

**BlackBerry Limited**  
 Incorporated under the Laws of Ontario  
 (United States dollars, in millions) (unaudited)

**Consolidated Balance Sheets**

|  | As at        |                   |
|--|--------------|-------------------|
|  | May 31, 2018 | February 28, 2018 |
| <b>Assets</b>  |              |                   |
| <b>Current</b>   |              |                   |
| Cash and cash equivalents  | \$ 520       | \$ 816            |
| Short-term investments   | 1,725        | 1,443             |
| Accounts receivable, net   | 126          | 151               |
| Other receivables  | 63           | 71                |
| Income taxes receivable  | 17           | 26                |
| Other current assets   | 56           | 38                |
|  | 2,507        | 2,545             |
| <b>Restricted cash and cash equivalents</b>  | 35           | 39                |
| <b>Long-term investments</b>   | 55           | 55                |
| <b>Other long-term assets</b>  | 30           | 28                |
| <b>Deferred income tax assets</b>  | 2            | 3                 |
| <b>Property, plant and equipment, net</b>  | 64           | 64                |
| <b>Goodwill</b>  | 566          | 569               |
| <b>Intangible assets, net</b>  | 447          | 477               |
|  | \$ 3,706     | \$ 3,780          |
| <b>Liabilities</b>   |              |                   |
| <b>Current</b>   |              |                   |
| Accounts payable   | \$ 37        | \$ 46             |
| Accrued liabilities  | 162          | 205               |
| Income taxes payable   | 19           | 18                |
| Deferred revenue, current  | 166          | 142               |
|  | 384          | 411               |
| <b>Deferred revenue, non-current</b>   | 111          | 53                |
| <b>Other long-term liabilities</b>   | 20           | 23                |
| <b>Long-term debt</b>  | 810          | 782               |
| <b>Deferred income tax liabilities</b>   | 5            | 6                 |
|  | 1,330        | 1,275             |
| <b>Shareholders' equity</b>  |              |                   |
| <b>Capital stock and additional paid-in capital</b>  |              |                   |
| Preferred shares: authorized unlimited number of non-voting, cumulative, redeemable and retractable  |              |                   |
| Common shares: authorized unlimited number of non-voting, redeemable, retractable Class A common shares and unlimited number of voting common shares |              |                   |
| Issued - 537,111,645 voting common shares (February 28, 2018 - 536,733,733)  | 2,580        | 2,560             |
| <b>Deficit</b>   | (185)        | (45)              |
| <b>Accumulated other comprehensive loss</b>  | (19)         | (10)              |
|  | 2,376        | 2,505             |
|  | \$ 3,706     | \$ 3,780          |

See notes to consolidated financial statements.

On behalf of the Board:

John S. Chen  
 Director

Barbara Stymiest  
 Director

**BlackBerry Limited**  
(United States dollars, in millions) (unaudited)

**Consolidated Statements of Shareholders' Equity**

|  | Capital Stock<br>and Additional<br>Paid-in Capital | Deficit         | Accumulated<br>Other<br>Comprehensive<br>Loss | Total           |
|--|--|-----------------|---|-----------------|
| Balance as at February 28, 2018              | \$ 2,560   | \$ (45)         | \$ (10)                                       | \$ 2,505        |
| Net loss                                     | —  | (60)            | —   | (60)            |
| Other comprehensive loss                     | —  | —               | (3)   | (3)             |
| Shares issued:                               |  |                 |   |                 |
| Stock-based compensation                     | 18   | —               | —   | 18              |
| Employee share purchase plan                 | 2  | —               | —   | 2               |
| Cumulative impact of adoption of ASC 606     | —  | (86)            | —   | (86)            |
| Cumulative impact of adoption of ASU 2016-01 | —  | 6               | (6)   | —               |
| <b>Balance as at May 31, 2018</b>            | <b>\$ 2,580</b>                                    | <b>\$ (185)</b> | <b>\$ (19)</b>                                | <b>\$ 2,376</b> |

*See notes to consolidated financial statements.*

**BlackBerry Limited**  
(United States dollars, in millions, except per share data) (unaudited)

**Consolidated Statements of Operations**

|  | Three Months Ended |              |
|--|--------------------|--------------|
|  | May 31, 2018       | May 31, 2017 |
| <b>Revenue</b>                           | \$ 213             | \$ 235       |
| <b>Cost of sales</b>                     | 52                 | 85           |
| <b>Gross margin</b>                      | 161                | 150          |
| <b>Operating expenses</b>                |                    |              |
| Research and development                 | 61                 | 61           |
| Selling, marketing and administration    | 100                | 110          |
| Amortization                             | 37                 | 40           |
| Debentures fair value adjustment         | 28                 | 218          |
| Qualcomm arbitration award               | —                  | (815)        |
|  | 226                | (386)        |
| <b>Operating income (loss)</b>           | (65)               | 536          |
| Investment income, net                   | 6                  | 136          |
| <b>Income (loss) before income taxes</b> | (59)               | 672          |
| <b>Provision for income taxes</b>        | 1                  | 1            |
| <b>Net income (loss)</b>                 | \$ (60)            | \$ 671       |
| <b>Earnings (loss) per share</b>         |                    |              |
| Basic                                    | \$ (0.11)          | \$ 1.26      |
| Diluted                                  | \$ (0.11)          | \$ 1.23      |

*See notes to consolidated financial statements.*

**BlackBerry Limited**  
(United States dollars, in millions) (unaudited)

**Consolidated Statements of Comprehensive Income (Loss)**

|  | Three Months Ended |               |
|--|--------------------|---------------|
|  | May 31, 2018       | May 31, 2017  |
| <b>Net income (loss)</b>   | \$ (60)            | \$ 671        |
| <b>Other comprehensive income (loss)</b>                                   |                    |               |
| Net change in unrealized gains (losses) on available-for-sale investments  | 1                  | (3)           |
| Foreign currency translation adjustment                                    | (4)                | 4             |
| Actuarial losses associated with other post-employment benefit obligations | —                  | (1)           |
| <b>Other comprehensive loss</b>  | (3)                | —             |
| <b>Comprehensive income (loss)</b>   | <u>\$ (63)</u>     | <u>\$ 671</u> |

*See notes to consolidated financial statements.*

**BlackBerry Limited**  
(United States dollars, in millions) (unaudited)

**Consolidated Statements of Cash Flows**

|  | Three Months Ended |                   |
|--|--------------------|-------------------|
|  | May 31, 2018       | May 31, 2017      |
| <b>Cash flows from operating activities</b>  |                    |                   |
| Net income (loss)  | \$ (60)            | \$ 671            |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:                           |                    |                   |
| Amortization   | 41                 | 51                |
| Stock-based compensation   | 18                 | 13                |
| Debentures fair value adjustment   | 28                 | 218               |
| Other  | 2                  | 1                 |
| Net changes in working capital items:  |                    |                   |
| Accounts receivable, net   | 25                 | 35                |
| Other receivables  | 8                  | 1                 |
| Income taxes receivable  | 9                  | (2)               |
| Other assets   | (10)               | 21                |
| Accounts payable   | (9)                | (59)              |
| Income taxes payable   | 1                  | 1                 |
| Accrued liabilities  | (42)               | (50)              |
| Deferred revenue   | (15)               | (36)              |
| Other long-term liabilities  | (3)                | (2)               |
| <b>Net cash provided by (used in) operating activities</b>   | <b>(7)</b>         | <b>863</b>        |
| <b>Cash flows from investing activities</b>  |                    |                   |
| Acquisition of long-term investments   | —                  | (25)              |
| Acquisition of property, plant and equipment   | (5)                | (3)               |
| Proceeds on sale of property, plant and equipment  | —                  | 1                 |
| Acquisition of intangible assets   | (7)                | (7)               |
| Acquisition of short-term investments  | (1,011)            | (1,015)           |
| Proceeds on sale or maturity of short-term investments   | 730                | 378               |
| <b>Net cash used in investing activities</b>   | <b>(293)</b>       | <b>(671)</b>      |
| <b>Cash flows from financing activities</b>  |                    |                   |
| Issuance of common shares  | 2                  | 3                 |
| <b>Net cash provided by financing activities</b>   | <b>2</b>           | <b>3</b>          |
| <b>Effect of foreign exchange gain (loss) on cash, cash equivalents, restricted cash, and restricted cash equivalents</b>    | <b>(2)</b>         | <b>1</b>          |
| <b>Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents during the period</b> | <b>(300)</b>       | <b>196</b>        |
| <b>Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period</b>                         | <b>855</b>         | <b>785</b>        |
| <b>Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period</b>                               | <b>\$ 555</b>      | <b>\$ 981</b>     |
| <b>As at</b>   |                    |                   |
|  | May 31, 2018       | February 28, 2018 |
| Cash and cash equivalents  | \$ 520             | \$ 816            |
| Restricted cash and cash equivalents   | 35                 | 39                |
|  | <b>\$ 555</b>      | <b>\$ 855</b>     |

See notes to consolidated financial statements.

**BlackBerry Limited**  
**Notes to the Consolidated Financial Statements**

(In millions of United States dollars, except share and per share data, and except as otherwise indicated) (unaudited)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

**Basis of Presentation and Preparation**

These interim consolidated financial statements have been prepared by management in accordance with United States generally accepted accounting principles (“U.S. GAAP”). They do not include all of the disclosures required by U.S. GAAP for annual financial statements and should be read in conjunction with the audited consolidated financial statements of BlackBerry Limited (the “Company”) for the year ended February 28, 2018 (the “Annual Financial Statements”), which have been prepared in accordance with U.S. GAAP. In the opinion of management, all normal recurring adjustments considered necessary for fair presentation have been included in these interim consolidated financial statements. Operating results for the three months ended May 31, 2018 are not necessarily indicative of the results that may be expected for the full year ending February 28, 2019.

Certain comparative figures have been reclassified to conform to the current period’s presentation.

The Company operates as a single reportable segment. For additional information concerning the Company’s segment reporting, see Note 13.

**Significant Accounting Policies and Critical Accounting Estimates**

There have been no material changes to the Company’s accounting policies or critical accounting estimates from those described in the Annual Financial Statements, except as described below.

***Revenue Recognition***

*Accounting Standards Codification 606, Revenue from Contracts with Customers (“ASC 606”)*

On March 1, 2018, the Company adopted ASC 606 using the modified retrospective method. This method was applied to all contracts in effect at the date of initial application. The Company recognizes revenue, when control of the promised products or services are transferred to customers, in an amount that reflects the consideration that the Company expects to receive in exchange for those products and services. Revenue is recognized through the application of the following steps: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when, or as the Company satisfies a performance obligation.

A contract exists with a customer when both parties have approved the contract, commitments to performance and rights of each party (including payment terms) are identified, the contract has commercial substance and collection of substantially all consideration is probable for goods and services that are transferred.

Performance obligations promised in a contract are identified based on the goods and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other available resources, and are distinct in the context of the contract, whereby the transfer of the good or service is separately identifiable from other promises in the contract. If these criteria are not met, the promised goods and services are accounted for as a combined performance obligation.

The transaction price is determined based on the consideration the Company expects to be entitled to in exchange for transferring promised goods and services to the customer, excluding amounts collected on behalf of third parties such as sales taxes. Determining the transaction price requires significant judgment. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration.

Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price (“SSP”). The Company’s method for allocation of consideration to be received and its method of estimation of SSP are described below under “Significant judgments”.

For each of the Company’s major categories of revenue, the following paragraphs describe the applicable specific revenue recognition policy, and when the Company satisfies its performance obligations.

**BlackBerry Limited**  
**Notes to the Consolidated Financial Statements**

(In millions of United States dollars, except share and per share data, and except as otherwise indicated) (unaudited)

*Nature of products and services*

Enterprise software and services

Enterprise software and services includes revenues from the Company's security, productivity, collaboration and end-point management solutions through the BlackBerry Secure platform, which includes BlackBerry Unified Endpoint Manager (UEM), BlackBerry Dynamics, BlackBerry Workspaces and BBM Enterprise, among other products and applications, as well as revenues from the sale of the Company's AtHoc Alert secure networked crisis communications solution, its Secusmart SecuSUITE secure voice and text solution, and professional services from BlackBerry Cybersecurity Services.

The Company generates software license revenue from both term subscription and perpetual license contracts, both of which are often bundled with other products and services including technical support, unspecified updates and upgrades, and access to the Company's proprietary secure network infrastructure.

If the licensed software in a contract requires access to the Company's proprietary secure network infrastructure in order to function, revenue from term subscription contracts is recognized over time, ratably over the term, and revenue from perpetual license contracts is recognized over time, ratably over the expected customer life, which in most cases, the Company has estimated to be four years. If access to the Company's proprietary network infrastructure is not required for the software to function, revenue associated with both term subscription and perpetual licenses contracts is recognized at a point in time upon delivery of the software. Generally, most of the Company's enterprise software products sold require access to the Company's proprietary secure network infrastructure in order to function, and therefore the associated revenue is recognized over time, ratably over either the subscription term or expected customer life as described above.

Revenue from technical support is recognized over the support period.

BlackBerry Technology Solutions

BlackBerry Technology Solutions ("BTS") includes revenues from the Company's QNX CAR Platform and Neutrino Operating System, among other BlackBerry QNX products, as well as revenues from the Company's BlackBerry Radar asset tracking solution, Paratek antenna tuning technology, and Certicom cryptography and key management products. These are often bundled with other products and services including maintenance services and professional services.

Software license revenue from both term subscription and perpetual contracts is recognized at a point in time when the software is made available to the customer for use, as the software has standalone functionality and the license is distinct in the context of the contract. BTS also sells licenses for certain software embedded into hardware such as automotive infotainment systems; these licenses are sold as a sales-based royalty where intellectual property is the predominant item to which the royalty relates, and are recognized based on actual volumes and underlying sales by the customer of the hardware with the embedded software.

Revenue from software maintenance services is recognized over the length of the maintenance period, with an average term of one year.

Revenue from professional services is recognized over the term of the contract, as the customer simultaneously receives and consumes the benefits provided by the Company's performance as the services are provided.

Licensing, IP and other

Licensing, IP and other includes revenues from the Company's mobility licensing software arrangements, including revenue from licensed hardware sales and intellectual property licensing, and from the Company's BBM Consumer licensing arrangement.

In fiscal 2017 and fiscal 2018, the Company entered into multiple license agreements under which the Company has licensed its security software and service suite and, in many cases, related brand assets to third parties who design, manufacture, sell and provide customer support for BlackBerry-branded and white-label handsets. Mobility license revenue for licensees whose sales exceed contractual sales minimums is recognized when licensed products are sold as reported by the Company's licensees. For licensees whose sales do not exceed contractual sales minimums, revenue is recognized over time, ratably over the license term based on contractual minimum amounts due to the performance obligation to provide engineering services to the licensees.

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The Company's outbound patent licensing agreements provide for license fees that may be a single upfront payment or multiple payments representing all or a majority of the licensing revenue that will be payable to the Company. These agreements may be perpetual or term in nature and grant (i) a limited non-exclusive, non-transferable license to certain of the Company's patents, (ii) a covenant not to enforce patent rights against the licensee, and (iii) the release of the licensee from certain claims.

The Company examines intellectual property agreements on a case-by-case basis to determine whether the intellectual property has standalone functionality. Revenue from patent licensing agreements is often recognized for the transaction price either when the license has been transferred to the customer, or based upon subsequent sales by the customer in the case of sales-based royalty licenses where the license of intellectual property is the predominant item to which the royalty relates.

Handheld devices

Prior to fiscal 2019, handheld devices previously included revenues from the sale of the DTEK60 and all prior BlackBerry smartphone models to carriers and distributors, accessories and repair services of handheld devices. As the Company has sold all of its inventory of handheld devices, any revenue currently recognized is now solely associated with the release of previously accrued amounts when the Company determines it has no further obligation.

SAF

SAF includes revenues associated with the Company's legacy SAF business, relating to subscribers utilizing the Company's legacy BlackBerry 7 and prior operating systems, as well as revenues relating to unspecified future software upgrade rights for devices sold by the Company.

SAF revenue is recognized over time as the monthly service is provided. In instances where the Company bills the customer prior to performing the service, the pre-billing is recorded as deferred revenue.

See Note 13 for further information, including revenue by major product and service types.

*Significant judgments*

The Company's contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue recognized under the contract will not occur. Any estimates, including any constraints on variable consideration, are evaluated at each reporting period.

Judgment is required to determine the SSP for each distinct performance obligation. The Company's products and services often have observable SSP when the Company sells a promised product or service separately to similar customers. A contractually stated price or list price for a good or service may be the SSP of that good or service. However, in instances where SSP is not directly observable, the Company determines the SSP by maximizing observable inputs and using an adjusted market assessment approach using information that may include market conditions and other observable inputs from the Company's pricing team, including historical SSP.

Judgment is required to determine the estimated customer life used in perpetual license contracts that require access to the Company's proprietary secure network infrastructure to function. The Company uses historical experience regarding the length of the technology upgrade cycle and the expected life of the product to draw this conclusion.

*Revenue contract balances*

Timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets are generated when contractual billing schedules differ from revenue recognition timing. A receivable is recorded in instances when revenue is recognized prior to invoicing, and amounts collected in advance of services being provided are recorded as deferred revenue.

Certain sales commissions are considered incremental and recoverable costs of obtaining a contract with a customer. The Company's capitalized commissions are recorded as other current assets and other long-term assets and are amortized based on the satisfaction of the related performance obligations, and are included in selling, marketing and administration. See Note 13 for further information on the Company's contract balances.

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**Notes to the Consolidated Financial Statements**

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Payment terms and conditions vary by contract type, although standard billing terms are that payment is due upon receipt of invoice, payable within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that contracts generally do not include a significant financing component if the period between when the Company transfers the promised goods or services to the customer will be one year or less.

For details about the Company's revenue recognition policy prior to the adoption of ASC 606, refer to the Company's Annual Financial Statements.

**Recently Adopted Accounting Pronouncements**

***ASC 606***

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASC 606, a new accounting standard on the topic of revenue contracts, which replaces the existing revenue recognition standard. The new standard amended a number of requirements that an entity must consider in recognizing revenue and requires improved disclosures to help readers of financial statements better understand the nature, amount, timing and uncertainty of revenue recognized. For public entities, the new standard was effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period.

The most significant impact of adopting the new standard relates to timing of revenue recognized on software licenses in Enterprise software and services contracts. Prior to the adoption of ASC 606, where vendor-specific objective evidence could not be determined, the Company recognized term licensed software ratably over the longest contract deliverable, with certain perpetual contracts recognized upon delivery. Under the new standard, on the software licensing component of enterprise software offerings, the Company recognizes revenue over the subscription term for term subscription contracts, and over the expected customer life for perpetual license contracts, which in most cases, is estimated to be four years. Given this, the adoption of ASC 606 has resulted in Enterprise software and services revenues previously recognized for certain perpetual licenses being reversed as a cumulative adjustment from deficit to deferred revenue to be recognized ratably over the remaining period of performance. Professional services revenues that otherwise would have been recognized over time have now been recognized at adoption as a cumulative adjustment to deficit, and such revenues will be recognized when the performance obligation has been fulfilled. There were no significant changes to any of the Company's other revenue streams and there was no tax impact this quarter due to the Company's valuation allowance.

ASC 606 requires the capitalization of all the incremental costs to acquire a contract, and for these costs to be amortized into income proportionate to the recognition of the associated revenue. The Company previously capitalized and deferred some, but not all, of its incremental costs to acquire a contract and amortized that cost into income ratably over the term of the contract. As a result, the adoption of ASC 606 resulted in certain costs incurred in acquiring a contract previously expensed being reversed through a cumulative adjustment from deficit to other current assets, and recognized over time on a systematic basis consistent with the transfer of the products or services to which the asset relates.

On March 1, 2018, the Company adopted ASC 606 and all related amendments using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. In adopting the guidance, the Company applied the guidance to all contracts and used multiple practical expedients including the assessment of contracts with similar terms and conditions on a portfolio basis, and has made no adjustment to the promised amount of consideration for the effects of a significant financing component.

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The cumulative effect of the changes made to the Company's March 1, 2018 consolidated statement of financial position for the adoption of ASC 606 was as follows:

| <b>Consolidated Balance Sheets</b> | Balance as at<br>February 28,<br>2018 | ASC 606<br>Adjustments | Balance as at<br>March 1, 2018 |
|------------------------------------|---------------------------------------|------------------------|--------------------------------|
| <b>Assets</b>                      |                                       |                        |                                |
| Other assets                       | \$ 66                                 | \$ 11                  | \$ 77                          |
| <b>Liabilities</b>                 |                                       |                        |                                |
| Deferred revenue                   | \$ 195                                | \$ 97                  | \$ 292                         |
| <b>Shareholders' equity</b>        |                                       |                        |                                |
| Deficit                            | \$ (45)                               | \$ (86)                | \$ (131)                       |

The impact of the adoption of ASC 606 on the Company's condensed financial statements during the three months ended May 31, 2018 was as follows:

| <b>Consolidated Balance Sheets</b>           | As at May 31, 2018                            |                        |             |
|--|---|------------------------|-------------|
|  | Balances<br>Without<br>Adoption of<br>ASC 606 | ASC 606<br>Adjustments | As Reported |
| <b>Assets</b>                                |   |                        |             |
| Other assets                                 | \$ 85   | \$ 1                   | \$ 86       |
| <b>Liabilities</b>                           |   |                        |             |
| Deferred revenue                             | \$ 177  | \$ 100                 | \$ 277      |
| <b>Shareholders' equity</b>                  |   |                        |             |
| Deficit                                      | \$ (86)                                       | \$ (99)                | \$ (185)    |
| <b>Consolidated Statements of Operations</b> | Three Months Ended May 31, 2018               |                        |             |
|  | Balances<br>Without<br>Adoption of<br>ASC 606 | ASC 606<br>Adjustments | As Reported |
| <b>Revenue</b>                               | \$ 208  | \$ 5                   | \$ 213      |
| <b>Operating expenses</b>                    |   |                        |             |
| Selling, marketing and administration        | \$ 99   | \$ 1                   | \$ 100      |
| <b>Net income (loss)</b>                     | \$ (64)                                       | \$ 4                   | \$ (60)     |
| <b>Loss per share</b>                        |   |                        |             |
| Basic  | \$ (0.12)                                     | \$ 0.01                | \$ (0.11)   |
| Diluted                                      | \$ (0.12)                                     | \$ 0.01                | \$ (0.11)   |

***Other Accounting Standards Updates ("ASU")***

In January 2016, the FASB issued ASU 2016-01 on the topic of financial instruments. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the guidance clarifies that an entity should evaluate the need for a valuation allowance on a deferred income tax asset related to available-for-sale securities.

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The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company adopted this guidance in the first quarter of fiscal 2019. As a result of the adoption of ASU 2016-01, the Company recognized approximately \$8 million in unrecognized losses on equity securities that had previously been recorded to other comprehensive income (loss), through a cumulative addition to deficit in the consolidated balance sheet as of March 1, 2018. The Company recognized approximately \$14 million on the change in fair value from instrument-specific credit risk that had previously been recorded to deficit, through a cumulative decrease to accumulated other comprehensive loss (“AOCI”) in the consolidated balance sheet as of March 1, 2018. The Company will also account for equity investments without a readily determinable fair value using the practicability exception. The investments will be measured at cost, less any impairment, plus or minus any changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer.

In November 2016, the FASB issued ASU 2016-18 on the topic of the statement of cash flows. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for interim and annual periods beginning after December 15, 2017. The Company adopted this guidance in the first quarter of fiscal 2019.

**Recently Issued Accounting Pronouncements**

In February 2016, the FASB issued a new accounting standard on the topic of leases. The new standard requires companies to include lease obligations in their balance sheets, including a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use (“ROU”) asset and a corresponding lease liability. For finance leases, the lessee will recognize interest expense and amortization of the ROU asset, and for operating leases, the lessee will recognize a straight-line total lease expense. The guidance is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company expects to adopt this guidance in the first quarter of fiscal 2020 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures. The Company established a cross-functional coordinated team to conduct the implementation of the lease standard, which will be responsible for identifying and implementing the appropriate changes to the Company’s relevant business processes, systems and controls to support any required accounting and disclosure changes.

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS**

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use in pricing the asset or liability such as inherent risk, non-performance risk and credit risk. The Company applies the following fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value into three levels:

- Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.
- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Significant unobservable inputs that are supported by little or no market activity.

The fair value hierarchy also requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

**BlackBerry Limited**

**Notes to the Consolidated Financial Statements**

(In millions of United States dollars, except share and per share data, and except as otherwise indicated) (unaudited)

The components of cash, cash equivalents and investments by fair value level as at May 31, 2018 were as follows:

|  | Cost Basis      | Unrealized Gains | Unrealized Losses | Other-than-temporary Impairment | Fair Value      | Cash and Cash Equivalents | Short-term Investments | Long-term Investments | Restricted Cash and Cash Equivalents |
|--|-----------------|------------------|-------------------|---------------------------------|-----------------|---------------------------|------------------------|-----------------------|--------------------------------------|
| Bank balances                                    | \$ 144          | \$ —             | \$ —              | \$ —                            | \$ 144          | \$ 144                    | \$ —                   | \$ —                  | \$ —                                 |
| Other investments                                | 35              | —                | —                 | —                               | 35              | —                         | —                      | 35                    | —                                    |
|  | <u>179</u>      | <u>—</u>         | <u>—</u>          | <u>—</u>                        | <u>179</u>      | <u>144</u>                | <u>—</u>               | <u>35</u>             | <u>—</u>                             |
| <b>Level 1:</b>                                  |                 |                  |                   |                                 |                 |                           |                        |                       |                                      |
| Equity securities                                | 10              | —                | (8)               | —                               | 2               | —                         | 2                      | —                     | —                                    |
| <b>Level 2:</b>                                  |                 |                  |                   |                                 |                 |                           |                        |                       |                                      |
| Term deposits, certificates of deposits and GICs | 258             | —                | —                 | —                               | 258             | —                         | 223                    | —                     | 35                                   |
| Bankers' acceptances/bearer deposit notes        | 226             | —                | —                 | —                               | 226             | 187                       | 39                     | —                     | —                                    |
| Commercial paper                                 | 491             | —                | —                 | —                               | 491             | 33                        | 458                    | —                     | —                                    |
| Non-U.S. promissory notes                        | 192             | —                | —                 | —                               | 192             | 38                        | 154                    | —                     | —                                    |
| Non-U.S. government sponsored enterprise notes   | 300             | —                | —                 | —                               | 300             | 18                        | 282                    | —                     | —                                    |
| Non-U.S. treasury bills/notes                    | 296             | —                | —                 | —                               | 296             | 100                       | 196                    | —                     | —                                    |
| U.S. treasury bills/notes                        | 371             | —                | —                 | —                               | 371             | —                         | 371                    | —                     | —                                    |
|  | <u>2,134</u>    | <u>—</u>         | <u>—</u>          | <u>—</u>                        | <u>2,134</u>    | <u>376</u>                | <u>1,723</u>           | <u>—</u>              | <u>35</u>                            |
| <b>Level 3:</b>                                  |                 |                  |                   |                                 |                 |                           |                        |                       |                                      |
| Corporate bonds                                  | 1               | —                | —                 | —                               | 1               | —                         | —                      | 1                     | —                                    |
| Auction rate securities                          | 20              | 2                | —                 | (3)                             | 19              | —                         | —                      | 19                    | —                                    |
|  | <u>21</u>       | <u>2</u>         | <u>—</u>          | <u>(3)</u>                      | <u>20</u>       | <u>—</u>                  | <u>—</u>               | <u>20</u>             | <u>—</u>                             |
|  | <u>\$ 2,344</u> | <u>\$ 2</u>      | <u>\$ (8)</u>     | <u>\$ (3)</u>                   | <u>\$ 2,335</u> | <u>\$ 520</u>             | <u>\$ 1,725</u>        | <u>\$ 55</u>          | <u>\$ 35</u>                         |

**BlackBerry Limited**

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The components of cash, cash equivalents and investments by fair value level as at February 28, 2018 were as follows:

|  | Cost Basis      | Unrealized Gains | Unrealized Losses | Other-than-temporary Impairment | Fair Value      | Cash and Cash Equivalents | Short-term Investments | Long-term Investments | Restricted Cash and Cash Equivalents |
|--|-----------------|------------------|-------------------|---------------------------------|-----------------|---------------------------|------------------------|-----------------------|--------------------------------------|
| Bank balances                                    | \$ 169          | \$ —             | \$ —              | \$ —                            | \$ 169          | \$ 169                    | \$ —                   | \$ —                  | \$ —                                 |
| Other investments                                | 35              | —                | —                 | —                               | 35              | —                         | —                      | 35                    | —                                    |
|  | <u>204</u>      | <u>—</u>         | <u>—</u>          | <u>—</u>                        | <u>204</u>      | <u>169</u>                | <u>—</u>               | <u>35</u>             | <u>—</u>                             |
| <b>Level 1:</b>                                  |                 |                  |                   |                                 |                 |                           |                        |                       |                                      |
| Equity securities                                | 10              | —                | (8)               | —                               | 2               | —                         | 2                      | —                     | —                                    |
| <b>Level 2:</b>                                  |                 |                  |                   |                                 |                 |                           |                        |                       |                                      |
| Term deposits, certificates of deposits and GICs | 332             | —                | —                 | —                               | 332             | —                         | 293                    | —                     | 39                                   |
| Bankers' acceptances                             | 211             | —                | —                 | —                               | 211             | 211                       | —                      | —                     | —                                    |
| Commercial paper                                 | 426             | —                | —                 | —                               | 426             | 231                       | 195                    | —                     | —                                    |
| Non-U.S. promissory notes                        | 227             | —                | —                 | —                               | 227             | 102                       | 125                    | —                     | —                                    |
| Non-U.S. government sponsored enterprise notes   | 200             | —                | —                 | —                               | 200             | 15                        | 185                    | —                     | —                                    |
| Non-U.S. treasury bills/notes                    | 284             | —                | —                 | —                               | 284             | 50                        | 234                    | —                     | —                                    |
| U.S. treasury bills/notes                        | 448             | —                | (1)               | —                               | 447             | 38                        | 409                    | —                     | —                                    |
|  | <u>2,128</u>    | <u>—</u>         | <u>(1)</u>        | <u>—</u>                        | <u>2,127</u>    | <u>647</u>                | <u>1,441</u>           | <u>—</u>              | <u>39</u>                            |
| <b>Level 3:</b>                                  |                 |                  |                   |                                 |                 |                           |                        |                       |                                      |
| Corporate notes/bonds                            | 1               | —                | —                 | —                               | 1               | —                         | —                      | 1                     | —                                    |
| Auction rate securities                          | 20              | 2                | —                 | (3)                             | 19              | —                         | —                      | 19                    | —                                    |
|  | <u>21</u>       | <u>2</u>         | <u>—</u>          | <u>(3)</u>                      | <u>20</u>       | <u>—</u>                  | <u>—</u>               | <u>20</u>             | <u>—</u>                             |
|  | <u>\$ 2,363</u> | <u>\$ 2</u>      | <u>\$ (9)</u>     | <u>\$ (3)</u>                   | <u>\$ 2,353</u> | <u>\$ 816</u>             | <u>\$ 1,443</u>        | <u>\$ 55</u>          | <u>\$ 39</u>                         |

As at May 31, 2018, the Company had equity investments without readily determinable fair value of \$35 million (February 28, 2018 - \$35 million). There were no other-than-temporary impairment charges during the three months ended May 31, 2018 or the three months ended May 31, 2017.

There were no realized gains or losses on available-for-sale securities for the three months ended May 31, 2018 or the three months ended May 31, 2017.

The Company has restricted cash consisting of cash and securities pledged as collateral to major banking partners in support of the Company's requirements for letters of credit. These letters of credit support certain leasing arrangements entered into in the ordinary course of business, for terms ranging from one month to seven years. The Company is restricted from accessing these funds during the term of the leases for which the letters of credit have been issued; however, the Company can continue to invest the funds and receive investment income thereon.

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The contractual maturities of available-for-sale investments as at May 31, 2018 and February 28, 2018 were as follows:

|                          | As at           |                 |                   |                 |
|--------------------------|-----------------|-----------------|-------------------|-----------------|
|                          | May 31, 2018    |                 | February 28, 2018 |                 |
|                          | Cost Basis      | Fair Value      | Cost Basis        | Fair Value      |
| Due in one year or less  | \$ 2,134        | \$ 2,134        | \$ 2,128          | \$ 2,127        |
| Due in one to five years | 1               | 1               | 1                 | 1               |
| Due after five years     | 17              | 19              | 17                | 19              |
| No fixed maturity        | 10              | 2               | 10                | 2               |
|                          | <u>\$ 2,162</u> | <u>\$ 2,156</u> | <u>\$ 2,156</u>   | <u>\$ 2,149</u> |

As at May 31, 2018, the Company had investments with continuous unrealized losses totaling \$8 million, consisting of unrealized losses on equity securities (February 28, 2018 - continuous unrealized losses totaling \$9 million).

As a result of the adoption of ASU 2016-01, the Company now records changes in fair value of equity securities through investment income, and has reclassified \$8 million in unrealized losses on equity securities through a cumulative adjustment to deficit. For a full description of how the Company assesses its investments for other-than-temporary impairment, see the “Investments” accounting policy in Note 1 to the Annual Financial Statements. For a description of the impact upon the adoption of ASU 2016-01 on the unrealized losses on equity securities, see Note 1.

### 3. FAIR VALUE MEASUREMENTS

For a description of the fair value hierarchy, see Note 2.

#### Recurring Fair Value Measurements

The carrying amounts of the Company’s cash and cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities approximate their fair values due to their short maturities.

In determining the fair value of investments held (other than those classified as Level 3), the Company primarily relies on an independent third-party valuator for the fair valuation of securities. Pricing inputs used by the independent third-party valuator are generally received from a single primary vendor. The pricing inputs are reviewed for completeness and accuracy, within a set tolerance level, on a daily basis by the independent third-party valuator. The Company also reviews the inputs used in the valuation process and assesses the pricing of the securities for reasonableness after conducting its own internal collection of quoted prices from brokers. Fair values for all investment categories provided by the independent third-party valuator that are in excess of 0.5% from the fair values determined by the Company are communicated to the independent third-party valuator for consideration of reasonableness. The independent third-party valuator considers the information provided by the Company before determining whether a change in the original pricing is warranted.

The Company’s investments (other than those classified as Level 3) largely consist of securities issued by major corporate and banking organizations, the provincial and federal governments of Canada, international government banking organizations and the United States Department of the Treasury, and are all investment grade. The Company also holds a limited amount of equity securities following the initial public offering by the issuer of a previous cost-based investment.

For a description of how the fair values of currency forward contracts and currency option contracts, the fair value of the Debentures (as defined in Note 8) and the fair value of certain stock-based compensation awards have been determined, see the “Derivative financial instruments” and “Convertible debentures” accounting policies in Note 1 to the Annual Financial Statements and Note 9.

There were no changes in the fair value of the Company’s Level 3 assets for the three months ended May 31, 2018 or May 31, 2017. The Company recognizes transfers in and out of levels within the fair value hierarchy at the end of the reporting period in which the actual event or change in circumstance occurred. There were no significant transfers in or out of Level 3 assets during the three months ended May 31, 2018 or May 31, 2017.

The Company’s Level 3 assets measured on a recurring basis include auction rate securities as well as corporate notes/bonds consisting of securities received in a payment-in-kind distribution from a former structured investment vehicle. For a detailed description of the Company’s valuation of auction rate securities, see Note 4 to the Annual Financial Statements.

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**4. DERIVATIVE FINANCIAL INSTRUMENTS**

The notional amounts and fair values of derivative financial instruments outstanding were as follows:

|   | Derivative Assets <sup>(1)(2)</sup> |                            | Derivative Liabilities <sup>(1)(3)</sup> |                            |
|---|-------------------------------------|----------------------------|--|----------------------------|
|   | As at May 31,<br>2018               | As at February 28,<br>2018 | As at May 31,<br>2018                    | As at February 28,<br>2018 |
| <b>Foreign exchange contracts</b>                         |                                     |                            |  |                            |
| Fair value of derivatives designated as cash flow hedges  | \$ —                                | \$ —                       | \$ (1)                                   | \$ (1)                     |
| Fair value of derivatives not subject to hedge accounting | 4                                   | 1                          | (1)                                      | (1)                        |
| Total estimated fair value                                | <u>\$ 4</u>                         | <u>\$ 1</u>                | <u>\$ (2)</u>                            | <u>\$ (2)</u>              |
| Notional amount   | <u>\$ 149</u>                       | <u>\$ 123</u>              | <u>\$ 82</u>                             | <u>\$ 161</u>              |

(1) The fair values of derivative assets and liabilities are measured using Level 2 fair value inputs.

(2) Derivative assets are included in other current assets.

(3) Derivative liabilities are included in accrued liabilities.

**Foreign Exchange**

For a description of the Company's usage of derivatives and related accounting policy for these instruments, see Note 1 to the Annual Financial Statements.

The Company enters into forward and option contracts to hedge exposures relating to anticipated foreign currency transactions consisting of Canadian dollar payroll costs. These contracts have been designated as cash flow hedges, with the effective portion of the change in fair value initially recorded in AOCI and subsequently reclassified to income in the period in which the cash flows from the associated hedged transactions affect income. Any ineffective portion of the change in fair value of the cash flow hedge is recognized in current period income (loss). As at May 31, 2018 and May 31, 2017, the outstanding derivatives designated as cash flow hedges were considered to be fully effective. The maturity dates of these instruments range from June 2018 to April 2019. As at May 31, 2018, the net unrealized loss on these forward and option contracts (including option premiums paid) was \$1 million (February 28, 2018 - net unrealized loss of \$1 million). Unrealized gains associated with these contracts were recorded in other current assets and AOCI. Unrealized losses were recorded in accrued liabilities and AOCI. Option premiums were recorded in AOCI. As at May 31, 2018, the Company estimates that approximately \$1 million of net unrealized losses including option premiums on these forward and option contracts will be reclassified into income (loss) within the next 12 months.

For the three months ended May 31, 2018, a loss of \$1 million relating to the effective portion was recognized in other comprehensive income (loss) (May 31, 2017 - nil). For the three months ended May 31, 2018 and May 31, 2017, no gain or loss was reclassified from AOCI into income relating to the effective portion.

As part of its currency risk management strategy, the Company may maintain net monetary asset and/or liability balances in foreign currencies. The Company enters into foreign exchange forward contracts to economically hedge certain monetary assets and liabilities that are exposed to foreign currency risk. The principal currencies hedged include the Canadian dollar, euro, and British pound. These contracts are not subject to hedge accounting, and any realized and unrealized gains or losses are recognized in income each period, offsetting the change in the U.S. dollar value of the asset or liability. The maturity dates of these instruments range from June 2018 to August 2018. As at May 31, 2018, there were unrealized gains of \$3 million recorded in respect of these instruments (February 28, 2018 - nil). Unrealized gains associated with these contracts were recorded in other current assets and selling, marketing and administration expenses. Unrealized losses were recorded in accrued liabilities and selling, marketing and administration expenses.

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The following table shows the impact of derivative instruments that are not subject to hedge accounting on the consolidated statements of operations for the three months ended May 31, 2018 and May 31, 2017:

|                            | Location of Gain (Loss) Recognized in<br>Income on Derivative Instruments | Amount of Gain (Loss) in Income on<br>Derivative Instruments |               |
|----------------------------|---|--|---------------|
|                            |   | Three Months Ended   |               |
|                            |   | May 31, 2018   | May 31, 2017  |
| Foreign exchange contracts | Selling, marketing and administration                                     | \$ 3   | \$ (4)        |
| <b>Total</b>               |   | <b>\$ 3</b>  | <b>\$ (4)</b> |

Selling, marketing and administration expense for the three months ended May 31, 2018 included \$2 million in gains with respect to foreign exchange net of balance sheet revaluation (three months ended May 31, 2017 - gains of \$1 million).

**Credit Risk**

The Company is exposed to credit risk on derivative financial instruments arising from the potential for counterparties to default on their contractual obligations. The Company mitigates this risk by limiting counterparties to highly rated financial institutions and by continuously monitoring their creditworthiness. The Company's exposure to credit loss and market risk will vary over time as a function of currency exchange rates. The Company measures its counterparty credit exposure as a percentage of the total fair value of the applicable derivative instruments. Where the net fair value of derivative instruments with any counterparty is negative, the Company deems the credit exposure to that counterparty to be nil. As at May 31, 2018, the maximum credit exposure to a single counterparty, measured as a percentage of the total fair value of derivative instruments with net unrealized gains, was 100% (February 28, 2018 - nil). As at May 31, 2018, the Company had a total credit risk exposure across all counterparties with outstanding or unsettled foreign exchange derivative instruments of \$2 million on a notional value of \$136 million (February 28, 2018 - total credit risk exposure of nil on a notional value of nil).

The Company maintains Credit Support Annexes ("CSAs") with several of its counterparties. These CSAs require the outstanding net position of all contracts be made whole by the paying or receiving of collateral to or from the counterparties on a daily basis, subject to exposure and transfer thresholds. As at May 31, 2018, the Company had nil in collateral posted to counterparties (February 28, 2018 - \$1 million in collateral posted or held).

The Company is exposed to market and credit risk on its investment portfolio. The Company reduces this risk by investing in liquid, investment grade securities and by limiting exposure to any one entity or group of related entities. As at May 31, 2018, no single issuer represented more than 16% of the total cash, cash equivalents and investments (February 28, 2018 - no single issuer represented more than 19% of the total cash, cash equivalents and investments), and the largest single issuer was the U.S. Department of the Treasury.

**Interest Rate Risk**

Cash and cash equivalents and investments are invested in certain instruments of varying maturities. Consequently, the Company is exposed to interest rate risk as a result of holding investments of varying maturities. The fair value of investments, as well as the investment income derived from the investment portfolio, will fluctuate with changes in prevailing interest rates. The Company has also issued the Debentures (as defined in Note 8) with a fixed 3.75% interest rate. The fair value of the Debentures will fluctuate with changes in prevailing interest rates. Consequently, the Company is exposed to interest rate risk as a result of the long-term nature of the Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio or changes in market value of the Debentures.

**5. CONSOLIDATED BALANCE SHEETS DETAILS**

**Accounts receivable, net**

The allowance for doubtful accounts as at May 31, 2018 was \$24 million (February 28, 2018 - \$24 million).

There were two customers that individually comprised more than 10% of accounts receivable as at May 31, 2018 (February 28, 2018 - no customer comprised more than 10%).

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**Other current assets**

As at May 31, 2018, other current assets include items such as inventories of finished goods, deferred commissions, and prepaid expenses, among other items, none of which were greater than 5% of the current assets balance in all periods presented.

**Property, plant and equipment, net**

Property, plant and equipment comprised the following:

|  | As at        |                   |
|--|--------------|-------------------|
|  | May 31, 2018 | February 28, 2018 |
| <b>Cost</b>  |              |                   |
| Buildings, leasehold improvements and other                  | \$ 84        | \$ 85             |
| BlackBerry operations and other information technology       | 847          | 987               |
| Manufacturing, repair and research and development equipment | 73           | 75                |
| Furniture and fixtures                                       | 10           | 10                |
|  | <u>1,014</u> | <u>1,157</u>      |
| Accumulated amortization                                     | 950          | 1,093             |
| Net book value   | <u>\$ 64</u> | <u>\$ 64</u>      |

**Intangible assets, net**

Intangible assets comprised the following:

|                            | As at May 31, 2018      |                          |                |
|----------------------------|-------------------------|--------------------------|----------------|
|                            | Cost                    | Accumulated Amortization | Net Book Value |
| Acquired technology        | \$ 680                  | \$ 527                   | \$ 153         |
| Intellectual property      | 418                     | 225                      | 193            |
| Other acquired intangibles | 197                     | 96                       | 101            |
|                            | <u>\$ 1,295</u>         | <u>\$ 848</u>            | <u>\$ 447</u>  |
|                            |                         |                          |                |
|                            | As at February 28, 2018 |                          |                |
|                            | Cost                    | Accumulated Amortization | Net Book Value |
| Acquired technology        | \$ 682                  | \$ 512                   | \$ 170         |
| Intellectual property      | 411                     | 212                      | 199            |
| Other acquired intangibles | 197                     | 89                       | 108            |
|                            | <u>\$ 1,290</u>         | <u>\$ 813</u>            | <u>\$ 477</u>  |

Other acquired intangibles include items such as customer relationships and brand.

For the three months ended May 31, 2018, amortization expense related to intangible assets amounted to \$36 million (three months ended May 31, 2017 - \$39 million). During the three months ended May 31, 2018, additions to intangible assets primarily consisted of payments for intellectual property relating to patent registration, licenses and maintenance fees.

Based on the carrying value of the identified intangible assets as at May 31, 2018 and assuming no subsequent impairment of the underlying assets, the annual amortization expense for the remainder of fiscal 2019 and each of the four succeeding years is expected to be as follows: 2019 - \$101 million; 2020 - \$93 million; 2021 - \$73 million; 2022 - \$55 million; and 2023 - \$22 million.

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**Goodwill**

Changes to the carrying amount of goodwill were as follows:

|  | Carrying Amount |
|--|-----------------|
| Carrying amount as at February 28, 2018                            | \$ 569          |
| Effect of foreign exchange on non-U.S. dollar denominated goodwill | (3)             |
| Carrying amount as at May 31, 2018                                 | \$ 566          |

**Other long-term assets**

The Company's other long-term assets comprised the following:

|  | As at        |                   |
|--|--------------|-------------------|
|  | May 31, 2018 | February 28, 2018 |
| Long-term intellectual property licensing receivable | \$ 25        | \$ 25             |
| Deferred commissions, non-current                    | 5            | 3                 |
|  | \$ 30        | \$ 28             |

The Company has a long-term intellectual property licensing receivable comprising a series of future amounts owing from a single licensee. As the amounts of the receivable are long-term in nature, the Company initially measured the payments at present value using an effective interest rate of 4.5%, and will record interest income over time to arrive at the total face value of the remaining payments of \$27 million.

**Accrued liabilities**

Accrued liabilities comprised the following:

|                            | As at        |                   |
|----------------------------|--------------|-------------------|
|                            | May 31, 2018 | February 28, 2018 |
| Variable incentive accrual | \$ 14        | \$ 40             |
| Other                      | 148          | 165               |
|                            | \$ 162       | \$ 205            |

Other accrued liabilities include, among other items, accrued royalties, current Resource Alignment Program ("RAP") liability, accrued vendor liabilities, accrued carrier liabilities and payroll withholding taxes, none of which were greater than 5% of the current liabilities balance.

**Other long-term liabilities**

Other long-term liabilities consists of the present value of accrued future lease payments associated with the RAP as described in Note 6.

**6. RESTRUCTURING AND INTEGRATION**

**Resource Alignment Program**

In fiscal 2016, the Company commenced the RAP for its device software, hardware and applications business with the objectives of reallocating Company resources to capitalize on growth opportunities, providing the operational ability to better leverage contract research and development services relating to its handheld devices, and reaching sustainable profitability. Other charges and cash costs may occur as programs are implemented or changes are completed.

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The following table sets forth the activity in the Company's RAP liability for the three months ended May 31, 2018:

|                                 | Employee<br>Termination<br>Benefits | Facilities<br>Costs | Other Charges <sup>(1)</sup> | Total        |
|---------------------------------|-------------------------------------|---------------------|------------------------------|--------------|
| Balance as at February 28, 2018 | \$ 1                                | \$ 39               | \$ 2                         | \$ 42        |
| Charges incurred                | 3                                   | 1                   | —                            | 4            |
| Cash payments made              | (3)                                 | (6)                 | (2)                          | (11)         |
| Balance as at May 31, 2018      | <u>\$ 1</u>                         | <u>\$ 34</u>        | <u>\$ —</u>                  | <u>\$ 35</u> |
| Current portion                 | \$ 1                                | \$ 14               | \$ —                         | \$ 15        |
| Long-term portion               | —                                   | 20                  | —                            | 20           |
|                                 | <u>\$ 1</u>                         | <u>\$ 34</u>        | <u>\$ —</u>                  | <u>\$ 35</u> |

(1) Other charges consist of costs associated with redundant systems from acquisitions that are being integrated into a single solution, and the effect of foreign exchange.

The RAP charges included employee termination benefits, facilities and manufacturing network simplification costs as well as integration costs related to the transition and alignment of facilities and systems to the Company's focus on its enterprise software business. Total charges, including non-cash charges incurred in the three months ended May 31, 2018 and May 31, 2017, were as follows:

|                                       | Three Months Ended |              |
|---------------------------------------|--------------------|--------------|
|                                       | May 31, 2018       | May 31, 2017 |
| Cost of sales                         | \$ —               | \$ 3         |
| Research and development              | 2                  | 3            |
| Selling, marketing and administration | 2                  | 11           |
| Total RAP charges                     | <u>\$ 4</u>        | <u>\$ 17</u> |

## 7. INCOME TAXES

For the three months ended May 31, 2018, the Company's net effective income tax expense rate was approximately 2% compared to a net effective income tax rate of 0% for the three months ended May 31, 2017. The Company's income tax rate reflects the fact that the Company has a significant valuation allowance against its deferred income tax assets, and in particular, the change in fair value of the Debentures, amongst other items, is offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

The Company's total unrecognized income tax benefits as at May 31, 2018 were \$81 million (February 28, 2018 - \$73 million). As at May 31, 2018, \$66 million of the unrecognized income tax benefits have been netted against deferred income tax assets and \$15 million has been recorded within income taxes payable on the Company's consolidated balance sheets.

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act (the "Tax Act"). During the first quarter of 2019, the Company monitored provisional amounts recorded under the Tax Act against actual and potential guidance and interpretation issued by the U.S. Internal Revenue Service and state taxing authorities. No significant changes were made to these calculations in the period ended May 31, 2018. The Company expects to account for any changes in estimates for its previously recorded Tax Act provisions on a prospective basis.

While the Company's U.S. activities are subject to a U.S. federal tax rate of 21%, effective January 1, 2018, the Company also continues to assess other areas of the Tax Act for significant impacts on its estimated average annual effective tax rate and accounting policies, such as the base erosion anti-abuse tax. As at May 31, 2018, the Company has incorporated the relevant Tax Act items that became effective on January 1, 2018 into its quarterly provision calculation.

The Company is subject to ongoing examination by tax authorities in certain jurisdictions in which it operates. The Company regularly assesses the status of these examinations and the potential for adverse outcomes to determine the adequacy of the provision for income taxes as well as the provisions for indirect and other taxes and related penalties and

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interest. While the final resolution of audits is uncertain, the Company believes the ultimate resolution of these audits will not have a material adverse effect on its consolidated financial position, liquidity or results of operations.

**8. LONG-TERM DEBT**

**3.75% Convertible Debentures**

On September 7, 2016, Fairfax Financial Holdings Limited (“Fairfax”) and other institutional investors invested in the Company through a private placement of new debentures in an aggregate amount of \$605 million (the “Debentures”).

Interest on the Debentures is payable quarterly in arrears at a rate of 3.75% per annum. The Debentures mature on November 13, 2020, and each \$1,000 of Debentures is convertible at any time into 100 common shares of the Company for a total of 60.5 million common shares at a price of \$10.00 per share for all Debentures, subject to adjustments. Covenants associated with the Debentures include limitations on the Company’s total indebtedness.

Under specified events of default, the outstanding principal and any accrued interest on the Debentures become immediately due and payable upon request of holders holding not less than 25% of the principal amount of the Debentures then outstanding. During an event of default, the interest rate rises to 7.75% per annum.

The Debentures are subject to a change of control provision whereby the Company would be required to make an offer to repurchase the Debentures at 115% of par value if a person or group (not affiliated with Fairfax) acquires 35% of the Company’s outstanding common shares, acquires all or substantially all of its assets, or if the Company merges with another entity and the Company’s existing shareholders hold less than 50% of the common shares of the surviving entity.

As at May 31, 2018, the fair value of the Debentures was determined to be \$810 million. The difference between the fair value of the Debentures and the unpaid principal balance of \$605 million is \$205 million. The fair value of the Debentures is measured using Level 2 fair value inputs.

As a result of the adoption of ASU 2016-01, the Company recognized the cumulative change in fair value from instrument-specific credit risk as of March 1, 2018 of approximately \$14 million, through a cumulative decrease to AOCI, as described in Note 1.

In the first quarter of fiscal 2019, the change in fair value of the Debentures was \$28 million (three months ended May 31, 2017 - charges of \$218 million). The Company recorded a non-cash charge relating to changes in fair value from instrument-specific credit risk of nil in AOCI and a non-cash charge relating to changes in fair value from non-credit components of \$28 million (the “Q1 Fiscal 2019 Debentures Fair Value Adjustment”) in the Company’s consolidated statements of operations.

For the three months ended May 31, 2018, the Company recorded interest expense related to the Debentures of \$6 million, which has been included in investment income in the Company’s consolidated statements of operations (three months ended May 31, 2017 - \$6 million).

Fairfax, a related party under U.S. GAAP, owns a \$500 million principal amount of the Debentures. As such, the payment of interest on the Debentures represents a related-party transaction. Fairfax receives interest at the same rate as other Debenture holders.

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**Notes to the Consolidated Financial Statements**

(In millions of United States dollars, except share and per share data, and except as otherwise indicated) (unaudited)

**9. CAPITAL STOCK**

**(a) Capital stock**

The following details the changes in issued and outstanding common shares for the three months ended May 31, 2018:

|   | Capital Stock and Additional<br>Paid-in Capital |                 |
|---|---|-----------------|
|   | Stock<br>Outstanding<br>(000's)                 | Amount          |
| Common shares outstanding as at February 28, 2018           | 536,734   | \$ 2,560        |
| Stock-based compensation                                    | —   | 18              |
| Exercise of stock options                                   | 16  | —               |
| Common shares issued for restricted share units settlements | 171   | —               |
| Common shares issued for employee share purchase plan       | 191   | 2               |
| Common shares outstanding as at May 31, 2018                | <u>537,112</u>                                  | <u>\$ 2,580</u> |

The Company had 537 million common shares, 1 million options to purchase common shares, 25 million RSUs and 0.7 million deferred share units outstanding as at June 19, 2018. In addition, 60.5 million common shares are issuable upon conversion in full of the Debentures as described in Note 8.

On June 23, 2017, the Company announced that it received acceptance from the Toronto Stock Exchange with respect to a normal course issuer bid to purchase for cancellation up to 31 million common shares of the Company, or approximately 6.4% of the outstanding public float at May 31, 2017. During the three months ended May 31, 2018, the Company did not repurchase any common shares.

**(b) Stock-based compensation**

***Restricted Share Units***

The Company recorded compensation expense with respect to restricted share units (“RSUs”) of approximately \$18 million for the three months ended May 31, 2018 (three months ended May 31, 2017 - \$13 million).

A summary of RSU activity since February 28, 2018 is shown below:

|                                      | RSUs Outstanding  |  |  |   |
|--------------------------------------|-------------------|--|--|---|
|                                      | Number<br>(000's) | Weighted-<br>Average<br>Grant Date<br>Fair Value | Average<br>Remaining<br>Contractual<br>Life in Years | Aggregate<br>Intrinsic<br>Value<br>(millions) |
| Balance as at February 28, 2018      | 14,932            | \$ 7.87  |  |   |
| Granted during the period            | 10,094            | 9.19   |  |   |
| Vested during the period             | (171)             | 7.64   |  |   |
| Forfeited/canceled during the period | (253)             | 8.25   |  |   |
| Balance as at May 31, 2018           | <u>24,602</u>     | <u>\$ 8.40</u>                                   | <u>1.65</u>  | <u>\$ 291,041</u>                             |
| Expected to vest as at May 31, 2018  | <u>23,761</u>     | <u>\$ 8.38</u>                                   | <u>1.65</u>  | <u>\$ 281,091</u>                             |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the aggregate closing share price of the Company’s common shares on May 31, 2018) that would have been received by RSU holders if all RSUs had vested on May 31, 2018.

As at May 31, 2018, there was \$133 million of unrecognized compensation expense related to RSUs that will be expensed over the vesting period, which, on a weighted-average basis, results in a period of approximately 2.10 years.

During the three months ended May 31, 2018, there were 10,094,338 RSUs granted (three months ended May 31, 2017 - 323,242), all of which will be settled upon vesting by the issuance of new common shares.

**BlackBerry Limited**  
**Notes to the Consolidated Financial Statements**

(In millions of United States dollars, except share and per share data, and except as otherwise indicated) (unaudited)

***2019 Executive Chair Incentive Grant***

In the first quarter of fiscal 2019, the Board approved an agreement to grant a time-based equity award, a long-term market performance-based equity award and a contingent cash award (together, the “2019 Executive Chair Grant”) to the Company’s Executive Chair and CEO as an incentive to remain as Executive Chair until November 3, 2023. The expense associated with the 2019 Executive Chair Grant is included in the compensation expense noted above. The equity and liability components of the agreement are summarized below:

Time-Based Equity Award

The time-based equity award consists of five million time-based RSUs that will vest annually in five equal tranches beginning on November 3, 2019.

Market Performance-Based Equity Award

The market performance-based equity award consists of five tranches, each of one million market-condition RSUs that will become earned and vested in increments of 1,000,000 RSUs when the 10-day average closing price of the Company’s common shares on the New York Stock Exchange reaches \$16, \$17, \$18, \$19 and \$20, respectively. The grant date fair value and the derived service period for each of the market condition equity awards was determined through the use of a Monte Carlo simulation model. Should the target price of an award be reached prior to the derived service date, the remaining unrecognized compensation cost for the award will be accelerated and recorded at that time. Any market-condition RSUs that have not been earned before November 3, 2023 will terminate on such date.

Contingent Cash Award

The contingent cash award consists of a cash amount of \$90 million that becomes payable should the 10-day average closing price of the Company’s common shares on the New York Stock Exchange reach \$30. As the award is triggered by the Company’s share price, it is considered stock-based compensation and accounted for as a share-based liability award, the fair value of which is determined at each reporting period end utilizing an option pricing model and the associated compensation expense for the reporting period recorded. If unearned, the contingent cash award will terminate on November 3, 2023. See also the discussion under “Other contingencies” in Note 12.

**BlackBerry Limited**

**Notes to the Consolidated Financial Statements**

(In millions of United States dollars, except share and per share data, and except as otherwise indicated) (unaudited)

**10. EARNINGS (LOSS) PER SHARE**

The following table sets forth the computation of basic and diluted earnings (loss) per share:

|  | Three Months Ended |              |
|--|--------------------|--------------|
|  | May 31, 2018       | May 31, 2017 |
| Net income (loss) for basic earnings (loss) per share available to common shareholders   | \$ (60)            | \$ 671       |
| Less: Debentures fair value adjustment <sup>(1)</sup>                                    | —                  | —            |
| Add: Interest expense on Debentures <sup>(1)</sup>                                       | —                  | —            |
| Net income (loss) for diluted earnings (loss) per share available to common shareholders | \$ (60)            | \$ 671       |
| Weighted average number of shares outstanding (000's) - basic                            | 536,964            | 531,096      |
| Effect of dilutive securities (000's) <sup>(2)(3)</sup>                                  |                    |              |
| Stock-based compensation <sup>(2)(3)</sup>   | —                  | 12,981       |
| Conversion of Debentures <sup>(1)</sup>  | —                  | —            |
| Weighted average number of shares and assumed conversions (000's) - diluted              | 536,964            | 544,077      |
| Earnings (loss) per share - reported   |                    |              |
| Basic  | \$ (0.11)          | \$ 1.26      |
| Diluted  | \$ (0.11)          | \$ 1.23      |

(1) The Company has not presented the dilutive effect of the Debentures using the if-converted method in the calculation of earnings (loss) per share for the three months ended May 31, 2018 and May 31, 2017, as to do so would be antidilutive. See Note 8 for details on the Debentures.

(2) The Company has not presented the dilutive effect of in-the-money options and RSUs that will be settled upon vesting by the issuance of new common shares in the calculation of earnings (loss) per share for the three months ended May 31, 2018, as to do so would be antidilutive.

(3) The Company has presented the dilutive effect of in-the-money options and RSUs that will be settled upon vesting by the issuance of new common shares in the calculation of earnings (loss) per share for the three months ended May 31, 2017.

**11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The changes in AOCI by component, net of tax, for the three months ended May 31, 2018 were as follows:

|  | Foreign<br>Currency<br>Cumulative<br>Translation<br>Adjustment | Accumulated<br>Net Unrealized<br>Losses on<br>Cash Flow<br>Hedges | Other Post-<br>Employment<br>Benefit<br>Obligations | Accumulated<br>Net Unrealized<br>Gains (Losses)<br>on Available-<br>for-Sale<br>Investments | Change in fair<br>value from<br>instrument-<br>specific credit<br>risk on<br>Debentures | Total   |
|--|--|---|---|---|---|---------|
| AOCI as at February 28, 2018                               | \$ (1)   | \$ (1)  | \$ (1)  | \$ (7)  | \$ —  | \$ (10) |
| Cumulative impact of adoption of ASU 2016-01               | —  | —   | —   | 8   | (14)  | (6)     |
| Other comprehensive income (loss) before reclassifications | (4)  | —   | —   | 1   | —   | (3)     |
| Other comprehensive income (loss) for the period           | (4)  | —   | —   | 9   | (14)  | (9)     |
| AOCI as at May 31, 2018                                    | \$ (5)   | \$ (1)  | \$ (1)  | \$ 2  | \$ (14)   | \$ (19) |

During the three months ended May 31, 2018, nil in gains (pre-tax and post-tax) associated with cash flow hedges was reclassified from AOCI into selling, marketing and administration costs.

**12. COMMITMENTS AND CONTINGENCIES**

**(a) Letters of credit**

The Company had \$32 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business as of May 31, 2018. See the discussion of restricted cash in Note 2.

**BlackBerry Limited**  
**Notes to the Consolidated Financial Statements**

(In millions of United States dollars, except share and per share data, and except as otherwise indicated) (unaudited)

**(b) Qualcomm arbitration award**

On April 20, 2016, the Company and Qualcomm Incorporated (“Qualcomm”) entered into an agreement to arbitrate a dispute regarding whether Qualcomm’s agreement to cap certain royalties applied to payments made by the Company under a license between the parties. The binding arbitration hearing was held from February 27, 2017 to March 3, 2017 under the Judicial Arbitration and Mediation Services rules in San Diego, California. On April 11, 2017, the arbitration panel issued an interim decision, finding in favour of the Company. Subsequently, the Company reached an agreement with Qualcomm resolving all amounts payable in connection with the interim arbitration decision. Following a joint stipulation by the parties, the arbitration panel issued a final award on May 26, 2017 providing for the payment by Qualcomm to the Company of a total amount of \$940 million including interest and attorneys’ fees, which was net of \$22 million in certain royalties owed by the Company to Qualcomm for calendar 2016 and the first quarter of calendar 2017 previously recorded within accrued liabilities on the consolidated balance sheets.

Approximately \$815 million of the arbitration award represents the return of royalty overpayments. This amount was recorded within Qualcomm arbitration award on the consolidated statements of operations in the first quarter of fiscal 2018. In the first quarter of fiscal 2018, the Company also recorded on the consolidated statements of operations, recoveries of legal expenses of approximately \$8 million included in selling, marketing and administration, and \$139 million of interest income within investment income, net, for a total gain associated with the award of \$962 million.

**(c) Contingencies**

***Litigation***

The Company is involved in litigation in the normal course of its business, both as a defendant and as a plaintiff. The Company is subject to a variety of claims (including claims related to patent infringement, purported class actions and other claims in the normal course of business) and may be subject to additional claims either directly or through indemnities against claims that it provides to certain of its partners and customers. In particular, the industry in which the Company competes has many participants that own, or claim to own, intellectual property, including participants that have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used by the Company in its products. The Company has received, and may receive in the future, assertions and claims from third parties that the Company’s products infringe on their patents or other intellectual property rights. Litigation has been, and will likely continue to be, necessary to determine the scope, enforceability and validity of third-party proprietary rights or to establish the Company’s proprietary rights. Regardless of whether claims against the Company have merit, those claims could be time-consuming to evaluate and defend, result in costly litigation, divert management’s attention and resources, subject the Company to significant liabilities and could have the other effects that are described in greater detail under “Risk Factors” in the Company’s unaudited Annual Information Form for the fiscal year ended February 28, 2018, which is included in the Company’s Annual Report on Form 40-F, including the risk factors entitled “Litigation against the Company may result in adverse outcomes” and “The Company could be found to have infringed on the intellectual property rights of others”.

Management reviews all of the relevant facts for each claim and applies judgment in evaluating the likelihood and, if applicable, the amount of any potential loss. Where a potential loss is considered probable and the amount is reasonably estimable, provisions for loss are made based on management’s assessment of the likely outcome. Where a range of loss can be reasonably estimated with no best estimate in the range, the Company records the minimum amount in the range. The Company does not provide for claims for which the outcome is not determinable or claims for which the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

As of May 31, 2018, with the exception noted below relating to the GTC Lawsuit (as defined below), there are no claims outstanding for which the Company has assessed the potential loss as both probable to result and reasonably estimable; therefore, no accrual has been made. Further, there are claims outstanding for which the Company has assessed the potential loss as reasonably possible to result; however, an estimate of the amount of loss cannot reasonably be made. There are many reasons that the Company cannot make these assessments, including, among others, one or more of the following: the early stages of a proceeding does not require the claimant to specifically identify the patent that has allegedly been infringed; damages sought are unspecified, unsupportable, unexplained or uncertain; discovery has not been started or is incomplete; the facts that are in dispute are highly complex (e.g., once a patent is identified, the analysis of the patent and a comparison to the activities of the Company is a labour intensive and highly technical process); the difficulty of assessing novel claims; the parties have not engaged in any meaningful settlement discussions; the possibility that other parties may share in any ultimate liability; and the often slow pace of litigation.

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**Notes to the Consolidated Financial Statements**

(In millions of United States dollars, except share and per share data, and except as otherwise indicated) (unaudited)

Though they do not meet the test for accrual described above, the Company has included the following summaries of certain of its legal proceedings that it believes may be of interest to its investors.

Between October and December 2013, several purported class action lawsuits and one individual lawsuit were filed against the Company and certain of its former officers in various jurisdictions in the U.S. and Canada alleging that the Company and certain of its officers made materially false and misleading statements regarding the Company's financial condition and business prospects and that certain of the Company's financial statements contain material misstatements. The individual lawsuit was voluntarily dismissed.

On March 14, 2014, the four putative U.S. class actions were consolidated in the U.S. District Court for the Southern District of New York, and on May 27, 2014, a consolidated amended class action complaint was filed. On March 13, 2015, the Court issued an order granting the Company's motion to dismiss. The Court denied the plaintiffs' motion for reconsideration and for leave to file an amended complaint on November 13, 2015. On August 24, 2016, the U.S. Court of Appeals for the Second Circuit affirmed the District Court order dismissing the complaint, but vacated the order denying leave to amend and remanded to the District Court for further proceedings in connection with the plaintiffs' request for leave to amend. The Court granted the plaintiffs' motion for leave to amend on September 13, 2017. On September 29, 2017, the plaintiffs filed a second consolidated amended class action complaint (the "Second Amended Complaint"), which added the Company's Chief Legal Officer as a defendant. The Court denied the motion to dismiss the Second Amended Complaint on March 19, 2018.

On July 23, 2014, the plaintiffs in the putative Ontario class action filed a motion for certification and leave to pursue statutory misrepresentation claims. On November 16, 2015, the Ontario Superior Court of Justice issued an order granting the plaintiffs' motion for leave to file a statutory claim for misrepresentation. On December 2, 2015, the Company filed a notice of motion seeking leave to appeal this ruling. On January 22, 2016, the court postponed the hearing on the plaintiffs' certification motion to an undetermined date after asking the Company to file a motion to dismiss the claims of the U.S. plaintiffs for forum non conveniens. Briefing is complete and the parties are waiting for a hearing date from the Court. Trial court proceedings are on hold until all appeals related to the order granting the plaintiffs' motion for leave to amended are exhausted.

On October 12, 2015, a group of Good Technology Corporation's ("Good's") institutional investors filed a putative class action lawsuit on behalf of Good's common shareholders against members of Good's former board of directors (the "GTC Directors") related to the Company's acquisition of Good (the "GTC Lawsuit"). The plaintiffs allege that the GTC Directors breached their fiduciary duty by engaging in a self-interested transaction that benefited the preferred shareholders at the expense of the common shareholders. The plaintiffs are seeking monetary damages, as well as rescission of the merger agreement between Good and the Company. While neither Good nor the Company are parties to the GTC Lawsuit, Good has certain obligations to indemnify some of the defendants and is providing a defense. On October 29, 2015, Good filed a complaint alleging that the plaintiffs breached their contractual obligations under a voting agreement providing that, in the event of a sale transaction that was approved by both the GTC Directors and a majority of the Good preferred shareholders, the plaintiffs were required to vote their shares in favour of the transaction and refrain from exercising any appraisal or dissent rights (the "Voting Rights Lawsuit"). Good alleges that the filing of the GTC Lawsuit was a breach of the voting agreement. On December 31, 2015, several Good shareholders filed a petition seeking appraisal against Good (the "Appraisal Lawsuit"). On August 25, 2016, the Court granted the plaintiff's motion for leave to file an amended complaint in the GTC Lawsuit naming additional defendants, including JP Morgan Chase and various venture capital funds whose designees were Good directors (the "Fund Defendants"). Good and the Company are not named in the amended complaint. On May 23, 2017, the plaintiffs reached a tentative settlement with the GTC Directors and Fund Defendants of the GTC Lawsuit. On May 31, 2017, the plaintiffs and JP Morgan Chase reached a tentative settlement of the GTC Lawsuit. On July 24, 2017, Good, the petitioners in the Appraisal Lawsuit and the defendants in the Voting Rights Lawsuit entered into an Agreement of Settlement, Dismissal, and Release and filed same with the court. On August 8, 2017, the Court issued an order granting the parties' settlement terms. On August 18, 2017, the Company and JP Morgan Chase entered into a Settlement Funding Agreement, by which the Company agreed to fund JP Morgan Chase's settlement with the plaintiffs. On August 22, 2017, JP Morgan Chase and the plaintiffs filed a Stipulation and Agreement of Compromise and Settlement with the Court. The Court approved the settlement between plaintiffs and JP Morgan Chase and entered a Final Judgment on April 5, 2018. On November 9, 2017, the Company filed a demand for arbitration seeking the release of funds from an escrow fund account established when the Company acquired Good to indemnify the Company for certain costs incurred in connection with the defense and settlement of the GTC Lawsuit and the Appraisal Lawsuit. The arbitration hearing is scheduled for September 10-12, 2018.

The GTC Lawsuit is stayed pending court approval of all tentative settlements. During the first quarter of fiscal 2018, the Company accrued \$10 million for legal costs related to litigation arising out of its acquisition of Good.

(In millions of United States dollars, except share and per share data, and except as otherwise indicated) (unaudited)

***Other contingencies***

In the first quarter of fiscal 2019, the Board approved the 2019 Executive Chair Grant. As part of the agreement, the Company's Executive Chair and CEO is entitled to receive a contingent performance-based cash award in the amount of \$90 million that will become earned and payable should the 10-day average closing price of the Company's common shares on the New York Stock Exchange reach \$30 before November 3, 2023. As the award is triggered by the Company's share price, it is considered stock-based compensation and accounted for as a share-based liability award. See further discussion under "Contingent Cash Award" in Note 9.

**(d) Concentrations in certain areas of the Company's business**

The Company attempts to ensure that most components essential to the Company's business are generally available from multiple sources; however, certain components are currently obtained from limited sources within a competitive market, which subjects the Company to significant supply, availability and pricing risks. The Company has also entered into various agreements for the supply of components, the manufacturing of its products and agreements that allow the Company to use intellectual property owned by other companies; however, there can be no guarantee that the Company will be able to extend or renew these agreements on similar terms, or at all. Therefore, the Company remains subject to risks of supply shortages and intellectual property litigation risk.

**(e) Indemnifications**

The Company enters into certain agreements that contain indemnification provisions under which the Company could be subject to costs and damages, including in the event of an infringement claim against the Company or an indemnified third party. Such intellectual property infringement indemnification clauses are generally not subject to any dollar limits and remain in effect for the term of the Company's agreements. To date, the Company has not encountered material costs as a result of such indemnifications.

The Company has entered into indemnification agreements with its current and former directors and executive officers. Under these agreements, the Company agreed, subject to applicable law, to indemnify its current and former directors and executive officers against all costs, charges and expenses reasonably incurred by such individuals in respect of any civil, criminal or administrative action that could arise by reason of their status as directors or officers. The Company maintains liability insurance coverage for the benefit of its current and former directors and executive officers. The Company has not encountered material costs as a result of such indemnifications in the current period. See the Company's Management Information Circular for fiscal 2018 for additional information regarding the Company's indemnification agreements with its current and former directors and executive officers.

**BlackBerry Limited**  
**Notes to the Consolidated Financial Statements**

(In millions of United States dollars, except share and per share data, and except as otherwise indicated) (unaudited)

**13. REVENUE AND SEGMENT DISCLOSURES**

**Revenue**

The Company disaggregates revenue from contracts with customers based on geographical regions, timing of revenue recognition, and the major product and service types as described in Note 1. The Company's revenue, classified by major geographic region in which the Company's customers are located, was as follows:

|                                | Three Months Ended          |               |                             |               |
|--------------------------------|-----------------------------|---------------|-----------------------------|---------------|
|                                | May 31, 2018 <sup>(1)</sup> |               | May 31, 2017 <sup>(2)</sup> |               |
| North America <sup>(3)</sup>   | \$ 139                      | 65.3%         | \$ 127                      | 54.0%         |
| Europe, Middle East and Africa | 52                          | 24.4%         | 70                          | 29.8%         |
| Other regions                  | 22                          | 10.3%         | 38                          | 16.2%         |
| Total                          | <u>\$ 213</u>               | <u>100.0%</u> | <u>\$ 235</u>               | <u>100.0%</u> |

(1) As reported under the new revenue recognition standard, ASC 606.

(2) Comparative information has not been restated and continues to be reported under the accounting standards in effect for previous periods.

(3) North America includes all revenue from the Company's intellectual property arrangements, due to the global applicability of the patent portfolio and licensing arrangements thereof.

Total revenues, classified by product and service type, were as follows:

|                                  | Three Months Ended          |                             |
|----------------------------------|-----------------------------|-----------------------------|
|                                  | May 31, 2018 <sup>(1)</sup> | May 31, 2017 <sup>(2)</sup> |
| Enterprise software and services | \$ 79                       | \$ 92                       |
| BlackBerry Technology Solutions  | 47                          | 36                          |
| Licensing, IP and other          | 63                          | 32                          |
| Handheld devices                 | 8                           | 37                          |
| SAF                              | 16                          | 38                          |
| Total                            | <u>\$ 213</u>               | <u>\$ 235</u>               |

(1) As reported under the new revenue recognition standard, ASC 606.

(2) Comparative information has not been restated and continues to be reported under the accounting standards in effect for previous periods.

Revenues, classified by timing of recognition, were as follows:

|  | Three Months Ended |
|--|--------------------|
|  | May 31, 2018       |
| Products and services transferred over time          | \$ 124             |
| Products and services transferred at a point in time | 89                 |
| Total  | <u>\$ 213</u>      |

**BlackBerry Limited**  
**Notes to the Consolidated Financial Statements**

(In millions of United States dollars, except share and per share data, and except as otherwise indicated) (unaudited)

**Revenue contract balances**

The Company's revenue contract balances were as follows:

|   | Accounts<br>Receivable | Deferred<br>Revenue | Deferred<br>Commissions |
|---|------------------------|---------------------|-------------------------|
| Opening balance as at March 1, 2018 (as adjusted for ASC 606)             | \$ 151                 | \$ 292              | \$ 21                   |
| Increase due to invoicing of new or existing contracts, or other          | 152                    | 129                 | 7                       |
| Decrease due to payment, fulfillment of performance obligations, or other | (177)                  | (144)               | (8)                     |
| Decrease, net   | (25)                   | (15)                | (1)                     |
| Closing balance as at May 31, 2018  | <u>\$ 126</u>          | <u>\$ 277</u>       | <u>\$ 20</u>            |

**Transaction price allocated to the remaining performance obligations**

The table below discloses the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied, or partially unsatisfied as at May 31, 2018 and the time frame in which the Company expects to recognize this revenue. The disclosure includes estimates of variable consideration, except when the variable consideration is a sales-based or usage-based royalty promised in exchange for a license of intellectual property.

|                                   | As at May 31, 2018     |                 |            |        |
|-----------------------------------|------------------------|-----------------|------------|--------|
|                                   | Less than 12<br>Months | 12 to 24 Months | Thereafter | Total  |
| Remaining performance obligations | \$ 270                 | \$ 139          | \$ 149     | \$ 558 |

**Revenue recognized for performance obligations satisfied in prior periods**

For the three months ended May 31, 2018, \$6 million in revenue was recognized for performance obligations satisfied in previous periods.

**Segment disclosures**

The Company reports segment information based on the "management" approach. The management approach designates the internal reporting used by the CODM for making decisions and assessing performance as a source of the Company's reportable operating segments. The CODM, who is the Executive Chair and CEO, reviews financial information, makes decisions and assesses the performance of the Company as a single operating segment.

**Geographical distribution of assets**

Property, plant and equipment and intangible assets and goodwill, classified by geographic regions in which the Company's assets are located, were as follows:

|               | As at   |                 |   |                 |
|---------------|---|-----------------|---|-----------------|
|               | May 31, 2018  |                 | February 28, 2018   |                 |
|               | Property, Plant and<br>Equipment, Intangible<br>Assets and Goodwill | Total Assets    | Property, Plant and<br>Equipment, Intangible<br>Assets and Goodwill | Total Assets    |
| Canada        | \$ 404  | \$ 610          | \$ 425  | \$ 640          |
| United States | 620   | 2,909           | 627   | 2,922           |
| Other         | 53  | 187             | 58  | 218             |
|               | <u>\$ 1,077</u>   | <u>\$ 3,706</u> | <u>\$ 1,110</u>   | <u>\$ 3,780</u> |

**Information about major customers**

There was one customer that comprised more than 10% of revenue during the three months ended May 31, 2018 (three months ended May 31, 2017 - no customer comprised more than 10% of revenue).

## BLACKBERRY LIMITED

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MAY 31, 2018

June 22, 2018

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read together with the unaudited interim consolidated financial statements and the accompanying notes (the "Consolidated Financial Statements") of BlackBerry Limited (the "Company" or "BlackBerry") for the three months ended May 31, 2018, as well as the Company's audited consolidated financial statements and accompanying notes, and MD&A for the fiscal year ended February 28, 2018 (the "Annual MD&A"). The Consolidated Financial Statements are presented in U.S. dollars and have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). All financial information in this MD&A is presented in U.S. dollars, unless otherwise indicated.

The Company has prepared this MD&A with reference to *National Instrument 51-102* "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which are different from those of the United States. This MD&A provides information for the three months ended May 31, 2018 and up to and including June 22, 2018.

Additional information about the Company, including the Company's Annual Information Form for the fiscal year ended February 28, 2018 (the "AIF"), which is included in the Company's Annual Report on Form 40-F for the fiscal year ended February 28, 2018 (the "Annual Report"), can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the U.S. Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

#### Cautionary Note Regarding Forward-Looking Statements

This MD&A contains forward-looking statements within the meaning of certain securities laws, including under the U.S. Private Securities Litigation Reform Act of 1995 and applicable Canadian securities laws, including statements relating to:

- the Company's plans, strategies and objectives, including the anticipated benefits of its strategic initiatives and its intentions to grow revenue and increase and enhance its product and service offerings;
- the Company's expectations regarding its free cash flow, recurring revenue, total software and services revenue growth, total software and services billings growth, BTS revenue growth, intellectual property ("IP") revenue, BTS billings growth, Licensing, IP and other billings growth, non-GAAP gross margin and non-GAAP earnings per share for fiscal 2019;
- the Company's estimates of purchase obligations and other contractual commitments; and
- the Company's expectations with respect to the sufficiency of its financial resources.

The words "expect", "anticipate", "estimate", "may", "will", "should", "could", "intend", "believe", "target", "plan" and similar expressions are intended to identify forward-looking statements in this MD&A, including in the sections entitled "Business Overview", "Business Overview -Strategy", "First Quarter Fiscal 2019 Summary Results of Operations - Financial Highlights - Free Cash Flow", "Results of Operations – Three months ended May 31, 2018 compared to three months ended May 31, 2017 – Consolidated Gross Margin", "Results of Operations – Three months ended May 31, 2018 compared to three months ended May 31, 2017 - Consolidated Revenue", "Results of Operations – Three months ended May 31, 2018 compared to three months ended May 31, 2017 – Net Income (loss)", and "Financial Condition – Debenture Financing and Other Funding Sources". Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience, historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the factors discussed in the "Risk Factors" section of the AIF and the following:

- the Company's ability to enhance, develop, introduce or monetize products and services for the enterprise market in a timely manner with competitive pricing, features and performance;
- the Company's ability to maintain or expand its customer base for its software and services offerings to grow revenue or achieve sustained profitability;

- the intense competition faced by the Company;
- the occurrence or perception of a breach of the Company's network or product security measures, or an inappropriate disclosure of confidential or personal information;
- risks related to the Company's continuing ability to attract new personnel, retain existing key personnel and manage its staffing effectively;
- the Company's dependence on its relationships with resellers and distributors;
- the risk that network disruptions or other business interruptions could have a material adverse effect on the Company's business and harm its reputation; and
- risks related to acquisitions, divestitures, investments and other business initiatives, which may negatively affect the Company's results of operations.

All of these factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. Any statements that are forward-looking statements are intended to enable the Company's shareholders to view the anticipated performance and prospects of the Company from management's perspective at the time such statements are made, and they are subject to the risks that are inherent in all forward-looking statements, as described above, as well as difficulties in forecasting the Company's financial results and performance for future periods, particularly over longer periods, given the ongoing transition in the Company's business strategy and the rapid technological changes, evolving industry standards, intense competition and short product life cycles that characterize the industries in which the Company operates. See "Business Overview - Strategy, Products and Services" in this MD&A, as well as the "Narrative Description of the Business - Strategy" section in the AIF.

The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

### **Business Overview**

The Company is an enterprise software and services company focused on securing and managing Internet of Things ("IoT") endpoints. Based in Waterloo, Ontario, the Company was founded in 1984 and operates in North America, Europe, Asia, Middle East, Latin America and Africa. The Company's common shares trade under the ticker symbol "BB" on the Toronto Stock Exchange and the New York Stock Exchange.

### **Strategy**

The Company is widely recognized for productivity and security innovations, and the Company believes that it delivers the most secure end-to-end mobile enterprise solutions in the market. With these core strengths, the Company's broad portfolio of products and services is focused on serving enterprise customers, particularly in regulated industries.

The Company is focused on delivering an end-to-end software and services platform for the Enterprise of Things. The Company defines the Enterprise of Things as the network of devices, computers, vehicles, sensors, equipment and other connected endpoints within the enterprise that communicate with each other to enable smart business processes. The Company leverages many elements of its extensive technology portfolio to extend best-in-class security and reliability to its solutions for the Enterprise of Things, including UEM, embedded systems, crisis communications, enterprise applications, and related services, with hosting available on the Company's global, scalable, secure network, as well as on public clouds.

The Company intends to continue to increase and enhance its product and service offerings through both strategic acquisitions and organic investments. The Company's goal is to maintain its market leadership in the enterprise mobility segment by continuing to extend the functionality of its platform for the Enterprise of Things and, on top of this extensive foundation, deliver software and embedded solutions focused on strategic industry verticals.

### ***Products and Services***

The Company's core software and services offering is the BlackBerry Secure platform, which integrates a broad portfolio of enterprise communication technologies and safety-certified embedded solutions, including BlackBerry UEM, BlackBerry Dynamics, the QNX CAR Platform and Neutrino Operating System, AtHoc Alert, AtHoc Account, SecuSUITE, and BlackBerry Workspaces. BlackBerry UEM offers a "single pane of glass", or unified console view, for managing and securing devices, applications, identity, content, and IoT endpoints across all leading operating systems. BlackBerry Dynamics offers a best-in-class development platform and secure container for mobile applications, including the Company's own enterprise applications such as BlackBerry Work and BlackBerry Connect for secure collaboration. BlackBerry AtHoc provides secure, networked crisis communications solutions, and Secusmart provides secure voice and text messaging solutions with advanced encryption and anti-eavesdropping capabilities.

The BlackBerry QNX unit is a global provider of real-time operating systems, middleware, development tools, and professional services for connected embedded systems, primarily in the automotive, medical and industrial automation markets. A leader in software for automotive electronics, BlackBerry QNX offers a growing portfolio of certified safety-critical modules and platform solutions and is focusing on achieving design wins with automotive original equipment manufacturers, Tier 1 vendors and automotive semiconductor suppliers.

The Company also offers its BlackBerry Radar asset tracking solution, Paratek antenna tuning technology, Certicom cryptography and key management products, and its BlackBerry Messenger ("BBM") Enterprise service, together with the BBM Enterprise SDK for the Communications Platform as a Service market.

The Company is also engaged in the development and licensing of the Company's secure device software and the outsourcing to partners of all design, manufacturing, sales and customer support for BlackBerry-branded, and white label handsets. The Company intends to expand its security software and brand licensing program, under which the BlackBerry KEY2, BlackBerry KEYone, BlackBerry Aurora, and BlackBerry Motion smartphones have been launched to date, to include a broader set of devices and non-smartphone endpoints. The Company also licenses its other intellectual property assets, including certain of its patents as well as assets related to the BBM Consumer service.

In addition, the Company continues to generate service access fees ("SAF") charged to subscribers using the Company's legacy BlackBerry 7 and prior BlackBerry operating systems, and an allocation of revenue relating to service obligations and unspecified future software upgrades associated with BlackBerry 10 devices.

Please also see the "Narrative Description of the Business - Strategy" section in the AIF, which is included in the Annual Report.

### ***Recent Developments***

The Company continues to execute on its strategy in fiscal 2019 and announced the following achievements:

- Launched three new automotive software products certified to ISO 26262, the automotive industry's functional safety standard: BlackBerry's QNX Hypervisor for Safety, QNX Platform for ADAS 2.0, and QNX OS for Safety 2.0, enabling automakers to accelerate development timelines and reduce cost;
- Announced that BlackBerry QNX software is embedded in the advanced driver assistance system, digital instrument clusters, connectivity modules, handsfree systems or infotainment systems of more than 120 million cars on the road;
- Entered into a strategic partnership with Microsoft Corp. to offer enterprises BlackBerry Enterprise Bridge, a solution that integrates BlackBerry's expertise in mobility and security with Microsoft's cloud and productivity products;
- Entered into a multi-year agreement with Jaguar Land Rover to collaborate and develop technology for the automotive manufacturer's next-generation vehicles;
- Collaborated with the Government of Canada to modernize their operations centers during G7 ministerial meetings and the 2018 G7 Summit;
- Joined the OmniAir Consortium as an executive member to help advance the testing, certification, and deployment of technologies for connected vehicles and intelligent transportation systems;
- Signed a technology and brand licensing deal for BlackBerry Secure with Swiss consumer electronics maker Punkt Tronics AG;
- Entered into a licensing agreement with Bullitt Group to embed BlackBerry cybersecurity technology into a range of highly-secure, rugged Caterpillar- and Land Rover-branded connected devices to be certified as "BlackBerry Secure";
- Announced that electric vehicle maker BYTON will license BlackBerry QNX technologies for the in-car experience within its first series of production vehicles; and
- Announced a multi-year strategic relationship with Samsung Electronics Co. Ltd. to collaborate on integrated solutions to accelerate the digital transformation of their shared enterprise customers.

### ***2019 Executive Chair Incentive Grant***

In the first quarter of fiscal 2019, the Company granted a time-based equity award, a long-term market performance-based equity award and a contingent cash award to the Company's Executive Chair and CEO as an incentive to remain as Executive Chair until November 3, 2023.

The time-based equity award consists of five million time-based RSUs that will vest annually in five equal tranches beginning on November 3, 2019. The market performance-based equity award consists of five tranches, each of one million market-condition RSUs that will become earned and vested when the 10-day average closing price of the Company's common shares on the New York Stock Exchange reaches \$16, \$17, \$18, \$19 and \$20, respectively. Any market-condition RSUs that have not been earned before November 3, 2023 will terminate on such date. The contingent cash award consists of a cash amount of \$90 million that will become payable when the 10-day average closing price of the Company's common shares on the New York Stock Exchange reaches \$30. If unearned, the contingent cash award will terminate on November 3, 2023.

### ***Normal Course Issuer Bid***

On June 23, 2017, the Company announced that it received acceptance from the Toronto Stock Exchange (the "TSX") with respect to a normal course issuer bid to purchase for cancellation up to 31,000,000 BlackBerry common shares, representing approximately 6.4% of the outstanding public float as of May 31, 2017. The share repurchase program will remain in place until June 26, 2018, or such earlier time as the purchases are completed or the program is terminated by the Company.

The Company may purchase the common shares over the TSX or other markets, including the New York Stock Exchange. The price the Company will pay for any shares under the share repurchase program will be the prevailing market price at the time of purchase. The share repurchase program will be effected in accordance with Rule 10b-18 under the U.S. Securities Exchange Act of 1934 and the TSX's normal course issuer bid rules, which contain restrictions on the number of shares that may be purchased on a single day, subject to certain exceptions for block purchases, based on the average daily trading volumes of the Company's common shares on the applicable exchange.

The actual number of shares to be purchased and the timing and pricing of any purchases under the share repurchase program will depend on future market conditions and upon potential alternative uses for cash resources. The Company may elect to modify, suspend or discontinue the program at any time without prior notice.

During the three months ended May 31, 2018, the Company did not repurchase any common shares.

### **Non-GAAP Financial Measures**

The Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, and information contained in this MD&A is presented on that basis unless otherwise noted. On June 22, 2018, the Company announced financial results for the three months ended May 31, 2018, which included certain non-GAAP financial measures, including adjusted revenue, adjusted gross margin, adjusted gross margin percentage, adjusted EBITDA, adjusted EBITDA margin, adjusted income (loss) before income taxes, adjusted net income (loss) and adjusted earnings (loss) per share. The Company believes the presentation of these non-GAAP measures provides management and shareholders with important information regarding the Company's financial performance due to the financial statement impact of the Company's transformation from a hardware-focused handset manufacturer to an enterprise software and services company with recurring revenue streams.

For the three months ended May 31, 2018, these measures were adjusted for the following (collectively, the "Q1 Fiscal 2019 Non-GAAP Adjustments") (all items pre-tax and after-tax):

- the Q1 Fiscal 2019 Debentures Fair Value Adjustment (as defined below under "First Quarter Fiscal 2019 Summary Results of Operations – Financial Highlights – Debentures Fair Value Adjustment") of approximately \$28 million;
- Resource Allocation Program ("RAP") charges consisting of amounts associated with employee termination benefits, facilities, and certain other costs of approximately \$4 million;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately \$4 million;
- stock compensation expense of approximately \$18 million;
- amortization of intangible assets acquired through business combinations of approximately \$22 million; and
- business acquisition and integration costs resulting from business combinations of approximately \$1 million.

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The Company believes that presenting non-GAAP financial measures that exclude the impact of those items enables it and its shareholders to assess the Company's operating performance relative to its consolidated financial results in prior and future periods on a more comparable basis. Readers are cautioned that adjusted revenue, adjusted gross margin, adjusted gross margin percentage, adjusted EBITDA, adjusted EBITDA margin, adjusted income (loss) before income taxes, adjusted net income (loss), adjusted earnings (loss) per share and similar measures do not have any standardized meaning prescribed by U.S. GAAP and therefore might not be comparable to similarly titled measures reported by other companies. These non-GAAP financial measures should be considered in the context of the U.S. GAAP results, which are presented in the Consolidated Financial Statements and are described in this MD&A. A reconciliation from the most directly comparable U.S. GAAP measures to these non-GAAP financial measures for the three months ended May 31, 2018 was included in the Company's press release dated June 22, 2018, and is reflected in the table below:

| Q1 Fiscal 2019 Non-GAAP Adjustments               |                                       | For the Three Months Ended May 31, 2018<br><i>(in millions, except for per share amounts)</i> |                                       |   |   |                      |                                       |
|---|---------------------------------------|---|---------------------------------------|---|---|----------------------|---------------------------------------|
|   | Income statement location             | Revenue   | Gross margin<br><i>(before taxes)</i> | Gross margin<br>% <i>(before taxes)</i> | Income (loss)<br>before<br>income taxes | Net income<br>(loss) | Basic earnings<br>(loss) per<br>share |
| <b>As reported</b>                                |                                       | \$ 213  | \$ 161                                | 75.6 %                                  | \$ (59)                                 | \$ (60)              | \$ (0.11)                             |
| Debtures fair value adjustment <sup>(1)</sup>     | Debtures fair value adjustment        | —   | —                                     | — %                                     | 28                                      | 28                   |                                       |
| RAP charges <sup>(2)</sup>                        | Research and development              | —   | —                                     | — %                                     | 2                                       | 2                    |                                       |
| RAP charges <sup>(2)</sup>                        | Selling, marketing and administration | —   | —                                     | — %                                     | 2                                       | 2                    |                                       |
| Software deferred revenue acquired <sup>(3)</sup> | Revenue                               | 4   | 4                                     | 0.4 %                                   | 4                                       | 4                    |                                       |
| Stock compensation expense                        | Cost of sales                         | —   | 1                                     | 0.5 %                                   | 1                                       | 1                    |                                       |
| Stock compensation expense                        | Research and development              | —   | —                                     | — %                                     | 3                                       | 3                    |                                       |
| Stock compensation expense                        | Selling, marketing and administration | —   | —                                     | — %                                     | 14                                      | 14                   |                                       |
| Acquired intangibles amortization                 | Amortization                          | —   | —                                     | — %                                     | 22                                      | 22                   |                                       |
| Business acquisition and integration costs        | Selling, marketing and administration | —   | —                                     | — %                                     | 1                                       | 1                    |                                       |
| <b>Adjusted</b>                                   |                                       | <u>\$ 217</u>   | <u>\$ 166</u>                         | <u>76.5 %</u>                           | <u>\$ 18</u>                            | <u>\$ 17</u>         | <u>\$ 0.03</u>                        |

(1) See "First Quarter Fiscal 2019 Summary Results of Operations – Financial Highlights - Debtures Fair Value Adjustment".

(2) See "First Quarter Fiscal 2019 Summary Results of Operations – Financial Highlights - RAP".

(3) Included in Enterprise software and services revenue.

Similarly, on June 23, 2017, the Company announced financial results for the three months ended May 31, 2017, which included certain non-GAAP financial measures, including adjusted revenue, adjusted gross margin, gross margin percentage, adjusted EBITDA, adjusted income before income taxes, adjusted net income and adjusted earnings per share.

For the three months ended May 31, 2017, these measures were adjusted for the following (collectively, the "Q1 Fiscal 2018 Non-GAAP Adjustments") (all items pre-tax and after tax):

- recovery of the overpayment of royalties from the Qualcomm arbitration award of \$815 million;
- interest income related to the overpayment of the above royalties of \$139 million;
- a fair value adjustment associated with the Company's convertible debtures of approximately \$218 million;
- RAP charges of approximately \$17 million;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately \$9 million;
- stock compensation expense of approximately \$13 million;
- amortization of intangible assets acquired through business combinations of approximately \$25 million; and
- business acquisition and integration costs incurred through business combinations of approximately \$11 million.

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A reconciliation from the most directly comparable U.S. GAAP measures to these non-GAAP financial measures for the three months ended May 31, 2017 was included in the Company's press release, dated June 23, 2017, and is reflected in the table below.

Q1 Fiscal 2018 Non-GAAP Adjustments

For the Three Months Ended May 31, 2017  
(in millions)

|   | Income statement location             | Revenue       | Gross margin<br>(before taxes) | Gross margin<br>% (before<br>taxes) | Income<br>before<br>income taxes | Net income   | Basic<br>earnings per<br>share |
|---|---------------------------------------|---------------|--------------------------------|-------------------------------------|----------------------------------|--------------|--------------------------------|
| <b>As reported</b>                                |                                       | \$ 235        | \$ 150                         | 63.8%                               | \$ 672                           | \$ 671       | \$ 1.26                        |
| Debentures fair value adjustment                  | Debentures fair value adjustment      | —             | —                              | —                                   | 218                              | 218          |                                |
| RAP charges                                       | Cost of sales                         | —             | 3                              | 1.3%                                | 3                                | 3            |                                |
| RAP charges                                       | Research and development              | —             | —                              | —                                   | 3                                | 3            |                                |
| RAP charges                                       | Selling, marketing and administration | —             | —                              | —                                   | 11                               | 11           |                                |
| Software deferred revenue acquired <sup>(1)</sup> | Revenue                               | 9             | 9                              | 1.3%                                | 9                                | 9            |                                |
| Stock compensation expense                        | Cost of sales                         | —             | 1                              | 0.4%                                | 1                                | 1            |                                |
| Stock compensation expense                        | Research and development              | —             | —                              | —                                   | 4                                | 4            |                                |
| Stock compensation expense                        | Selling, marketing and administration | —             | —                              | —                                   | 8                                | 8            |                                |
| Acquired intangibles amortization                 | Amortization                          | —             | —                              | —                                   | 25                               | 25           |                                |
| Business acquisition and integration costs        | Selling, marketing and administration | —             | —                              | —                                   | 11                               | 11           |                                |
| Qualcomm arbitration award                        | Qualcomm arbitration award            | —             | —                              | —                                   | (815)                            | (815)        |                                |
| Qualcomm arbitration award                        | Investment income, net                | —             | —                              | —                                   | (139)                            | (139)        |                                |
| <b>Adjusted</b>                                   |                                       | <u>\$ 244</u> | <u>\$ 163</u>                  | <u>66.8%</u>                        | <u>\$ 11</u>                     | <u>\$ 10</u> | <u>\$ 0.02</u>                 |

(1) Included in Enterprise software and services revenue

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The Company also reported adjusted EBITDA and adjusted EBITDA margin, as presented in the tables below, for the three months ended May 31, 2018 and May 31, 2017 of \$31 million and 14%, and \$40 million and 16%, respectively. These are non-GAAP financial measures that do not have any standardized meaning as prescribed by U.S. GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

|   | For the Three<br>Months Ended<br>May 31, 2018<br><i>(in millions)</i> | For the Three<br>Months Ended<br>May 31, 2017<br><i>(in millions)</i> |
|---|---|---|
| <b>Operating income (loss)</b>                        | <b>\$ (65)</b>  | <b>\$ 536</b>   |
| Non-GAAP adjustments to operating income (loss)       |   |   |
| Debentures fair value adjustment                      | 28  | 218   |
| RAP charges   | 4   | 17  |
| Software deferred revenue acquired                    | 4   | 9   |
| Stock compensation expense                            | 18  | 13  |
| Acquired intangibles amortization                     | 22  | 25  |
| Business acquisition and integration costs            | 1   | 11  |
| Arbitration award                                     | —   | (815)   |
| Total non-GAAP adjustments to operating income (loss) | 77  | (522)   |
| Non-GAAP operating income                             | 12  | 14  |
| Amortization  | 41  | 51  |
| Acquired intangibles amortization                     | (22)  | (25)  |
| Adjusted EBITDA                                       | \$ 31   | \$ 40   |
| Adjusted revenues (per above)                         | 217   | 244   |
| Adjusted EBITDA margin                                | 14%   | 16%   |

The Company also reported free cash flow as described in “First Quarter Fiscal 2019 Summary Results of Operations - Free Cash Flow”, below.

#### Accounting Policies and Critical Accounting Estimates

There have been no changes to the Company's accounting policies or critical accounting estimates from those described under “Accounting Policies and Critical Accounting Estimates” in the Annual MD&A, with the exception of those noted below.

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued ASC 606, a new accounting standard on the topic of revenue contracts, which replaces the existing revenue recognition standard. The new standard amended a number of requirements that an entity must consider in recognizing revenue and requires improved disclosures to help readers of financial statements better understand the nature, amount, timing and uncertainty of revenue recognized. For public entities, the new standard was effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted this guidance in the first quarter of fiscal 2019. See Note 1 to the Consolidated Financial Statements for a further discussion on the Company's revenue recognition policy under ASC 606 and the impact to the Company's financial statements.

In January 2016, the FASB issued ASU 2016-01 on the topic of financial instruments. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the guidance clarifies that an entity should evaluate the need for a valuation allowance on a deferred income tax asset related to available-for-sale securities. The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company adopted this guidance in the first quarter of fiscal 2019. As a result of the adoption of ASU 2016-01, the Company recognized approximately \$8 million in unrecognized losses on equity securities that had previously been recorded to other comprehensive income (loss), through a cumulative addition to deficit in the consolidated balance sheet as of March 1, 2018. The Company recognized approximately \$14 million on the change in fair value from instrument-specific credit risk that had previously been recorded to deficit, through a cumulative decrease to accumulated other comprehensive loss ("AOCI") in the consolidated balance sheet as of March 1, 2018. The Company will also account for equity investments without a readily determinable fair value using the practicability exception. The investments will be measured at cost, less any impairment, plus or minus any changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer.

In November 2016, the FASB issued ASU 2016-18 on the topic of the statement of cash flows. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for interim and annual periods beginning after December 15, 2017. The Company adopted this guidance in the first quarter of fiscal 2019.

### ***Recently Issued Accounting Pronouncements***

In February 2016, the FASB issued a new accounting standard on the topic of leases. The new standard requires companies to include lease obligations in their balance sheets, including a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use ("ROU") asset and a corresponding lease liability. For finance leases, the lessee will recognize interest expense and amortization of the ROU asset, and for operating leases, the lessee will recognize a straight-line total lease expense. The guidance is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company expects to adopt this guidance in the first quarter of fiscal 2020 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures. The Company established a cross-functional coordinated team to conduct the implementation of the lease standard, which will be responsible for identifying and implementing the appropriate changes to the Company's relevant business processes, systems and controls to support any required accounting and disclosure changes.

### First Quarter Fiscal 2019 Summary Results of Operations

The following table sets forth certain unaudited consolidated statements of operations data for the quarter ended May 31, 2018 compared to the quarter ended May 31, 2017 under U.S. GAAP.

|  | For the Three Months Ended<br>(in millions, except for share and per share amounts) |                |                |               |                  |  |
|--|---|----------------|----------------|---------------|------------------|--|
|  | May 31, 2018  |                | May 31, 2017   |               | Change           |  |
| Revenue <sup>(1)(2)</sup>                                    | \$ 213  | 100.0%         | \$ 235         | 100.0%        | \$ (22)          |  |
| Gross margin <sup>(1)(2)</sup>                               | 161   | 75.6%          | 150            | 63.8%         | 11               |  |
| Operating expenses <sup>(1)(2)</sup>                         | 226   | 106.1%         | (386)          | (164.3%)      | 612              |  |
| Income (loss) before income taxes                            | (59)  | (27.7%)        | 672            | 286.0%        | (731)            |  |
| Provision for income taxes                                   | 1   | 0.5%           | 1              | 0.4%          | —                |  |
| Net income (loss)  | <u>\$ (60)</u>  | <u>(28.2%)</u> | <u>\$ 671</u>  | <u>285.5%</u> | <u>\$ (731)</u>  |  |
| <b>Earnings (loss) per share - reported</b>                  |   |                |                |               |                  |  |
| Basic  | <u>\$ (0.11)</u>  |                | <u>\$ 1.26</u> |               | <u>\$ (1.37)</u> |  |
| Diluted <sup>(3)(4)</sup>                                    | <u>\$ (0.11)</u>  |                | <u>\$ 1.23</u> |               | <u>\$ (1.34)</u> |  |
| <b>Weighted-average number of shares outstanding (000's)</b> |   |                |                |               |                  |  |
| Basic  | 536,964   |                | 531,096        |               |                  |  |
| Diluted <sup>(3)(4)</sup>                                    | 536,964   |                | 544,077        |               |                  |  |

- (1) See “Non-GAAP Financial Measures” for the impact of the Q1 Fiscal 2019 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin and adjusted operating expenses in the first quarter of fiscal 2019.
- (2) See “Non-GAAP Financial Measures” for the impact of the Q1 Fiscal 2018 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin and adjusted operating expenses in the first quarter of fiscal 2018.
- (3) Diluted loss per share on a U.S. GAAP basis for the first quarter of fiscal 2019 does not include the dilutive effect of in-the-money options and RSUs that will be settled upon vesting by the issuance of new common shares, as it would be anti-dilutive. See Note 10 to the Consolidated Financial Statements for the Company’s calculation of diluted earnings (loss) per share.
- (4) Diluted earnings (loss) per share on a U.S. GAAP basis for the first quarter of fiscal 2019 and fiscal 2018 does not include the dilutive effect of the Debentures as it would be anti-dilutive. See Note 10 to the Consolidated Financial Statements for the Company’s calculation of diluted earnings (loss) per share.

### Financial Highlights

The Company had approximately \$2.34 billion in cash, cash equivalents and investments as of May 31, 2018.

In the first quarter of fiscal 2019, the Company recognized revenues of \$213 million and incurred a loss of \$60 million, or a basic and diluted loss of \$0.11 per share on a U.S. GAAP basis. The Company recognized adjusted revenues of \$217 million and adjusted net income of \$17 million, or adjusted earnings of \$0.03 per share on a non-GAAP basis. See also “Non-GAAP Financial Measures”.

#### Free Cash Flow

Free cash flow is a measure of liquidity calculated as operating cash flow minus capital expenditures. Free cash flow does not have any standardized meaning as prescribed by U.S. GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. For the three months ended May 31, 2018, the Company’s net cash used in operating activities was \$7 million and capital expenditures were \$5 million, resulting in the Company reporting free cash usage of \$12 million. Before taking into account the costs related to restructuring and the impact of legal proceedings, free cash flow was \$3 million.

The Company anticipates generating positive free cash flow for fiscal 2019 before taking into account the costs related to restructuring and the impact of legal proceedings.

### *Debentures Fair Value Adjustment*

As previously disclosed, the Company elected the fair value option to account for the Debentures; therefore, periodic revaluation has been and continues to be required under U.S. GAAP. The fair value adjustment does not impact the terms of the Debentures such as the face value, the redemption features or the conversion price. In the first quarter of fiscal 2019, the change in the fair value of the Debentures was approximately \$28 million. The Company recorded a non-cash charge relating to changes in fair value from instrument-specific credit risk of nil in accumulated other comprehensive loss and a non-cash charge relating to changes in fair value from non-credit components of \$28 million (pre-tax and after tax) (the "Q1 Fiscal 2019 Debentures Fair Value Adjustment") in the Company's consolidated statements of operations.

### *RAP*

During the first quarter of fiscal 2016, the Company commenced the RAP with the objectives of (i) reallocating resources to capitalize on growth opportunities, (ii) providing the operational ability to better leverage contract research and development services relating to its handheld devices, and (iii) reaching sustainable profitability. Other charges and cash costs may occur as programs are implemented or changes are completed. During the three months ended May 31, 2018, the Company incurred approximately \$4 million in total pre-tax charges related to this program.

## **Results of Operations - Three months ended May 31, 2018 compared to three months ended May 31, 2017**

### *Consolidated Revenue*

Consolidated revenue decreased by \$22 million to approximately \$213 million in the first quarter of fiscal 2019 from \$235 million in the first quarter of fiscal 2018. The decrease was primarily due to a decrease of \$29 million in handheld devices revenue to \$8 million from \$37 million and a decrease of \$22 million in SAF revenues to \$16 million from \$38 million and a \$13 million decrease in Enterprise software and services revenues to \$79 million from \$92 million, partially offset by a \$31 million increase in licensing, IP and other revenues to \$63 million from \$32 million and an increase of \$11 million in BTS revenue to \$47 million from \$36 million. See "Results of Operations - Three months ended May 31, 2018 compared to three months ended May 31, 2017 - Revenue - Revenue by Product and Service" below.

The decrease in handheld devices revenues of \$29 million was primarily attributable to the Company's transition from an outsourced handset manufacturing model to the development and licensing of the Company's secure device software and the outsourcing to partners of all design, manufacturing, sales and customer support for BlackBerry-branded handsets. As a result, the Company's handheld device revenue over the period of transition has consisted solely of sales of the Company's owned handheld inventory, which is not being replenished as handheld devices are no longer produced by or on behalf of the Company.

The \$22 million decrease in SAF, which is generated from users of BlackBerry 7 and prior BlackBerry operating systems, is primarily attributable to a lower number of BlackBerry 7 users, lower revenue from those users and a continued shift in the mix of the Company's customers from higher-tiered unlimited plans to prepaid and lower-tiered plans, compared to the first quarter of fiscal 2018.

The decrease in Enterprise software and services revenue of \$13 million was due to a lower number of perpetual licenses sold and a reduction in revenue recognized on perpetual licenses as a result of the adoption of ASC 606.

The increase in licensing, IP and other revenues of \$31 million was primarily due to higher IP revenue as a result of the Company's patent licensing agreement with Telety that allows them to sublicense a broad range of the Company's patents to a majority of global smartphone manufacturers, beginning in the third quarter of fiscal 2018 and an IP settlement. The Company expects to exceed \$100 million in IP revenue in fiscal 2019.

The increase in BTS revenue of \$11 million was primarily due to the Company's agreement with Qualcomm Technologies Inc. ("Qualcomm") to optimize select Qualcomm hardware platforms with BlackBerry QNX software, beginning in the third quarter of fiscal 2018, and increased revenue from infotainment products, royalty revenue and services offerings.

Total software and services revenue, excluding IP and professional services, was approximately 86% recurring (subscription based) in the first quarter of fiscal 2019. The Company expects that in fiscal 2019, between 85% and 89% of software and services revenue, excluding IP and professional services, will be recurring.

The Company expects year-over-year total software and services revenue growth of between 8% and 10% in fiscal 2019, with the growth weighted to the second half of fiscal 2019. Total software and services includes Enterprise software and services, BTS, and Licensing, IP and other. The Company expects double-digit revenue growth in BTS in fiscal 2019.

The Company expects double-digit year-over-year total software and services billings growth in fiscal 2019, due to growth in BTS and Licensing, IP and other billings.

#### *Consolidated Gross Margin*

Consolidated gross margin increased by \$11 million to approximately \$161 million, or 75.6% of consolidated revenues in the first quarter of fiscal 2019 from \$150 million, or 63.8% of consolidated revenues in the first quarter of fiscal 2018. The increase was primarily due to an increase in gross margin associated with licensing, IP and other and BTS, partially offset by a decrease in gross margin associated with SAF and Enterprise software and services.

The increase in gross margin associated with licensing, IP and other and BTS is primarily due to the reasons discussed above in "Consolidated Revenue". The decrease in gross margin associated with SAF is primarily due to the decline in SAF revenues discussed above in "Consolidated Revenue", as cost of goods sold associated with SAF were consistent in the first quarter of fiscal 2019 and the first quarter of fiscal 2018 due to certain fixed costs associated with SAF infrastructure. The decrease in gross margin associated with Enterprise software and services is primarily due to the reasons discussed above in "Consolidated Revenue".

The Company expects non-GAAP gross margin to be approximately 75% for fiscal 2019.

#### **Revenue**

##### *Revenue by Geography*

Comparative breakdowns of the geographic regions on a U.S. GAAP basis are set forth in the following table:

|                                | For the Three Months Ended<br>(in millions) |               |               |               |                |               |
|--------------------------------|---|---------------|---------------|---------------|----------------|---------------|
|                                | May 31, 2018                                |               | May 31, 2017  |               | Change         |               |
| <b>Revenue by Geography</b>    |   |               |               |               |                |               |
| North America                  | \$ 139                                      | 65.3%         | \$ 127        | 54.0%         | \$ 12          | 9.4 %         |
| Europe, Middle East and Africa | 52  | 24.4%         | 70            | 29.8%         | (18)           | (25.7)%       |
| Other regions                  | 22  | 10.3%         | 38            | 16.2%         | (16)           | (42.1)%       |
|                                | <u>\$ 213</u>                               | <u>100.0%</u> | <u>\$ 235</u> | <u>100.0%</u> | <u>\$ (22)</u> | <u>(9.4)%</u> |

##### North America Revenues

Revenues in North America were \$139 million, or 65.3% of revenue, in the first quarter of fiscal 2019, reflecting an increase of \$12 million compared to \$127 million, or 54.0% of revenue, in the first quarter of fiscal 2018. The increase in revenues is primarily due to a increase in licensing, IP and other revenues, partially offset by decreases in Enterprise software and services revenues and handheld devices revenues due to the reasons discussed above in "Consolidated Revenue".

##### Europe, Middle East and Africa Revenues

Revenues in Europe, Middle East and Africa were \$52 million or 24.4% of revenue in the first quarter of fiscal 2019, reflecting a decrease of \$18 million compared to \$70 million or 29.8% of revenue in the first quarter of fiscal 2018. The decrease in revenues is primarily due to a decrease in SAF revenues and handheld device revenues due to the reasons discussed above in "Consolidated Revenue", partially offset by growth in Enterprise software and services revenue due to an increase in both the number of new licenses as well as expansion of services to those customers.

##### Other Region Revenues

Revenues in other regions were \$22 million or 10.3% of revenue in the first quarter of fiscal 2019, reflecting a decrease of \$16 million compared to \$38 million or 16.2% of revenue in the first quarter of fiscal 2018. The decrease in revenue is due to a decline in handheld device revenues due to the reasons discussed above in "Consolidated Revenue" and decrease in licensing, IP and other revenues from the Company's secure device licensing arrangements.

*Revenue by Product and Service*

Comparative breakdowns of revenues by product and service on a non-GAAP basis are set forth below.

|   | For the Three Months Ended<br>(in millions) |               |               |               |                |                |
|---|---|---------------|---------------|---------------|----------------|----------------|
|   | May 31, 2018                                |               | May 31, 2017  |               | Change         |                |
| <b>Revenue by Product and Service</b>           |   |               |               |               |                |                |
| Enterprise software and services <sup>(1)</sup> | \$ 83                                       | 38.2%         | \$ 101        | 41.4%         | \$ (18)        | (17.8)%        |
| BTS   | 47  | 21.7%         | \$ 36         | 14.8%         | 11             | 30.6 %         |
| Licensing, IP and other                         | 63  | 29.0%         | 32            | 13.1%         | 31             | 96.9 %         |
| Handheld devices                                | 8   | 3.7%          | 37            | 15.2%         | (29)           | (78.4)%        |
| SAF   | 16  | 7.4%          | 38            | 15.5%         | (22)           | (57.9)%        |
|   | <u>\$ 217</u>                               | <u>100.0%</u> | <u>\$ 244</u> | <u>100.0%</u> | <u>\$ (27)</u> | <u>(11.1)%</u> |

(1) See "Non-GAAP Financial Measures" for the relevant Q1 Fiscal 2019 Non-GAAP Adjustments and Q1 Fiscal 2018 Non-GAAP Adjustments made to Enterprise software and services revenue.

Enterprise Software and Services

Enterprise software and services revenue includes revenues from the Company's security, productivity, collaboration and end-point management solutions through the BlackBerry Secure platform, which includes BlackBerry UEM, BlackBerry Dynamics, BlackBerry Workspaces and BBM Enterprise, as well as revenues from the sale of the Company's AtHoc Alert secure networked crisis communications solution, its Secusmart SecuSUITE secure voice and text solution, and professional services from BlackBerry Cybersecurity Services.

Enterprise software and services revenue was \$83 million, or 38.2% of revenue, in the first quarter of fiscal 2019, a decrease of \$18 million compared to revenue of \$101 million, or 41.4% of revenue, in the first quarter of fiscal 2018. Enterprise software and services revenue decreased due to the reasons described above in "Consolidated Revenue" and by a lower software revenue deferred adjustment.

Excluding the deferred software revenue acquired adjustment described under "Non-GAAP Financial Measures", U.S. GAAP Enterprise software and services revenue was \$79 million, or 37.1% of revenue, in the first quarter of fiscal 2019, compared to \$92 million, or 39.1% of revenue, in the first quarter of fiscal 2018, representing a decrease of \$13 million, or 14.1%, due to the reasons described above in "Consolidated Revenue".

BTS

BTS includes revenues from the Company's QNX CAR Platform and Neutrino Operating System, as well as revenues from the Company's BlackBerry Radar asset tracking solution, Paratek antenna tuning technology, and Certicom cryptography and key management products.

BTS revenue was \$47 million, or 21.7% of revenue, in the first quarter of fiscal 2019, an increase of \$11 million compared to \$36 million, or 14.8% of revenue, in the first quarter of fiscal 2018. BTS revenue increased due to the reasons described above in "Consolidated Revenue"

Licensing, IP and Other

Licensing, IP and other revenues includes revenues from the Company's mobility licensing software arrangements, including revenue from licensed hardware sales, the Company's Intellectual Property and Licensing business, and from its BBM Consumer licensing arrangement.

Licensing, IP and other revenues were \$63 million, or 29.0% of revenue, in the first quarter of fiscal 2019, compared to \$32 million, or 13.1% of revenue, in the first quarter of fiscal 2018, representing an increase of \$31 million, or 96.9%. The \$31 million increase was due to the reasons discussed above under "Consolidated Revenue".

### Handheld Devices

Handheld devices includes revenues from the sale of the Company's remaining inventory of legacy smartphones and smartphone accessories, as well as non-warranty repair services. Handheld device revenues were \$8 million, or 3.7% of revenue, in the first quarter of fiscal 2019, compared to \$37 million, or 15.2% of revenue, in the first quarter of fiscal 2018, representing a decrease of \$29 million, or 78.4%. The \$29 million decrease in handheld devices revenue was primarily due to the reasons discussed above in "Consolidated Revenue".

### Service Access Fees

SAF revenue decreased by \$22 million, or 57.9%, to \$16 million, or 7.4% of revenue, in the first quarter of fiscal 2019, compared to \$38 million, or 15.5% of revenue, in the first quarter of fiscal 2018. The decrease was due to the reasons discussed above in "Consolidated Revenue".

### ***Operating Expenses***

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expense for the quarter ended May 31, 2018, compared to the quarter ended February 28, 2018 and the quarter ended May 31, 2017. The Company believes it is meaningful to also provide a comparison between the first quarter of fiscal 2019 and the fourth quarter of fiscal 2018 given that the Company's quarterly operating results vary substantially.

|  | For the Three Months Ended<br>(in millions) |               |                   |               |                 |                 |
|--|---|---------------|-------------------|---------------|-----------------|-----------------|
|  | May 31, 2018                                |               | February 28, 2018 |               | May 31, 2017    |                 |
|  | \$  | % of Revenue  | \$                | % of Revenue  | \$              | % of Revenue    |
| <b>Revenue</b>   | \$ 213                                      |               | \$ 233            |               | \$ 235          |                 |
| <b>Operating expenses</b>                                  |   |               |                   |               |                 |                 |
| Research and development <sup>(1)(2)(3)</sup>              | \$ 61                                       | 28.6%         | \$ 58             | 24.9 %        | \$ 61           | 26.0 %          |
| Selling, marketing and administration <sup>(1)(2)(3)</sup> | 100   | 46.9%         | 133               | 57.1 %        | 110             | 46.8 %          |
| Amortization <sup>(1)(2)(3)</sup>                          | 37  | 17.4%         | 37                | 15.9 %        | 40              | 17.0 %          |
| Debentures fair value adjustment <sup>(1)(2)(3)</sup>      | 28  | 13.1%         | (34)              | (14.6)%       | 218             | 92.8 %          |
| Arbitration charges <sup>(2)</sup>                         | —   | —%            | —                 | — %           | (815)           | (346.8)%        |
| <b>Total</b>   | <u>\$ 226</u>                               | <u>106.0%</u> | <u>\$ 194</u>     | <u>83.3 %</u> | <u>\$ (386)</u> | <u>(164.2)%</u> |

- (1) See "Non-GAAP Financial Measures" for the impact of the Q1 Fiscal 2019 Non-GAAP Adjustments on adjusted operating expenditures in the first quarter of fiscal 2019.
- (2) See "Non-GAAP Financial Measures" for the impact of the Q1 Fiscal 2018 Non-GAAP Adjustments on adjusted operating expenditures in the first quarter of fiscal 2018.
- (3) In the fourth quarter of fiscal 2018, the Company recognized non-cash income associated with a change in the fair value of the Debentures of approximately \$34 million (the "Q4 Fiscal 2018 Debentures Fair Value Adjustment"), selective patent abandonment of \$2 million in selling, marketing and administration expenses, RAP charges of approximately \$23 million in selling, marketing and administration expenses, stock compensation expense of \$3 million and \$9 million in research and development and selling, marketing and administration expenses, respectively, and acquired intangibles amortization of \$22 million (collectively the "Q4 Fiscal 2018 Non-GAAP Adjustments").

Operating expenses increased by \$32 million, or 16.5%, to \$226 million, or 106.0% of revenue, in the first quarter of fiscal 2019, compared to \$194 million, or 83.3% of revenue, in the fourth quarter of fiscal 2018. The increase was primarily attributable the difference between the Q1 Fiscal 2019 Debentures Fair Value Adjustment and Q4 Fiscal 2018 Debentures Fair Value Adjustment, partially offset by a decrease in restructuring charges, favourable foreign currency translation, and a reduction in legal expenses.

Excluding the impact of the relevant Q1 Fiscal 2019 Non-GAAP Adjustments and Q4 Fiscal 2018 Non-GAAP Adjustments, operating expenses decreased by \$15 million. The decrease was primarily attributable to favourable foreign currency translation, reductions in legal expenses and salaries and benefits, and a reduction in bad debt expense.

Operating expenses increased by \$612 million, or 158.5%, to \$226 million or 106.0% of revenue in the first quarter of fiscal 2019, compared to approximately \$(386) million or (164.2)% of revenue in the first quarter of fiscal 2018. The increase was primarily attributable to the Qualcomm arbitration award in the first quarter of fiscal 2018, partially offset by the difference between the Q1 Fiscal 2019 Debentures Fair Value Adjustment and the Q1 Fiscal 2018 Debentures Fair Value Adjustment.

Excluding the impact of the relevant Q1 Fiscal 2019 Non-GAAP Adjustments and Q1 Fiscal 2018 Non-GAAP Adjustments, operating expenses increased by \$5 million. The increase was primarily attributable to a recovery of legal expense in the first quarter of fiscal 2018 that was not repeated.

#### *Research and Development Expenses*

Research and development expenses consist primarily of salaries and benefits for technical personnel, new product development costs, travel expenses, office and building costs, infrastructure costs and other employee costs.

Research and development expenses were consistent in the first quarter of fiscal 2019 compared to the first quarter of fiscal 2018 at \$61 million. Excluding the impact of the relevant Q1 Fiscal 2019 Non-GAAP Adjustments and Q1 Fiscal 2018 Non-GAAP Adjustments, research and development expenses increased by \$2 million. The increase was primarily attributable to an increase in infrastructure costs.

#### *Selling, Marketing and Administration Expenses*

Selling, marketing and administration expenses consist primarily of marketing, advertising and promotion, salaries and benefits, external advisory fees, information technology costs, office and related staffing infrastructure costs and travel expenses.

Selling, marketing and administration expenses decreased by \$10 million, or 9.1%, to \$100 million in the first quarter of fiscal 2019 compared to \$110 million in the first quarter of fiscal 2018. Excluding the impact of the relevant Q1 Fiscal 2019 Non-GAAP Adjustments and Q1 Fiscal 2018 Non-GAAP Adjustments, selling, marketing and administration expenses increased by \$3 million. The increase was primarily attributable to a recovery of legal expense in the first quarter of fiscal 2018 that was not repeated.

#### *Amortization Expense*

The table below presents a comparison of amortization expense relating to property, plant and equipment and intangible assets recorded as amortization or cost of sales for the first quarter of fiscal 2019 compared to the first quarter of fiscal 2018. Intangible assets are comprised of patents, licenses and acquired technology.

|                               | For the Three Months Ended<br>(in millions) |              |               |                           |              |               |
|-------------------------------|---|--------------|---------------|---------------------------|--------------|---------------|
|                               | Included in Amortization                    |              |               | Included in Cost of Sales |              |               |
|                               | May 31, 2018                                | May 31, 2017 | Change        | May 31, 2018              | May 31, 2017 | Change        |
| Property, plant and equipment | \$ 3  | \$ 5         | \$ (2)        | \$ 2                      | \$ 7         | \$ (5)        |
| Intangible assets             | 34  | 35           | (1)           | 2                         | 4            | (2)           |
| <b>Total</b>                  | <b>\$ 37</b>                                | <b>\$ 40</b> | <b>\$ (3)</b> | <b>\$ 4</b>               | <b>\$ 11</b> | <b>\$ (7)</b> |

#### Amortization

Amortization expense relating to certain property, plant and equipment and intangible assets decreased by \$3 million to \$37 million for the first quarter of fiscal 2019, compared to \$40 million for the first quarter of fiscal 2018. The decrease in amortization expense reflects the full depreciation of certain assets.

Excluding the impact of the relevant Q1 Fiscal 2019 Non-GAAP Adjustments and Q1 Fiscal 2018 Non-GAAP Adjustments, amortization in the first quarter of fiscal 2019 was consistent with the first quarter of fiscal 2018.

#### Cost of Sales

Amortization expense relating to certain property, plant and equipment and intangible assets employed in the Company's repair operations and BlackBerry service operations decreased by \$7 million to \$4 million for the first quarter of fiscal 2019, compared to \$11 million for the first quarter of fiscal 2018. The decrease primarily reflects the full depreciation of assets, partially offset by a portion of the amortization of patents being classified as cost of goods sold due to the Company's intellectual property licensing arrangements.

#### ***Investment Income***

Investment income, which includes the interest expense from the Debentures, decreased by \$130 million to \$6 million in investment income in the first quarter of fiscal 2019, compared to investment income of \$136 million in the first quarter of fiscal 2018. The decreased investment income was due to the interest component of the Qualcomm arbitration award in the first quarter of fiscal 2018.

### ***Income Taxes***

For the first quarter of fiscal 2019, the Company's net effective income tax expense rate was approximately 2%, compared to a net effective income tax expense rate of approximately 0% for the same period in the prior fiscal year. The Company's net effective income tax rate reflects the impact of the United States enacted tax reform legislation through the Tax Cuts and Jobs Act and the fact that the Company has a significant valuation allowance against its deferred tax assets, and in particular, the change in fair value of the Debentures, amongst other items, was offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

### ***Net Income (loss)***

The Company's net loss for the first quarter of fiscal 2019 was \$60 million, reflecting a decrease in net income of \$731 million, compared to net income of \$671 million in the first quarter of fiscal 2018, primarily due to the Qualcomm arbitration award in the first quarter of fiscal 2018 and the difference between the Q1 Fiscal 2019 Debentures Fair Value Adjustment and Q4 Fiscal 2018 Debentures Fair Value Adjustment, partially offset by an increase in gross margin. After giving effect to the relevant Q1 Fiscal 2019 Non-GAAP Adjustments and Q1 Fiscal 2018 Non-GAAP Adjustments, the Company's non-GAAP net income was \$17 million for the first quarter of fiscal 2019 compared to non-GAAP net income of \$10 million for the first quarter of fiscal 2018, reflecting an increase in non-GAAP net income of \$7 million primarily due to an increase in gross margin, as described above in "Consolidated Gross Margin", partially offset by an increase in operating expenses as described above in "Operating Expenses".

For the first quarter of fiscal 2019, basic and diluted loss per share was \$0.11, compared to basic earnings per share of \$1.26 and diluted earnings per share of \$1.23 for the same period in the prior fiscal year. After giving effect to the relevant Q1 Fiscal 2019 Non-GAAP Adjustments and Q1 Fiscal 2018 Non-GAAP Adjustments, the Company's non-GAAP basic earnings per share was \$0.03 for the first quarter of fiscal 2019 compared to non-GAAP basic earnings per share of \$0.02 for the first quarter of fiscal 2018. The Company expects positive adjusted non-GAAP earnings per share for fiscal 2019.

The weighted average number of shares outstanding was approximately 537 million common shares for basic and diluted loss per share for the three months ended May 31, 2018, and approximately 531 million common shares for basic earnings per share and 544 million common shares for diluted earnings per share for the three months ended May 31, 2017.

### ***Common Shares Outstanding***

On June 19, 2018, there were 537 million common shares, options to purchase 1 million common shares, 25 million restricted share units and 0.7 million deferred share units outstanding. In addition, 60.5 million common shares are issuable upon conversion in full of the Debentures as described in Note 8 to the Consolidated Financial Statements.

The Company has not paid any cash dividends during the last three fiscal years.

### Selected Quarterly Financial Data

The following table sets forth the Company's unaudited quarterly consolidated results of operations data for each of the eight most recent quarters, including the quarter ended May 31, 2018. The information in the table below has been derived from the Company's unaudited interim consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements of the Company and include all adjustments necessary for a fair presentation of information when read in conjunction with the audited consolidated financial statements of the Company. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

*(in millions, except per share data)*

|  | Fiscal Year 2019 |                  | Fiscal Year 2018 |                  | Fiscal Year 2017 |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|  | First Quarter    | Fourth Quarter   | Third Quarter    | Second Quarter   | First Quarter    | Fourth Quarter   | Third Quarter    | Second Quarter   |
| Revenue                                  | \$ 213           | \$ 233           | \$ 226           | \$ 238           | \$ 235           | \$ 286           | \$ 289           | \$ 334           |
| Gross margin                             | 161              | 177              | 168              | 175              | 150              | 172              | 193              | 98               |
| Operating expenses                       | 226              | 194              | 426              | 153              | (386)            | 229              | 307              | 453              |
| Income (loss) before income taxes        | (59)             | (14)             | (275)            | 23               | 672              | (49)             | (118)            | (371)            |
| Provision for (recovery of) income taxes | 1                | (4)              | —                | 4                | 1                | (2)              | (1)              | 1                |
| Net income (loss)                        | <u>\$ (60)</u>   | <u>\$ (10)</u>   | <u>\$ (275)</u>  | <u>\$ 19</u>     | <u>\$ 671</u>    | <u>\$ (47)</u>   | <u>\$ (117)</u>  | <u>\$ (372)</u>  |
| Earnings (loss) per share                |                  |                  |                  |                  |                  |                  |                  |                  |
| Basic earnings (loss) per share          | <u>\$ (0.11)</u> | <u>\$ (0.02)</u> | <u>\$ (0.52)</u> | <u>\$ 0.04</u>   | <u>\$ 1.26</u>   | <u>\$ (0.09)</u> | <u>\$ (0.22)</u> | <u>\$ (0.71)</u> |
| Diluted earnings (loss) per share        | <u>\$ (0.11)</u> | <u>\$ (0.06)</u> | <u>\$ (0.52)</u> | <u>\$ (0.07)</u> | <u>\$ 1.23</u>   | <u>\$ (0.10)</u> | <u>\$ (0.22)</u> | <u>\$ (0.71)</u> |

### Financial Condition

#### Liquidity and Capital Resources

Cash, cash equivalents, and investments decreased by \$18 million to approximately \$2.34 billion as at May 31, 2018 from approximately \$2.35 billion as at February 28, 2018, primarily as a result of acquisitions of intangible assets and property, plant and equipment and cash used in operations. The majority of the Company's cash, cash equivalents, and investments are denominated in U.S. dollars as at May 31, 2018.

A comparative summary of cash, cash equivalents, and investments is set out below:

|   | As at<br><i>(in millions)</i> |                   |                |
|---|-------------------------------|-------------------|----------------|
|   | May 31, 2018                  | February 28, 2018 | Change         |
| Cash and cash equivalents               | \$ 520                        | \$ 816            | \$ (296)       |
| Short-term investments                  | 1,725                         | 1,443             | 282            |
| Restricted cash and cash equivalents    | 35                            | 39                | (4)            |
| Long-term investments                   | 55                            | 55                | —              |
| Cash, cash equivalents, and investments | <u>\$ 2,335</u>               | <u>\$ 2,353</u>   | <u>\$ (18)</u> |

The table below summarizes the current assets, current liabilities, and working capital of the Company:

|                     | As at<br><i>(in millions)</i> |                   |                |
|---------------------|-------------------------------|-------------------|----------------|
|                     | May 31, 2018                  | February 28, 2018 | Change         |
| Current assets      | \$ 2,507                      | \$ 2,545          | \$ (38)        |
| Current liabilities | 384                           | 411               | (27)           |
| Working capital     | <u>\$ 2,123</u>               | <u>\$ 2,134</u>   | <u>\$ (11)</u> |

*Current Assets*

The decrease in current assets of \$38 million at the end of the first quarter of fiscal 2019 from the end of the fourth quarter of fiscal 2018 was primarily due to a decrease in cash and cash equivalents of \$296 million and accounts receivable of \$25 million, partially offset by increase in short-term investments of \$282 million and other current assets of \$18 million.

At May 31, 2018, accounts receivable was \$126 million, a decrease of \$25 million from February 28, 2018. The decrease reflects the lower revenues recognized over the three months ended May 31, 2018 and a decrease in days sales outstanding to 54 days at the end of the first quarter of fiscal 2019 from 61 days at the end of the fourth quarter of fiscal 2018.

At May 31, 2018, income taxes receivable was \$17 million, a decrease of \$9 million from February 28, 2018. The decrease in income taxes receivable was due to refunds received during the quarter.

At May 31, 2018, other current assets were \$56 million, an increase of \$18 million from February 28, 2018. The increase in other current assets was primarily due to increases in deferred commission as a result of the adoption of ASC 606 and prepaid maintenance.

*Current Liabilities*

The decrease in current liabilities of \$27 million at the end of the first quarter of fiscal 2019 from the end of the fourth quarter of fiscal 2018 was primarily due to a decrease in accrued liabilities of \$43 million and accounts payable of \$9 million offset by an increase in current deferred revenue of \$24 million. As at May 31, 2018, current deferred revenue was \$166 million, reflecting an increase of \$24 million from February 28, 2018, which was primarily attributable to the adoption of ASC 606. Accrued liabilities were \$162 million, reflecting a decrease of \$43 million from February 28, 2018, which was primarily attributable to the decrease in variable incentive plan and payroll accruals compared to the fourth quarter of fiscal 2018.

Cash flows for the three months ended May 31, 2018 compared to the three months ended May 31, 2017 were as follows:

|   | For the Three Months Ended |               |                 |
|---|----------------------------|---------------|-----------------|
|   | <i>(in millions)</i>       |               |                 |
|   | May 31, 2018               | May 31, 2017  | Change          |
| Net cash flows provided by (used in):                   |                            |               |                 |
| Operating activities                                    | \$ (7)                     | \$ 863        | \$ (870)        |
| Investing activities                                    | (293)                      | (671)         | 378             |
| Financing activities                                    | 2                          | 3             | (1)             |
| Effect of foreign exchange on cash and cash equivalents | (2)                        | 1             | (3)             |
| Net increase (decrease) in cash and cash equivalents    | <u>\$ (300)</u>            | <u>\$ 196</u> | <u>\$ (496)</u> |

*Operating Activities*

The decrease in net cash flows provided by operating activities of \$870 million for the first three months of fiscal 2019 primarily reflects the Qualcomm arbitration award in the first quarter of fiscal 2018.

*Investing Activities*

During the three months ended May 31, 2018, cash flows used in investing activities were \$293 million and included cash used in transactions involving the acquisitions of short-term and long-term investments, net of the proceeds on sale or maturity in the amount of \$281 million, intangible asset additions of \$7 million, and acquisitions of property, plant and equipment of \$5 million. For the same period in the prior fiscal year, cash flows used in investing activities were \$671 million and included cash used in transactions involving the acquisitions of short-term and long-term investments, net of the proceeds on sale or maturity in the amount of \$662 million, intangible asset additions of \$7 million and acquisitions of property, plant and equipment of \$3 million offset by proceeds on sale of property, plant and equipment \$1 million.

*Financing Activities*

The decrease in cash flows provided by financing activities was \$1 million for the first three months of fiscal 2019 due to a decrease in the issuance of common shares.

### ***Aggregate Contractual Obligations***

Purchase obligations and commitments amounted to approximately \$325 million as at May 31, 2018, including future interest payments of \$56 million on the Debentures and operating lease obligations of \$136 million. The remaining balance consists of purchase orders for goods and services utilized in the operations of the Company. Total aggregate contractual obligations as at May 31, 2018 increased by \$20 million as compared to the February 28, 2018 balance of approximately \$305 million, which was attributable to increases in purchase orders for goods and services used in operations, partially offset by decreases in operating lease obligations and interest payments on the Debentures.

### ***Debenture Financing and Other Funding Sources***

See Note 8 to the Consolidated Financial Statements for a description of the Debentures.

The Company had \$32 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business as of May 31, 2018. See Note 2 to the Consolidated Financial Statements for further information concerning the Company's restricted cash.

Cash, cash equivalents, and investments were approximately \$2.34 billion as at May 31, 2018. The Company's management remains focused on maintaining appropriate cash balances, efficiently managing working capital balances and managing the liquidity needs of the business. Based on its current financial projections, the Company believes its financial resources, together with expected future operating cash generating and operating expense reduction activities and access to other potential financing arrangements, should be sufficient to meet funding requirements for current financial commitments and future operating expenditures not yet committed, and should provide the necessary financial capacity for the foreseeable future.

The Company does not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K under the Securities Exchange Act of 1934, as amended, or under applicable Canadian securities laws.

### ***Legal Proceedings***

The Company is involved in litigation in the normal course of its business, both as a defendant and as a plaintiff. Management reviews all of the relevant facts for each claim and applies judgment in evaluating the likelihood and, if applicable, the amount of any potential loss. Where a potential loss is considered probable and the amount is reasonably estimable, provisions for loss are made based on management's assessment of the likely outcome. Where a range of loss can be reasonably estimated with no best estimate in the range, the Company records the minimum amount in the range. The Company does not provide for claims for which the outcome is not determinable or claims for which the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provisioned for when reasonably determinable.

As of May 31, 2018, there are no claims outstanding for which the Company has assessed the potential loss as both probable to result and reasonably estimable, therefore no accrual has been made. See Note 12 to the Consolidated Financial Statements for a further discussion of the Company's legal matters.

### ***Market Risk of Financial Instruments***

The Company is engaged in operating and financing activities that generate risk in three primary areas:

#### ***Foreign Exchange***

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the U.S. dollar. The majority of the Company's revenues in the first quarter of fiscal 2019 were transacted in U.S. dollars. Portions of the revenues were denominated in Canadian dollars, euros and British pounds. Purchases of raw materials were primarily transacted in U.S. dollars. Other expenses, consisting mainly of salaries and certain operating costs were incurred primarily in Canadian dollars, but were also incurred in U.S. dollars, euros and British pounds. At May 31, 2018, approximately 12% of cash and cash equivalents, 33% of accounts receivables and 2% of accounts payable were denominated in foreign currencies (February 28, 2018 – 9%, 35% and 6%, respectively). These foreign currencies primarily include the Canadian dollar, euro and British pound. As part of its risk management strategy, the Company maintains net monetary asset and/or liability balances in foreign currencies and engages in foreign currency hedging activities using derivative financial instruments, including currency forward contracts and currency options. The Company does not use derivative instruments for speculative purposes. See Note 4 to the Consolidated Financial Statements for information concerning the Company's foreign currency hedging activities.

#### ***Interest Rate***

Cash and cash equivalents and investments are invested in certain instruments of varying maturities. Consequently, the Company is exposed to interest rate risk as a result of holding investments of varying maturities. The fair value of investments, as well as the investment income derived from the investment portfolio, will fluctuate with changes in prevailing interest rates. The Company has also issued the Debentures with a fixed 3.75% interest rate. The fair value of the Debentures will fluctuate

with changes in prevailing interest rates. Consequently, the Company is exposed to interest rate risk as a result of the long-term nature of the Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio or changes in market value of the Debentures.

### ***Credit and Customer Concentration***

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. The Company establishes an allowance for doubtful accounts ("AFDA") that corresponds to the specific credit risk of its customers, historical trends and economic circumstances. The AFDA as at May 31, 2018 was \$24 million (February 28, 2018 - \$24 million). There were two customers that individually comprised more than 10% of accounts receivable as at May 31, 2018 (February 28, 2018 - no customers comprised more than 10%). During the first quarter of fiscal 2019, the percentage of the Company's receivable balance that was past due increased by 6.6% compared to the fourth quarter of fiscal 2018. Although the Company actively monitors and attempts to collect on its receivables as they become due, the risk of further delays or challenges in obtaining timely payments of receivables exists. The occurrence of such delays or challenges in obtaining timely payments could negatively impact the Company's liquidity and financial condition. There was one customer that comprised more than 10% of the Company's revenue in the first quarter of fiscal 2019 (no customer comprised more than 10% of the Company's revenue in the first quarter of fiscal 2018).

Market values are determined for each individual security in the investment portfolio. The Company assesses declines in the value of individual investments for impairment to determine whether the decline is other-than-temporary. The Company makes this assessment by considering available evidence including changes in general market conditions, specific industry and individual company data, the length of time and the extent to which the fair value has been less than cost, the financial condition, the near-term prospects of the individual investment and, in the case of debt securities, the Company's ability and intent to hold the investments to maturity. During the three months ended May 31, 2018 the Company did not record any other-than-temporary impairment charges related to investments (May 31, 2017 - nil).

See Note 4 to the Consolidated Financial Statements for additional information regarding the Company's credit risk as it pertains to its foreign exchange derivative counterparties.

### **Changes in Internal Control Over Financial Reporting**

During the three months ended May 31, 2018, the Company implemented new controls as part of its adoption of ASC 606, which was effective for the Company on March 1, 2018. The new controls related to revenue recognition under the adopted standard. There were no other changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.