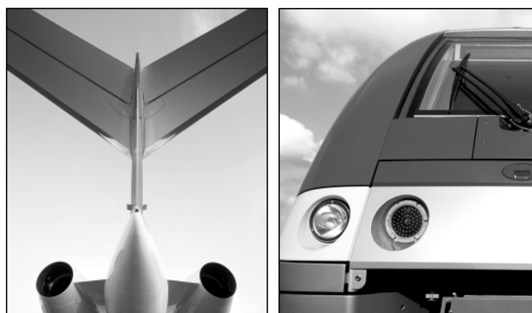
BOMBARDIER

THIRD QUARTERLY REPORT

Nine-month period ended October 31, 2006



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts in this report are in U.S. dollars and tabular figures are in millions of U.S. dollars, unless otherwise indicated.

Forward-looking statements

This Management's Discussion and Analysis ("MD&A") includes forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "anticipate", "plan", "foresee", "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. By their nature, forward-looking statements require Bombardier Inc. (the "Corporation") to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause the Corporation's actual results in future periods to differ materially from forecasted results. While the Corporation considers its assumptions to be reasonable and appropriate based on current information available, there is a risk that they may not be accurate. For additional information with respect to the assumptions underlying the forward-looking statements made in this MD&A, please refer to the respective MD&A sections of the Corporation's aerospace segment ("Aerospace") and the Corporation's transportation segment ("Transportation") in the Corporation's annual report for fiscal year 2006.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with the Corporation's business environment (such as the financial condition of the airline industry, government policies and priorities and competition from other businesses), operational risks (such as regulatory risks and dependence on key personnel, risks associated with doing business with partners, risks involved with developing new products and services, warranty and casualty claim losses, risks from legal proceedings, risks relating to the Corporation's dependence on certain key customers and key suppliers, risks resulting from fixed-term commitments, human resource risks and environmental risks), financing risks (such as risks resulting from reliance on government support, risks relating to financing support provided on behalf of certain customers, risks relating to liquidity and access to capital markets, risks relating to the terms of certain restrictive debt covenants and market risks, including currency, interest rate and commodity pricing risk). See Risks and Uncertainties in the MD&A section of Bombardier Inc.'s annual report for fiscal year 2006 for further information. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect the Corporation's expectations as at the date of this MD&A and are subject to change after such date. Unless otherwise required by applicable securities laws, the Corporation expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

I OVERVIEW

This MD&A is based on reported earnings in accordance with Canadian generally accepted accounting principles ("GAAP") and on the following non-GAAP financial measures:

EBITDA before special items:	Earnings before financing income, financing expense, income taxes, depreciation and amortization and special items
EBIT before special items:	Earnings before financing income, financing expense, income taxes and special items
EBT before special items:	Earnings before income taxes and special items
EPS from continuing operations before special items:	Earnings per share from continuing operations before special items
Free cash flow:	Cash flows from operating activities less net additions to property, plant and equipment

These non-GAAP measures are directly derived from the interim consolidated financial statements, but do not have a standardized meaning prescribed by GAAP; therefore, others using these terms may calculate them differently. The reconciliation to the most comparable GAAP measures is provided in the following sections of the MD&A:

- Reconciliation of EBITDA and EBIT, before special items, to EBIT – see the analysis of results table in the Transportation section.
- Reconciliation of EBIT and EBT, before special items, to EBT – see the selected financial information table in the Consolidated results section.
- Reconciliation of earnings per share from continuing operations before special items to earnings per share – see the reconciliation of earnings per share from continuing operations table following the selected financial information tables in the Consolidated results section.
- Reconciliation of free cash flow to cash flows from operating activities – see the first table in the Cash flows section.

Management believes that a significant portion of the users of its interim consolidated financial statements and MD&A analyze the Corporation's results based on these performance measures and that this presentation is consistent with industry practice. Special items are related to Transportation's restructuring plan initiated in fiscal year 2005. Management views these items as potentially distorting the analysis of trends.

Highlights of the quarter

- EBT from continuing operations of $55 million, compared to an EBT from continuing operations before special items of $22 million (negative $3 million after special items) for the same period last fiscal year.
- EPS from continuing operations of $0.03, compared to an EPS from continuing operations before special items of $0.01 (nil after special items) for the same period last fiscal year.
- Free cash flow use of $117 million, compared to a free cash flow of $343 million for the same period last fiscal year.
- Strong order backlog of $35.0 billion as at October 31, 2006, an improvement of $3.4 billion compared to January 31, 2006.
- Issuance of €1.9 billion of senior notes, part of a refinancing plan to provide the Corporation with increased financial and operating flexibility, was completed in November 2006 (see Capital Resources section).
- Completion of Bombardier Capital's ("BC") divestiture plan with the sale of the on- and off-balance sheet freight car operations.

Consolidated results

Selected financial information was as follows:

	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Revenues	**$ 3,388**	$ 3,301	**$ 10,429**	$ 10,691
EBIT from continuing operations before special items	**105**	70	**333**	285
Financing income	**(31)**	(39)	**(109)**	(104)
Financing expense	**81**	87	**257**	265
EBT from continuing operations before special items	**55**	22	**185**	124
Special items	**-**	25	**24**	51
EBT from continuing operations	**55**	(3)	**161**	73
Income tax expense (recovery)	**2**	(2)	**30**	23
Income (loss) from continuing operations	**53**	(1)	**131**	50
Income (loss) from discontinued operations, net of tax[1]	**21**	(8)	**25**	113
Net income (loss)	**$ 74**	$ (9)	**$ 156**	$ 163
Basic and diluted earnings (loss) per share (in dollars)				
From continuing operations before special items	**$ 0.03**	$ 0.01	**$ 0.08**	$ 0.04
Net income (loss)	**$ 0.04**	$ (0.01)	**$ 0.08**	$ 0.08
Free cash flow[2]	**$ (117)**	$ 343	**$ (510)**	$ (115)
(as a percentage of revenues)				
EBIT from continuing operations before special items	**3.1%**	2.1%	**3.2%**	2.7%
EBT from continuing operations before special items	**1.6%**	0.7%	**1.8%**	1.2%

(1) Related to BC's inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations (see note 4 – Discontinued operations and assets held for sale to the interim consolidated financial statements), which had all been sold as of October 31, 2006.
(2) An analysis of changes in free cash flow is contained in the Cash flows section of this MD&A.

Selected financial information was as follows as at:

	October 31, 2006	January 31, 2006
Order backlog (in billions of dollars)	**$ 35.0**	$ 31.6
Cash and cash equivalents[1]	**$ 1,681**	$ 2,917
Available short-term capital resources[1]	**$ 3,179**	$ 3,950

(1) An analysis of changes in cash and cash equivalents and available short-term capital resources is contained in the Cash flows and Capital resources sections of this MD&A.

Reconciliation of earnings per share from continuing operations before and after special items was as follows:

	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Income from continuing operations before special items, net of tax	**$ 53**	$ 22	**$ 153**	$ 92
Special items, net of tax	**-**	(23)	**(22)**	(42)
Income (loss) from continuing operations	**$ 53**	$ (1)	**$ 131**	$ 50
Basic and diluted earnings (loss) per share (in dollars):				
From continuing operations before special items, net of tax	**$ 0.03**	$ 0.01	**$ 0.08**	$ 0.04
Special items, net of tax	**-**	(0.01)	**(0.01)**	(0.02)
From continuing operations	**$ 0.03**	$ -	**$ 0.06**	$ 0.02

Revenues – The $87-million increase for the three-month period mainly reflects:

- increased deliveries of the larger regional jets and turboprops;
- the favourable mix and improved selling prices for business aircraft; and
- higher services and system and signalling revenues in Transportation.

Partially offset by:

- lower selling prices for regional aircraft; and
- decreased mainline revenues in Transportation.

The $262-million decrease for the nine-month period mainly reflects:

- decreased mainline revenues in the United Kingdom (“U.K.”) and Germany in Transportation; and
- lower deliveries of regional jets, mainly *CRJ200* aircraft.

Partially offset by:

- increased deliveries of, and improved selling prices for business aircraft; and
- higher services and system and signalling revenues in Transportation.

EBIT margin from continuing operations before special items – The 1.0 and 0.5 percentage-point increases for the three- and nine-month periods reflect the higher EBIT margin in Transportation, mainly due to improvements in contract execution and the positive impact of restructuring initiatives. In addition, the EBIT margin for the three-month period reflects an improvement in Aerospace.

Financing income and Financing expense – Net financing expense amounted to $50 million and $148 million for the three- and nine-month periods ($48 million and $161 million for the same periods last fiscal year).

The $13-million decrease for the nine-month period is mainly due to:

- higher interest income on cash and cash equivalents;
- lower interest expense on long-term debt;
- lower accretion expense on certain sales incentives, consistent with the reduction in sales incentives liabilities; and
- dividend income in connection with the Corporation’s investment in the preferred shares of the Corporation’s former recreational products segment.

Partially offset by:

- lower financing income from loans and lease receivables related to aircraft financing, consistent with the reduction in the average balance in this portfolio.

Special items – Special items are related to Transportation’s restructuring plan initiated in fiscal year 2005. The final charge related to this plan was recorded in the three-month period ended April 30, 2006.

Income taxes – For the three- and nine-month periods ended October 31, 2006, the effective income tax rates were 3.6% and 18.6%, respectively, compared to the statutory income tax rate of 32.7%. The lower effective tax rates compared to the statutory income tax rate are mainly due to the reversal of a provision following the completion of an audit by the tax authorities and to lower effective income tax rates of foreign investees, partially offset by an increase in the valuation allowance for certain deferred income tax assets.

For the nine-month period ended October 31, 2005, the effective income tax rate was 31.5%, compared to the statutory income tax rate of 31.9%. Non-taxable gains on the sale of land and buildings, included in special items in Transportation, were offset by the non-recognition of income tax benefits related to the restructuring plan in Transportation.

Income (loss) from discontinued operations, net of tax – In October 2006, the Corporation sold its on- and off-balance sheet freight car operations for cash proceeds of $94 million. As a result, an after-tax gain amounting to $19 million was recorded during the third quarter of fiscal year 2007. This item also includes an after-tax loss of $10 million recorded in the three-month period ended October 31, 2005 related to the sale of the off-balance sheet manufactured housing operations. For the nine-month period ended October 31, 2005, an after-tax gain of $121 million was recorded on the sale of the inventory finance operations.

Order backlog – The $3.4-billion increase compared to January 31, 2006 is mainly due to:

- the higher order intake compared to revenues recorded for Transportation and business aircraft; and
- the positive currency impact on the order backlog in Transportation, mainly arising from the strengthening of the euro and the pound sterling compared to the U.S. dollar, amounting to approximately $830 million.

II AEROSPACE

Highlights of the quarter

- EBIT margin of 2.3%, compared to 1.7% for the same period last fiscal year.
- Free cash flow of $18 million, compared to $470 million for the same period last fiscal year. The free cash flow for the three-month period ended October 31, 2005, was positively impacted by the closing of the RASPRO securitization.
- 57 net orders and 42 deliveries for business aircraft, compared to 58 and 48, respectively, for the same period last fiscal year.
- 38 net orders and 31 deliveries for regional aircraft, compared to five net cancellations/removals and 26 deliveries, respectively, for the same period last fiscal year.
- Reduction in the production rate for the *CRJ700* and *CRJ900* aircraft, which will result in a workforce reduction of approximately 1,330 employees and for which a charge of $31 million for severance and other involuntary termination costs has been recorded in the third quarter.
- The *Challenger 605* aircraft received Transport Canada ("TC"), European Aviation Safety Agency ("EASA") and U.S. Federal Aviation Administration ("FAA") type certification and the first green *Challenger 605* aircraft was delivered during the quarter.

Aircraft deliveries

Effective the first quarter of fiscal year 2007, orders, deliveries and revenues of the corporate airliner category, represented by the *Challenger 800* Series aircraft, are now included in business aircraft. Previously, orders, deliveries and revenues for this category were presented in regional aircraft.

Total aircraft deliveries were as follows:

	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Business aircraft (including those of the fractional ownership program) [(1)] [(2)]	**42**	48	**143**	132
Regional aircraft [(2)]	**31**	26	**81**	103
Amphibious aircraft	**-**	-	**1**	1
	73	74	**225**	236

(1) Includes one and eight deliveries, respectively, of the corporate airliner category for the three- and nine-month periods ended October 31, 2006.

(2) Two deliveries were reclassified from regional aircraft to business aircraft for the nine-month period ended October 31, 2005 (no deliveries for the three-month period ended October 31, 2005).

Analysis of results

Aerospace's results were as follows:

	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Revenues				
Manufacturing				
Business aircraft	**$ 751**	$ 728	**$ 2,578**	$ 2,147
Regional aircraft	**597**	538	**1,545**	2,014
Other	**87**	59	**273**	203
Total manufacturing revenues	**1,435**	1,325	**4,396**	4,364
Services[1]	**317**	340	**941**	909
Other[2]	**89**	124	**335**	414
Total revenues	**1,841**	1,789	**5,672**	5,687
Cost of sales	**1,586**	1,523	**4,842**	4,849
Margin	**255**	266	**830**	838
Operating expenses[3]	**107**	125	**352**	363
EBITDA	**148**	141	**478**	475
Amortization	**105**	110	**314**	316
EBIT	**$ 43**	$ 31	**$ 164**	$ 159
(as a percentage of total revenues)				
Margin	**13.9%**	14.9%	**14.6%**	14.7%
EBITDA	**8.0%**	7.9%	**8.4%**	8.4%
EBIT	**2.3%**	1.7%	**2.9%**	2.8%

(1) Includes revenues from parts logistics, fractional ownership and hourly flight entitlement programs' service activities, aircraft maintenance, customer training and military aviation training.
(2) Includes mainly sales of pre-owned aircraft.
(3) Comprised of selling, general and administrative and research and development expenses.

Manufacturing revenues – The $110-million increase for the three-month period is mainly due to:

- increased deliveries of the larger regional jets and turboprops;
- the favourable mix and improved selling prices for business aircraft;
- increased deliveries of wide body business aircraft interiors; and
- additional fractional share revenues.

Partially offset by:

- lower selling prices for regional aircraft;
- lower deliveries of *CRJ200* aircraft; and
- lower deliveries of business aircraft.

The $32-million increase for the nine-month period is mainly due to:

- increased deliveries of, and improved selling prices for business aircraft;
- increased deliveries of turboprops;
- increased deliveries of wide body business aircraft interiors; and
- additional fractional share revenues.

Partially offset by:

- lower deliveries of regional jets, mainly *CRJ200* aircraft; and
- lower selling prices for regional aircraft.

Services revenues – The $23-million decrease for the three-month period is mainly due to:

- lower revenues from military aviation training, mainly as a result of the achievement of significant milestones on a contract in the previous fiscal year.

Partially offset by:

- higher revenues from the sale of spare parts;
- higher fractional ownership and hourly flight entitlement programs' service activities; and
- higher regional aircraft maintenance services revenues.

The $32-million increase for the nine-month period is mainly due to:

- higher revenues from the sale of spare parts;

- higher fractional ownership and hourly flight entitlement programs' service activities; and
- higher regional aircraft maintenance services revenues.

Partially offset by:
- lower revenues from military aviation training, mainly as a result of the achievement of significant milestones on a contract in the previous fiscal year.

Other revenues – The $35-million and $79-million decreases for the three- and nine-month periods are mainly due to a lower volume and to the mix of pre-owned aircraft sold.

Margin percentage – The 1.0 percentage-point decrease for the three-month period is mainly due to:
- the negative impact of severance and other involuntary termination costs (see Workforce and labour relations section below);
- lower margins on the sale of regional jets; and
- lower deliveries of business aircraft.

Partially offset by:
- the positive impact of achieved cost savings, mainly for business aircraft, that led to a revision of cost estimates;
- the favourable mix and improved selling prices for business aircraft;
- higher margin on spare parts sales; and
- increased margins on turboprops.

The 0.1 percentage-point decrease for the nine-month period is mainly due to:
- lower deliveries and lower margins on the sale of regional jets;
- the negative impact of severance and other involuntary termination costs; and
- lower margins on wide body business aircraft interior deliveries.

Partially offset by:
- increased deliveries, a favourable mix and improved selling prices for business aircraft;
- the positive impact of achieved cost savings, for business aircraft and *CRJ* Series aircraft, that led to a revision of cost estimates; and
- increased margins on turboprops.

The margin percentage for the nine-month period ended October 31, 2006 was also positively impacted by a net amount of $10 million due to the following non-recurring items (see the Regional aircraft section below for further information):
- a gain arising from the settlement with a supplier of regional aircraft components; and
- a charge arising from the alignment of the *CRJ700* and *CRJ900* aircraft program accounting ending dates.

Operating expenses – The $18-million and $11-million decreases for the three- and nine- month periods are mainly due to lower spending related to *CSeries* aircraft program activities, partially offset by higher research and development costs, mainly related to opportunities to address regional airlines' future needs in the 80- to 100-seat aircraft market. In addition, the decrease for the three-month period is also due to lower general and administrative expenses.

Amortization – Amortization of program tooling amounted to $69 million and $206 million for the three- and nine-month periods ended October 31, 2006, compared to $65 million and $195 million, respectively, for the same periods last fiscal year.

Order backlog

Aerospace's order backlog was as follows as at:

(in billions of dollars)	**October 31, 2006**	January 31, 2006
Aircraft programs	**$ 10.6**	$ 9.6
Military aviation training	**1.0**	1.1
	$ 11.6	$ 10.7

The increase in the order backlog is mainly due to higher order intake compared to revenues recorded for business aircraft.

Workforce and labour relations

Realignment of production rates
On October 24, 2006, the Corporation announced it will be reducing the production rates for its *CRJ700* and *CRJ900* regional jets to reflect current market demand. This will result in a workforce reduction of approximately 1,330 employees over a nine-month period starting in October 2006 at its Canadian and Belfast facilities. Severance and other involuntary termination costs associated with the layoffs totalling $31 million were recorded in cost of sales in the third quarter of the current fiscal year.

Also on October 24, 2006, the Corporation announced an increase in the production rate for the *Q400* turboprop in response to the growing demand for this type of aircraft. By the end of the current fiscal year, the workforce levels at the Toronto facility, where the *Q-Series* aircraft are manufactured, will rise by over 800 employees, compared to the end of the previous fiscal year, in connection with the increase in production levels.

In addition, the Corporation disclosed during the first quarter of fiscal year 2007 that the remaining lay-offs, announced in fiscal year 2006, at the Belfast facility would not occur as a result of the repatriation of certain work packages related to the *Q400* turboprop from an external supplier. Consequently, the severance provision related to the remaining lay-offs was reversed in the three-month period ended April 30, 2006.

For details on the various regional aircraft production rate adjustments, refer to the Regional aircraft section.

Collective agreements
On October 2, 2006, the International Association of Machinists and Aerospace Workers ("IAMAW") collective agreement in Wichita expired. On October 2, 2006, following the rejection of the Corporation's contract offer, approximately 1,100 machinists went on strike at the Learjet plant in Wichita. On October 23, 2006, a new collective agreement was signed, which put an end to the strike. The new three-year collective agreement is effective October 2, 2006 and expires October 5, 2009.

On June 23, 2006, the Corporation reached an agreement for a new three-year collective agreement with the Canadian Auto Workers, covering approximately 2,900 employees in Toronto. This agreement is effective June 23, 2006 and expires June 22, 2009.

On May 13, 2006, the Corporation reached an agreement for a new three-year collective agreement with the IAMAW, Aerospace's largest union covering approximately 5,500 employees in Montréal. This agreement is effective December 1, 2005 and expires November 20, 2008.

BUSINESS AIRCRAFT

During the nine-month period ended October 31, 2006:

- The 100th *Challenger 300* aircraft was delivered.
- The *Challenger 605* aircraft received TC, EASA and FAA type certification.
- The 300th *Learjet 45* aircraft was delivered.
- The next generation *Learjet 40 XR* light jet entered into service.
- The *Learjet 60 XR* aircraft had a successful first flight.

According to data from the General Aviation Manufacturers Association (“GAMA”), the third quarter of calendar year 2006 was a strong one in terms of deliveries and billings of business aircraft, indicating that the market for business aircraft is sustaining steady growth. GAMA’s latest report, dated October 27, 2006, confirms that the Corporation is the business aircraft industry leader in terms of revenue on a calendar year-to-date basis.

Aircraft deliveries

Business aircraft deliveries were as follows for the three-month periods ended October 31:

			2006			2005
		Flexjet	**Total**		*Flexjet*	Total
Narrow body business jets						
Learjet 40/40 XR	**7**	**1**	**8**	8	-	8
Learjet 45/45 XR	**3**	**1**	**4**	7	1	8
Learjet 60	**4**	**-**	**4**	6	-	6
Wide body business jets						
Challenger 300	**8**	**1**	**9**	10	2	12
Challenger 604/Challenger 605	**4**	**1**	**5**	8	-	8
Challenger 800 Series	**1**	**-**	**1**	-	-	-
Bombardier Global 5000	**7**	**-**	**7**	3	-	3
Global Express/Global Express XRS	**4**	**-**	**4**	3	-	3
	38	**4**	**42**	45	3	48

Business aircraft deliveries were as follows for the nine-month periods ended October 31:

			2006			2005
		Flexjet	**Total**		*Flexjet*	Total
Narrow body business jets						
Learjet 40/40 XR	**15**	**2**	**17**	16	1	17
Learjet 45/45 XR	**20**	**1**	**21**	20	1	21
Learjet 60	**12**	**1**	**13**	13	-	13
Wide body business jets						
Challenger 300	**34**	**2**	**36**	30	5	35
Challenger 604/Challenger 605	**19**	**1**	**20**	25	-	25
Challenger 800 Series	**8**	**-**	**8**	2	-	2
Bombardier Global 5000	**13**	**-**	**13**	10	-	10
Global Express/Global Express XRS	**15**	**-**	**15**	9	-	9
	136	**7**	**143**	125	7	132

The 13% decrease in aircraft deliveries for the three-month period reflects lower deliveries of *Learjet 45 XR* and *Learjet 60* aircraft, mainly due to a strike at the Learjet facility in Wichita. Total wide body business jet deliveries were unchanged as higher deliveries of the *Bombardier Global 5000* aircraft were essentially offset by lower deliveries of the *Challenger 604* aircraft due to the transition to the new *Challenger 605* aircraft, which obtained TC, EASA and FAA type certification during the third quarter of the current fiscal year. During the three-month period ended October 31, 2006, one *Challenger 605* green aircraft (i.e. before interiors and optional avionics are installed) was delivered.

The 8% increase in aircraft deliveries for the nine-month period results from the growth in the wide body business jet market. This increase reflects higher deliveries of all aircraft within the category, except for the *Challenger 604* aircraft, compared to the same period last fiscal year. The decline in the *Challenger 604* aircraft deliveries is due to the transition to the new *Challenger 605* aircraft.

Net orders

Aerospace received 57 and 157 net orders, respectively, during the three- and nine-month periods ended October 31, 2006, compared to 58 and 148 net orders, respectively, during the same periods last fiscal year. The order intake remains strong and is consistent with the continued strength of the business aircraft market.

REGIONAL AIRCRAFT

During the third quarter of fiscal year 2007, the Corporation announced that it is adjusting its regional aircraft production rates to reflect current market demand. As a result, starting November 2006, the production rate for the *CRJ700* and *CRJ900* regional jets will be reduced from a rate of one aircraft produced every three days to one aircraft produced every five days. This will reduce the expected deliveries from approximately 65 aircraft in the current fiscal year to approximately 50 aircraft next fiscal year. This reduction will be partially offset by an increase in the *Q400* turboprop production level in response to growing demand for this type of aircraft. The expected deliveries of the *Q-Series* turboprop family (which includes the *Q200*, *Q300*, and *Q400* turboprops) will be approximately 65 deliveries next fiscal year, compared to approximately 50 deliveries in the current fiscal year. For the impact on the workforce, refer to the Workforce and labour relations section.

During the second quarter of fiscal year 2007, the Corporation reached an agreement with Mitsubishi Heavy Industries of Japan ("MHI"), a supplier of aircraft components, to transfer the production of certain components for the *Q400* turboprop to the Corporation's manufacturing facilities in Belfast, Montréal and Mexico, and to China's Shenyang Aircraft Corporation. As part of this agreement, a payment of $84 million was made by MHI to the Corporation in connection with the transfer of production.

Also during the second quarter of fiscal year 2007, due to increasing difficulties in predicting the mix of future orders for the *CRJ700* and *CRJ900* programs as a result of changing scope clauses in the U.S., the Corporation decided to align the accounting completion dates to the earlier of the two original dates for these programs. As a result, accounting aircraft program quantities were reduced from 550 to 420 units and a charge of $74 million was recorded.

As a result of the above-mentioned agreement reached with MHI and the reduction of accounting aircraft program quantities, the Corporation recorded a net gain of $10 million in cost of sales during the second quarter of fiscal year 2007.

Economic environment

As previously disclosed, the U.S. airline industry continues to face financial challenges and has undergone some major restructuring. The Corporation continues to work with certain of its regional airline customers to support their efforts to emerge from bankruptcy protection.

On October 26, 2006, the United States Bankruptcy Court for the Southern District of New York approved agreements between the Corporation, Northwest Airlines, Inc. ("Northwest"), Export Development Canada and General Electric Capital Corporation, in connection with the U.S. bankruptcy-court-approved restructuring arrangements for Northwest. As part of these agreements, the Corporation will pay incentive payments. Some of these incentive payments have given rise to an allowed claim against the estate of Northwest. This claim was sold during the third quarter of fiscal year 2007 for a cash consideration. Also, as part of these agreements, Northwest waived certain of its rights under sales incentive agreements. These agreements had a neutral impact on the results of operations of the Corporation for the three- and nine-month periods ended October 31, 2006.

On June 5, 2006, the Corporation reached an agreement with Delta Air Lines, Inc. ("Delta") in connection with the U.S. bankruptcy-court-approved restructuring arrangement for Delta and Comair, Inc. ("Comair"). As a result of this agreement, payments due to Delta and Comair pursuant to sales incentive agreements were offset against interim financing loans, amounting to $171 million, made by the Corporation to these entities. The agreement reached with Delta had a neutral impact on the results of operations of the Corporation for the nine-month period ended October 31, 2006.

Aerospace is increasing its presence internationally and developing secondary markets for the 50-seat regional jet and has started to expand its operator base in areas outside North America, particularly in Japan, China, India, Latin America, and Russia. Some *CRJ200* aircraft are being remarketed as cargo freighters.

Aircraft deliveries

Regional aircraft deliveries were as follows:

	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Regional jets				
CRJ200	**-**	3	**1**	32
CRJ700	**3**	9	**13**	29
CRJ705	**-**	6	**-**	15
CRJ900	**16**	1	**36**	11
Turboprops				
Q200	**1**	-	**1**	1
Q300	**5**	5	**11**	6
Q400	**6**	2	**19**	9
	31	26	**81**	103

The above deliveries reflect a decline in smaller regional jets (*CRJ200* aircraft) deliveries and a shift in demand towards larger regional jets and turboprops.

Orders and backlog

Regional aircraft orders received by aircraft type were as follows for the three-month periods ended October 31:

				2006	2005
	Orders	**Swaps**	**Cancellations/ Removals**	**Net orders**	Net orders
Regional jets					
CRJ200	**-**	**-**	**(1)**	**(1)**	(31)
CRJ700	**-**	**5**	**(29)**	**(24)**	9
CRJ900	**56**	**(5)**	**-**	**51**	1
Turboprops					
Q200	**1**	**-**	**-**	**1**	1
Q300	**-**	**-**	**-**	**-**	3
Q400	**11**	**-**	**-**	**11**	12
	68	**-**	**(30)**	**38**	(5)

Regional aircraft orders received by aircraft type were as follows for the nine-month periods ended October 31:

				2006	2005
	Orders	**Swaps**	**Cancellations/ Removals**	**Net orders**	Net orders
Regional jets					
CRJ200	**-**	**(15)**	**(1)**	**(16)**	(23)
CRJ700	**5**	**(12)**	**(29)**	**(36)**	43
CRJ900	**65**	**27**	**(1)**	**91**	1
Turboprops					
Q200	**3**	**-**	**-**	**3**	2
Q300	**4**	**-**	**-**	**4**	5
Q400	**20**	**-**	**-**	**20**	21
	97	**-**	**(31)**	**66**	49

- As a result of an agreement reached with US Airways in November 2006, the Corporation removed 29 *CRJ700* and one *CRJ200* aircraft from its order backlog.
- During the third quarter of fiscal year 2007, Mesa Air swapped five *CRJ900* aircraft for five *CRJ700* aircraft.

- During the first quarter of fiscal year 2007, SkyWest, Inc. and Air Nostrum exercised their conversion rights to swap 17 *CRJ700* and eight *CRJ200* aircraft, respectively, for 25 *CRJ900* aircraft. In addition, during the second quarter of fiscal year 2007, Air Nostrum exercised its conversion right to swap seven *CRJ200* aircraft for seven *CRJ900* aircraft.
- During the first quarter of fiscal year 2007, as a result of Styrian Spirit declaring bankruptcy, Aerospace removed one *CRJ900* aircraft from its order backlog.

Aerospace received 97 orders during the nine-month period ended October 31, 2006, including the following orders:

Customer	Aircraft	Number
Regional jets		
Northwest Airlines	*CRJ900*	36
My Way Airlines	*CRJ900*	19(1)
Air One	*CRJ900*	6
GE Commercial Aviation Services (GoJet Airlines)	*CRJ700*	5
Arik Air	*CRJ900*	3
Turboprops		
Frontier Airlines	*Q400*	10
Tassili Airlines	*Q400*	4
National Air Support	*Q300*	3
Luxair	*Q400*	3

(1) In the event of the launch of the *CRJ900X* program (an aircraft to address the 90- to 100-seat market), 15 of these firm orders will be converted to *CRJ900X* aircraft.

The order backlog as well as options and conditional orders for regional aircraft consisted of the following as at October 31, 2006:

	Aircraft on firm order(1)	Options and conditional orders
Regional jets		
CRJ200	-	223
CRJ700	2	158
CRJ900	78	176
Turboprops		
Q200	4	-
Q300	13	11
Q400	65	88
	162	656

(1) There are 15 firm orders in the order backlog with conversion rights to the *CRJ900X* aircraft (see above).

FLEXJET AND SKYJET

The number of customers owning or leasing shares of aircraft, or with an hourly flight time entitlement, was as follows as at:

	October 31, 2006	January 31, 2006
Flexjet	**663**	612
Skyjet	**324**	288
	987	900

Flexjet – The net increase of 51 customers is mainly due to the increasing popularity of certain business aircraft models and *Flexjet* program innovations designed to increase owner value and establish a competitive advantage in the fractional share market.

Skyjet – The net increase of 36 customers is mainly due to increased brand awareness in Europe and in the Middle East.

OTHER ACTIVITIES

Since the start of operations in May 2006, the temporary manufacturing facility in Querétaro, Mexico, has created approximately 200 jobs. This temporary facility continues to deliver wire harnesses. Manufacturing operations at a new permanent facility in Querétaro are scheduled to start during the second half of calendar 2007.

III TRANSPORTATION

OVERVIEW

Highlights of the quarter

- EBIT margin reached 4.0%, compared to 2.6% before special items for the same period last fiscal year.
- $2.8 billion in new orders (book-to-bill ratio of 1.8).
- Free cash flow use of $142 million, a reduction of $15 million compared to the same period last fiscal year.
- Order backlog increased to $23.4 billion, an improvement of $2.5 billion compared to January 31, 2006.
- In November 2006, Transportation signed a contract with the French National Railways (“SNCF”) to supply the new regional train for operation on the Greater Paris/Île-de-France suburban network. The initial order includes 172 trains valued at approximately $1.8 billion, with an option for an additional 200 trains valued at approximately $1.7 billion. The order is not included in the order backlog as at October 31, 2006.

Analysis of results

The results of operations of Transportation using functional currencies other than the U.S. dollar, mainly the euro, the pound sterling and other western European currencies are translated into U.S. dollars using the average exchange rates for the relevant periods. See the Foreign exchange rates section of this MD&A for the average exchange rates used to translate revenues and expenses.

Transportation’s results were as follows:

	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Revenues				
Rolling stock[1]	**$ 939**	$ 954	**$ 2,948**	$ 3,342
Services[2]	**352**	329	**1,018**	984
System and signalling[3] [4]	**256**	229	**791**	678
Total revenues	**1,547**	1,512	**4,757**	5,004
Cost of sales	**1,333**	1,319	**4,120**	4,395
Margin	**214**	193	**637**	609
Operating expenses[5]	**128**	125	**392**	400
EBITDA before special items	**86**	68	**245**	209
Amortization	**24**	29	**76**	83
EBIT before special items	**62**	39	**169**	126
Special items	**-**	25	**24**	51
EBIT	**$ 62**	$ 14	**$ 145**	$ 75
(as a percentage of total revenues)				
Margin	**13.8%**	12.8%	**13.4%**	12.2%
EBITDA before special items	**5.6%**	4.5%	**5.2%**	4.2%
EBITDA	**5.6%**	2.8%	**4.6%**	3.2%
EBIT before special items	**4.0%**	2.6%	**3.6%**	2.5%
EBIT	**4.0%**	0.9%	**3.0%**	1.5%

[1] Comprised of locomotives, mainline (including high-speed, intercity, regional and commuter trains), metros, light rail vehicles, propulsion and controls, and bogies revenues.
[2] Comprised of fleet management, spare parts and logistics management, vehicle refurbishment and overhaul, component refurbishment and overhaul, and technical support revenues.
[3] The revenues of system and signalling are presented in Other revenues in the consolidated statements of income.
[4] Excluding the rolling stock portion of system orders manufactured by other divisions within Transportation.
[5] Comprised of selling, general and administrative and research and development expenses.

Revenues by geographic region

	Three-month periods ended October 31				Nine-month periods ended October 31			
	2006		2005		**2006**		2005	
Europe	**$ 1,176**	**76%**	$ 1,010	67%	**$ 3,375**	**71%**	$ 3,657	73%
North America	**211**	**14%**	315	21%	**794**	**17%**	877	18%
Asia-Pacific	**123**	**8%**	146	9%	**467**	**10%**	366	7%
Other	**37**	**2%**	41	3%	**121**	**2%**	104	2%
	$ 1,547		$ 1,512		**$ 4,757**		$ 5,004	

Rolling stock revenues – The $15-million decrease for the three-month period is mainly due to:

- decreased revenues in North America due to the completion of two major contracts; and
- decreased mainline revenues, mainly in the U.K., due to a lower level of activities in this market.

Partially offset by:

- higher activity in the growing light rail vehicles segment;
- increased activity in the locomotive segment; and
- a positive currency impact, amounting to approximately $30 million.

The $394-million decrease for the nine-month period is mainly due to:

- decreased mainline revenues in the U.K. and Germany, due to a lower level of activities in these markets; and
- decreased revenues in North America, due to the completion of two major contracts.

Partially offset by:

- higher activity in the growing light rail vehicles segment; and
- increased activity in the locomotive segment.

Services revenues – The $23-million increase for the three-month period is mainly due to:

- higher refurbishment activities in North America; and
- a positive currency impact, amounting to approximately $15 million.

The $34-million increase for the nine-month period is mainly due to a higher level of activities in North America and Europe.

System and signalling revenues – The $27-million increase for the three-month period is mainly due to:

- a higher level of activities related to the London Underground contract; and
- a positive currency impact, amounting to approximately $5 million.

The $113-million increase for the nine-month period is mainly due to:

- a higher level of activities related to the London Underground contract; and
- a higher level of activities in Asia (China, Korea and Taiwan) and Spain.

Margin percentage – The 1.0 and 1.2 percentage-point increases for the three- and nine-month periods are mainly due to improvements in contract execution and the positive impact of restructuring initiatives.

Operating expenses – The $3-million increase for the three-month period is mainly due to:

- higher research and development expenses related to product development activities; and
- a negative currency impact amounting to approximately $5 million.

Partially offset by:

- lower general and administrative expenses.

The $8-million decrease for the nine-month period is mainly due to:

- lower bid costs in system and mainline.

Partially offset by:

- higher research and development expenses related to product development activities.

Orders and backlog

Transportation received the following major orders during the nine-month period ended October 31, 2006:

Customer	Product/Service	Number of cars	Rolling stock	Services	System and signalling
Gauteng, provincial government of South Africa	Rapid transit system, incl. electric multiple units (EMUs), type *Electrostar*, *CITYFLO* 250 signalling and 15 year maintenance	96	$ 250[1]	$ 700[1]	$ 700[1]
Chicago Transit Authority, U.S.	Rapid transit vehicles	406	577	-	-
Transport for London (TfL), U.K.	EMUs, type *Electrostar* and 7.5 year maintenance	152	347	78	-
Verkehrsgesellschaft Frankfurt am Main (VGF), Germany	*FLEXITY* Swift high-floor trams	146	361	-	-
First Great Western (FGW), U.K.	Bogie overhaul of high-speed trains and technical development work	-	-	160	-
CBRail (Euro) Limited, U.K.	*TRAXX* locomotives, type F140 MS/DE	35	156	-	-
Metro do Porto, S.A., Portugal	Bi-directional *FLEXITY* Swift low-floor trams	30[2]	105	9	-
FGW, U.K.	Vehicle renovation of high-speed train trailer cars	405	-	100	-

[1] Total contract value, including consortium partner, is $3.3 billion.
[2] Total number of contracted cars, Bombardier and consortium partner combined. Total contract value is $148 million.

In November 2006, Transportation signed a contract with the SNCF to supply the new regional train for operation on the Greater Paris/Île-de-France suburban network. The initial order includes 172 trains valued at approximately $1.8 billion, with an option for an additional 200 trains valued at approximately $1.7 billion.

Also in November 2006, Transportation received an order valued at approximately $605 million for 112 high-capacity trains, AGC type, from the SNCF.

During the nine-month period ended October 31, 2006:

- The order received for *FLEXITY* Swift high-floor trams is the largest light rail vehicle order of the post-war era in Germany.
- Transportation continued its strong order intake in the light rail segment with orders from U.K., Portugal, Italy, Sweden, Germany, and Poland.
- Transportation received a five-year fleet maintenance contract for locomotives from the Italian state railway, Trenitalia. This is the first time that Trenitalia has contracted out full fleet maintenance.
- Transportation received an order from First ScotRail in the U.K. for fleet maintenance, including technical support and innovative remote monitoring and diagnostic systems. Transportation expects to roll out this new technology to additional customers.
- Transportation received an order for 40 advanced rapid transit MK II cars for the Beijing Capital International Airport link, to be fully operational for the 2008 Summer Olympics.
- Transportation received an order to deliver Bombardier *MITRAC* propulsion and controls equipment for Beijing metro. This first order for Beijing metro is expected to further strengthen Transportation’s position in

the growing Chinese metro market. The Class B metro cars for the Beijing metro order will be manufactured locally by a Chinese supplier.

Transportation's order intake was as follows:

(in billions of dollars)	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Rolling stock	**$ 1.0**	$ 1.5	**$ 3.2**	$ 3.6
Services	**1.0**	0.3	**2.0**	1.0
System and signalling	**0.8**	0.3	**1.2**	0.7
	$ 2.8	$ 2.1	**$ 6.4**	$ 5.3

Transportation's order backlog was as follows as at:

(in billions of dollars)	**October 31, 2006**	January 31, 2006
Rolling stock	**$ 12.1**	$ 11.6
Services	**5.6**	4.4
System and signalling	**5.7**	4.9
	$ 23.4	$ 20.9

The increase in the value of the order backlog is mainly due to higher order intake compared to revenue recorded and reflects the net positive currency adjustment, amounting to approximately $830 million. The net positive currency adjustment results mainly from the strengthening of the euro and the pound sterling compared to the U.S. dollar as at October 31, 2006 compared to January 31, 2006.

RESTRUCTURING

The restructuring plan to reduce the cost structure in Transportation is essentially completed. Net cash outflows are expected to amount to $467 million, of which $385 million had been disbursed as of October 31, 2006. For the three- and nine-month periods ended October 31, 2006, net cash outflows amounted to $11 million and $68 million ($30 million and $70 million for the same periods last fiscal year).

OTHER

In June 2006, Transportation delivered the 1,000th metro car to operators in China. In addition, the 1,000th M-7 car for the Long Island Rail Road/Metro-North Railroad contract was delivered in June 2006.

The Transportation-built Nottingham Express Transit light rail system won the "Best Operational Transport Project" in the U.K. at the Public Private Finance Awards ceremony held in May 2006.

Transportation's double-deck coaches rank as the most reliable vehicles in daily operation by Deutsche Bahn, resulting in a high level of satisfaction both with the passengers and the customer.

In September 2006, Transportation launched several new products at the most important rail fair in Europe (InnoTrans, Germany) including:

- The predictive maintenance system *ORBITA*, which is designed to help operators increase fleet utilization, improve reliability and availability and ultimately improve the passengers overall journey experience. *ORBITA* is expected to support Transportation's growth in the services market.
- The new *SEKURFLO* integrated solution for rail security, which will enable Transportation to better support its customers in increasing passenger security.
- The *MITRAC* TCMS (Train Control and Management System), which demonstrated its uniqueness in the market in terms of advanced Internet protocol technology, open architecture, integration and train to wayside communication capability. The *MITRAC* TCMS is the enabling platform for new solutions such as Transportation's *SEKURFLO*, *ORBITA* and PIES (Passenger information and entertainment).
- The new diesel-electric *TRAXX* locomotive, which completes the *TRAXX* platform family of locomotives and strengthens Transportation's position in the diesel locomotive market.

IV FINANCIAL POSITION

Total assets amounted to $16.8 billion as at October 31, 2006, compared to $17.5 billion as at January 31, 2006.

Receivables
Receivables amounted to $1.9 billion as at October 31, 2006, compared to $1.7 billion as at January 31, 2006. This increase is mainly due to a higher level of receivables in Aerospace.

Aircraft financing
Aircraft financing amounted to $1.2 billion as at October 31, 2006, compared to $1.5 billion as at January 31, 2006. This decrease is mainly due to a reduction in commercial aircraft interim financing, as a result of permanent financing of aircraft. The decrease in interim financing is also due to an agreement reached with Delta (see Regional aircraft section above).

Inventories
Inventories are presented net of the related payments and progress billings on contracts and programs. However, advances and progress billings in excess of related costs, determined on a contract-by-contract basis, are reported as liabilities.

Gross inventories were $7.3 billion ($4.5 billion net of payments and progress billings) as at October 31, 2006, compared to $6.5 billion ($3.8 billion net of payments and progress billings) as at January 31, 2006. The increase in gross inventories is mainly due to the increase in Aerospace work-in-process inventory (mainly business aircraft) and finished products, and to the translation adjustment arising mainly from the strengthening of the euro and pound sterling compared to the U.S. dollar (“the currency impact”), amounting to approximately $130 million.

Total payments, advances and progress billings amounted to $5.0 billion as at October 31, 2006, compared to $4.9 billion as at January 31, 2006; $2.2 billion of advances and progress billings are shown as liabilities as at October 31, 2006 and January 31, 2006. The increase in total payments, advances and progress billings is mainly due to the currency impact, amounting to approximately $125 million.

Goodwill
Goodwill amounted to $2.3 billion as at October 31, 2006, compared to $2.1 billion as at January 31, 2006. This increase is due to the currency impact, amounting to $110 million.

Assets held for sale and liabilities related to assets held for sale
Assets held for sale amounted to nil as at October 31, 2006, compared to $237 million as at January 31, 2006. Liabilities related to assets held for sale amounted to nil as at October 31, 2006, compared to $42 million as at January 31, 2006. These decreases result from the sales of the consumer finance and on- and off-balance sheet freight car operations in May 2006 and October 2006 respectively (see note 4 – Discontinued operations and assets held for sale to the interim consolidated financial statements).

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities amounted to $6.7 billion as at October 31, 2006, compared to $6.9 billion as at January 31, 2006. This decrease is mainly due to a lower level of accounts payable and accrued liabilities in Transportation, partially offset by a higher level of accounts payable and accrued liabilities in Aerospace and by the currency impact, amounting to approximately $140 million. The decrease is also due to the reduction in Aerospace sales incentive liabilities as a result of the agreement reached with Delta (see Regional aircraft section above).

Long-term debt
Long-term debt amounted to $3.9 billion as at October 31, 2006, compared to $4.7 billion as at January 31, 2006. This decrease is mainly due to:

- the repayments of $450 million and $200 million Cdn ($176 million) of BC’s medium-term notes in June and July 2006, respectively; and
- the repayment of £175 million ($305 million) of debentures in February 2006.

Partially offset by:

- the currency impact, amounting to $108 million.

See Capital Resources section for additional information on long-term debt.

V CASH FLOWS

The following summarizes the cash flows as reported in the consolidated statements of cash flows:

	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Income (loss) from continuing operations	**$ 53**	$ (1)	**$ 131**	$ 50
Non-cash items	**137**	190	**411**	470
Net change in non-cash balances related to operations	**(255)**	156	**(840)**	(531)
Cash flows from operating activities	**(65)**	345	**(298)**	(11)
Net additions to property, plant and equipment	**(52)**	(2)	**(212)**	(104)
Free cash flow	**(117)**	343	**(510)**	(115)
Cash flows from investing activities (excluding net additions to property, plant and equipment)	**78**	66	**158**	1,553
Cash flows from financing activities	**(54)**	(247)	**(1,035)**	(655)
Effect of exchange rate changes on cash and cash equivalents	**(33)**	(5)	**83**	(194)
Cash flows from continuing operations	**(126)**	157	**(1,304)**	589
Cash flows from discontinued operations	**13**	16	**63**	(465)
Net increase (decrease) in cash and cash equivalents	**$ (113)**	$ 173	**$ (1,241)**	$ 124

Cash flows from operating activities
The $410-million and $287-million decreases for the three- and nine-month periods are mainly due to the variation in net change in non-cash balances related to operations of the Aerospace segment.

Net additions to property, plant and equipment
The $50-million and $108-million increases for the three- and nine-month periods are mainly due to higher net additions in Aerospace.

Segmented free cash flow
The free cash flow by segment was as follows for the three-month periods ended October 31:

				2006			2005
	BA	**BT**	**Total**	BA	BT	Total
EBIT	**$ 43**	**$ 62**	**$ 105**	$ 31	$ 14	$ 45
Non-cash items						
Amortization						
Program tooling	**69**	**-**	**69**	65	-	65
Other	**36**	**24**	**60**	45	29	74
Provision for credit losses	**(4)**	**-**	**(4)**	(1)	-	(1)
Loss (gain) on disposals of property, plant and equipment	**(1)**	**-**	**(1)**	7	(1)	6
Stock-based compensation	**1**	**3**	**4**	1	1	2
Special items	**-**	**-**	**-**	-	25	25
Net change in non-cash balances related to operations	**(80)**	**(225)**	**(305)**	332	(203)	129
Net additions to property, plant and equipment	**(46)**	**(6)**	**(52)**	(10)	8	(2)
Segmented free cash flow	**$ 18**	**$ (142)**	**(124)**	$ 470	$ (127)	343
Income taxes and net financing expense[1]			**7**			-
Free cash flow			**$ (117)**			$ 343

BA: Aerospace; BT: Transportation.
[1] Income taxes and net financing expense are not allocated to segments.

The free cash flow by segment was as follows for the nine-month periods ended October 31:

			2006			2005
	BA	**BT**	**Total**	BA	BT	Total
EBIT	**$ 164**	**$ 145**	**$ 309**	$ 159	$ 75	$ 234
Non-cash items						
Amortization						
Program tooling	**206**	**-**	**206**	195	-	195
Other	**108**	**76**	**184**	121	83	204
Provision for credit losses	**10**	**-**	**10**	(2)	-	(2)
Loss (gain) on disposals of property, plant and equipment	**(1)**	**(1)**	**(2)**	6	(1)	5
Stock-based compensation	**5**	**6**	**11**	4	3	7
Special items	**-**	**24**	**24**	-	51	51
Net change in non-cash balances related to operations	**(265)**	**(570)**	**(835)**	41	(557)	(516)
Net additions to property, plant and equipment	**(184)**	**(28)**	**(212)**	(94)	(10)	(104)
Segmented free cash flow	**$ 43**	**$ (348)**	**(305)**	$ 430	$ (356)	74
Income taxes and net financing expense[1]			**(205)**			(189)
Free cash flow			**$ (510)**			$ (115)

BA: Aerospace; BT: Transportation.
[1] Income taxes and net financing expense are not allocated to segments.

- ***Aerospace*** – The $452-million decrease in segmented free cash flow for the three-month period is mainly due to the positive impact of the closing of the RASPRO securitization on last fiscal year's free cash flow, partially offset by positive variations in accounts payable and accrued liabilities and advances compared to the same period last fiscal year. The $387-million decrease in segmented free cash flow for the nine-month period is mainly due to negative variations in aircraft financing reflecting the closing of the RASPRO securitization last fiscal year. This decrease is also due to negative variations in inventories and receivables compared to the same period last fiscal year, partially offset by positive variations in advances and accounts payable and accrued liabilities.

- ***Transportation*** – The $15-million decrease in segmented free cash flow for the three-month period is mainly due to negative variations in inventories compared to the same period last fiscal year, partially offset by positive variations in advances and accounts payable and accrued liabilities compared to the same period last fiscal year. The $8-million increase in segmented free cash flow for the nine-month period is mainly due to

positive variations in advances and accounts receivable compared to the same period last fiscal year, partially offset by negative variations in inventories.

Cash flows from investing activities (excluding net additions to property, plant and equipment)
Cash flows for the three- and nine-month periods ended October 31, 2006 and 2005 mainly reflect the disposal of discontinued operations, net of cash disposed (see note 4 – Discontinued operations and assets held for sale to the interim consolidated financial statements).

Cash flows from financing activities
Cash flows used for the three-month period ended October 31, 2006 mainly reflect the repayment of $27 million of long-term debt and the purchase of Class B Shares (Subordinate Voting), amounting to $20 million, in connection with the Corporation's performance stock unit ("PSU") plan.

Cash flows used for the three-month period ended October 31, 2005 mainly reflect the repayment of $226 million of long-term debt and the purchase of Class B Shares (Subordinate Voting), amounting to $14 million, in connection with the Corporation's PSU plan.

Cash flows used for the nine-month period ended October 31, 2006 mainly reflect the repayments of $450 million and $200 million Cdn ($176 million) of BC's medium-term notes in June and July 2006, respectively, the repayment of £175 million ($305 million) of debentures in February 2006, dividends paid of $21 million and the above-mentioned purchase of Class B Shares (Subordinate Voting) of $20 million.

Cash flows used for the nine-month period ended October 31, 2005 mainly reflect the net repayment of $629 million of long-term debt, dividends paid of $19 million and the above-mentioned purchase of Class B Shares (Subordinate Voting) of $14 million.

Cash flows from discontinued operations
Cash flows for the three-month periods ended October 31, 2006 and 2005 reflect cash flows from operating activities.

Cash flows for the nine-month period ended October 31, 2006 mainly reflect cash flows from operating activities.

Cash flows used for the nine-month period ended October 31, 2005 reflect:

- cash flows used in financing activities of $588 million.

Partially offset by:

- cash flows from investing and operating activities totalling $123 million.

As a result of the items discussed above, cash and cash equivalents amounted to $1.7 billion as at October 31, 2006, compared to $2.9 billion as at January 31, 2006.

VI CAPITAL RESOURCES

The details of the available and outstanding amounts under the bank credit facilities as at October 31, 2006 and January 31, 2006 are provided in note 6 – Short-term borrowings to the interim consolidated financial statements.

In November 2006, the Corporation issued the following senior notes:

- €800 million ($1,025 million), floating rate, due in November 2013;
- $385 million, bearing interest at 8%, due in November 2014; and
- €800 million ($1,025 million), bearing interest at 7.25%, due in November 2016.

The issuance of the senior notes is part of a refinancing plan to provide the Corporation with increased financial and operating flexibility. The refinancing plan also contemplates the entering into a new €4.3 billion syndicated letter of credit facility, in December 2006, to replace existing credit facilities prior to their maturity.

The net proceeds from this issue will be used for the following:

- to retire all of the outstanding $220 million notes due in March 2007;
- to repurchase all of the outstanding €500 million ($640 million) notes due in May 2007;

- to repurchase €218 million ($279 million) of the outstanding €500 million ($640 million) notes due in February 2008;
- to fund the cash collateral expected to be deposited to secure the Corporation's obligations to the banks issuing letters of credit, under the contemplated syndicated letter of credit facility, expected to amount to €860 million ($1,102 million); and
- for general corporate purposes, including the payment of fees and expenses in connection with the issuance of the senior notes.

The exchange rate as at November 16, 2006, the closing date of the issuance of the senior notes, was used to convert the above nominal amounts into U.S. dollars.

The Corporation considers that its current cash position as well as its current credit facilities and expected capital resources will enable the implementation of investment programs, the development of new products, the pursued growth of its activities, the payment of dividends on preferred shares and allow it to meet other expected financial requirements.

The available short-term capital resources were as follows as at:

	Credit facilities		Cash and cash	Available short-term
	Committed	Amounts available	equivalents[1]	capital resources
October 31, 2006	**$ 5,493**	**$ 1,498**	**$ 1,681**	**$ 3,179**
January 31, 2006	$ 5,282	$ 1,033	$ 2,917	$ 3,950

[1] Including $1.0 billion of cash and cash equivalents required to meet the minimum liquidity requirement (under banking syndicate agreements) at the end of each quarter.

The variation in available short-term capital resources was as follows for the nine-month period ended October 31, 2006:

Balance as at January 31, 2006	$ 3,950
Repayment of long-term debt	(994)
Free cash flow	(510)
Reduction in letters of credit drawn (net of exchange rate changes)	254
Translation adjustment on committed credit facilities arising from the strengthening of the euro compared to the U.S. dollar	211
Disposal of discontinued operations, net of cash disposed	161
Effect of exchange rate changes on cash and cash equivalents	83
Cash flows from discontinued operations	63
Purchase of common shares held in trust	(20)
Other	(19)
Balance as at October 31, 2006	**$ 3,179**

VII FINANCIAL ARRANGEMENTS

Interim financing support

In connection with the sale of commercial aircraft, a government agency has provided customers with $135 million of financing, expiring at various dates, up to December 20, 2006. This financing funded a percentage of the sale price of aircraft. The balance of the sale price, amounting to $16 million, financed by the Corporation on a subordinated basis, is included in Aircraft financing (commercial aircraft interim financing portfolio) as at October 31, 2006. The Corporation has committed to provide permanent financing to these customers in the event that alternative permanent financing cannot be obtained from third parties. This commitment is included in the $2.4-billion financing commitments referred to in note 15d) to the interim consolidated financial statements.

RASPRO

As previously disclosed in the Corporation's annual report for fiscal year 2006, it was discovered, during the last fiscal year, that the cash flows of the RASPRO structure would be different from those anticipated. On July 13, 2006, the Corporation and its structuring agent, Wachovia Capital Markets, LLC, agreed on certain actions to be taken to adjust the cash flows of RASPRO. These actions consist mainly of additional payments that were made or will be made to the RASPRO structure by various parties (including parties not affiliated with the Corporation). The Corporation's participation in these additional payments consisted of the purchase on July 13, 2006 of

$23 million of rights to a portion of the residual value proceeds of certain aircraft financed by the RASPRO structure.

In addition, the Corporation is currently negotiating with a government agency to finalize the details of the Corporation's indirect financial support to them in connection with RASPRO and other financing structures related to the sale of regional aircraft.

The impact of the above did not have a material effect on the provision for contingencies for the three- and nine-month periods ended October 31, 2006.

The events described above create a reconsideration event under the variable interest entity ("VIE") rules. As a result, an assessment of whether or not consolidation of RASPRO and other VIEs benefiting from the financial support of this government agency may be required. The outcome of these events may result in the consolidation on the Corporation's financial statements of significant additional assets and liabilities of VIEs.

VIII FOREIGN EXCHANGE RATES

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

The period-end exchange rates used to translate assets and liabilities were as follows as at:

	October 31, 2006	January 31, 2006	Increase
Euro	**1.2773**	1.2157	5%
Canadian dollar	**0.8907**	0.8742	2%
Pound sterling	**1.9083**	1.7814	7%

The average exchange rates used to translate revenues and expenses were as follows for the three-month periods ended October 31:

	2006	2005	Increase
Euro	**1.2720**	1.2188	4%
Canadian dollar	**0.8919**	0.8422	6%
Pound sterling	**1.8848**	1.7885	5%

The average exchange rates used to translate revenues and expenses were as follows for the nine-month periods ended October 31:

	2006	2005	Increase
Euro	**1.2502**	1.2525	-
Canadian dollar	**0.8856**	0.8203	8%
Pound sterling	**1.8304**	1.8331	-

IX SHARE DATA

The following table provides authorized and issued and outstanding share data as at October 31, 2006.

	Authorized	Issued and outstanding
Class A Shares (Multiple Voting)[1]	1,892,000,000	317,053,136
Class B Shares (Subordinate Voting)[2]	1,892,000,000	1,433,413,832
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	2,597,907
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	9,402,093
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

(1) 10 votes each, convertible at the option of the holder into one Class B Share (Subordinate Voting).
(2) Convertible at the option of the holder into one Class A Share (Multiple Voting) under certain conditions.

The following table provides share option and PSU data as at October 31, 2006.

Options issued and outstanding	47,237,900
PSUs issued and outstanding	8,061,706
Class B Shares held in trust to satisfy PSU obligations	11,847,000

X SELECTED QUARTERLY INFORMATION

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

	2007	2006						2005
	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter
Revenues	**$ 3,388**	$ 3,515	$ 3,526	$ 4,035	$ 3,301	$ 3,633	$ 3,757	$ 4,725
Income (loss) from continuing operations, net of tax	**$ 53**	$ 57	$ 21	$ 85	$ (1)	$ 10	$ 41	$ 47
Income (loss) from discontinued operations, net of tax	**21**	1	3	1	(8)	107	14	9
Net income (loss)	**$ 74**	$ 58	$ 24	$ 86	$ (9)	$ 117	$ 55	$ 56
Earnings (loss) per share:								
Basic and diluted								
From continuing operations	**$ 0.03**	$ 0.03	$ 0.01	$ 0.05	$ -	$ -	$ 0.02	$ 0.02
Net income (loss)	**$ 0.04**	$ 0.03	$ 0.01	$ 0.05	$ (0.01)	$ 0.06	$ 0.03	$ 0.03

November 28, 2006

Additional information relating to Bombardier Inc., including the Corporation's annual report and annual information form, can be found on SEDAR at www.sedar.com or on Bombardier Inc.'s website at www.bombardier.com.

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BOMBARDIER INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited)
(In millions of U.S. dollars, except number of shares)

	Notes	October 31, 2006	January 31, 2006
Assets			
Cash and cash equivalents	6	**$ 1,681**	$ 2,917
Receivables		**1,890**	1,684
Aircraft financing	2	**1,157**	1,457
Inventories	3	**4,485**	3,805
Property, plant and equipment		**2,991**	3,090
Goodwill		**2,252**	2,142
Fractional ownership deferred costs		**319**	270
Deferred income taxes		**750**	653
Accrued benefit assets		**380**	384
Assets held for sale	4	**-**	237
Other assets	5	**904**	843
		$ 16,809	$ 17,482
Liabilities			
Accounts payable and accrued liabilities	7	**$ 6,707**	$ 6,866
Advances and progress billings in excess of related costs	3	**2,221**	2,191
Fractional ownership deferred revenues		**394**	325
Deferred income taxes		**10**	9
Long-term debt	8	**3,891**	4,747
Accrued benefit liabilities		**941**	877
Liabilities related to assets held for sale	4	**-**	42
		14,164	15,057
Shareholders' equity			
Preferred shares			
Issued and outstanding:			
Series 2: 2,597,907		**51**	51
Series 3: 9,402,093		**148**	148
Series 4: 9,400,000		**148**	148
Common shares			
Issued and outstanding:			
Class A: 317,053,136 (319,260,212 as at January 31, 2006)		**29**	29
Class B: 1,433,413,832 (1,431,206,756 as at January 31, 2006)		**1,413**	1,413
Purchased and held in trust under the performance share unit plan: 11,847,000 Class B (5,434,000 as at January 31, 2006)	9	**(34)**	(14)
Contributed surplus		**31**	20
Retained earnings		**660**	525
Cumulative translation adjustment		**199**	105
		2,645	2,425
		$ 16,809	$ 17,482
Commitments and contingencies	15		

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)
(In millions of U.S. dollars, except per share amounts)

	Notes	Three-month periods ended October 31		Nine-month periods ended October 31	
		2006	2005 (restated - note 1)	**2006**	2005 (restated - note 1)
Revenues					
Manufacturing		**$ 2,374**	$ 2,279	**$ 7,344**	$ 7,706
Services		**669**	669	**1,959**	1,893
Other		**345**	353	**1,126**	1,092
		3,388	3,301	**10,429**	10,691
Cost of sales		**2,919**	2,842	**8,962**	9,244
Selling, general and administrative		**192**	205	**615**	627
Research and development		**43**	45	**129**	136
Amortization		**129**	139	**390**	399
Special items	10	**-**	25	**24**	51
		3,283	3,256	**10,120**	10,457
Income from continuing operations before the following:		**105**	45	**309**	234
Financing income	11	**(31)**	(39)	**(109)**	(104)
Financing expense	11	**81**	87	**257**	265
Income (loss) from continuing operations before income taxes		**55**	(3)	**161**	73
Income taxes expense (recovery)		**2**	(2)	**30**	23
Income (loss) from continuing operations		**53**	(1)	**131**	50
Income (loss) from discontinued operations, net of tax	4	**21**	(8)	**25**	113
Net income (loss)		**$ 74**	$ (9)	**$ 156**	$ 163
Earnings (loss) per share:	12				
Basic and diluted					
From continuing operations		**$ 0.03**	$ -	**$ 0.06**	$ 0.02
Net income (loss)		**$ 0.04**	$ (0.01)	**$ 0.08**	$ 0.08

	Notes	Three-month 2006	Three-month 2005	Nine-month 2006	Nine-month 2005
Retained earnings at beginning of period		**$ 593**	$ 461	**$ 525**	$ 301
Net income (loss)		**74**	(9)	**156**	163
Dividends on preferred shares		**(7)**	(7)	**(21)**	(19)
Retained earnings at end of period		**$ 660**	$ 445	**$ 660**	$ 445

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

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

	Notes	Three-month periods ended October 31		Nine-month periods ended October 31	
		2006	2005 (restated - note 1)	**2006**	2005 (restated - note 1)
Operating activities					
Income (loss) from continuing operations		**$ 53**	$ (1)	**$ 131**	$ 50
Non-cash items:					
Amortization		**129**	139	**390**	399
Provision for credit losses	2	**(4)**	(1)	**10**	(2)
Deferred income taxes		**9**	19	**(22)**	10
Loss (gain) on disposals of property, plant and equipment		**(1)**	6	**(2)**	5
Stock-based compensation	9	**4**	2	**11**	7
Special items	10	**-**	25	**24**	51
Net change in non-cash balances related to operations	13	**(255)**	156	**(840)**	(531)
Cash flows from operating activities		**(65)**	345	**(298)**	(11)
Investing activities					
Additions to property, plant and equipment		**(68)**	(46)	**(232)**	(185)
Disposals of property, plant and equipment		**16**	44	**20**	81
Disposal of discontinued operations, net of cash disposed	4	**94**	-	**161**	1,363
Other		**(16)**	66	**(3)**	190
Cash flows from investing activities		**26**	64	**(54)**	1,449
Financing activities					
Proceeds from issuance of long-term debt		**-**	-	**-**	7
Repayment of long-term debt	8	**(27)**	(226)	**(994)**	(629)
Purchase of common shares - held in trust	9	**(20)**	(14)	**(20)**	(14)
Dividends paid		**(7)**	(7)	**(21)**	(19)
Cash flows from financing activities		**(54)**	(247)	**(1,035)**	(655)
Effect of exchange rate changes on cash and cash equivalents		**(33)**	(5)	**83**	(194)
Cash flows from continuing operations		**(126)**	157	**(1,304)**	589
Cash flows from discontinued operations	4	**13**	16	**63**	(465)
Net increase (decrease) in cash and cash equivalents		**(113)**	173	**(1,241)**	124
Cash and cash equivalents at beginning of period		**1,794**	2,306	**2,922**	2,355
Cash and cash equivalents at end of period [1]		**$ 1,681**	$ 2,479	**$ 1,681**	$ 2,479
[1] Included the following:					
Cash and cash equivalents related to:					
Continuing operations		**$ 1,681**	$ 2,475	**$ 1,681**	$ 2,475
Discontinued operations	4	**-**	4	**-**	4
		$ 1,681	$ 2,479	**$ 1,681**	$ 2,479
Supplemental information					
Cash paid for:					
Interest		**$ 87**	$ 13	**$ 288**	$ 241
Income taxes		**$ 7**	$ 8	**$ 57**	$ 31

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine-month period ended October 31, 2006

(Unaudited)

(Tabular figures in millions of U.S. dollars, unless otherwise indicated)

Bombardier Inc. ("the Corporation") is incorporated under the laws of Canada and is a manufacturer of transportation solutions, from business jets and regional aircraft to rail transportation equipment and systems, and a provider of related services.

1. BASIS OF PRESENTATION

The interim consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim consolidated financial statements, and follow the same accounting policies and methods in their application as the most recent annual Consolidated Financial Statements. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim consolidated financial statements. Such adjustments are of a normal and recurring nature. The interim consolidated financial statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in the Corporation's annual report for fiscal year 2006.

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full fiscal year. Historically, the aerospace segment ("Aerospace") has had higher aircraft deliveries during the fourth quarter compared to the first three quarters of the fiscal year, generating higher revenues and gross margin in this quarter.

During fiscal year 2006, the Corporation continued with its strategy of reducing Bombardier Capital's ("BC") operations and BC ceased to be reported as a separate segment effective the fourth quarter of fiscal year 2006. The most significant changes in the basis of presentation of the Corporation's interim consolidated financial statements include the following:

- ***Discontinued operations and assets held for sale*** – BC's inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations have been presented as discontinued operations in the consolidated statements of income and cash flows, and the related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale on separate captions in the consolidated balance sheets (see note 4 – Discontinued operations and assets held for sale).

- ***Aircraft financing*** – BC's core operations consisting of commercial aircraft financing, and business aircraft lending operations, are managed by Aerospace and therefore, these operations are part of the aerospace segment's results. BC's portfolios related to aircraft financing operations are included in Aircraft financing, together with other assets related to aircraft financing of Aerospace. The remainder of BC's operations is not significant and the related assets are included in Other assets in the consolidated balance sheets.

- ***Presentation of BC*** – The financial position, results of operations and cash flows of BC are no longer presented in separate columns in the consolidated balance sheets, statements of income and statements of cash flows.

- ***Financing income and Financing expense*** – Interest income, including interest income generated from the portfolios of the former BC segment, is classified in Financing income. BC's interest income was previously included in Financing revenues and other interest income was included in Interest expense, net. The interest expense on the long-term debt of the former BC segment, previously included in Cost of sales, is classified in Financing expense. In addition, certain financing costs were reclassified from Aerospace's cost of sales to Financing expense.

Bombardier Inc. and its subsidiaries carry out their operations in two distinct segments, the aerospace segment and the transportation segment ("Transportation"), each one characterized by a specific operating cycle; therefore, the consolidated balance sheets are unclassified. Most legal entities of Transportation use a December 31 fiscal year end. As a result, the Corporation consolidates the operations of Transportation with a one-month lag with the remainder of its operations. To the extent that significant transactions or events occur

during the one-month lag period, the Corporation's interim consolidated financial statements are adjusted accordingly.

Certain of the comparative figures were reclassified to conform to the presentation adopted in the current period.

2. AIRCRAFT FINANCING

Aircraft financing was as follows as at:

	October 31, 2006	January 31, 2006
Commercial aircraft		
Interim financing[1]		
Loans	**$ 168**	$ 435
Lease receivables	**318**	388
	486	823
Long-term financing		
Loans	**312**	278
Lease receivables[2]	**103**	104
	415	382
Business aircraft loans[3]	**40**	58
Total loans and lease receivables	**941**	1,263
Allowance for credit losses	**(92)**	(84)
	849	1,179
Assets under operating leases	**248**	230
Investment in financing structures	**60**	48
	$ 1,157	$ 1,457

[1] The commercial aircraft interim financing portfolio consists of bridge financing to customers until third party permanent financing is put in place.
[2] Includes $22 million of lease receivables related to consolidated variable interest entities ("VIEs") as at October 31, 2006 ($67 million as at January 31, 2006).
[3] This portfolio is being wound down.

Loans and lease receivables – Financing with three airlines represents approximately 51% of the total loans and lease receivables as at October 31, 2006 (three airlines represented 41% as at January 31, 2006). Loans and lease receivables are generally collateralized by the related assets.

Allowance for credit losses – Changes in the allowance for credit losses were as follows:

	Three-month periods ended October 31		**Nine-month periods ended October 31**	
	2006	2005	**2006**	2005
Balance at beginning of period	**$ 99**	$ 93	**$ 84**	$ 94
Provision for credit losses	**(4)**	(1)	**10**	(2)
Amounts charged off, net of recoveries	**(3)**	-	**(2)**	-
Balance at end of period	**$ 92**	$ 92	**$ 92**	$ 92

Impaired loans and lease receivables amounted to $50 million as at October 31, 2006 ($237 million as at January 31, 2006).

Assets under operating leases – Assets under operating leases were as follows as at:

	October 31, 2006		January 31, 2006	
	Cost	**Net book value**	Cost	Net book value
Pre-owned commercial aircraft	**$ 268**	**$ 195**	$ 292	$ 190
Pre-owned business aircraft	**61**	**53**	42	40
	$ 329	**$ 248**	$ 334	$ 230

3. INVENTORIES

Inventories were as follows as at:

	October 31, 2006	January 31, 2006
Long-term contracts		
Costs incurred and recorded margins	**$ 3,398**	$ 3,199
Less: payments received and progress billings[(1)]	**(1,749)**	(1,818)
	1,649	1,381
Aerospace programs		
Costs incurred	**2,923**	2,520
Less: payments received[(2)]	**(1,039)**	(916)
	1,884	1,604
Finished products[(3)]	**952**	820
	$ 4,485	$ 3,805

(1) Payments received, regarded as payments on account of work performed, amounting to $1,749 million as at October 31, 2006 ($1,818 million as at January 31, 2006), have been deducted from long-term contract inventories. Advances received and progress billings in excess of related costs, amounting to $1,652 million as at October 31, 2006 ($1,640 million as at January 31, 2006), represent a liability disclosed as advances and progress billings in excess of related costs on the consolidated balance sheets.

(2) Payments received, regarded as payments on account of work performed, amounting to $1,039 million as at October 31, 2006 ($916 million as at January 31, 2006), have been deducted from aerospace program inventories. Advances received in excess of related costs, amounting to $569 million as at October 31, 2006 ($551 million as at January 31, 2006), represent a liability disclosed as advances and progress billings in excess of related costs on the consolidated balance sheets.

(3) Finished products included six new aircraft not associated with a firm order and 20 pre-owned aircraft, totalling $230 million as at October 31, 2006 (six new aircraft and eight pre-owned aircraft, totalling $155 million as at January 31, 2006).

During the second quarter of fiscal year 2007, due to increasing difficulties in predicting the mix of future orders for the *CRJ700* and *CRJ900* programs as a result of changing scope clauses in the U.S., the Corporation decided to align the accounting completion dates to the earlier of the two original dates for these programs. As a result, accounting aircraft program quantities were reduced from 550 to 420 units and a charge of $74 million was recorded in cost of sales.

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

In October 2006, the Corporation sold its on- and off-balance sheet freight car operations for cash proceeds of $94 million. As a result, an after-tax gain amounting to $19 million was recorded during the third quarter of fiscal year 2007.

In May 2006, the Corporation sold its consumer finance operations for cash proceeds of $67 million, which resulted in an after-tax loss of $2 million.

In addition, discontinued operations and assets held for sale include the following operations of BC:

- inventory finance, sold in May 2005;
- on-balance sheet manufactured housing, sold in July 2005; and
- off-balance sheet manufactured housing, transfer of related servicing rights and obligations, completed in March 2006.

The related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale on separate captions in the consolidated balance sheets and the related results of operations have been presented as discontinued operations in the consolidated statements of income and cash flows for all periods presented.

The assets held for sale and the related liabilities were as follows as at:

	October 31, 2006	January 31, 2006
Assets		
Cash and cash equivalents	**$ -**	$ 5
Receivables	**-**	58
Deferred income taxes	**-**	33
Other assets[1]	**-**	141
	$ -	$ 237
Liabilities		
Accounts payable and accrued liabilities	**$ -**	$ 40
Long-term debt	**-**	2
	$ -	$ 42

[1] Includes $77 million of finance receivables and $31 million of assets under operating leases.

The results of operations, including allocated interest expense, were as follows:

	Three-month periods ended October 31		**Nine-month periods ended October 31**	
	2006	2005	**2006**	2005
Revenues - Other	**$ 16**	$ 26	**$ 64**	$ 151
Cost of sales	**12**	19	**46**	89
Selling, general and administrative	**1**	3	**6**	29
Amortization	**-**	-	**-**	2
	13	22	**52**	120
Income before income taxes	**3**	4	**12**	31
Income taxes	**1**	2	**4**	11
	2	2	**8**	20
Gain (loss), net of tax, on sale of:				
On- and off-balance sheet freight car operations	**19**	-	**19**	-
Off-balance sheet manufactured housing operations	**-**	(10)	**-**	(10)
Inventory finance operations	**-**	-	**-**	121
On-balance sheet manufactured housing operations	**-**	-	**-**	(18)
Consumer finance operations	**-**	-	**(2)**	-
	$ 21	$ (8)	**$ 25**	$ 113

The cash flows from discontinued operations were as follows:

	Three-month periods ended October 31		**Nine-month periods ended October 31**	
	2006	2005	**2006**	2005
Operating activities	**$ 13**	$ 16	**$ 65**	$ 53
Investing activities	**-**	-	**-**	70
Financing activities	**-**	-	**(2)**	(588)
	$ 13	$ 16	**$ 63**	$ (465)

5. OTHER ASSETS

Other assets were as follows as at:

	October 31, 2006	January 31, 2006
Prepaid expenses	**$ 161**	$ 178
Finite-life intangible assets, net of accumulated amortization of $110 million as at October 31, 2006 ($94 million as at January 31, 2006)	**144**	148
Investment in companies subject to significant influence[1]	**129**	97
Investment in securities	**93**	91
Restricted cash[2]	**93**	81
Derivative financial instruments	**34**	28
Loans	**31**	14
Wind-down portfolios[3]	**23**	41
Deposits	**19**	14
Investment in preferred shares of the Corporation's former recreational products segment	**-**	30
Other	**177**	121
	$ 904	$ 843

[1] Related mostly to Transportation.
[2] Includes $72 million of restricted cash related to consolidated VIEs as at October 31, 2006 ($70 million as at January 31, 2006).
[3] Comprised mainly of BC's industrial equipment portfolio.

6. SHORT-TERM BORROWINGS

Under banking syndicate agreements, the Corporation must maintain certain financial covenants, including a minimum liquidity of $1.0 billion in cash and cash equivalents at the end of each quarter. The applicable financial covenants (calculated excluding the former BC segment) were met as at October 31, 2006 and January 31, 2006.

Credit facilities and their maturities were as follows as at October 31, 2006:

	Amounts committed	**Amounts drawn**	**Letters of credit drawn**	**Amounts available**	**Maturity (fiscal year)**
European	**$ 4,023[1]**	**$ -**	**$ 2,906**	**$ 1,117**	**2008**
European letters of credit	**370[2]**	**n/a**	**320**	**50**	**2008-2009**
North American	**1,100**	**-**	**769**	**331**	**2008**
	$ 5,493	**$ -**	**$ 3,995**	**$ 1,498**	

n/a: not applicable.
[1] €3,150 million.
[2] €290 million.

Credit facilities and their maturities were as follows as at January 31, 2006:

	Amounts committed	Amounts drawn	Letters of credit drawn	Amounts available	Maturity (fiscal year)
European	$ 3,829[1]	$ -	$ 3,160	$ 669	2008
European letters of credit	353[2]	n/a	327	26	2008-2009
North American	1,100	-	762	338	2008
	$ 5,282	$ -	$ 4,249	$ 1,033	

n/a: not applicable.
[1] €3,150 million.
[2] €290 million.

In addition to the outstanding letters of credit shown in the above tables, letters of credit of $94 million were issued in connection with the operations of the Corporation as at October 31, 2006 ($79 million as at January 31, 2006).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities were as follows as at:

	October 31, 2006	January 31, 2006
Trade accounts payable	**$ 1,801**	$ 1,944
Accrued liabilities	**1,144**	987
Sales incentives[1]	**1,082**	1,252
Product warranties	**936**	970
Payroll-related liabilities	**419**	395
Income and other taxes	**216**	240
Severance and other involuntary termination costs	**146**	151
Interest	**125**	130
Provision for repurchase obligations[2]	**72**	70
Non-controlling interest	**43**	28
Other	**723**	699
	$ 6,707	$ 6,866

[1] Comprised of provision for credit and residual value guarantees and trade-in options, as well as other related provisions and liabilities in connection with the sale of aircraft (see note 15 – Commitments and contingencies).
[2] See note 15 – Commitments and contingencies.

Severance and other involuntary termination costs and other related costs – Changes in the provision for severance and other involuntary termination costs and other related costs were as follows for the three- and nine-month periods ended October 31, 2006 and 2005:

	Severance and other involuntary termination costs	**Other**	**Total**
Balance as at January 31, 2006	**$ 151**	**$ 32**	**$ 183**
Current expense[1]	**16**	**20**	**36**
Changes in estimates[2]	**(12)**	**-**	**(12)**
Cash paid	**(33)**	**(33)**	**(66)**
Effect of foreign currency exchange rate changes	**5**	**1**	**6**
Balance as at July 31, 2006	**127**	**20**	**147**
Current expense[3]	**43**	**-**	**43**
Changes in estimates[4]	**(10)**	**-**	**(10)**
Cash paid	**(13)**	**(1)**	**(14)**
Effect of foreign currency exchange rate changes	**(1)**	**-**	**(1)**
Balance as at October 31, 2006	**$ 146**	**$ 19**	**$ 165**

[1] Of which a charge of $24 million has been recorded in special items of Transportation (see note 10 – Special items) and a charge of $12 million has been recorded in cost of sales of Transportation.
[2] An income of $12 million has been recorded in cost of sales of Aerospace.
[3] Of which a charge of $31 million and $12 million respectively has been recorded in cost of sales of Aerospace and Transportation.
[4] An income of $10 million has been recorded in cost of sales of Transportation.

	Severance and other involuntary termination costs	Other	Total
Balance as at January 31, 2005	$ 251	$ 17	$ 268
Current expense[1]	15	45	60
Changes in estimates[1]	(8)	(27)	(35)
Cash received (paid)	(58)	3	(55)
Effect of foreign currency exchange rate changes	(12)	-	(12)
Balance as at July 31, 2005	188	38	226
Current expense[2]	3	6	9
Changes in estimates[2]	16	-	16
Cash paid	(16)	(14)	(30)
Effect of foreign currency exchange rate changes	(1)	-	(1)
Balance as at October 31, 2005	$ 190	$ 30	$ 220

[1] Of which a charge of $26 million has been recorded in special items of Transportation (see note 10 – Special items) and an income of $1 million has been recorded in cost of sales of Aerospace.
[2] The charge of $25 million has been recorded in special items of Transportation (see note 10 – Special items).

8. LONG-TERM DEBT

The Corporation's long-term debt included $35 million related to consolidated VIEs as at October 31, 2006 ($80 million as at January 31, 2006), which relates to structures existing prior to May 1, 2004.

- In July 2006, BC repaid at maturity medium-term notes amounting to $200 million Cdn ($176 million).
- In June 2006, BC repaid at maturity medium-term notes amounting to $450 million.
- In February 2006, the Corporation repaid at maturity debentures amounting to £175 million ($305 million).

9. SHARE-BASED PLANS

Share option plans

The number of stock options granted to purchase Class B Shares (Subordinate Voting) and the related weighted-average grant date fair value were as follows:

	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Number of stock options granted	**275,000**	180,000	**7,642,500**	7,154,000
Weighted-average grant date fair value	**$ 1.49**	$ 1.12	**$ 1.44**	$ 0.81

The fair value of each option granted was determined using an option pricing model and the following weighted-average assumptions:

	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Risk-free interest rate	**3.90%**	3.45%	**4.20%**	3.35%
Expected life	**5 years**	5 years	**5 years**	5 years
Expected volatility in market price of shares	**51.87%**	46.88%	**53.02%**	49.88%
Expected dividend yield	**-%**	1.20%	**-%**	1.20%

There were 47,237,900 and 53,323,900 options issued and outstanding as at October 31, 2006 and January 31, 2006, respectively. No options were exercised during the three- and nine-month periods ended October 31, 2006 and 2005.

A compensation expense of $2 million and $6 million, respectively, was recorded during the three- and nine-month periods ended October 31, 2006 ($1 million and $6 million respectively during the same periods last fiscal year) with respect to share option plans.

All awards granted or modified prior to February 1, 2003 were accounted for as capital transactions. No compensation expense is recorded in the consolidated statements of income for these awards.

Performance share unit plan

In October and June 2006, the Corporation granted 40,000 and 4,268,500 performance share units ("PSUs"), respectively, to executives and other key employees ("beneficiaries"). The PSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (Subordinate Voting). The PSUs vest on June 7, 2009 if certain financial performance targets are met. The conversion ratio for vested PSUs ranges from 70% to 150%. In September 2006, the Corporation provided instructions to a trustee under the terms of a Trust Agreement to purchase 6,413,000 Class B Shares (Subordinate Voting) of the Corporation in the open market for $20 million. These shares are held in trust for the benefit of the beneficiaries until the PSUs become vested or are cancelled. The cost of the shares purchased has been deducted from share capital.

There were 8,061,706 and 4,014,082 PSUs issued and outstanding as at October 31, 2006 and January 31, 2006, respectively.

A compensation expense of $2 million and $5 million, respectively, was recorded during the three- and nine-month periods ended October 31, 2006 ($1 million during the three- and nine-month periods ended October 31, 2005) with respect to the PSU plan.

10. SPECIAL ITEMS

Special items were as follows:

	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Severance and other involuntary termination costs	**$ -**	$ 19	**$ 4**	$ 27
Other[(1)]	**-**	6	**20**	24
	-	25	**24**	51
Income tax recovery	**-**	(2)	**(2)**	(9)
	$ -	$ 23	**$ 22**	$ 42

(1) Comprised of lease termination and environmental costs, as well as other costs. For the nine-month period ended October 31, 2005, also comprised of non-taxable gains on the sale of land and buildings, amounting to $27 million.

Special items relate to restructuring activities to reduce the cost structure in Transportation. The restructuring plan is essentially completed. Net cash outflows are expected to amount to $467 million, of which $385 million had been disbursed as of October 31, 2006. For the three- and nine-month periods ended October 31, 2006, net cash outflows amounted to $11 million and $68 million ($30 million and $70 million for the same periods last fiscal year).

11. FINANCING INCOME AND FINANCING EXPENSE

Financing income and financing expense were as follows:

	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Financing income				
Cash and cash equivalents	**$ (17)**	$ (15)	**$ (48)**	$ (33)
Loans and lease receivables – after effect of hedges	**(14)**	(24)	**(49)**	(66)
Dividends on preferred shares	**-**	-	**(7)**	-
Other	**-**	-	**(5)**	(5)
	$ (31)	$ (39)	**$ (109)**	$ (104)
Financing expense				
Interest on long-term debt – after effect of hedges	**$ 64**	$ 67	**$ 199**	$ 206
Accretion expense on certain sales incentives	**12**	16	**41**	48
Other	**5**	4	**17**	11
	$ 81	$ 87	**$ 257**	$ 265

12. EARNINGS PER SHARE

Basic and diluted earnings per share were computed as follows:

(Number of shares in thousands)	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Income (loss) from continuing operations	**$ 53**	$ (1)	**$ 131**	$ 50
Preferred share dividends, net of tax	**(7)**	(7)	**(21)**	(19)
Income (loss) from continuing operations attributable to common shareholders	**46**	(8)	**110**	31
Income (loss) from discontinued operations, net of tax	**21**	(8)	**25**	113
Net income (loss) attributable to common shareholders	**$ 67**	$ (16)	**$ 135**	$ 144
Weighted-average basic and diluted number of common shares outstanding	**1,742,628**	1,748,429	**1,743,964**	1,749,561
Basic and diluted earnings (loss) per share:				
From continuing operations	**$ 0.03**	$ -	**$ 0.06**	$ 0.02
From discontinued operations	**0.01**	-	**0.01**	0.06
	$ 0.04	$ (0.01)	**$ 0.08**	$ 0.08

The effect of the exercise of stock options was excluded from the calculation of diluted earnings per share in the above table, since the average market value of the underlying shares was less than the exercise price or the predetermined target market price thresholds of the Corporation's Class B Shares (Subordinate Voting) for the respective periods.

13. NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

Net change in non-cash balances related to operations was as follows:

	Three-month periods ended October 31		Nine-month periods ended October 31	
	2006	2005	**2006**	2005
Receivables	**$ 85**	$ 79	**$ (168)**	$ (157)
Aircraft financing	**(70)**	565	**89**	394
Inventories	**(460)**	(27)	**(612)**	(178)
Fractional ownership deferred costs	**(39)**	(19)	**(49)**	(129)
Accounts payable and accrued liabilities	**122**	(245)	**(174)**	(333)
Advances and progress billings in excess of related costs	**34**	(197)	**(38)**	(298)
Fractional ownership deferred revenues	**55**	51	**69**	146
Accrued benefit liabilities, net	**27**	(2)	**45**	3
Other assets	**(9)**	(49)	**(2)**	21
	$ (255)	$ 156	**$ (840)**	$ (531)

14. EMPLOYEE FUTURE BENEFITS

The components of the benefit cost were as follows for the three-month periods ended October 31:

	2006		2005	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits
Current service cost	**$ 53**	**$ 3**	$ 42	$ 3
Interest cost	**78**	**5**	71	4
Expected return on plan assets	**(74)**	**-**	(60)	-
Amortization of past service costs	**2**	**-**	2	-
Amortization of actuarial loss	**29**	**4**	19	3
	$ 88	**$ 12**	$ 74	$ 10

The components of the benefit cost were as follows for the nine-month periods ended October 31:

	2006		2005	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits
Current service cost	**$ 155**	**$ 14**	$ 126	$ 8
Interest cost	**229**	**15**	215	14
Expected return on plan assets	**(217)**	**-**	(180)	-
Amortization of past service costs	**7**	**(1)**	5	-
Amortization of actuarial loss	**84**	**12**	56	10
Curtailment loss (gain)	**1**	**-**	1	(1)
Settlement loss	**1**	**-**	-	-
	$ 260	**$ 40**	$ 223	$ 31

15. COMMITMENTS AND CONTINGENCIES

In addition to the commitments and contingencies described elsewhere in these interim consolidated financial statements, the Corporation is subject to other off-balance sheet risks. The table below presents the maximum potential exposure for each major group of exposure. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

	October 31, 2006		January 31, 2006	
	Maximum potential exposure	**Provisions and liabilities(1)**	Maximum potential exposure	Provisions and liabilities(1)
Aircraft sales				
Credit (a)	**$ 1,393**		$ 1,409	
Residual value (a)	**2,658**		2,565	
Mutually exclusive exposure(2)	**(907)**		(892)	
Total credit and residual value exposure	**$ 3,144**	**$ 751**	$ 3,082	$ 952
Trade-in options (b)	**1,341**	**25**	1,230	12
Other(3)				
Credit and residual value (e)	**179**	**-**	170	-
Repurchase obligations (f)	**177**	**72**	165	70
Performance guarantees (g)	**228**	**-**	938	-

(1) Included in accounts payable and accrued liabilities.
(2) Some of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise and therefore the guarantees must not be added together to calculate the combined maximum exposure for the Corporation.
(3) The Corporation has also provided other guarantees (see h below).

The Corporation's maximum exposure in connection with credit and residual value guarantees related to the sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation's exposure under these guarantees. The provisions for anticipated losses have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft, which is based on independent third party evaluations, the anticipated proceeds from other assets covering such exposures, as well as liabilities available to mitigate the exposures. The anticipated proceeds from the collaterals are expected to cover the Corporation's total credit and residual value exposure, after taking into account the provisions and liabilities.

Aircraft sales

a) ***Credit guarantees and residual value guarantees*** – The Corporation provides credit guarantees in the form of lease and loan payment guarantees, as well as services related to the remarketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to fiscal year 2025. Substantially all financial support involving credit risk lies with commercial airline customers. The credit risk relating to three commercial airline customers accounted for 62% of the total maximum credit risk as at October 31, 2006. In most circumstances, a claim under a credit guarantee may only be made upon the sale of the underlying aircraft to a third party.

In addition, the Corporation provides guarantees for the residual value of aircraft at the expiry date of certain financing and lease agreements. Such guarantees provide for a contractually limited payment to the guaranteed party, which is typically a percentage of the first loss from a guaranteed value. In most circumstances, a claim under a residual value guarantee may only be made upon the sale of the underlying aircraft to a third party.

The following table summarizes the outstanding residual value guarantees as at October 31, 2006, and the period in which they can be exercised:

Less than 1 year	$	19
From 1 to 5 years		183
From 6 to 10 years		718
From 11 to 15 years		1,034
Thereafter		704
	$	2,658

b) ***Trade-in options*** – In connection with the sale of new aircraft, the Corporation provides, from time to time, trade-in options to customers. These options allow customers to trade in their pre-owned aircraft at a predetermined amount and during a predetermined period, conditional upon the purchase of a new aircraft.

The Corporation's commitment to purchase pre-owned aircraft, as at the earliest exercise date, was as follows as at October 31, 2006:

Less than 1 year	$	1,034
From 1 to 3 years		207
From 4 to 5 years		64
Thereafter		36
	$	1,341

The Corporation reviews its trade-in aircraft purchase commitments relative to the aircraft's anticipated fair value and records anticipated losses as a charge to income. Fair value is determined using both internal and external aircraft valuations, including information developed from the sale of similar aircraft in the secondary market. Provisions relating to anticipated losses on trade-in options amounted to $2 million as at October 31, 2006 ($11 million as at January 31, 2006). These provisions were based on the likelihood that these options will be exercised. In addition, a provision related to trade-in commitments in connection with firm orders for new aircraft amounted to $23 million as at October 31, 2006 ($1 million as at January 31, 2006).

c) ***Fractional ownership put options*** – Under the North American *Flexjet* fractional ownership program, the Corporation provides customers with an option to sell back their fractional shares of the aircraft at estimated fair value within a predetermined period from the date of purchase. The Corporation's commitment to repurchase fractional shares of aircraft based on estimated current fair values totalled $642 million as at October 31, 2006 ($573 million as at January 31, 2006). Since the purchase price is established at the estimated fair value of the fractional shares at the time the option is exercised, the Corporation is not exposed to off-balance sheet risk in connection with these options.

d) ***Financing commitments*** – The Corporation has committed to provide financing in relation to the future sale of aircraft scheduled for delivery through fiscal year 2013 and in connection with a $135-million off-balance sheet financing facility. The Corporation's total financing commitment, net of third party financing already arranged, amounted to $2.4 billion as at October 31, 2006 ($2.2 billion as at January 31, 2006). The Corporation mitigates its exposure to interest and credit risks by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from the Corporation's commitment and by entering into interest-rate cap agreements.

Other guarantees

e) ***Credit and residual value guarantees*** – In connection with the sale of certain transportation rail equipment, the Corporation has provided a credit guarantee of lease payments amounting to $46 million as at October 31, 2006 and January 31, 2006. This guarantee matures in 2026 and relates to one customer. In addition, at the expiry date of certain financing and other agreements, the Corporation has provided residual value guarantees amounting to $133 million as at October 31, 2006 ($124 million as at January 31, 2006), mostly in Transportation. These guarantees are mainly exercisable in 2012.

f) ***Repurchase obligations*** – In Transportation, the Corporation has provided certain financing providers the right, under certain conditions, to sell back equipment to the Corporation at predetermined prices. An amount of $177 million as at October 31, 2006 ($165 million as at January 31, 2006), relates to two agreements whereby the Corporation may be required to repurchase the equipment, beginning in fiscal year 2009, upon customer default on payments to the financing providers. In addition, on three separate dates, beginning in fiscal year 2009, the Corporation may also be required to repurchase the equipment. In connection with this commitment, funds have been deposited in cash collateral accounts by the customer, which, together with accumulated interest, are expected to entirely cover the Corporation's exposure. A provision for repurchase obligations amounting to $72 million was included in accounts payable and accrued liabilities as at October 31, 2006 ($70 million as at January 31, 2006).

g) ***Performance guarantees*** – In certain projects carried out through consortia or other partnership vehicles in Transportation, all partners are jointly and severally liable to the customer. In the normal course of business under such joint and several obligations, or under performance guarantees that may be issued in relation thereto, each partner is generally liable to the customer for any default by the other partners. These projects normally provide counter indemnities among the partners. These obligations and guarantees typically extend until final product acceptance by the customer. The Corporation's maximum exposure to projects for which the exposure of the Corporation is capped amounted to approximately $45 million as at October 31, 2006 ($178 million as at January 31, 2006). For projects where the Corporation's exposure is not capped, such exposure has been determined in relation to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's exposure would amount to approximately $183 million as at October 31, 2006 ($760 million as at January 31, 2006). Such joint and several obligations and guarantees have rarely been called upon in the past, and no significant liability has been recognized in the interim consolidated financial statements in connection with these obligations and guarantees.

h) ***Other*** – In the normal course of its business, the Corporation has entered into agreements that include indemnities in favour of third parties, mostly tax indemnities. These agreements generally do not contain specified limits on the Corporation's liability and therefore, it is not possible to estimate the Corporation's maximum liability under these indemnities.

Sale and leaseback

The Corporation concluded third party sale and leaseback transactions, mostly relating to pre-owned aircraft. Residual value guarantees, mainly related to pre-owned aircraft, amounted to $51 million as at October 31, 2006 ($43 million as at January 31, 2006).

Operating leases

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations on the sale of new aircraft. The related residual value guarantees totalled $58 million as at October 31, 2006 ($63 million as at January 31, 2006).

Litigation and claims

On February 7, 2005, the Teamsters Local 445 Freight Division Pension Fund filed a class action complaint in the U.S. district court of the Southern District of New York against the Corporation, Bombardier Capital Inc., Bombardier Capital Mortgage Securitization Corporation ("BCMSC") and others for alleged violations of federal securities laws relating to BCMSC's Senior/Subordinated Pass-Through Certificates, Series 2000-A, due January 15, 2030. On April 15, 2005, the plaintiffs filed an amended complaint. The amendments include the inclusion of all open market purchasers of BCMSC's Senior/Subordinated Pass-Through Certificates, Series

1998-A, Series 1998-B, Series 1998 C, Series 1999-A, Series 1999-B, Series 2000-A and Series 2000-B as part of the putative class. While the Corporation cannot predict the outcome of any legal proceedings, based on information currently available, the Corporation believes that it has a strong defence and it intends to vigorously defend its position.

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

While the Corporation cannot predict the final outcome of legal proceedings pending as at October 31, 2006, 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.

During the second quarter of fiscal year 2007, the Corporation reached an agreement with Mitsubishi Heavy Industries of Japan ("MHI"), a supplier of aircraft components, to transfer the production of certain components for the *Q400* turboprop to the Corporation's manufacturing facilities in Belfast, Montréal and Mexico, and to China's Shenyang Aircraft Corporation. As part of this agreement, a payment of $84 million was made by MHI to the Corporation in connection with the transfer of production. As a result, the Corporation recorded a gain of $84 million in cost of sales during the second quarter of fiscal year 2007.

16. VARIABLE INTEREST ENTITIES

RASPRO

As previously disclosed in the Corporation's annual report for fiscal year 2006, it was discovered, during the last fiscal year, that the cash flows of the RASPRO structure would be different from those anticipated. On July 13, 2006, the Corporation and its structuring agent, Wachovia Capital Markets, LLC, agreed on certain actions to be taken to adjust the cash flows of RASPRO. These actions consist mainly of additional payments that were made or will be made to the RASPRO structure by various parties (including parties not affiliated with the Corporation). The Corporation's participation in these additional payments consisted of the purchase on July 13, 2006 of $23 million of rights to a portion of the residual value proceeds of certain aircraft financed by the RASPRO structure.

In addition, the Corporation is currently negotiating with a government agency to finalize the details of the Corporation's indirect financial support to them in connection with RASPRO and other financing structures related to the sale of regional aircraft.

The impact of the above did not have a material effect on the provision for contingencies for the three- and nine-month periods ended October 31, 2006.

The events described above create a reconsideration event under the VIE rules. As a result, an assessment of whether or not consolidation of RASPRO and other VIEs benefiting from the financial support of this government agency may be required. The outcome of these events may result in the consolidation on the Corporation's financial statements of significant additional assets and liabilities of VIEs.

Other

During the nine-month period ended October 31, 2006, the Corporation entered into arrangements with VIEs relating to financing structures for the sale of regional aircraft. The assets and liabilities of these VIEs amounted to $373 million and $341 million respectively as at October 31, 2006. Management has determined that the Corporation is not the primary beneficiary for these structures and therefore consolidation of these VIEs is not required.

17. SEGMENT DISCLOSURE

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

Aerospace	Transportation
Aerospace is a manufacturer of business, regional and amphibious aircraft and a provider of related services. It offers comprehensive families of regional jet and turboprop aircraft and a wide range of business jets. It also provides the *Flexjet* fractional ownership and hourly flight time entitlement programs, parts logistics, technical services, aircraft maintenance and pilot training.	Transportation is the global leader in the rail equipment manufacturing and servicing industry and offers a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides electrical propulsion and control equipment, as well as complete rail transportation systems and rail control solutions. Transportation is also a provider of maintenance services.

The accounting policies of the segments are the same as those described in the Corporation's annual report for the fiscal year ended January 31, 2006.

Management assesses segment performance based on income before financing income, financing expense and income taxes.

Corporate charges are allocated to segments mostly based on each segment's revenues.

Net segmented assets exclude cash and cash equivalents, deferred income taxes and assets held for sale, and are net of accounts payable and accrued liabilities (excluding interest and income taxes payable), advances and progress billings in excess of related costs, fractional ownership deferred revenues and accrued benefit liabilities.

18. SUBSEQUENT EVENT

In November 2006, the Corporation issued the following senior notes:

- €800 million ($1,025 million), floating rate, due in November 2013;
- $385 million, bearing interest at 8%, due in November 2014; and
- €800 million ($1,025 million), bearing interest at 7.25%, due in November 2016.

The issuance of the senior notes is part of a refinancing plan to provide the Corporation with increased financial and operating flexibility. The refinancing plan also contemplates the entering into a new €4.3 billion syndicated letter of credit facility, in December 2006, to replace existing credit facilities prior to their maturity.

The net proceeds from this issue will be used for the following:

- to retire all of the outstanding $220 million notes due in March 2007;
- to repurchase all of the outstanding €500 million ($640 million) notes due in May 2007;
- to repurchase €218 million ($279 million) of the outstanding €500 million ($640 million) notes due in February 2008;
- to fund the cash collateral expected to be deposited to secure the Corporation's obligations to the banks issuing letters of credit, under the contemplated syndicated letter of credit facility, expected to amount to €860 million ($1,102 million); and
- for general corporate purposes, including the payment of fees and expenses in connection with the issuance of the senior notes.

The exchange rate as at November 16, 2006, the closing date of the issuance of the senior notes, was used to convert the above nominal amounts into U.S. dollars.

CRJ, CRJ700, CRJ900, Flexjet and *Q400* are trademarks of Bombardier Inc. or its subsidiaries.

SEGMENTED INFORMATION

For the three-month periods ended October 31		Bombardier Inc. consolidated		Aerospace		Transportation	
	Notes	**2006**	2005	**2006**	2005	**2006**	2005
			(restated - note 1)		(restated - note 1)		
Revenues							
Manufacturing		**$ 2,374**	$ 2,279	**$ 1,435**	$ 1,325	**$ 939**	$ 954
Services		**669**	669	**317**	340	**352**	329
Other		**345**	353	**89**	124	**256**	229
		3,388	3,301	**1,841**	1,789	**1,547**	1,512
Cost of sales		**2,919**	2,842	**1,586**	1,523	**1,333**	1,319
Selling, general and administrative		**192**	205	**88**	97	**104**	108
Research and development		**43**	45	**19**	28	**24**	17
Amortization		**129**	139	**105**	110	**24**	29
Special items	10	**-**	25	**-**	-	**-**	25
		3,283	3,256	**1,798**	1,758	**1,485**	1,498
Income from continuing operations before financing income and expense, and income taxes		**$ 105**	$ 45	**$ 43**	$ 31	**$ 62**	$ 14
Additions to property, plant and equipment		**$ 98**	$ 46	**$ 89**	$ 31	**$ 9**	$ 15

SEGMENTED INFORMATION

For the nine-month periods ended October 31	Notes	Bombardier Inc. consolidated 2006	Bombardier Inc. consolidated 2005 (restated - note 1)	Aerospace 2006	Aerospace 2005 (restated - note 1)	Transportation 2006	Transportation 2005
Revenues							
Manufacturing		**$ 7,344**	$ 7,706	**$ 4,396**	$ 4,364	**$ 2,948**	$ 3,342
Services		**1,959**	1,893	**941**	909	**1,018**	984
Other		**1,126**	1,092	**335**	414	**791**	678
		10,429	10,691	**5,672**	5,687	**4,757**	5,004
Cost of sales		**8,962**	9,244	**4,842**	4,849	**4,120**	4,395
Selling, general and administrative		**615**	627	**290**	289	**325**	338
Research and development		**129**	136	**62**	74	**67**	62
Amortization		**390**	399	**314**	316	**76**	83
Special items	10	**24**	51	**-**	-	**24**	51
		10,120	10,457	**5,508**	5,528	**4,612**	4,929
Income from continuing operations before financing income and expense, and income taxes		**$ 309**	$ 234	**$ 164**	$ 159	**$ 145**	$ 75

As at	October 31, 2006	January 31, 2006	October 31, 2006	January 31, 2006	October 31, 2006	January 31, 2006
Net segmented assets	**$ 4,332**	$ 3,637	**$ 3,362**	$ 3,205	**$ 970**	$ 432
Liabilities allocated to segments:						
Accounts payable and accrued liabilities[(1)]	**6,490**	6,645				
Advances and progress billings in excess of related costs	**2,221**	2,191				
Fractional ownership deferred revenues	**394**	325				
Accrued benefit liabilities	**941**	877				
Assets not allocated to segments:						
Cash and cash equivalents	**1,681**	2,917				
Deferred income taxes	**750**	653				
Assets held for sale	**-**	237				
Total consolidated assets	**$ 16,809**	$ 17,482				

[(1)] Excluding interest and income taxes payable amounting to $125 million and $92 million respectively as at October 31, 2006 ($130 million and $91 million as at January 31, 2006) which were not allocated to segments.

	2006	2005	2006	2005	2006	2005
Additions to property, plant and equipment	**$ 262**	$ 185	**$ 228**	$ 142	**$ 34**	$ 43