comparability of our results from one period to another and with peers.

Free cash flow (usage)
Free cash flow is defined as cash flows from operating activities less net additions to PP&E and intangible assets. Management believes that this non-GAAP cash flow measure provides investors with an important perspective on the Corporation's generation of cash available for shareholders, debt repayment, and acquisitions after making the capital investments required to support ongoing business operations and long-term value creation. This non-GAAP cash flow measure does not represent the residual cash flow available for discretionary expenditures as it excludes certain mandatory expenditures such as repayment of maturing debt. Management uses free cash flow as a measure to assess both business performance and overall liquidity generation.

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

- adjusted EBIT to EBIT – see the Consolidated results of operations section; and
- free cash flow usage to cash flows from operating activities – see the Free cash flow usage table in the Liquidity and capital resources section.

Reconciliation of adjusted EBITDA to EBIT[1]

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020	**2021**	2020
EBIT	**$ 36**	$ 403	**$ 55**	$ 508
Amortization	**111**	75	**205**	152
Impairment charges on PP&E and intangible assets[2]	**—**	8	**3**	19
Special items excluding impairment charges on PP&E and intangible assets[2]	**(4)**	(455)	**3**	(562)
Adjusted EBITDA	**$ 143**	$ 31	**$ 266**	$ 117

Reconciliation of adjusted net loss to net income and computation of adjusted EPS[1]

	Three-month periods ended June 30			
	2021	**(per share)**	2020	(per share)
Net income	**$ 139**		$ 150	
Adjustments to EBIT related to special items[2]	**(4)**	**$ —**	(447)	$ (0.19)
Adjustments to net financing expense related to:				
Net change in provisions arising from changes in interest rates and net gain on certain financial instruments	**(388)**	**(0.16)**	(5)	—
Accretion on net retirement benefit obligations	**9**	**—**	12	—
Loss on repurchase of long-term debt[2]	**107**	**0.05**	—	—
Tax impact of special[2] and other adjusting items	**—**	**—**	42	0.02
Adjusted net loss	**(137)**		(248)	
Preferred share dividends, including taxes	**(7)**		(7)	
Adjusted net loss attributable to equity holders of Bombardier Inc.	**$ (144)**		$ (255)	
Weighted-average diluted number of common shares (in thousands)	**2,421,308**		2,402,633	
Adjusted EPS (in dollars)	**$ (0.06)**		$ (0.11)	

Reconciliation of adjusted EPS to diluted EPS (in dollars)[1]

	Three-month periods ended June 30	
	2021	2020
Diluted EPS	**$ 0.05**	$ 0.06
Impact of special[2] and other adjusting items	**(0.11)**	(0.17)
Adjusted EPS	**$ (0.06)**	$ (0.11)

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

Reconciliation of adjusted net loss to net loss and computation of adjusted EPS[1]

	Six-month periods ended June 30			
	2021		2020	
		(per share)		(per share)
Net loss	**$ (112)**		$ (131)	
Adjustments to EBIT related to special items[2]	**6**	**$ —**	(543)	$ (0.22)
Adjustments to net financing expense related to:				
Net change in provisions arising from changes in interest rates and net loss (gain) on certain financial instruments	**(407)**	**(0.17)**	177	0.07
Accretion on net retirement benefit obligations	**20**	**0.01**	25	0.01
Loss on repurchase of long-term debt[2]	**183**	**0.08**	—	—
Tax impact of special[2] and other adjusting items	**—**	**—**	42	0.02
Adjusted net loss	**(310)**		(430)	
Preferred share dividends, including taxes	**(14)**		(13)	
Adjusted net loss attributable to equity holders of Bombardier Inc.	**$ (324)**		$ (443)	
Weighted-average diluted number of common shares (in thousands)	**2,421,246**		2,400,939	
Adjusted EPS (in dollars)	**$ (0.13)**		$ (0.18)	

Reconciliation of adjusted EPS to diluted EPS (in dollars)[1]

	Six-month periods ended June 30	
	2021	2020
Diluted EPS	**$ (0.05)**	$ (0.06)
Impact of special[2] and other adjusting items	**(0.08)**	(0.12)
Adjusted EPS	**$ (0.13)**	$ (0.18)

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

SALE OF THE TRANSPORTATION BUSINESS TO ALSTOM SA

On September 16, 2020, the Corporation, Alstom and CDPQ and certain related parties signed a definitive sale and purchase agreement for the sale of the Transportation business through the sale of the entire issued share capital of BT Holdco. On January 29, 2021, the Corporation closed the sale of the Transportation business to Alstom.

See Note 21- Commitments and contingencies for more information regarding the indemnities and guarantees related to the sale of Transportation.

The transaction resulted in a gain of $5,321 million reflected in net income from discontinued operations.

In addition, the Corporation has sold the Alstom shares received by the Corporation as part of the proceeds from the sale of its Transportation business to Alstom, which closed on January 29, 2021. The sale was completed on May 7, 2021 for proceeds of approximately $0.6 billion.

For more details, refer to Note 17 - Disposal of business, to our interim consolidated financial statements.

OTHER

OFF-BALANCE SHEET ARRANGEMENTS

Working capital financing initiatives

The Corporation had engaged in certain working capital financing initiatives which impact cash flows from operating activities such as the negotiation of extended payment terms with certain suppliers. Trade payables with these extended terms as of June 30, 2021 were nil as the Corporation unwound these initiatives.

Other arrangements

Refer to the Off-balance sheet arrangements section in Other of our Financial Report for the year ended December 31, 2020 for a description of these arrangements, and to Note 21 - Commitments and Contingencies, to the interim consolidated financial statements for further details.

RISKS AND UNCERTAINTIES

We operate in an industry which presents a variety of risk factors and uncertainties. The risks and uncertainties that we currently believe could materially affect our business activities, financial condition, cash flows, results of operations and reputation are described in our Financial Report for the fiscal year ended December 31, 2020 in Other, but are not necessarily the only risks and uncertainties that we face.

Commitments and contingencies

Refer to Note 21 - Commitments and contingencies, to our interim consolidated financial statements.

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

CONTROLS AND PROCEDURES

No changes were made to our internal controls over financial reporting during the six-month period ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

OTHER

On June 11, 2021, the Corporation announced that it has received approval from the Toronto Stock Exchange to purchase, in the normal course of its activities, from June 15, 2021 to June 14, 2022, up to 62,000,000 Class B shares (subordinate voting). All Class B shares (subordinate voting) are being purchased to satisfy future obligations under the Corporation's employee PSU and RSU plans and are being delivered to a trustee for the benefit of the participants to such plans.

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:

	June 30, 2021	December 31, 2020	Increase (decrease)
Euro	**1.1897**	1.2271	(3%)
Canadian dollar	**0.8064**	0.7849	3%
Pound sterling	**1.3836**	1.3649	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:

	June 30, 2021	June 30, 2020	Increase
Euro	**1.2048**	1.1001	10%
Canadian dollar	**0.8140**	0.7213	13%
Pound sterling	**1.3973**	1.2418	13%

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

	June 30, 2021	June 30, 2020	Increase
Euro	**1.2053**	1.1013	9%
Canadian dollar	**0.8017**	0.7332	9%
Pound sterling	**1.3878**	1.2610	10%

SELECTED FINANCIAL INFORMATION

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

Fiscal years	**2021**	2020				2019		
	Second	First	Fourth	Third	Second *restated*[1]	First *restated*[1]	Fourth *restated*[1]	Third *restated*[1]
Revenues from continuing operations	**$ 1,524**	$ 1,341	$ 2,337	$ 1,405	$ 1,223	$ 1,522	$ 2,412	$ 1,547
Revenues from discontinued operations	**$ —**	$ —	$ 2,076	$ 2,120	$ 1,479	$ 2,169	$ 1,793	$ 2,175
Total	**$ 1,524**	$ 1,341	$ 4,413	$ 3,525	$ 2,702	$ 3,691	$ 4,205	$ 3,722
Net income (loss) attributable to equity holders of Bombardier Inc.								
Continuing operations	**$ 139**	$ (251)	$ (15)	$ (24)	$ 150	$ (281)	$ (1,528)	$ (168)
Discontinued operations	**$ —**	$ 5,292	$ (408)	$ 135	$ (448)	$ 23	$ (242)	$ 29
Total	**$ 139**	$ 5,041	$ (423)	$ 111	$ (298)	$ (258)	$ (1,770)	$ (139)
EPS (in dollars)								
Continuing operations basic and diluted	**$ 0.05**	$ (0.10)	$ (0.01)	$ (0.01)	$ 0.06	$ (0.12)	$ (0.64)	$ (0.07)
Discontinued operations Basic	**$ —**	$ 2.18	$ (0.17)	$ 0.06	$ (0.19)	$ 0.01	$ (0.10)	$ 0.01
Diluted	**$ 0.01**	$ 2.13	$ (0.17)	$ 0.06	$ (0.19)	$ 0.01	$ (0.10)	$ 0.01
Adjusted net income (loss) attributable to equity holders of Bombardier Inc.[2]								
Continuing operations	**$ (144)**	$ (180)	$ (474)	$ (216)	$ (255)	$ (188)	$ 4	$ (155)
Discontinued operations	**$ —**	$ 5,292	$ (403)	$ (86)	$ (458)	$ (45)	$ (234)	$ 52
Total	**$ (144)**	$ 5,112	$ (877)	$ (302)	$ (713)	$ (233)	$ (230)	$ (103)
Adjusted EPS (in dollars)[2]								
Continuing operations	**$ (0.06)**	$ (0.07)	$ (0.20)	$ (0.09)	$ (0.10)	$ (0.08)	$ 0.00	$ (0.06)
Discontinued operations	**$ 0.01**	$ 2.13	$ (0.17)	$ (0.04)	$ (0.20)	$ (0.02)	$ (0.10)	$ 0.02
Total	**$ (0.05)**	$ 2.06	$ (0.37)	$ (0.13)	$ (0.30)	$ (0.10)	$ (0.10)	$ (0.04)

(1) Transportation was classified as discontinued operations as of September 30, 2020. As a result, the results of operations have been restated for comparative periods. Refer to Note 17 - Disposal of business to our Interim consolidated financial statements for more details.
(2) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and reconciliations to the most comparable IFRS measures.

SHAREHOLDER INFORMATION

Authorized, issued and outstanding share data, as at August 3, 2021

	Authorized	Issued and outstanding
Class A Shares (multiple voting)[(1)]	3,592,000,000	308,735,929
Class B Shares (subordinate voting)[(2)]	3,592,000,000	2,086,362,173 [(3)]
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	5,811,736
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	6,188,264
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

(1) Ten votes each, convertible at the option of the holder into one Class B Subordinate Voting Share.
(2) Convertible at the option of the holder into one Class A Share under certain conditions.
(3) Net of 41,750,016 Class B Subordinate Voting Shares purchased and held in trust in connection with the PSU and RSU plans.

Warrant, share option, PSU, DSU and RSU data as at June 30, 2021

Warrants issued and outstanding	155,851,872
Options issued and outstanding under the share option plans	134,378,518
PSUs, DSUs and RSUs issued and outstanding under the PSU, DSU and RSU plans	98,184,610
Class B Subordinate Voting Shares held in trust to satisfy PSU and RSU obligations	21,348,249

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

Third Quarterly Report, for the period ending September 30, 2021	October 28, 2021
Financial Report, for the fiscal year ending December 31, 2021	February 10, 2022
First Quarterly Report, for the period ending March 31, 2022	May 5, 2022
Second Quarterly Report, for the period ending June 30, 2022	August 4, 2022

Information

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This MD&A for the three- and six-month periods ended June 30, 2021 was authorized for issuance by the Board of Directors on August 4, 2021.

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

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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 la Société dédié aux relations avec les investisseurs, à l'adresse ri.bombardier.com.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2021
(Unaudited)
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

The following table shows the abbreviations used in the consolidated financial statements.

Term	Description	Term	Description
ACLP	Airbus Canada Limited Partnership	FVTP&L	Fair value through profit and loss
BT Holdco	Bombardier Transportation (Investment) UK Limited	IAS	International Accounting Standard(s)
CCTD	Cumulative currency translation difference	IASB	International Accounting Standards Board
CDPQ	Caisse de dépôt et placement du Québec	NCI	Non-controlling interest
DDHR	Derivative designated in a hedge relationship	OCI	Other comprehensive income (loss)
DSU	Deferred share unit	PP&E	Property, plant and equipment
EBIT	Earnings (loss) before financing expense, financing income and income taxes	PSU	Performance share unit
		R&D	Research and development
EBT	Earnings (loss) before income taxes	RSU	Restricted share unit
EPS	Earnings (loss) per share attributable to equity holders of Bombardier Inc.	SG&A	Selling, general and administrative
		U.K.	United Kingdom
FVOCI	Fair value through other comprehensive income (loss)	U.S.	United States of America

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

	Notes	Three-month periods ended June 30				Six-month periods ended June 30			
			2021		2020 [1]		**2021**		2020 [1]
Revenues	2	**$**	**1,524**	$	1,223	**$**	**2,865**	$	2,745
Cost of sales	10		**1,309**		1,129		**2,466**		2,486
Gross margin			**215**		94		**399**		259
SG&A			**87**		93		**168**		206
R&D	3		**92**		50		**166**		100
Other expense (income)	4		**4**		(5)		**4**		(12)
Special items	5		**(4)**		(447)		**6**		(543)
EBIT			**36**		403		**55**		508
Financing expense	6		**286**		215		**576**		610
Financing income	6		**(389)**		(11)		**(413)**		(16)
EBT			**139**		199		**(108)**		(86)
Income taxes			**—**		49		**4**		45
Net income (loss) from continuing operations		**$**	**139**	$	150	**$**	**(112)**	$	(131)
Net income (loss) from discontinued operations	17		**—**		(373)		**5,321**		(292)
Net income (loss)		**$**	**139**	$	(223)	**$**	**5,209**	$	(423)
Attributable to									
Equity holders of Bombardier Inc.		**$**	**139**	$	(298)	**$**	**5,180**	$	(556)
NCI[2]			**—**		75		**29**		133
		$	**139**	$	(223)	**$**	**5,209**	$	(423)
Net income (loss) attributable to equity holders of Bombardier Inc.									
Continuing operations		**$**	**139**	$	150	**$**	**(112)**	$	(131)
Discontinued operations	17		**—**		(448)		**5,292**		(425)
		$	**139**	$	(298)	**$**	**5,180**	$	(556)
EPS (in dollars)	7								
Continuing operations basic and diluted		**$**	**0.05**	$	0.06	**$**	**(0.05)**	$	(0.06)
Discontinued operations basic	17	**$**	**—**	$	(0.19)	**$**	**2.18**	$	(0.18)
Discontinued operations diluted	17	**$**	**0.01**	$	(0.19)	**$**	**2.14**	$	(0.18)
Total basic		**$**	**0.05**	$	(0.13)	**$**	**2.13**	$	(0.24)
Total diluted		**$**	**0.06**	$	(0.13)	**$**	**2.09**	$	(0.24)

[1] Restated for the sale of Transportation, refer to Note 17– Disposal of business for more details.
[2] Net income attributable to NCI is related to discontinued operations, refer to Note 17– Disposal of business for more details.

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 June 30		Six-month periods ended June 30	
	2021	2020	**2021**	2020
Net income (loss)	**$ 139**	$ (223)	**$ 5,209**	$ (423)
OCI				
Items that may be reclassified to net income				
Net change in cash flow hedges				
Foreign exchange re-evaluation	**—**	3	**—**	2
Net gain (loss) on derivative financial instruments	**12**	18	**20**	(89)
Reclassification to income or to the related non-financial asset	**(4)**	24	**(20)**	39
Income taxes	**(2)**	(2)	**—**	30
	6	43	**—**	(18)
FVOCI financial assets				
Net unrealized gain (loss)	**2**	8	**(9)**	9
CCTD				
Net investments in foreign operations	**—**	(14)	**19**	(116)
Items that are never reclassified to net income				
FVOCI equity instruments				
Net unrealized gain	**2**	11	**3**	1
Retirement benefits				
Remeasurement of defined benefit plans	**11**	(1,027)	**570**	(433)
Income taxes	**—**	64	**—**	41
	11	(963)	**570**	(392)
Total OCI	**21**	(915)	**583**	(516)
Total comprehensive income (loss)	**$ 160**	$ (1,138)	**$ 5,792**	$ (939)
Attributable to				
Equity holders of Bombardier Inc.	**$ 160**	$ (1,264)	**$ 5,802**	$ (1,090)
NCI[1]	**—**	126	**(10)**	151
	$ 160	$ (1,138)	**$ 5,792**	$ (939)
Total comprehensive income (loss) attributable to equity holders of Bombardier Inc.				
Continuing operations	**$ 160**	$ (566)	**$ 471**	$ (504)
Discontinued operations[1]	**—**	(698)	**5,331**	(586)
	$ 160	$ (1,264)	**$ 5,802**	$ (1,090)

[1] Refer to Note 17 – Disposal of business for more details.

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		June 30 2021		December 31 2020
Assets					
Cash and cash equivalents		**$**	**2,288**	$	1,779
Trade and other receivables			**292**		294
Contract assets	9		**50**		61
Inventories	10		**3,531**		3,650
Other financial assets	11		**671**		227
Other assets	12		**218**		218
Assets held for sale	17		**—**		10,417
Current assets			**7,050**		16,646
PP&E			**685**		668
Aerospace program tooling			**4,256**		4,396
Deferred income taxes			**110**		111
Other financial assets	11		**1,379**		912
Other assets	12		**421**		357
Non-current assets			**6,851**		6,444
		$	**13,901**	$	23,090
Liabilities					
Trade and other payables		**$**	**1,501**	$	1,611
Provisions	13		**149**		146
Contract liabilities	9		**2,308**		2,356
Current portion of long-term debt	16		**634**		1,882
Other financial liabilities	14		**239**		239
Other liabilities	15		**395**		447
Liabilities directly associated with assets held for sale	17		**—**		10,146
Current liabilities			**5,226**		16,827
Provisions	13		**257**		289
Contract liabilities	9		**1,208**		1,219
Long-term debt	16		**7,366**		8,193
Retirement benefits			**1,140**		1,606
Other financial liabilities	14		**1,251**		1,225
Other liabilities	15		**364**		388
Non-current liabilities			**11,586**		12,920
			16,812		29,747
Equity (deficit)					
Attributable to equity holders of Bombardier Inc.			**(2,911)**		(9,325)
Attributable to NCI			**—**		2,668
			(2,911)		(6,657)
		$	**13,901**	$	23,090
Commitments and contingencies	21				

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

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

	Attributable to equity holders of Bombardier Inc.											
	Share capital			Retained earnings (deficit)			Accumulated OCI					
	Preferred shares	Common shares	Warrants	Other retained earnings (deficit)	Remeasurement losses	Contributed surplus	FVOCI	Cash flow hedges	CCTD	Total	NCI	Total equity (deficit)
As at March 31, 2021	$ 347	$ 2,678	$ 73	$ (3,964)	$ (2,629)	$ 418	$ 10	$ 21	$ (15)	$ (3,061)	$ —	$ (3,061)
Total comprehensive income												
Net income	—	—	—	139	—	—	—	—	—	139	—	139
OCI	—	—	—	—	11	—	4	6	—	21	—	21
	—	—	—	139	11	—	4	6	—	160	—	160
Dividends	—	—	—	(7)	—	—	—	—	—	(7)	—	(7)
Shares purchased - PSU plan[(1)]	—	(8)	—	—	—	—	—	—	—	(8)	—	(8)
Shares distributed - PSU plan	—	9	—	—	—	(9)	—	—	—	—	—	—
Expiration of warrants[(2)]	—	—	(30)	—	—	30	—	—	—	—	—	—
Share-based expense	—	—	—	—	—	5	—	—	—	5	—	5
As at June 30, 2021	**$ 347**	**$ 2,679**	**$ 43**	**$ (3,832)**	**$ (2,618)**	**$ 444**	**$ 14**	**$ 27**	**$ (15)**	**$ (2,911)**	**$ —**	**$ (2,911)**
As at March 31, 2020	$ 347	$ 2,643	$ 73	$ (8,376)	$ (2,204)	$ 427	$ —	$ (112)	$ (330)	$ (7,532)	$ 2,167	$ (5,365)
Total comprehensive income												
Net income (loss)	—	—	—	(298)	—	—	—	—	—	(298)	75	(223)
OCI	—	—	—	—	(963)	—	19	43	(65)	(966)	51	(915)
	—	—	—	(298)	(963)	—	19	43	(65)	(1,264)	126	(1,138)
Dividends	—	—	—	(7)	—	—	—	—	—	(7)	—	(7)
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(1)	(1)
Share-based income	—	—	—	—	—	(15)	—	—	—	(15)	—	(15)
As at June 30, 2020	$ 347	$ 2,643	$ 73	$ (8,681)	$ (3,167)	$ 412	$ 19	$ (69)	$ (395)	$ (8,818)	$ 2,292	$ (6,526)

(1) In June 2021, the Corporation purchased 8.4 million of Class B Share (subordinate voting) in order to satisfy future obligations under the Corporation's employee PSU and RSU plans, refer to Note 18 - Share based plans.
(2) On June 30, 2021, 50 million of warrants held by Investissement Quebec expired.

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

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

	Attributable to equity holders of Bombardier Inc.											
	Share capital			Retained earnings (deficit)			Accumulated OCI					
	Preferred shares	Common shares	Warrants	Other retained earnings (deficit)	Remea-surement losses	Contributed surplus	FVOCI	Cash flow hedges	CCTD	Total	NCI	Total equity (deficit)
As at December 31, 2020	$ 347	$ 2,676	$ 73	$ (8,998)	$ (3,188)	$ 413	$ 20	$ (31)	$ (637)	$ (9,325)	$ 2,668	$ (6,657)
Total comprehensive income												
Net income	—	—	—	5,180	—	—	—	—	—	5,180	29	5,209
OCI	—	—	—	—	570	—	(6)	—	58	622	(39)	583
	—	—	—	5,180	570	—	(6)	—	58	5,802	(10)	5,792
Disposal of business[(1)]	—	—	—	—	—	—	—	58	564	622	(2,658)	(2,036)
Dividends	—	—	—	(14)	—	—	—	—	—	(14)	—	(14)
Shares purchased - PSU plan[(2)]	—	(8)	—	—	—	—	—	—	—	(8)	—	(8)
Shares distributed - PSU plan	—	11	—	—	—	(11)	—	—	—	—	—	—
Expiration of warrants[(3)]	—	—	(30)	—	—	30	—	—	—	—	—	—
Share-based expense	—	—	—	—	—	12	—	—	—	12	—	12
As at June 30, 2021	**$ 347**	**$ 2,679**	**$ 43**	**$ (3,832)**	**$ (2,618)**	**$ 444**	**$ 14**	**$ 27**	**$ (15)**	**$ (2,911)**	**$ —**	**$ (2,911)**
As at January 1, 2020	$ 347	$ 2,634	$ 343	$ (8,112)	$ (2,775)	$ 199	$ 9	$ (51)	$ (261)	$ (7,667)	$ 1,756	$ (5,911)
Total comprehensive income												
Net income (loss)	—	—	—	(556)	—	—	—	—	—	(556)	133	(423)
OCI	—	—	—	—	(392)	—	10	(18)	(134)	(534)	18	(516)
	—	—	—	(556)	(392)	—	10	(18)	(134)	(1,090)	151	(939)
Issuance of NCI[(4)]	—	—	—	—	—	—	—	—	—	—	386	386
Dividends	—	—	—	(13)	—	—	—	—	—	(13)	—	(13)
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(1)	(1)
Shares distributed - PSU plan	—	9	—	—	—	(9)	—	—	—	—	—	—
Cancellation of warrants[(5)]	—	—	(270)	—	—	230	—	—	—	(40)	—	(40)
Share-based income	—	—	—	—	—	(8)	—	—	—	(8)	—	(8)
As at June 30, 2020	$ 347	$ 2,643	$ 73	$ (8,681)	$ (3,167)	$ 412	$ 19	$ (69)	$ (395)	$ (8,818)	$ 2,292	$ (6,526)

[(1)] Related to the sale of Transportation, refer to Note 17 – Disposal of business for more details.
[(2)] In June 2021, the Corporation purchased 8.4 million of Class B Share (subordinate voting) in order to satisfy future obligations under the Corporation's employee PSU and RSU plans, refer to Note 18 - Share based plans.
[(3)] On June 30, 2021, 50 million of warrants held by Investissement Quebec expired.
[(4)] CDPQ made a capital injection of €350 million ($386 million) in BT Holdco.
[(5)] Following the sale of its remaining interests in ACLP, the Corporation cancelled the warrants held by Airbus.

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

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

	Notes	Three-month periods ended June 30 2021	Three-month periods ended June 30 2020	Six-month periods ended June 30 2021	Six-month periods ended June 30 2020
Operating activities					
Net income (loss) from continuing operations		**$ 139**	$ 150	**$ (112)**	$ (131)
Net income (loss) from discontinuing operations		**—**	(373)	**5,321**	(292)
Non-cash items					
Amortization(1)		**111**	108	**205**	219
Impairment charges on PP&E and intangible assets	5	**—**	8	**3**	19
Deferred income taxes		**(3)**	(7)	**(1)**	28
Losses on disposals of PP&E and intangible assets	4,17	**—**	1	**1**	1
Gains on disposal of investment in associate and businesses	4,5,17	**(1)**	(496)	**(5,336)**	(615)
Share of expense (income) of joint ventures and associates	4,17	**1**	(51)	**—**	(63)
Share-based expense (income)	18	**5**	(15)	**12**	(8)
Loss on repurchase of long-term debt	5,6	**107**	—	**183**	—
Dividends received from joint ventures and associates		**—**	23	**—**	25
Net change in non-cash balances	19	**(204)**	(305)	**(1,114)**	(1,683)
Cash flows from operating activities - total		**155**	(957)	**(838)**	(2,500)
Cash flows from operating activities - discontinued operations		**—**	(265)	**(621)**	(1,122)
Cash flows from operating activities - continuing operations		**155**	(692)	**(217)**	(1,378)
Investing activities					
Additions to PP&E and intangible assets		**(64)**	(82)	**(101)**	(181)
Proceeds from disposals of PP&E and intangible assets		**—**	3	**4**	3
Net proceeds from disposal of investment in associate and businesses	17	**(41)**	580	**2,868**	1,111
Proceeds from sale of Alstom Shares	17	**611**	—	**611**	—
Deconsolidation of cash and cash equivalents related to Transportation	17	**—**	—	**(279)**	—
Investments in non-voting units of ACLP		**—**	—	**—**	(100)
Additions to restricted cash	11	**—**	—	**(477)**	—
Other		**(37)**	(6)	**(15)**	—
Cash flows from investing activities - total		**469**	495	**2,611**	833
Cash flows from investing activities - discontinued operations		**(41)**	(21)	**2,589**	(44)
Cash flows from investing activities - continuing operations		**510**	516	**22**	877
Financing activities					
Net proceeds from issuance of long-term debt	16	**1,443**	—	**1,443**	—
Repayments of long-term debt	16	**(2,903)**	—	**(3,698)**	—
Net change in short-term borrowings related to Transportation	17	**—**	138	**365**	551
Payment of lease liabilities(2)		**(7)**	(26)	**(15)**	(52)
Dividends paid - Preferred shares		**(5)**	(5)	**(10)**	(10)
Issuance of NCI		**—**	—	**—**	386
Dividends to NCI		**—**	(1)	**—**	(1)
Purchase of Class B shares held in trust under the PSU and RSU plans	18	**(8)**	—	**(8)**	—
Other		**—**	(1)	**1**	(1)
Cash flows from financing activities - total		**(1,480)**	105	**(1,922)**	873
Cash flows from financing activities - discontinued operations		**—**	122	**240**	910
Cash flows from financing activities - continuing operations		**(1,480)**	(17)	**(2,162)**	(37)
Effect of exchange rates on cash and cash equivalents		**(9)**	12	**(13)**	(111)
Net decrease in cash and cash equivalents - total		**(865)**	(345)	**(162)**	(905)
Cash and cash equivalents at beginning of period(3)- total		**3,153**	2,069	**2,450**	2,629
Cash and cash equivalents at end of period(3)		**$ 2,288**	$ 1,724	**$ 2,288**	$ 1,724
Supplemental information					
Cash paid for					
Interest		**$ 237**	$ 243	**$ 366**	$ 372
Income taxes		**$ 5**	$ 26	**$ 7**	$ 47
Cash received for					
Interest		**$ 5**	$ 2	**$ 10**	$ 14
Income taxes		**$ —**	$ 16	**$ —**	$ 17

(1) Includes $7 million and $16 million representing amortization charge related to right-of-use of assets for the three-and six-month periods ended June 30, 2021 ($24 million and $50 million for the three-and six-month periods ended June 30, 2020).
(2) Lease payments including the interest portion, short term leases, low value assets and variable lease payments not included in lease liabilities are classified as cash outflows from operating activities. The total cash outflows for the three- and six-month periods ended June 30, 2021 amounted to $12 million and $25 million ($36 million and $73 million for the three-and six-month periods ended June 30, 2020).
(3) For the purpose of the statement of cash flows, cash and cash equivalents as at December 31, 2020 includes $671 million of cash reclassifed as asset held for sale related to the Transportation business (As at June 30, 2020 includes $50 million related to the aerostructure business).

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2021
(Unaudited)
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

1. BASIS OF PREPARATION

Bombardier Inc. (“the Corporation” or “our” or “we”) is incorporated under the laws of Canada. The Corporation is a manufacturer of business aircraft, as well as certain major aircraft structural components, and is a provider of related services.

Effective September 16, 2020, the Transportation business was classified as discontinued operations and comparative information for prior periods presented in the interim consolidated statement of income was restated. On January 29, 2021, the Corporation closed the sale of the Transportation business to Alstom. Refer to Note 17 – Disposal of business for more details. Following the sale, the Corporation carries out its operations under one segment.

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, 2020.

In the current environment due to COVID-19 pandemic, the judgments, estimates and assumptions are subject to greater variability than normal, which could in the future significantly affect judgments, estimates and assumptions made by management.

These interim consolidated financial statements for the three- and six-month periods ended June 30, 2021 were authorized for issuance by the Board of Directors on August 4, 2021.

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.

2. REVENUES

The Corporation's revenues by categories were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020 [1]	**2021**	2020 [1]
Aviation				
Business Aircraft				
Manufacturing and Other[2]	**$ 1,205**	$ 769	**$ 2,255**	$ 1,618
Services[3]	**295**	229	**564**	502
Others[4]	**24**	225	**46**	625
	$ 1,524	$ 1,223	**$ 2,865**	$ 2,745

[1] Restated, refer to Note 17 – Disposal of business for more details.
[2] Includes revenues from sale of new aircraft, specialized aircraft solutions and pre-owned aircraft.
[3] Includes revenues from aftermarket services including parts, *Smart Services*, service centers, training and technical publications.
[4] Includes revenues related to Aerostructure prior to the disposal of the Aerostructure business on October 30, 2020 and to Commercial aircraft prior to the disposal of the CRJ businesses on June 1, 2020. Includes also revenues from sale of components related to commercial aircraft programs.

3. RESEARCH AND DEVELOPMENT

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020 [1]	**2021**	2020 [1]
R&D expenditures	**$ 15**	$ 31	**$ 25**	$ 66
Less: development expenditures capitalized to aerospace program tooling	**(12)**	(29)	**(17)**	(60)
	3	2	**8**	6
Add: amortization of aerospace program tooling	**89**	48	**158**	94
	$ 92	$ 50	**$ 166**	$ 100

[1] Restated, refer to Note 17 – Disposal of business for more details.

4. OTHER EXPENSE (INCOME)

Other expense (income) was as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020 [1]	**2021**	2020 [1]
Changes in estimates and fair value[2]	**$ 2**	$ (5)	**$ 3**	$ (10)
Share of income of joint ventures and associates	**1**	—	**—**	(2)
Gain on sale of a business	**—**	—	**(1)**	—
Loss on disposals of PP&E and intangible assets	**—**	—	**1**	—
Other	**1**	—	**1**	—
	$ 4	$ (5)	**$ 4**	$ (12)

[1] Restated, refer to Note 17 – Disposal of business for more details.
[2] 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.

5. SPECIAL ITEMS

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

Special items were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020 (1)	**2021**	2020 (1)
Loss on repurchase of long-term debt(2)	**$ 107**	$ —	**$ 183**	$ —
Restructuring charges(3)	**7**	34	**30**	45
Gain on sale of EWIS(4)	**(1)**	—	**(14)**	—
Reversal of divestitures provisions(5)	**(10)**	—	**(10)**	—
Gain on disposal of a business - CRJ Series business(6)	**—**	(496)	**—**	(496)
Gain on exit of ACLP and related aerostructures activities(7)	**—**	—	**—**	(119)
Transaction costs(8)	**—**	15	**—**	27
Disruption costs(9)	**—**	—	**—**	4
Reversal of *Learjet 85* aircraft program cancellation provisions(10)	**—**	—	**—**	(4)
Income taxes	**—**	44	**—**	44
	$ 103	$ (403)	**$ 189**	$ (499)
Of which is presented in				
Special items in EBIT	**$ (4)**	$ (447)	**$ 6**	$ (543)
Financing expense - loss on repurchase of long-term debt(2)	**107**	—	**183**	—
Income taxes - effect of special items	**—**	44	**—**	44
	$ 103	$ (403)	**$ 189**	$ (499)

1. Restated, refer to Note 17 - Disposal of business for more details.
2. Represents the losses related to the repayment of the senior secured term loan, and the partial repayments of the 8.75% Senior Notes due December 2021, 5.75% Senior Notes due March 2022, the 6.00% Senior Notes due October 2022 and the 6.125% Senior Notes due January 2023. Refer to Note 6 - Financing expense and Financing income and Note 16 - Long-term debt for more information.
3. For the three- and six-month periods ended June 30, 2021, represents severance charges of $7 million and $35 million, impairment of PP&E of nil and $3 million, partially offset by curtailment gains of nil and $8 million. For the three- and six-month periods ended June 30, 2020, represents severance charges of $41 million and $41 million primarily following the announcement of Aviation for workforce adjustments in response to the COVID-19 pandemic, $8 million and $19 million of impairment of right-of-use assets related to a lease contract as a consequence of previously-announced restructuring actions, and other related charges of $4 million and $4 million, partially offset by curtailment gains of $19 million and $19 million.
4. The sale of the Corporation's Electrical Wiring and Interconnection Systems (EWIS) business in Mexico for a total net consideration of $37 million resulted in an accounting gain of $1 million and $14 million for the three- and six-month periods ended June 30, 2021.
5. Based on the ongoing activities with respect to the past divestitures, the Corporation reduced some related provisions.
6. Represents the sale of the CRJ Series aircraft program assets for gross proceeds of $585 million, at closing, including certain closing adjustments. The transaction resulted in a pre-tax accounting gain of $496 million ($448 million after tax impact) for the three- and six-month periods ended June 30, 2020.
7. The sale of the Corporation's remaining interest in ACLP and its aerostructures activities supporting A220 and A330 resulted in a pre-tax accounting gain of nil and $119 million for the three- and six-month periods ended June 30, 2020.
8. Represents direct and incremental costs incurred in respect of transactions for the sale of the Transportation business to Alstom SA and for the sale of CRJ business to MHI of $15 million and $27 million for the three- and six-month periods ended June 30, 2020.

9. Due to the COVID-19 pandemic, in the second half of March 2020, the Corporation temporarily suspended operations at various production facilities. As a result of the pandemic, nil and $4 million were recorded as special items in the three- and six-month periods ended June 30, 2020. These costs do not represent the full impact of the COVID-19 pandemic on the results of operations since it does not reflect the impact of lost or deferred revenues and associated margins.
10. Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, the Corporation reduced the related provisions by nil and $4 million for the three- and six-month periods ended June 30, 2020.

6. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020 [1]	**2021**	2020 [1]
Financing expense				
Loss on repurchase of long-term debt[2]	**$ 107**	$ —	**$ 183**	$ —
Net loss on certain financial instruments[3]	**—**	—	**—**	157
Changes in discount rates of provisions	**—**	—	**—**	20
Accretion on net retirement benefit obligations	**9**	12	**20**	25
Accretion on advances	**9**	11	**18**	20
Consent fees[4]	**12**	—	**12**	—
Interest expense on lease liabilities	**5**	6	**11**	12
Accretion on other financial liabilities	**7**	17	**11**	32
Accretion on provisions	**1**	—	**2**	3
Other	**1**	5	**4**	11
	151	51	**261**	280
Interest on long-term debt, after effect of hedges	**135**	164	**315**	330
	$ 286	$ 215	**$ 576**	$ 610
Financing income				
Net gain on certain financial instruments[3]	**$ (388)**	$ (5)	**$ (407)**	$ —
Other	**—**	(3)	**—**	(8)
	(388)	(8)	**(407)**	(8)
Income from investment in securities	**—**	—	**(4)**	—
Interest on cash and cash equivalents	**(1)**	(2)	**(2)**	(6)
Interest on loans and lease receivables, after effect of hedges	**—**	(1)	**—**	(2)
	(1)	(3)	**(6)**	(8)
	$ (389)	$ (11)	**$ (413)**	$ (16)

(1) Restated, refer to Note 17 – Disposal of business for more details.
(2) Represents the losses related to the repayment of the senior secured term loan, the partial repayments of the 8.75% Senior Notes due December 2021, 5.75% Senior Notes due March 2022, the 6.00% Senior Notes due October 2022 and the 6.125% Senior Notes due January 2023. See Note 5 - Special items and Note 16 - Long-term debt for more information.
(3) Net losses (gains) on certain financial instruments classified as FVTP&L, including losses (gains) arising from changes in interest rates and the gain on sale of Alstom shares, completed on May 7, 2021.
(4) Represents the consent payments made in May 2021 to certain noteholders with respect to the Consent Solicitations process conducted by the Corporation whereby it sought consents from noteholders under certain outstanding indentures to obtain certain amendments and waivers.

7. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020 (1)	**2021**	2020 (1)
(Number of shares, stock options, PSUs, RSUs, DSUs and warrants, in thousands)				
Net income (loss) attributable to equity holders of Bombardier Inc.				
Continuing operations	**$ 139**	$ 150	**$ (112)**	$ (131)
Discontinued operations	**—**	(448)	**5,292**	(425)
Preferred share dividends, including taxes	**(7)**	(7)	**(14)**	(13)
Net income (loss) attributable to common equity holders of Bombardier Inc.	**$ 132**	$ (305)	**$ 5,166**	$ (569)
Weighted-average number of common shares outstanding	**2,421,308**	2,402,633	**2,421,246**	2,400,939
Net effect of stock options, PSUs, RSUs, DSUs and warrants	**42,208**	—	**49,580**	—
Weighted-average diluted number of common shares	**2,463,516**	2,402,633	**2,470,826**	2,400,939
EPS (in dollars)				
Continuing operations basic and diluted	**$ 0.05**	$ 0.06	**$ (0.05)**	$ (0.06)
Discontinued operations basic	**$ —**	$ (0.19)	**$ 2.18**	$ (0.18)
Discontinued operations diluted	**$ 0.01**	$ (0.19)	**$ 2.14**	$ (0.18)
Total basic	**$ 0.05**	$ (0.13)	**$ 2.13**	$ (0.24)
Total diluted	**$ 0.06**	$ (0.13)	**$ 2.09**	$ (0.24)

(1) Restated, refer to Note 17 – Disposal of business for more details.

The effect of the exercise of stock options, PSUs, RSUs, DSUs and warrants was included in the calculation of diluted EPS in the above table, except for 340,530,767 and 339,003,172 for the three- and six-month periods ended June 30, 2021, respectively (421,581,994 and 452,272,309 for the three- and six-month periods ended June 30, 2020, respectively) since the average market value of the underlying shares was lower than the exercise price, or because the predetermined target market price thresholds of the Corporation’s Class B Shares (subordinate voting) or predetermined financial performance targets had not been met or the effect of the exercise would be antidilutive.

8. FINANCIAL INSTRUMENTS

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

	FVTP&L						
	FVTP&L	Designated	FVOCI [1]	Amortized cost	DDHR	Total carrying value	Fair value
June 30, 2021							
Financial assets							
Cash and cash equivalents	**$ —**	**$ —**	**$ —**	**$ 2,288**	**$ —**	**$ 2,288**	**$ 2,288**
Trade and other receivables	**—**	**—**	**—**	**292**	**—**	**292**	**292**
Other financial assets	**1,112**	**—**	**265**	**616**	**57**	**2,050**	**2,050**
	$ 1,112	**$ —**	**$ 265**	**$ 3,196**	**$ 57**	**$ 4,630**	**$ 4,630**
Financial liabilities							
Trade and other payables	**$ —**	**$ —**	**n/a**	**$ 1,501**	**$ —**	**$ 1,501**	**$ 1,501**
Long-term debt	**—**	**—**	**n/a**	**8,000**	**—**	**8,000**	**8,323**
Other financial liabilities	**1**	**721**	**n/a**	**760**	**8**	**1,490**	**1,519**
	$ 1	**$ 721**	**n/a**	**$ 10,261**	**$ 8**	**$ 10,991**	**$ 11,343**
December 31, 2020							
Financial assets							
Cash and cash equivalents	$ —	$ —	$ —	$ 1,779	$ —	$ 1,779	$ 1,779
Trade and other receivables	—	—	—	294	—	294	294
Other financial assets	664	—	266	140	69	1,139	1,139
	$ 664	$ —	$ 266	$ 2,213	$ 69	$ 3,212	$ 3,212
Financial liabilities							
Trade and other payables	$ —	$ —	n/a	$ 1,611	$ —	$ 1,611	$ 1,611
Long-term debt	—	—	n/a	10,075	—	10,075	9,812
Other financial liabilities	40	629	n/a	793	2	1,464	1,466
	$ 40	$ 629	n/a	$ 12,479	$ 2	$ 13,150	$ 12,889

[1] Includes investments in equity instruments designated at FVOCI.

n/a: Not applicable

9. CONTRACT BALANCES

Contract assets represent cost incurred and recorded margins on service contracts in the amount of $50 million and $61 million as at June 30, 2021 and December 31, 2020, respectively.

Contract liabilities were as follows, as at:

		June 30, 2021		December 31, 2020
Advances on aerospace programs	**$**	**3,122**	$	3,187
Other deferred revenues		**394**		388
	$	**3,516**	$	3,575
Of which current	**$**	**2,308**	$	2,356
Of which non-current		**1,208**		1,219
	$	**3,516**	$	3,575

10. INVENTORIES

Inventories were as follows, as at:

		June 30, 2021		December 31, 2020
Aerospace programs	**$**	**2,984**	$	3,254
Finished products(1)		**547**		396
	$	**3,531**	$	3,650

(1) Finished products include pre-owned aircraft, as at June 30, 2021 (nil as at December 31, 2020).

The amount of inventories recognized as cost of sales totaled $1,159 million and $2,185 million for the three- and six-month periods ended June 30, 2021, respectively ($987 million and $2,154 million for the three- and six-month periods ended June 30, 2020, respectively). These amounts include $13 million and $34 million of write-downs and $1 million and $3 million of reversal of write-downs for the three- and six-month periods ended June 30, 2021, respectively ($19 million and $54 million of write-downs and $2 million of reversal of write-downs for the three- and six-month periods ended June 30, 2020, respectively).

For the three- and six-month periods ended June 30, 2021, the Corporation recorded wage subsidies in the amount of $45 million and $79 million in cost of sales and $4 million and $8 million in SG&A. As at June 30, 2021, there is an amount of $87 million remaining in inventory related to wage subsidies.

11. OTHER FINANCIAL ASSETS

Other financial assets were as follows, as at:

	June 30, 2021	December 31, 2020
Restricted cash[1]	**$ 548**	$ 89
Receivables from ACLP[2]	**521**	439
Derivative financial instruments	**450**	103
Investments in securities	**265**	266
Investments in financing structures[3]	**161**	150
Balance of payment on disposal of investment in associate[4]	**30**	38
Aircraft loans[3]	**30**	32
Receivable from MHI[5]	**9**	18
Other	**36**	4
	$ 2,050	$ 1,139
Of which current	**$ 671**	$ 227
Of which non-current	**1,379**	912
	$ 2,050	$ 1,139

(1) Includes cash collateral supporting various bank guarantees.
(2) This receivable from ACLP represents a back-to-back agreement that the Corporation has with ACLP related to certain government refundable advances. See Note 14 – Other financial liabilities for more information.
(3) Following the sale of the CRJ business, the Corporation has retained a portion of those other financial assets and has a back-to-back agreement with MHI. See Note 14 – Other financial liabilities for more information.
(4) The balance of payment on disposal of investment in associate represents an amount owed by Stelia Aerospace.
(5) This receivable represents a back-to-back agreement that the Corporation has with MHI on lease subsidies of $10 million and certain other financial liabilities. See Note 14 – Other financial liabilities for more information.

12. OTHER ASSETS

Other assets were as follows, as at:

	June 30, 2021	December 31, 2020
Retirement benefits	**$ 175**	$ 75
Prepaid expenses	**122**	101
Sales tax and other taxes	**118**	106
Prepaid sales concessions and deferred contract costs	**92**	124
Intangible assets other than aerospace program tooling and goodwill	**72**	72
Receivable from MHI[1]	**53**	80
Other	**7**	17
	$ 639	$ 575
Of which current	**$ 218**	$ 218
Of which non-current	**421**	357
	$ 639	$ 575

(1) This receivable represents a back to back agreement that the Corporation has with MHI on credit and residual value guarantees provisions. See Note 13 - Provisions.

13. PROVISIONS

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

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Onerous contracts	Other[1]	Total
Balance as at December 31, 2020[2]	$ 154	$ 80	$ 5	$ 111	$ 85	$ 435
Additions	10	—	22 [3]	1	1	34
Utilization	(12)	—	(15)	(2)	(1)	(30)
Reversals	—	(27)	—	(1)	(1)	(29)
Accretion expense	—	—	—	1	—	1
Balance as at March 31, 2021	$ 152	$ 53	$ 12	$ 110	$ 84	$ 411
Additions	15	—	8 [3]	3	—	26
Utilization	(12)	—	(10)	(2)	—	(24)
Reversals	—	—	(2) [3]	(1)	(5)	(8)
Accretion expense	—	—	—	1	—	1
Balance as at June 30, 2021	**$ 155**	**$ 53** [4]	**$ 8**	**$ 111**	**$ 79**	**$ 406**
Of which current	$ 51	$ 1	$ 8	$ 12	$ 77	$ 149
Of which non-current	104	52	—	99	2	257
	$ 155	$ 53	$ 8	$ 111	$ 79	$ 406

(1) Mainly comprised of claims and litigation.
(2) Opening balances are after the assets held for sale reclassification related to the disposal of Transportation.
(3) See Note 5 – Special items for more details on additions and reversals related to restructuring charges.
(4) Following the sale of the CRJ business, the Corporation retains those provisions and has a back-to-back agreement with MHI. See Note 12 – Other Assets.

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Onerous contracts	Other[1]	Total
Balance as at January 1, 2020[2]	$ 432	$ 90	$ 134	$ 1,008	$ 130	$ 1,794
Additions	38	—	6 [3]	10	18	72
Utilization	(28)	—	(27)	(97)	(5)	(157)
Reversals	(6)	(3)	(12) [3]	(202) [4]	(1)	(224)
Accretion expense	1	1	—	1	—	3
Effect of changes in discount rates	1	2	—	17	—	20
Effect of foreign currency exchange rate changes	(10)	—	(3)	(12)	(1)	(26)
Balance as at March 31, 2020[2]	$ 428	$ 90	$ 98	$ 725	$ 141	$ 1,482
Additions	31	7	47 [3]	161	3	249
Utilization	(33)	—	(26)	(14)	(1)	(74)
Reversals	(14)	(1)	(10) [3]	(1)	(1)	(27)
Accretion expense	—	—	—	1	—	1
Disposal of CRJ business	(8)	(12)	—	(4)	—	(24)
Reclassified as liabilities directly associated with assets held for sale[5]	—	—	(30)	(308)	(23)	(361)
Effect of foreign currency exchange rate changes	7	1	—	1	—	9
Balance as at June 30, 2020	$ 411	$ 85 [6]	$ 79	$ 561	$ 119	$ 1,255
Of which current	$ 316	$ 6	$ 78	$ 471	$ 91	$ 962
Of which non-current	95	79	1	90	28	293
	$ 411	$ 85	$ 79	$ 561	$ 119	$ 1,255

(1) Mainly comprised of claims and litigation.
(2) Opening balances are before the assets held for sale reclassification related to the CRJ and Aerostructure businesses.
(3) See Note 5 – Special items items for more details on additions and reversals related to restructuring charges.
(4) Related to disposal of the Corporation’s remaining interest in ACLP and its aerostructures activities supporting A220 and A330 and the reversal of *Learjet 85* aircraft program cancellation provisions. See Note 5 – Special items for more details.
(5) Related to the sale of the Aerostructure business.
(6) Following the sale of the CRJ business, the Corporation retained those provisions and has a back-to-back agreement with MHI. See Note 12 – Other Assets for more details.

14. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	June 30, 2021	December 31, 2020
Government refundable advances[1]	**$ 679**	$ 595
Lease liabilities	**227**	232
Credit and residual value guarantees payable	**163**	223
Liabilities related to RASPRO assets[2]	**161**	149
Vendor non-recurring costs	**63**	81
Payable to MHI[3]	**29**	30
Lease subsidies[4]	**10**	11
Derivative financial instruments	**9**	42
Other[5]	**149**	101
	$ 1,490	$ 1,464
Of which current	**$ 239**	$ 239
Of which non-current	**1,251**	1,225
	$ 1,490	$ 1,464

(1) Of which $521 million has a back-to-back agreement with ACLP ($439 million as at December 31, 2020). Refer to Note 11 - Other financial assets for the receivables from ACLP. The Corporation is required to pay amounts to governments based on the number of deliveries of aircraft.
(2) The Corporation has retained the regional aircraft securitization program assets (RASPRO) for which the Corporation has transferred the net beneficial interest through a back-to-back agreement with MHI. Refer to Note 11 - Other financial assets for more information.
(3) This payable to MHI represents a back-to-back agreement that the Corporation has with MHI related to certain aircraft loans. Refer to Note 11 - Other financial assets for more information.
(4) Following the sale of the CRJ business, the Corporation retained those lease subsidies and has a back-to-back agreement with MHI. Refer to Note 11- Other financial assets for more information.
(5) Mainly represent liabilities related to various divestitures.

15. OTHER LIABILITIES

Other liabilities were as follows, as at:

	June 30, 2021	December 31, 2020
Employee benefits	**$ 229**	$ 253
Supplier contributions to aerospace programs	**301**	332
Income taxes payable	**33**	31
Other	**196**	219
	$ 759	$ 835
Of which current	**$ 395**	$ 447
Of which non-current	**364**	388
	$ 759	$ 835

16. LONG-TERM DEBT

On August 19, 2020, the Corporation closed the three-year $1.0 billion senior secured term loan (the "Facility") with HPS Investment Partners, LLC, acting as administrative agent, collateral agent and the lead lender for a group that included investment funds and accounts managed by HPS Investment Partners LLC and Apollo Capital Management, L.P., or their respective affiliates, and Special Opportunities and Direct Lending Funds managed by Ares Management LLC.

On February 19, 2021, the Corporation repaid the total outstanding balance of $750 million drawn on the Facility including all accrued interest and associated fees which resulted in a loss of $76 million recognized in Financing expense and financing income, see Note 6 - Financing expense and financing income and Note 5 - Special items for more information.

On May 18, 2021, the Corporation completed the issuance and sale to an institutional accredited investor of $260 million aggregate principal amount of its 7.45% Senior Notes due 2034 at a purchase price of par. Following this private placement, the aggregate principal amount outstanding under the 2034 Notes is $510 million.

On June 8, 2021, the Corporation completed the closing of its offering of $1.2 billion aggregate principal amount of Senior Notes due 2026. The new Senior Notes carry a coupon of 7.125% per annum and were sold at par. The net proceeds were used to finance the below repayment of Notes.

During the second quarter of 2021, the Corporation repurchased and retired through cash tender offers an amount of $956 million aggregate principal amount of the outstanding $1,018 million Senior Notes due December 2021, $407 million aggregate principal amount of the outstanding $500 million Senior Notes due March 2022, $716 million aggregate principal amount of the outstanding $1,250 million Senior Notes due January 2023, and $210 million aggregate principal amount of the outstanding $1,200 million Senior Notes due October 2022 for a total consideration of $2,398 million which resulted in a loss of $107 million recognized in Financing expense and financing income, see Note 6 - Financing expense and financing income and Note 5 - Special items for more information. In addition, the Corporation repaid, at maturity, the €414 million ($505 million) Notes due May 2021.

In July 2021, the Corporation redeemed all of the remaining notional outstanding of its $1,018 million Senior Notes due December 2021 and of its $500 million Senior Notes due March 2022, as well as $475 million aggregate principal amount of the outstanding $1,200 million Senior Notes due October 2022 for total consideration of $634 million.

In summary, since December 31, 2020, long-term debt has been reduced by a net amount of approximately $2,700 million, as of August 4, 2021.

17. DISPOSAL OF BUSINESS

On September 16, 2020, the Corporation, Alstom and CDPQ and certain related parties signed a definitive sale and purchase agreement for the sale of the Transportation business through the sale of the entire issued share capital of BT Holdco. On January 29, 2021, the Corporation closed the sale of the Transportation business to Alstom.

See Note 21- Commitments and contingencies for more information regarding the indemnities and guarantees related to the sale of Transportation.

The transaction resulted in a gain of $5,321 million reflected in net income from discontinued operations.

In addition, the Corporation has sold the Alstom shares received by the Corporation as part of the proceeds from the sale of its Transportation business to Alstom, which closed on January 29, 2021. The sale was completed on May 7, 2021 for proceeds of approximately $0.6 billion.

The details of the impact of the transaction were as follows:

		January 29, 2021
Cash received	$	2,920
Alstom shares received		593
Less: Transaction costs		(52) [1]
Net Proceeds		3,461
Derecognition of assets, liabilities, CCTD and non-controlling interest		
Cash and cash equivalents		(279)
Other current assets		(5,226)
Non-current assets		(4,723)
Total assets		(10,228)
Current liabilities		8,585
Non-current liabilities		1,458
Total liabilities		10,043
CCTD		(564)
Non-controlling interest		2,658
Other		(49)
Gain on sale	$	5,321

[1] Of which $41 million and $52 million were paid in the three- and six-month periods ended June 30, 2021.

Discontinued operations for comparative period

Transportation was classified as discontinued operations. The results of Transportation were as follows for the period:

	Three-month period ended June 30	Six-month period ended June 30
	2020	2020
Revenues	$ 1,479	$ 3,648
Cost of sales	1,796	3,792
Gross margin	(317)	(144)
SG&A	101	210
R&D	15	38
Share of income of joint ventures and associates	(51)	(61)
Other expense	1	1
Special items	(6)	(6)
EBIT	(377)	(326)
Financing expense	19	42
Financing income	(12)	(93)
EBT	(384)	(275)
Income taxes	(11)	17
Net income from discontinued operations	$ (373)	$ (292)
EPS from discontinued operations(in dollars)		
Basic and diluted[1]	$ (0.19)	$ (0.18)

[1] For the total number of ordinary shares used in the calculation of basic and diluted EPS from discontinued operations, refer to Note 7 - Earnings per share for more details.

Assets held for sale

The major classes of assets held for sale or liabilities directly associated with assets held for sale were as follows, as at:

	December 31, 2020
Cash and cash equivalents	$ 671
Trade and other receivables	1,217
Contract assets[1]	3,260
PP&E	1,041
Goodwill	2,101
Investments in joint ventures and associates	626
Deferred income taxes	462
Other assets[2]	1,039
Total assets	$ 10,417
Borrowings	$ 798
Trade and other payables	2,831
Contract liabilities	2,749
Provisions	959
Retirement benefits	1,202
Other liabilities[3]	1,607
Total liabilities	$ 10,146

[1] Includes $7,792 million of advances and progress billings.
[2] Mainly comprised of inventories, long-term contract receivables, derivative financial instruments and retirement benefit assets of $49 million.
[3] Mainly comprised of employee benefits, accruals for long-term contract costs, lease liabilities, derivative financial instruments and deferred income tax liability of $15 million.

Accumulated OCI was as follows as at:

	December 31, 2020
CCTD	$ (530)
Cash flow hedges	
Net loss on derivative financial instruments	(64)
Income taxes	6
	(58)
Retirement benefits	
Retirement benefits remeasurement	(961)
Income taxes	115
	(846)
Accumulated OCI	$ (1,434)

18. SHARE-BASED PLANS

PSU, DSU and RSU plans

The number of PSUs, DSUs and RSUs has varied as follows:

						Three-month periods ended June 30
			2021			2020
	PSU	**DSU**	**RSU**	PSU	DSU	RSU
Balance at beginning of period	**37,979,109**	**965,248**	**62,151,771**	86,789,726	984,496	—
Granted	**9,235,165**	**—**	**7,838,001**	—	—	2,282,609
Vested	**(3,024,542)**	**—**	**—**	—	—	—
Exercised	**—**	**—**	**—**	—	—	—
Forfeited	**(15,081,979)**	**—**	**(1,878,163)**	(2,045,652)	—	—
Balance at end of period	**29,107,753**	**965,248** (1)	**68,111,609**	84,744,074	984,496 (1)	2,282,609

						Six-month periods ended June 30
			2021			2020
	PSU	**DSU**	**RSU**	PSU	DSU	RSU
Balance at beginning of period	**47,491,033**	**984,494**	**126,742,045**	95,207,904	1,101,849	—
Granted	**9,235,165**	**—**	**7,838,001**	—	—	2,282,609
Vested	**(4,207,975)**	**—**	**—**	(5,044,471)	—	—
Exercised	**—**	**(19,246)**	**—**	—	(117,353)	—
Forfeited	**(23,410,470)**	**—**	**(66,468,437)** (2)	(5,419,359)	—	—
Balance at end of period	**29,107,753**	**965,248** (1)	**68,111,609**	84,744,074	984,496 (1)	2,282,609

(1) Of which 965,248 DSUs are vested as at June 30, 2021 (984,496 as at June 30, 2020).
(2) Of which 57,244,617 RSUs were cancelled following the sale of Transportation.

The compensation expense, excluding Transportation, with respect to the PSU, DSU and RSU plans, amounted to $2 million and $7 million during the three- and six-month periods ended June 30, 2021, respectively (compensation income, excluding Transportation, of $12 million and $13 million during the three- and six-month periods ended June 30, 2020, respectively).

On June 11, 2021, the Corporation announced that it has received approval from the Toronto Stock Exchange to purchase, in the normal course of its activities, from June 15, 2021 to June 14, 2022, up to 62,000,000 Class B shares (subordinate voting). All Class B shares (subordinate voting) are being purchased to satisfy future obligations under the Corporation’s employee PSU and RSU plans and are being delivered to a trustee for the benefit of the participants to such plans.

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 June 30		Six-month periods ended June 30	
	2021	2020	**2021**	2020
Balance at beginning of period	**128,974,394**	130,638,940	**134,061,653**	131,006,338
Granted	**5,607,480**	3,666,842	**5,607,480**	3,666,842
Forfeited	**(52,807)**	(158,554)	**(5,088,768)**	(525,952)
Expired	**(150,549)**	(31,833)	**(201,847)**	(31,833)
Balance at end of period	**134,378,518**	134,115,395	**134,378,518**	134,115,395

A compensation expense, excluding Transportation, of $2 million and $2 million was recorded during the three- and six-month periods ended June 30, 2021, respectively, with respect to share option plans ($4 million and $9 million, excluding Transportation, for the three- and six-month periods ended June 30, 2020, respectively).

19. NET CHANGE IN NON-CASH BALANCES

Net change in non-cash balances was as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2021	2020 [1]	**2021**	2020 [1]
Trade and other receivables	**$ (2)**	$ 105	**$ 1**	$ 17
Inventories	**67**	171	**93**	(401)
Contract assets	**6**	(13)	**(191)**	(289)
Contract liabilities	**317**	(242)	**(60)**	(446)
Other financial assets and liabilities, net	**(411)**	(117)	**(812)**	(94)
Other assets	**(58)**	277	**(74)**	183
Trade and other payables	**(127)**	(610)	**(80)**	(636)
Provisions	**(3)**	148	**(47)**	46
Retirement benefit liability	**39**	(99)	**112**	3
Other liabilities	**(32)**	75	**(56)**	(66)
	$ (204)	$ (305)	**$ (1,114)**	$ (1,683)

[1] Includes net change in non-cash balances related to Transportation. Refer to Note 17 – Disposal of business for more details.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Aircraft loans, investments in financing structures, receivable from MHI, liabilities related to RASPRO assets and payable to MHI – The Corporation uses internal valuation models based on stochastic simulations or 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. In connection with the sale of the CRJ business, the aircraft loans are included in a back-to-back agreement with MHI and for the investments in financing structures (RASPRO) the Corporation has transferred the net beneficial interest through a back-to-back agreement with MHI. The corresponding liabilities are measured using the same model.

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 rates.

Lease subsidies – The Corporation uses internal valuation models based on stochastic simulations or discounted cash flow analysis 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. In connection with the sale of the CRJ business, the lease subsidies are included in a back-to-back agreement with MHI, and the corresponding asset is measured using the same model.

Government refundable advances – The Corporation uses discounted cash flow analysis to estimate the fair value using market data for interest rates and credit spreads.

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 analysis and market data such as interest rates, credit spreads and the foreign exchange spot rate to estimate the fair value of forward agreements and interest-rate derivatives.

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

The 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 cash and cash equivalents, trade and other receivables, certain aircraft loans, restricted cash and trade and other payables 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 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 analysis to estimate the fair value using market data for interest rates and credit spreads.

Fair value hierarchy

The following table presents 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 June 30, 2021:

	Total	Level 1	Level 2	Level 3
Financial assets				
Receivable from ACLP[1]	$ 521	$ —	$ —	$ 521
Investments in securities	265	37	228	—
Investments in financing structures[2]	161	—	—	161
Aircraft loans[3]	29	—	—	29
Derivative financial instruments[4]	450	—	450	—
Receivable from MHI[5]	8	—	—	8
	$ 1,434	$ 37	$ 678	$ 719
Financial liabilities				
Liabilities related to RASPRO[2]	$ 161	$ —	$ —	$ 161
Payable to MHI[3]	29	—	—	29
Lease subsidies[5]	10	—	—	10
Government refundable advance[1]	521	—	—	521
Derivative financial instruments[4]	9	—	9	—
	$ 730	$ —	$ 9	$ 721

(1) The receivable from ACLP represents a back-to-back agreement that the Corporation has with ACLP related to certain government refundable advances.
(2) The liabilities related to RASPRO includes a back-to-back agreement that the Corporation has with MHI related to the transfer of the net beneficial interest related to the investments in financing structures.
(3) This payable to MHI represents a back-to-back agreement that the Corporation has with MHI related to certain aircraft loans.
(4) Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements and embedded derivatives.
(5) This receivable represents a back-to-back agreement that the Corporation has with MHI related to lease subsidies.

Changes in the fair value of Level 3 financial instruments, excluding assets and liabilities with a back-to-back agreement and their corresponding back-to-back assets and liabilities, were as follows, for the three- and six-month periods ended:

	Prepayment option
Balance as at December 31, 2020	**$ 25**
Net gains and interest included in net income	**10**
Settlements	**(35)**
Balance as at March 31, 2021	**$ —**
Balance as at June 30, 2021	**$ —**

	Trade and other payables	Conversion option
Balance as at January 1, 2020	$ —	$ (325)
Net gains and interest included in net income	—	68
Issuances	(9)	—
Effect of foreign currency exchange rate changes	—	6
Balance as at March 31, 2020	$ (9)	$ (251)
Issuances	(2)	—
Effect of foreign currency exchange rate changes	—	(6)
Balance as at June 30, 2020	$ (11)	$ (257)

21. COMMITMENTS AND CONTINGENCIES

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

	June 30, 2021		December 31, 2020	
Aircraft sales				
Residual value	**$**	**65**	$	72
Credit		**429**		473
Mutually exclusive exposure[1]		**(65)**		(65)
Total credit and residual value exposure	**$**	**429**	$	480
Trade-in commitments	**$**	**326**	$	330
Conditional repurchase obligations	**$**	**40**	$	40
Other[2]				
Credit	**$**	**—**	$	48

(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.
(2) Relates to Transportation.

Provisions for anticipated losses amounting to $53 million as at June 30, 2021 ($80 million as at December 31, 2020) have been established to cover the risks from credit and residual value guarantees. In addition, lease subsidies, which would be extinguished in the event of credit default by certain customers, amounted to $10 million as at June 30, 2021 ($11 million as at December 31, 2020). The provisions for anticipated losses are expected to cover the Corporation's total credit and residual value exposure, after taking into account the anticipated proceeds from the sale of underlying aircraft and the extinguishment of certain lease subsidies obligations. In connection with the sale of the CRJ business, all of the above are included in a back-to-back agreement with MHI.

In connection with the disposal of businesses and the disposal of investment in associate, the Corporation has entered into arrangements that include indemnities and guarantees which are typically limited as to their duration and maximum potential financial exposure to the Corporation. In connection with the sale of Transportation to Alstom, the Corporation provided a €100 million ($119 million) bank guarantee in favour of Alstom to secure certain indemnities and guarantees obligations of the Corporation. Also the Corporation has agreed to an additional compliance-related indemnity. Under this indemnity, the Corporation is to indemnify Alstom or its affiliates for certain known compliance-related matters as well as for compliance-related violation or alleged violation (of any applicable laws or regulations, and including for any audits or other proceedings conducted by a governmental authority) arising within two years following the closing of the sale of Transportation to Alstom and relating to events which occurred prior to January 29, 2021. To secure this indemnity, the Corporation provided a €250 million ($297 million) bank guarantee in favour of Alstom, the value of such guarantee will be reduced over time upon certain conditions or milestones being achieved.

Legal proceedings

In the normal course of operations, the Corporation is a defendant in certain legal proceedings before various courts or other tribunals including in relation to product liability and contractual disputes with customers and other third parties. The Corporation's approach is to vigorously defend its position in these matters.

While the Corporation cannot predict the final outcome of all legal proceedings pending as at June 30, 2021, 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.

Sweden

While this matter relates to the Transportation business, which has been divested as part of the sale to Alstom on January 29, 2021, the Corporation remains involved in this legal proceeding and remains liable to Alstom, as acquirer of Transportation, in the event of any damage suffered in connection thereof.

Since the fourth quarter of 2016, the Swedish police authorities have been conducting an investigation in relation to allegations concerning a 2013 contract for the supply of signaling equipment and services to Azerbaijan Railways ADY (the "ADY Contract"). In October 2016, the Corporation launched an internal review into the allegations which is conducted by external forensic advisors, under the supervision of the General Counsel and external counsel. The internal review is still on-going. On August 18, 2017, charges were laid against a then employee of the Swedish subsidiary of the Corporation for aggravated bribery and, alternatively, influence trafficking. The trial on these charges took place from August 29 to September 20, 2017. No charges were laid against the subsidiary of the Corporation. In a decision rendered on October 11, 2017, the then employee was acquitted of all charges. The decision was appealed regarding all charges on October 25, 2017 by the Prosecution Authority. On June 19, 2019, the Prosecution Authority confirmed that the acquittal on charge of influence trafficking is no longer being appealed; accordingly, this acquittal on this charge stands as a final judgment. The case is still pending with the Swedish Court of Appeal with a likely scenario that the Swedish Court of Appeal will set a date for the appeal trial. On June 9, 2021, charges were laid against a different former employee of the former Swedish subsidiary of the Corporation for aggravated bribery. The trial is scheduled from November 11 until November 24, 2021.

The ADY Contract is being audited by the World Bank Group pursuant to its contractual audit rights. The audit is on-going. The Corporation's policy is to comply with all applicable laws and it is cooperating to the extent possible with the investigation and the audit. As reported publicly in the media, on November 15, 2018, the World Bank Integrity Vice Presidency ("INT") issued a 'show cause' letter to Bombardier, outlining INT's position regarding alleged collusion, corruption, fraud and obstruction in the ADY Contract. The Corporation was invited to respond to these preliminary findings and has done so. As the World Bank's audit process is governed by strict confidentiality requirements, the Corporation can only reiterate that it strongly disagrees with the allegations and preliminary conclusions contained in the letter.

On February 10, 2020, counsel assisting Bombardier with the World Bank Group audit received a letter from the U.S. Department of Justice (the "DOJ") requesting the communication of documents and information regarding the ADY Contract. Bombardier is cooperating with the DOJ's ongoing requests and is currently providing documents and information in response to same.

The Corporation's internal review about the reported allegations is on-going but based on information known to the Corporation at this time, there is no evidence that suggests a corrupt payment was made or offered to a public official or that any other criminal activity involving Bombardier took place.

Transnet

While this matter relates to the Transportation business, which has been divested as part of the sale to Alstom on January 29, 2021, the Corporation remains involved in this matter and remains liable to Alstom, as acquirer of Transportation, under certain circumstances.

The Corporation learned through various media reports of the appointment of a Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector, including organs of state (the "Zondo Commission") for which the terms of reference were published by presidential proclamation on January 25, 2018. Before and after the creation of the Zondo Commission, the media reported allegations of irregularities with respect to multiple procurements regarding the supply of 1,064 locomotives by South African train operator Transnet Freight Rail. On September 7, 2018, Bombardier Transportation South Africa (Pty.) Ltd. ("BTSA") was informed that the Special Investigation Unit ("SIU"), a forensic investigation agency under the Department of Justice in South Africa, had opened an investigation with respect to the acquisition of the 1064 locomotives by Transnet, in 2014.

The Corporation conducted an internal review into the allegations by external advisors under the supervision of counsel. Based on information known to the Corporation at this time, there is no reason to believe that the Corporation has been involved in any wrongdoing with respect to the procurement by Transnet of 240 TRAXX locomotives from Bombardier Transportation. Following the sale of the Transportation business to Alstom, Alstom has been managing the Zondo Commission and SIU related aspects of the matter.

On January 11, 2021, counsel for Bombardier received an additional request from the DOJ for the communication of documents and information regarding contracts with Transnet and the Passenger Rail Agency of South Africa, and also about an alleged related sale of a Global 6000. Bombardier is cooperating with the DOJ's ongoing requests. Also, while the National Prosecution Agency ("NPA") of South-Africa has not communicated any request to the Corporation, the Corporation understands that NPA is investigating the Transnet contracts.

Indonesia
In May 2020, the Indonesian Corruption Court convicted the former CEO of Garuda Indonesia (Persero) TBK and his associate of corruption and money laundering in connection with five procurement processes involving different manufacturers, including the 2011-2012 acquisition and lease of Bombardier CRJ1000 aircraft by Garuda Indonesia (Persero) TBK (the "Garuda Transactions"). No charges were laid against the Corporation or any of its directors, officers or employees. Shortly thereafter, the Corporation launched an internal review into the Garuda Transactions, which is being conducted by external counsel.

The Corporation understands that the U.K. Serious Fraud Office ("SFO") has commenced a formal investigation into the same transactions. The Corporation has met with the SFO to discuss the status of the Corporation's internal review and its potential assistance with the SFO investigation on a voluntary basis.

Both the SFO investigation and the internal review are on-going. On February 26, 2021, counsel for Bombardier received a request from the DOJ for the communication of documents and information regarding the Garuda Transactions. Bombardier is cooperating with the DOJ's ongoing requests. On July 27, 2021, Bombardier received a communication from the RCMP's Sensitive and International Investigation Unit advising that it would be undertaking an investigation on this matter, and requested communication of documents from the Corporation.

Class action
On February 15, 2019, the Corporation was served with a Motion for authorization to bring an action pursuant to Section 225.4 of the Quebec Securities Act and application for authorization to institute a class action before the Superior Court of Québec in the district of Montréal against Bombardier Inc. and Messrs. Alain Bellemare and John Di Bert ("Motion") (formerly the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, respectively, of Bombardier) to claim monetary damages in an unspecified amount in connection with alleged false and misleading representations about the Corporation's business, operations, revenues and free cash flow, including an alleged failure to make timely disclosure of material facts concerning its guidance for 2018. In the class action component of the Motion, the Plaintiff Denis Gauthier seeks to represent all persons and entities who have purchased or acquired Bombardier's securities during the period of August 2, 2018 to November 8, 2018, inclusively and held all or some of these securities until November 8, 2018. Both the action pursuant to the Quebec Securities Act and the class action require an authorization from the Court before they can move forward. Until they are authorized, there are no monetary claims pending against the defendants in the context of these Court proceedings.

Bombardier Inc. and Messrs. Bellemare and Di Bert are contesting this Motion. The Corporation's preliminary view at this juncture is that the possibility that these Court proceedings will cause the Corporation to incur material monetary liability appears to be remote.