

BLACKBERRY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2017

September 28, 2017

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 and six months ended August 31, 2017, as well as the Company's audited consolidated financial statements and accompanying notes, and MD&A for the fiscal year ended February 28, 2017 (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 and six months ended August 31, 2017 and up to and including September 28, 2017.

Additional information about the Company, including the Company's Annual Information Form for the fiscal year ended February 28, 2017 (the "AIF"), which is included in the Company's Annual Report on Form 40-F for the fiscal year ended February 28, 2017 (the "Annual Report"), can be found on SEDAR at www.sedar.com and on the U.S. Securities and Exchange Commission's website at 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;
- the Company's expectations regarding anticipated demand for, and the timing of, product and service offerings;
- the Company's expectations regarding its free cash flow, adjusted net income and adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") for fiscal 2018;
- the Company's expectations regarding the generation of software and services revenues;
- the Company's expectations regarding the growth in enterprise software and services, BTS, and licensing, IP and other adjusted revenues for fiscal 2018;
- the Company's expectations regarding its total non-GAAP revenue for fiscal 2018;
- the Company's anticipated level of decline in service access fees revenue in the third quarter of fiscal 2018;
- the Company's expectations regarding non-GAAP consolidated gross margin in fiscal 2018;
- the Company's expectations regarding operating expenses in the third quarter of fiscal 2018;
- 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, Products and Services", "Second Quarter Fiscal 2018 Summary Results of Operations - Financial Highlights - Free Cash Flow", "Results of Operations - Three months ended August 31, 2017 compared to three months ended August 31, 2016 - Consolidated Gross Margin", "Results of Operations - Three months ended August 31, 2017 compared to three months ended August 31, 2016 - Revenue - Consolidated Revenue", "Results of Operations - Three months ended August 31, 2017 compared to three months ended August 31, 2016 - Revenue - Revenue by Product and Service - Service Access Fees", "Results of Operations - Three months ended August 31, 2017 compared to three months ended August 31, 2016 - Operating Expenses", "Results of Operations - Three months ended August 31, 2017 compared to

three months ended August 31, 2016 – 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, achieve sustained profitability or offset the decline in the Company's service access fees;
- the intense competition faced by the Company;
- risks related to the Company's 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 occurrence or perception of a breach of the Company's security measures, or an inappropriate disclosure of confidential or personal information;
- the risk that sales to large enterprise customers and to customers in highly regulated industries and governmental entities can be highly competitive and require compliance with stringent regulation;
- risks related to the Company's products and services being dependent upon the interoperability with rapidly changing systems provided by third parties;
- the Company's ability to successfully generate revenue and profitability through the licensing of security software and services or the BlackBerry brand to device manufacturers;
- the risk that network disruptions or other business interruptions could have a material adverse effect on the Company's business and harm its reputation;
- risks related to acquisitions, divestitures, investments and other business initiatives, which may negatively affect the Company's results of operations; and
- the risk of litigation against the Company resulting in adverse outcomes.

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 a mobile-native security software and services company dedicated to securing, managing and connecting the Enterprise of Things. 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 symbols "BB" on the Toronto Stock Exchange and "BBRY" on the NASDAQ Global Select market.

The Company's software and service offerings and products include:

- Enterprise software and services, which provides mobile-first security, productivity, collaboration and end-point management solutions for the Enterprise of Things through the BlackBerry Secure platform, which integrates BlackBerry Unified Endpoint Manager ("UEM", formerly BES12), BlackBerry Dynamics (formerly Good Dynamics) and BlackBerry Workspaces (formerly WatchDox), among other products and applications;

- BlackBerry Technology Solutions, which includes BlackBerry QNX, Certicom, Paratek, BlackBerry Radar and Intellectual Property and Licensing (the Company's technology licensing business);
- AtHoc, which provides secure, networked crisis communications solutions;
- SecuSmart, which provides secure voice and text messaging solutions with advanced encryption and anti-eavesdropping capabilities;
- Licensing and services related to BlackBerry Messenger (BBM), including BBM Enterprise and the BBM Enterprise SDK for the Communications Platform as a Service market; and
- Professional Cybersecurity Services, which offers cybersecurity consulting services and tools.

BlackBerry products and services are widely recognized for productivity and security, 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 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 handsets. The Company intends to expand its security software and brand licensing program, under which the BlackBerry KEYone and BlackBerry Aurora smartphones have been released to date, to include a broader set of devices and non-smartphone endpoints. In addition, the Company also continues to develop software updates for its legacy BlackBerry 10 platform, and delivers BlackBerry productivity applications to Android smartphone users via the Google Play store. The Company continues to sell its remaining inventory of legacy smartphones and smartphone accessories, as well as non-warranty repair services.

The Company also 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.

Strategy, Products and Services

The Company has been executing a strategy to leverage its strengths in mobility management and security to focus its business on software and services that secure, manage and connect the Enterprise of Things. The Company defines the Enterprise of Things as the network of devices, computers, sensors, equipment and other connected endpoints within the enterprise that communicate with each other to enable smart product development, distribution, marketing and sales. 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 unified endpoint management, embedded systems, connected transportation, crisis communications, enterprise applications, and related services, with hosting available on the Company's global, scalable, secure network.

The Company's core software and services offering is the BlackBerry Secure platform, which integrates BlackBerry UEM and BlackBerry Dynamics and supports BlackBerry 10 and legacy BlackBerry devices, iOS, Android and Windows Phone® devices, the QNX CAR Platform and Neutrino Operating System, AtHoc Alert, AtHoc Account, SecuSUITE, and BlackBerry Workspaces. The Company also licenses its secure handset software and its intellectual property assets and intends to increase recurring revenue from these programs.

The Company intends to continue to increase and enhance its product and service offerings through strategic acquisitions and targeted growth in internal investments. The Company's goal is to maintain its market leadership in the enterprise mobility segment by continuing to extend the functionality of the BlackBerry Secure platform and, on top of this extensive foundation, deliver unified endpoint management solutions focused on strategic industry verticals. See the "Narrative Description of the Business - Strategy" section in the AIF.

The Company's BlackBerry QNX unit is a leading supplier of 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 and Tier 1 vendors. Through its innovations for connected and autonomous vehicles, including cybersecurity services and tools, the Company intends to generate incremental software and services revenue and to increase its revenue and margin on per-vehicle basis, beginning in the second half of fiscal 2019.

Subsequent to the end of the second quarter of fiscal 2018, the Company launched Radar-L, a cost-optimized version of its BlackBerry Radar asset tracking solution, and a vehicle management portal for automotive cybersecurity.

Recent Developments

The Company continues to execute on its strategy in fiscal 2018 and announced the following achievements:

- Reached an agreement with Qualcomm Incorporated resolving all amounts payable in connection with its outstanding arbitration. Following a joint stipulation by the parties, the Company received payment from Qualcomm of \$940 million including interest and attorneys' fees, net of certain royalties due from the Company to Qualcomm for calendar 2016 and the first quarter of calendar 2017;
- Partnered with TCL Communication ("TCL") and BB Merah Putih to introduce the BlackBerry-branded KEYone and Aurora smartphones, offering the most secure Android smartphone experience;
- Launched QNX Hypervisor 2.0, a real-time Type 1 hypervisor solution that enables automotive platform developers to partition and isolate safety-critical environments from non-safety critical environments;
- Named a Leader in Gartner, Inc.'s June 2017 Magic Quadrant for Enterprise Mobility Management Suites and received the highest score for all six use cases in Gartner's *Critical Capabilities for High-Security Mobility Management* report for the second year in a row;
- Announced a commercial partnership agreement with Delphi Automotive PLC to provide the operating system for its autonomous driving system;
- Entered into certain patent licensing agreements with strategic partners;
- Delivered day zero support for the BlackBerry Enterprise Mobility Suite under the iOS 11 mobile operating system, ensuring that all the essential BlackBerry apps companies rely on to secure the work of their iOS users were updated and available for immediate download upon launch of iOS 11;
- Expanded its distribution channels through a new initiative with Allied World Assurance Company Holdings, AG, whereby Allied World will provide its cyber policyholders with direct access to BlackBerry's cybersecurity expertise through the BlackBerry SHIELD online self-assessment tool that will identify areas of weakness, after which BlackBerry will work to improve the policyholders' security posture by providing its cybersecurity products and services;
- Launched AtHoc Account, a FedRAMP-authorized solution that automates personnel accountability and crisis communication processes by providing safety and availability status updates of people before, during and after a critical event;
- Announced that FedEx has chosen BlackBerry Radar for its Custom Critical service in North America;
- Entered into a reselling partnership with Fleet Complete for BlackBerry Radar, which will significantly improve and simplify operational matrices for fleet and logistics managers; and
- Expanded NIAP-Certified SecuSUITE for Government availability to include the Canadian and U.S. governments.

Segment Reporting

The Company reports segment information based on the "management" approach. The management approach designates the internal reporting used by the Chief Operating Decision Maker ("CODM"), which for the Company is the Chief Executive Officer ("CEO"), for making decisions and assessing performance as a source of the Company's reportable operating segments. In the first quarter of fiscal 2018, the Company made adjustments to its reporting structure in line with its business shift towards focusing on software and services that secure, manage and connect the Enterprise of Things, the transition of its hardware strategy from an outsourced handset manufacturing model to a licensing model, and the continued reduction in its SAF. As a result, the CODM now reviews discrete financial information, makes decisions and assesses the performance of the Company as a single operating segment. See Note 14 to the Consolidated Financial Statements for further information.

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 as the Qualcomm arbitration award on the consolidated statements of operations 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 (loss), net, for a total gain associated with the award of \$962 million in the first quarter of fiscal 2018.

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 at 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 NASDAQ Global Select Market, the TSX or other markets. 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 six months ended August 31, 2017, the Company repurchased approximately 2 million common shares at a cost of approximately \$17 million. The Company recorded a reduction of approximately \$9 million to capital stock and the amount paid in excess of the per share paid-in capital of the common shares of approximately \$8 million was charged to retained earnings. All common shares repurchased by the Company pursuant to the normal course issuer bid have been canceled.

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 September 28, 2017, the Company announced financial results for the three and six months ended August 31, 2017, 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 income (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 August 31, 2017, these measures were adjusted for the following (collectively, the "Q2 Fiscal 2018 Non-GAAP Adjustments") (all items pre-tax and after-tax):

- the Q2 Fiscal 2018 Debentures Fair Value Adjustment (as defined below under "Second Quarter Fiscal 2018 Summary Results of Operations – Financial Highlights – Debentures Fair Value Adjustment") of approximately \$70 million;
- a long-lived asset impairment charge (the "Fiscal 2018 LLA Impairment Charge"), recognized when the carrying value exceeds the fair value of an asset group of \$11 million;
- selective patent abandonment charge of \$2 million;
- Resource Allocation Program ("RAP") charges consisting of amounts associated with employee termination benefits, facilities, and certain other costs of approximately \$16 million;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately \$11 million;
- stock compensation expense of approximately \$12 million;
- amortization of intangible assets acquired through business combinations of approximately \$24 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 income (loss) per share and similar measures do not have any standardized meaning prescribed by U.S. GAAP and are therefore unlikely to 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 August 31, 2017 was included in the Company's press release dated September 28, 2017, and is reflected in the table below:

Q2 Fiscal 2018 Non-GAAP Adjustments		For the Three Months Ended August 31, 2017 (in millions, except for per share amounts)					
	Income statement location	Revenue	Gross margin (before taxes)	Gross margin % (before taxes)	Income (loss) before income taxes	Net income (loss)	Basic earnings (loss) per share
As reported		\$ 238	\$ 175	73.5%	\$ 23	\$ 19	\$ 0.04
Debentures fair value adjustment ⁽¹⁾	Debentures fair value adjustment	—	—	—%	(70)	(70)	
LLA impairment charge	Impairment of long-lived assets	—	—	—%	11	11	
Patent abandonment	Loss on sale, disposal and abandonment of long-lived assets	—	—	—%	2	2	
RAP charges ⁽²⁾	Cost of sales	—	3	1.3%	3	3	
RAP charges ⁽²⁾	Research and development	—	—	—%	1	1	
RAP charges ⁽²⁾	Selling, marketing and administration	—	—	—%	12	12	
Software deferred revenue acquired ⁽³⁾	Revenue	11	11	1.1%	11	11	
Stock compensation expense	Cost of sales	—	1	0.4%	1	1	
Stock compensation expense	Research and development	—	—	—%	3	3	
Stock compensation expense	Selling, marketing and administration	—	—	—%	8	8	
Acquired intangibles amortization	Amortization	—	—	—%	24	24	
Business acquisition and integration costs	Selling, marketing and administration	—	—	—%	1	1	
Adjusted		<u>\$ 249</u>	<u>\$ 190</u>	<u>76.3%</u>	<u>\$ 30</u>	<u>\$ 26</u>	<u>\$ 0.05</u>

(1) See "Second Quarter Fiscal 2018 Summary Results of Operations – Financial Highlights - Debentures Fair Value Adjustment".

(2) See "Second Quarter Fiscal 2018 Summary Results of Operations – Financial Highlights - RAP".

(3) Included in enterprise software and services revenue.

For the six months ended August 31, 2017, these non-GAAP measures were adjusted for the following (collectively, the "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;
- the Fiscal 2018 LLA Impairment Charge of \$11 million;
- selective patent abandonment of \$3 million;
- the Fiscal 2018 Debentures Fair Value Adjustment (as defined below under "Second Quarter Fiscal 2018 Summary Results of Operations – Financial Highlights – Debentures Fair Value Adjustment") of approximately \$148 million;
- RAP charges consisting of amounts associated with employee termination benefits, facilities, and certain other costs of approximately \$32 million;

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- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately \$20 million;
- stock compensation expense of approximately \$25 million;
- amortization of intangible assets acquired through business combinations of approximately \$49 million; and
- business acquisition and integration costs incurred through business combinations of approximately \$12 million.

A reconciliation from the most directly comparable U.S. GAAP measures to the non-GAAP financial measures for the six months ended August 31, 2017 is reflected in the table below.

Fiscal 2018 Non-GAAP Adjustments		For the Six Months Ended August 31, 2017 <i>(in millions, except for per share amounts)</i>					
	Income statement location	Revenue	Gross margin <i>(before taxes)</i>	Gross margin % <i>(before taxes)</i>	Income (loss) before income taxes	Net income (loss)	Basic earnings (loss) per share
As reported		\$ 473	\$ 325	68.7%	\$ 695	\$ 690	\$ 1.30
Debtentures fair value adjustment ⁽¹⁾	Debtentures fair value adjustment	—	—	—%	148	148	
LLA impairment charge	Impairment of long-lived assets	—	—	—%	11	11	
Patent abandonment	Loss on sale, disposal and abandonment of long-lived assets	—	—	—%	3	3	
RAP charges ⁽²⁾	Cost of sales	—	6	1.3%	6	6	
RAP charges ⁽²⁾	Research and development	—	—	—%	4	4	
RAP charges ⁽²⁾	Selling, marketing and administration	—	—	—%	22	22	
Software deferred revenue acquired ⁽³⁾	Revenue	20	20	1.2%	20	20	
Stock compensation expense	Cost of sales	—	2	0.4%	2	2	
Stock compensation expense	Research and development	—	—	—%	7	7	
Stock compensation expense	Selling, marketing and administration	—	—	—%	16	16	
Acquired intangibles amortization	Amortization	—	—	—%	49	49	
Business acquisition and integration costs	Selling, marketing and administration	—	—	—%	12	12	
Qualcomm arbitration award ⁽⁴⁾	Qualcomm arbitration award	—	—	—%	(815)	(815)	
Qualcomm arbitration award ⁽⁴⁾	Investment income	—	—	—%	(139)	(139)	
Adjusted		<u>\$ 493</u>	<u>\$ 353</u>	<u>71.6%</u>	<u>\$ 41</u>	<u>\$ 36</u>	<u>\$ 0.07</u>

(1) See “Second Quarter Fiscal 2018 Summary Results of Operations – Financial Highlights - Debtentures Fair Value Adjustment”.

(2) See “Second Quarter Fiscal 2018 Summary Results of Operations – Financial Highlights - RAP”.

(3) Included in enterprise software and services revenue.

(4) See “Business Overview - Qualcomm Arbitration Award”

Similarly, on September 28, 2016, the Company announced financial results for the three and six months ended August 31, 2016, which included certain non-GAAP financial measures, including adjusted revenue, adjusted gross margin, gross margin percentage, adjusted EBITDA, adjusted loss before income taxes, adjusted net loss and adjusted loss per share.

For the three months ended August 31, 2016, these measures were adjusted for the following (collectively, the “Q2 Fiscal 2017 Non-GAAP Adjustments”) (all items pre-tax and after tax):

- the write-down related to assets held for sale to fair value less costs to sell of approximately \$123 million;
- the write-down of inventory in the amount of \$96 million relating to certain BlackBerry 10 hardware;

- a fair value adjustment associated with the Company's previously issued \$1.25 billion 6% convertible debentures (the "6% Debentures") of approximately \$62 million;
- RAP charges of approximately \$24 million;
- Cost Optimization and Resource Efficiency ("CORE") program recoveries of approximately \$2 million;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately \$18 million;
- stock compensation expense of approximately \$18 million;
- amortization of intangible assets acquired through business combinations of approximately \$28 million; and
- business acquisition and integration costs incurred through business combinations of approximately \$4 million.

For the six months ended August 31, 2016, these measures were adjusted for the following (collectively, the "Fiscal 2017 Non-GAAP Adjustments") (all items pre-tax and after tax):

- a long-lived asset impairment charge (the "Fiscal 2017 LLA Impairment Charge"), recognized when the carrying value exceeds the fair value of an asset group of \$501 million;
- the write-down related to assets held for sale to fair value less costs to sell of approximately \$123 million;
- selective patent abandonment of approximately \$3 million;
- an impairment charge associated with the fair value of goodwill (the "Goodwill Impairment Charge"), recognized when the carrying amount of a reporting unit exceeds its fair value of \$57 million;
- the write-down of inventory in the amount of \$137 million relating to certain BlackBerry 10 hardware;
- a fair value adjustment associated with the Company's previously issued \$1.25 billion 6% Debentures of approximately \$38 million;
- RAP charges of approximately \$46 million;
- CORE program recoveries of approximately \$4 million;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately \$42 million;
- stock compensation expense of approximately \$30 million;
- amortization of intangible assets acquired through business combinations of approximately \$56 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 and six months ended August 31, 2016 was included in the Company's press release, dated June 23, 2016, and is reflected in the table below.

	Income statement location	For the Three Months Ended August 31, 2016 (in millions)				For the Six Months Ended August 31, 2016 (in millions)			
		Revenue	Gross margin (before taxes)	Income (loss) before income taxes	Net loss	Revenue	Gross margin (before taxes)	Loss before income taxes	Net loss
As reported		\$ 334	\$ 98	\$ (371)	\$ (372)	\$ 734	\$ 252	\$ (1,041)	\$ (1,042)
LLA Impairment Charge	Impairment of long-lived assets	—	—	—	—	—	—	501	501
Write-down of assets held for sale	Loss on sale, disposal and abandonment of long-lived assets	—	—	123	123	—	—	123	123
Patent abandonment	Loss on sale, disposal and abandonment of long-lived assets	—	—	—	—	—	—	3	3
Goodwill Impairment Charge	Impairment of goodwill	—	—	—	—	—	—	57	57
Inventory write-down	Cost of sales	—	96	96	96	—	137	137	137
Debentures fair value adjustment	Debentures fair value adjustment	—	—	62	62	—	—	38	38
RAP charges	Cost of sales	—	7	7	7	—	14	14	14
RAP charges	Research and development	—	—	—	—	—	—	2	2
RAP charges	Selling, marketing and administration	—	—	17	17	—	—	30	30
CORE program recovery	Selling, marketing and administration	—	—	(2)	(2)	—	—	(4)	(4)
Software deferred revenue acquired ⁽¹⁾	Revenue	18	18	18	18	42	42	42	42
Stock compensation expense	Research and development	—	—	4	4	—	—	8	8
Stock compensation expense	Selling, marketing and administration	—	—	14	14	—	—	22	22
Acquired intangibles amortization	Amortization	—	—	28	28	—	—	56	56
Business acquisition and integration costs	Selling, marketing and administration	—	—	4	4	—	—	11	11
Adjusted		<u>\$ 352</u>	<u>\$ 219</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ 776</u>	<u>\$ 445</u>	<u>\$ (1)</u>	<u>\$ (2)</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 and six months ended August 31, 2017 of \$50 million and 20%, and \$90 million and 18%, 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 Months Ended August 31, 2017 <i>(in millions)</i>	For the Six Months Ended August 31, 2017 <i>(in millions)</i>
Operating income	\$ 22	\$ 558
Non-GAAP adjustments to operating income		
Debentures fair value adjustment	(70)	148
LLA impairment	11	11
Patent abandonment	2	3
RAP charges	16	32
Software deferred revenue acquired	11	20
Stock compensation expense	12	25
Acquired intangibles amortization	24	49
Business acquisition and integration costs	1	12
Qualcomm arbitration award	—	(815)
Total non-GAAP adjustments to operating income (loss)	<u>7</u>	<u>(515)</u>
Non-GAAP operating income	29	43
Amortization	45	96
Acquired intangibles amortization	(24)	(49)
Adjusted EBITDA	<u>\$ 50</u>	<u>\$ 90</u>
Adjusted revenues (per above)	<u>249</u>	<u>493</u>
Adjusted EBITDA margin	<u>20%</u>	<u>18%</u>

Adjusted EBITDA and adjusted EBITDA margin for the three and six months ended August 31, 2016 are reflected in the table below:

	For the Three Months Ended August 31, 2016 <i>(in millions)</i>	For the Six Months Ended August 31, 2016 <i>(in millions)</i>
Operating loss	\$ (355)	\$ (1,010)
Non-GAAP adjustments to operating loss		
LLA impairment	—	501
Write-down of assets held for sale	123	123
Patent abandonment	—	3
Goodwill impairment	—	57
Inventory write-down	96	137
Debentures fair value adjustment	62	38
RAP charges	24	46
CORE program recoveries	(2)	(4)
Software deferred revenue acquired	18	42
Stock compensation expense	18	30
Acquired intangibles amortization	28	56
Business acquisition and integration costs	4	11
Total non-GAAP adjustments to operating loss	371	1,040
Non-GAAP operating income	16	30
Amortization	57	129
Acquired intangibles amortization	(28)	(56)
Adjusted EBITDA	\$ 45	\$ 103
Adjusted revenue (per above)	352	776
Adjusted EBITDA margin	13%	13%

The Company also reported free cash flow as described in “Second Quarter Fiscal 2018 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 October 2016, the Financial Accounting Standards Board (the “FASB”) issued ASU 2016-16 on the topic of income taxes. The amendments in this update improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted, and the Company chose to early adopt this guidance in the first quarter of fiscal 2018. As a result of the adoption of ASU 2016-16, the Company recognized approximately \$6 million in tax expense on past intra-entity transfers that had previously been deferred, through a cumulative adjustment to retained earnings in the first quarter of fiscal 2018.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued a new accounting standard on the topic of revenue contracts, which replaces the existing revenue recognition standard (“ASC 606”). The new standard amends the 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 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted for annual reporting periods and interim periods therein beginning after December 15, 2016. The Company will adopt this guidance in the first quarter of fiscal 2019 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures. The Company plans to adopt the new revenue recognition standard utilizing the modified retrospective approach. The Company has designed controls surrounding its adoption of the new standard and is currently completing its assessment of the impact of adoption.

BlackBerry Limited
Management's Discussion and Analysis of Financial Condition and Results of Operations

In May 2017, the FASB issued a new accounting standard on the topic of stock compensation. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company will adopt this guidance in the first quarter of fiscal 2019 and does not expect the impact to have a material effect on its results of operations, financial position and disclosures.

In August 2017, the FASB issued a new accounting standard on the topic of derivatives and hedging. The amendments in this update expand and refine the designation and measurement guidance for qualifying hedging relationships and the presentation of those hedge results. The guidance is effective for interim and annual periods beginning after December 15, 2018. The Company will adopt this guidance in the first quarter of fiscal 2020 and does not expect the impact to have a material effect on its results of operations, financial position and disclosures.

Second Quarter Fiscal 2018 Summary Results of Operations

The following table sets forth certain unaudited consolidated statements of operations data for the quarter ended August 31, 2017 compared to the quarter ended August 31, 2016 under U.S. GAAP.

	For the Three Months Ended (in millions, except for share and per share amounts)				
	August 31, 2017		August 31, 2016		Change
Revenue ⁽¹⁾⁽²⁾	\$ 238	100.0%	\$ 334	100.0%	\$ (96)
Gross margin ⁽¹⁾⁽²⁾	175	73.5%	98	29.3%	77
Operating expenses ⁽¹⁾⁽²⁾	153	64.3%	453	135.6%	(300)
Income (loss) before income taxes	23	9.7%	(371)	(111.1%)	394
Provision for income taxes	4	1.7%	1	0.3%	3
Net income (loss)	<u>\$ 19</u>	<u>8.0%</u>	<u>\$ (372)</u>	<u>(111.4%)</u>	<u>\$ 391</u>
Earnings (loss) per share - reported					
Basic	<u>\$ 0.04</u>		<u>\$ (0.71)</u>		<u>\$ 0.75</u>
Diluted ⁽³⁾	<u>\$ (0.07)</u>		<u>\$ (0.71)</u>		<u>\$ 0.64</u>
Weighted-average number of shares outstanding (000's)					
Basic	531,381		522,826		
Diluted ⁽³⁾	606,645		522,826		

- (1) See "Non-GAAP Financial Measures" for the impact of the Q2 Fiscal 2018 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin and adjusted operating expenses in the second quarter of fiscal 2018.
- (2) See "Non-GAAP Financial Measures" for the impact of the Q2 Fiscal 2017 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin and adjusted operating expenses in the second quarter of fiscal 2017.
- (3) Diluted loss per share on a U.S. GAAP basis for the second quarter of fiscal 2017 does not include the dilutive effect of the 6% Debentures (as defined below in "Financial Highlights") as it would be anti-dilutive. See Note 11 to the Consolidated Financial Statements for the Company's calculation of diluted loss per share.

Financial Highlights

The Company had approximately \$2.53 billion in cash, cash equivalents and investments as of August 31, 2017.

In the second quarter of fiscal 2018, the Company recognized revenues of \$238 million and net income of \$19 million, or \$0.04 basic earnings per share on a U.S. GAAP basis. The Company incurred a diluted loss per share of \$0.07 on a U.S. GAAP basis. The Company recognized adjusted revenues of \$249 million and adjusted net income of \$26 million, or \$0.05 earnings 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 August 31, 2017, the Company's net cash provided in operating activities was \$3 million and capital expenditures were \$3 million, resulting in the Company reporting break-even free cash flow.

On June 28, 2017, the Company stated it anticipated generating positive free cash flow for fiscal 2018 excluding the impact of the Qualcomm Arbitration Award. As a result of a faster than expected decline in handheld devices revenue and a higher than expected amount of costs associated with exiting the handheld business, the Company no longer expects to generate positive free cash flow in fiscal 2018 excluding the Qualcomm Arbitration Award. The Company now expects positive free cash flow for the full year before taking into account the net impact of the Qualcomm arbitration award and costs related to restructuring and transition from the hardware business.

The Company reported \$22 million in free cash flow before taking into account \$22 million in restructuring and transition costs and break-even cash flow, as noted above, after taking into account the \$22 million in restructuring and transition costs.

Debentures Fair Value Adjustment

As previously disclosed, the Company elected the fair value option to account for the 3.75% convertible debentures (the "3.75% Debentures", and together with the 6% Debentures, 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 3.75% Debentures such as the face value, the redemption features or the conversion price. In the second quarter of fiscal 2018, the Company recorded non-cash income associated with the change in the fair value of the 3.75% Debentures of approximately \$70 million (pre-tax and after tax) (the "Q2 Fiscal 2018 Debentures Fair Value Adjustment"). For the six months ended August 31, 2017, the Company recorded a non-cash charge associated with the change in the fair value of the 3.75% Debentures of approximately \$148 million (pre-tax and after tax) (the "Fiscal 2018 Debentures Fair Value Adjustment").

Long-lived Asset Impairment

During the second quarter of fiscal 2018, the Company's continued transformation from a hardware-focused handset manufacturer to an enterprise software and services company resulted in indicators of impairment in an intangible asset group, where the carrying value of the asset group exceeded its fair value. As a result of the Company's impairment analysis, it recorded the Fiscal 2018 LLA Impairment charge of \$11 million, applicable to certain prepaid royalty arrangements. See Note 1 to the Annual Financial Statements for a description of the Company's process of assessing impairment of long-lived assets.

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 and six months ended August 31, 2017, the Company incurred approximately \$16 million and \$32 million, respectively, in total pre-tax charges related to this program.

Results of Operations - Three months ended August 31, 2017 compared to three months ended August 31, 2016

Consolidated Revenue

Consolidated revenue decreased by \$96 million to approximately \$238 million in the second quarter of fiscal 2018 from \$334 million in the second quarter of fiscal 2017. The decrease was primarily due to a decrease of \$89 million in handheld devices revenue to \$16 million from \$105 million and a decrease of \$54 million in SAF revenues to \$37 million from \$91 million, net of a \$7 million increase in enterprise software and services revenues to \$91 million from \$84 million, and a \$40 million increase in licensing, IP and other revenues to \$56 million from \$16 million. See "Results of Operations - Three months ended August 31, 2017 compared to three months ended August 31, 2016 - Revenue - Revenue by Product and Service" below.

The decrease in handheld devices revenues of \$89 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 \$54 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 second quarter of fiscal 2017.

The increase in licensing, IP and other revenues of \$40 million was primarily due to the Company meeting revenue recognition criteria during the second quarter of fiscal 2018 for a previously signed intellectual property licensing arrangement. The Company expects licensing, IP and other revenues to be approximately \$100 million in fiscal 2018.

The Company's total software, licensing and services revenue, excluding IP and professional services, was approximately 79% recurring (subscription based) in the first quarter of fiscal 2018.

On March 31, 2017, the Company stated that it expected to grow at or above the overall market in software and services, which it believed to be between 10% and 15%. The Company also stated the expectation that total non-GAAP revenue for fiscal 2018 would be consistent with analyst consensus estimate at such date, being approximately \$980 million. The Company now expects software and services to grow at the market rate of 10% to 15% and expects total non-GAAP revenue for fiscal 2018 to be between \$920 million and \$950 million. This decline in expectation is due to faster than expected decline in handheld device revenues, and expected software and services growth in line with the overall market rather than above.

The Company expects enterprise software and services, BTS, and licensing, IP and other revenues to grow by 10% to 15% on a non-GAAP basis in fiscal 2018.

The Company's enterprise software and services billings grew 19% in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017. The Company expects to continue to generate double-digit billings growth for the remainder of fiscal 2018.

Consolidated Gross Margin

Consolidated gross margin increased by \$77 million to approximately \$175 million, or 73.5% of consolidated revenues in the second quarter of fiscal 2018 from \$98 million, or 29.3% of consolidated revenues in the second quarter of fiscal 2017. The increase was primarily due to an increase in gross margin associated with handheld devices and licensing, IP and other revenues, partially offset by decreases in gross margin associated with SAF.

The increase in handheld devices gross margin was primarily due to the \$97 million write-down on inventory taken during the second quarter of fiscal 2017 which did not recur in the second quarter of fiscal 2018. The increase in gross margin associated with licensing, IP and other revenues 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 second quarter of fiscal 2018 and the second quarter of fiscal 2017.

The Company expects non-GAAP gross margins to be greater than 70% for fiscal 2018.

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 (in millions)					
	August 31, 2017		August 31, 2016		Change	
Revenue by Geography						
North America	\$ 133	55.9%	\$ 170	50.9%	\$ (37)	(21.8)%
Europe, Middle East and Africa	76	31.9%	111	33.2%	(35)	(31.5)%
Latin America	4	1.7%	13	3.9%	(9)	(69.2)%
Asia Pacific	25	10.5%	40	12.0%	(15)	(37.5)%
	<u>\$ 238</u>	<u>100.0%</u>	<u>\$ 334</u>	<u>100.0%</u>	<u>\$ (96)</u>	<u>(28.7)%</u>

North America Revenues

Revenues in North America were \$133 million, or 55.9% of revenue, in the second quarter of fiscal 2018, reflecting a decrease of \$37 million compared to \$170 million, or 50.9% of revenue, in the second quarter of fiscal 2017. Sales in the United States represented approximately 37.8% of total revenue in the second quarter of fiscal 2018, compared to 41.6% of total revenue in the second quarter of fiscal 2017 and sales in Canada represented approximately 18.1% of revenue in the second quarter of fiscal 2018, compared to 9.3% of revenue in the second quarter of fiscal 2017.

Revenues in North America decreased compared to the second quarter of fiscal 2017 primarily from a decrease in handheld devices and a decrease in SAF revenues, partially offset by an increase in licensing, IP and other revenues, due to the reasons discussed above in "Consolidated Revenue".

Europe, Middle East and Africa Revenues

Revenues in Europe, Middle East and Africa were \$76 million or 31.9% of revenue in the second quarter of fiscal 2018, reflecting a decrease of \$35 million compared to \$111 million or 33.2% of revenue in the second quarter of fiscal 2017. The decrease in revenues is primarily due to a decrease in handheld device revenues and SAF 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 customers as well as expansion of services to those customers.

Latin America Revenues

Revenues in Latin America were \$4 million or 1.7% of revenue in the second quarter of fiscal 2018, reflecting a decrease of \$9 million compared to \$13 million or 3.9% of revenue in the second quarter of fiscal 2017. The decrease in revenues is primarily due to a reduction in SAF revenues due to the reasons discussed above in "Consolidated Revenue".

Asia Pacific Revenues

Revenues in Asia Pacific were \$25 million or 10.5% of revenue in the second quarter of fiscal 2018, reflecting a decrease of \$15 million compared to \$40 million or 12.0% of revenue in the second quarter of fiscal 2017. The decrease in revenue is due to a reduction in SAF revenues due to the reasons discussed above in "Consolidated Revenue", partially offset by increases in licensing, IP and other revenues due to 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 (in millions)					
	August 31, 2017		August 31, 2016		Change	
Revenue by Product and Service						
Enterprise software and services ⁽¹⁾⁽²⁾	\$ 102	41.0%	\$ 102	29.0%	\$ —	— %
BTS	38	15.3%	38	10.8%	—	— %
Licensing, IP and other	56	22.5%	16	4.5%	40	250.0 %
Handheld devices	16	6.4%	105	29.8%	(89)	(84.8)%
SAF	37	14.8%	91	25.9%	(54)	(59.3)%
	<u>\$ 249</u>	<u>100.0%</u>	<u>\$ 352</u>	<u>100.0%</u>	<u>\$ (103)</u>	<u>(29.3)%</u>

(1) See "Non-GAAP Financial Measures" for the relevant Q2 Fiscal 2018 Non-GAAP Adjustments made to enterprise software and services revenue.

(2) See "Non-GAAP Financial Measures" for the relevant Q2 Fiscal 2017 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 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 Solutions.

Enterprise software and services revenue was \$102 million, or 41.0% of revenue, in the second quarter of fiscal 2018, consistent with \$102 million, or 29.0% of revenue, in the second quarter of fiscal 2017. The percentage of total revenue increased as a result of the decline in handheld device and SAF revenues.

Excluding the deferred software revenue acquired adjustment described under "Non-GAAP Financial Measures", U.S. GAAP enterprise software and services revenue was \$91 million, or 38.2% of revenue in the second quarter of fiscal 2018, compared to \$84 million, or 25.1% of revenue, in the second quarter of fiscal 2017, representing an increase of \$7 million, or 8.3%, due to new customers and expanded business to existing customers.

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 consistent at \$38 million, or 15.3% of revenue, in the second quarter of fiscal 2018, compared to \$38 million, or 10.8% of revenue, in the second quarter of fiscal 2017. The percentage of total revenue increased as a result of the decline in handheld device and SAF revenues.

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 \$56 million, or 22.5% of revenue, in the second quarter of fiscal 2018, compared to \$16 million, or 4.5% of revenue, in the second quarter of fiscal 2017, representing an increase of \$40 million, or 250.0%. The \$40 million increase was due to the reason 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 \$16 million, or 6.4% of revenue, in the second quarter of fiscal 2018, compared to \$105 million, or 29.8% of revenue, in the second quarter of fiscal 2017, representing a decrease of \$89 million, or 84.8%. The \$89 million decrease in handheld devices revenue was primarily due to the reasons discussed above in "Consolidated Revenue".

The Company expects that handheld devices revenue in the third quarter of fiscal 2018 and beyond will be between \$0 million and \$5 million, consisting primarily of the recognition of revenue on previously sold devices upon sell-through to end customers.

Service Access Fees

SAF revenue decreased by \$54 million, or 59.3%, to \$37 million, or 14.8% of revenue, in the second quarter of fiscal 2018, compared to \$91 million, or 25.9% of revenue, in the second quarter of fiscal 2017. The decrease was due to the reasons discussed above in "Consolidated Revenue".

In the first quarter of fiscal 2018, the Company stated its expectation that SAF revenue would decline by approximately 25% in the second quarter of fiscal 2018. SAF revenue for the second quarter of fiscal 2018 decreased by approximately 2% compared to the first quarter of fiscal 2018. The lower than anticipated decline in SAF was primarily due to \$9 million in payments received from SAF customers for which revenue is recognized on a cash basis due to collectability. The Company expects SAF revenue to decline by approximately 25% in the third quarter of fiscal 2018 (after excluding the benefit of the \$9 million noted above from the second quarter of fiscal 2018) to approximately \$20 million.

Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expense for the quarter ended August 31, 2017, compared to the quarter ended May 31, 2017 and the quarter ended August 31, 2016. The Company believes it is meaningful to also provide a comparison between the second quarter of fiscal 2018 and the first quarter of fiscal 2018 given that the Company's quarterly operating results vary substantially.

	For the Three Months Ended (in millions)					
	August 31, 2017		May 31, 2017		August 31, 2016	
	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue
Revenue	\$ 238		\$ 235		\$ 334	
Operating expenses						
Research and development ⁽¹⁾⁽²⁾⁽³⁾	\$ 60	25.2 %	\$ 61	26.0 %	\$ 85	25.4%
Selling, marketing and administration ⁽¹⁾⁽²⁾⁽³⁾	110	46.2 %	109	46.4 %	138	41.3%
Amortization ⁽¹⁾⁽²⁾⁽³⁾	39	16.4 %	40	17.0 %	44	13.2%
Impairment of long-lived assets ⁽²⁾	11	4.6 %	—	— %	—	—%
Loss on sale, disposal and abandonment of long-lived assets ⁽²⁾	3	1.3 %	1	0.4 %	124	37.1%
Debentures fair value adjustment ⁽¹⁾⁽²⁾⁽³⁾	(70)	(29.4)%	218	92.8 %	62	18.6%
Qualcomm arbitration award ⁽³⁾	—	— %	(815)	(346.8)%	—	—%
Total	<u>\$ 153</u>	<u>64.3 %</u>	<u>\$ (386)</u>	<u>(164.2)%</u>	<u>\$ 453</u>	<u>135.6%</u>

- (1) See "Non-GAAP Financial Measures" for the impact of the Q2 Fiscal 2018 Non-GAAP Adjustments on adjusted operating expenditures in the second quarter of fiscal 2018.
- (2) See "Non-GAAP Financial Measures" for the impact of the Q2 Fiscal 2017 Non-GAAP Adjustments on adjusted operating expenditures in the second quarter of fiscal 2017.
- (3) In the first quarter of fiscal 2018, the Company recognized a non-cash charge associated with a change in the fair value of the 3.75% Debentures of approximately \$218 million (the "Q1 Fiscal 2018 Debentures Fair Value Adjustment"), a recovery of the overpayment of royalties from the Qualcomm arbitration award of \$815 million, RAP charges of approximately \$3 million and \$10 million in research and development and selling, marketing and administration expenses, respectively, selective patent abandonment of \$1 million, stock compensation expense of \$4 million and \$8 million in research and development and selling, marketing and administration expenses, respectively, acquired intangibles amortization of \$25 million, and \$11 million in business acquisition and integration costs in selling, marketing and administration expenses (collectively the "Q1 Fiscal 2018 Non-GAAP Adjustments").

Operating expenses increased by \$539 million, or 139.6%, to \$153 million, or 64.3% of revenue, in the second quarter of fiscal 2018, compared to \$(386) million, or (164.2)% of revenue, in the first quarter of fiscal 2017. The increase was primarily attributable to the Qualcomm arbitration award in the first quarter of fiscal 2018, partially offset by difference between the Q2 Fiscal 2018 Debentures Fair Value Adjustment and Q1 Fiscal 2018 Debentures Fair Value Adjustment.

Excluding the impact of the relevant Q2 Fiscal 2018 Non-GAAP Adjustments and Q1 Fiscal 2018 Non-GAAP Adjustments, operating expenses from Q1 Fiscal 2018 to Q2 Fiscal 2018 increased by \$12 million. The increase was primarily attributable to a recovery of legal expenses in the first quarter of fiscal 2018 that did not recur in the second quarter of fiscal 2018.

Operating expenses decreased by \$300 million, or 66.2%, to \$153 million or 64.3% of revenue in the second quarter of fiscal 2018, compared to approximately \$453 million or 135.6% of revenue in the second quarter of fiscal 2017. The decrease was primarily attributable to the write-down of assets held for sale in the second quarter of fiscal 2017, the change in fair value of the Debentures, and a decrease in salaries and benefits costs.

Excluding the impact of the relevant Q2 Fiscal 2018 Non-GAAP Adjustments and Q2 Fiscal 2017 Non-GAAP Adjustments, operating expenses decreased by \$42 million. The decrease was primarily attributable to a decrease in salaries and benefits, a decrease in infrastructure costs, a reduction in legal costs, and reduced outsourcing expenses.

The Company expects operating expenses to increase modestly in the third quarter of fiscal 2018 compared to the second quarter of fiscal 2018 due to increased investment in sales and marketing.

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 decreased by \$25 million, or 29.4%, to \$60 million in the second quarter of fiscal 2018, compared to \$85 million in the second quarter of fiscal 2017. Excluding the impact of the relevant Q2 Fiscal 2018 Non-GAAP Adjustments and Q2 Fiscal 2017 Non-GAAP Adjustments, research and development expenses decreased by \$25 million. The decrease was primarily attributable to reduced salaries and benefits costs, primarily associated with a decline in hardware development engineering staff, and a decrease 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 \$28 million, or 20.3%, to \$110 million in the second quarter of fiscal 2018 compared to \$138 million in the second quarter of fiscal 2017. Excluding the impact of the relevant Q2 Fiscal 2018 Non-GAAP Adjustments and Q2 Fiscal 2017 Non-GAAP Adjustments, selling, marketing and administration expenses decreased by \$16 million. The decrease was primarily attributable to reduced legal costs, a reduction in headcount-related expenses such as professional fees and travel expenses, and a decrease in salaries and benefits.

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 second quarter of fiscal 2018 compared to the second quarter of fiscal 2017. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Three Months Ended (in millions)					
	Included in Amortization			Included in Cost of Sales		
	August 31, 2017	August 31, 2016	Change	August 31, 2017	August 31, 2016	Change
Property, plant and equipment	\$ 5	\$ 8	\$ (3)	\$ 4	\$ 12	\$ (8)
Intangible assets	34	36	(2)	2	1	1
Total	\$ 39	\$ 44	\$ (5)	\$ 6	\$ 13	\$ (7)

Amortization

Amortization expense relating to certain property, plant and equipment and intangible assets decreased by \$5 million to \$39 million for the second quarter of fiscal 2018, compared to \$44 million for the second quarter of fiscal 2017. The decrease in amortization expense reflects the held for sale classification of data centers midway through the second quarter of fiscal 2017 and the subsequent sale thereof in the fourth quarter of fiscal 2017, and certain assets becoming fully depreciated.

Excluding the impact of the relevant Q2 Fiscal 2018 Non-GAAP Adjustments and Q2 Fiscal 2017 Non-GAAP Adjustments, amortization decreased by \$1 million.

Cost of Sales

Amortization expense relating to certain property, plant and equipment and intangible assets employed in the Company's manufacturing operations and BlackBerry service operations decreased by \$7 million to \$6 million for the second quarter of fiscal 2018, compared to \$13 million for second quarter of fiscal 2017. The decrease primarily reflects the held for sale classification of data centers midway through the second quarter of fiscal 2017 and the subsequent sale thereof in the fourth quarter of fiscal 2017, and certain assets becoming fully depreciated.

Investment Income (Loss)

Investment income (loss), which includes the interest expense from the 3.75% Debentures, increased by \$17 million to \$1 million in investment income in the second quarter of fiscal 2018 from an investment loss of \$16 million in the second quarter of fiscal 2017. The increase in investment income (loss) was due to the lower rate of interest and lower principal amount of the 3.75% Debentures in the second quarter of fiscal 2018 versus the 6% Debentures in the second quarter of fiscal 2017, the absence of an other-than-temporary impairment present in the second quarter of fiscal 2017, and a higher yield on the Company's average cash and investment balances.

Income Taxes

For the second quarter of fiscal 2018, the Company's net effective income tax expense rate was approximately 17%, 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 fact that the Company has a significant valuation allowance against its deferred tax assets, and in particular, the change in fair value of the 3.75% Debentures and the impact of the Qualcomm arbitration award, 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 income for the second quarter of fiscal 2018 was \$19 million, reflecting an increase in net income of \$391 million, compared to net loss of \$372 million in the second quarter of fiscal 2017, primarily due to the lower amount of the Fiscal 2018 LLA Impairment Charge versus the Fiscal 2017 LLA Impairment charge, and the absence of the Goodwill Impairment Charge and the write-down to fair value for the data center assets held for sale in the first six months of fiscal 2017, partially offset by a positive fair value adjustment on the 3.75% Debentures in the second quarter of fiscal 2018 compared to a negative fair value adjustment on the 6% Debentures in the second quarter of fiscal 2017. After giving effect to the relevant Q2 Fiscal 2018 Non-GAAP Adjustments and Q2 Fiscal 2017 Non-GAAP Adjustments, the Company's non-GAAP net income was \$26 million compared to a non-GAAP net loss of \$1 million, reflecting an increase in non-GAAP net income of \$27 million primarily due to the lower rate of interest on the 3.75% Debentures in the first six months of fiscal 2018 than the 6% Debentures in the first six months of fiscal 2017, the absence of an other-than-temporary impairment present in the first six months of fiscal 2017, and a reduction in operating expenditures.

For the second quarter of fiscal 2018, basic earnings per share was \$0.04 and diluted earnings (loss) per share was \$(0.07), compared to a basic and diluted loss per share of \$0.71 for the same period in the prior fiscal year. The Company expects positive adjusted net income and positive adjusted EBITDA for fiscal 2018.

The weighted average number of shares outstanding was approximately 531 million common shares for basic earnings per share and 607 million for diluted loss per share for the three months ended August 31, 2017, and approximately 523 million common shares for basic and diluted loss per share for the three months ended August 31, 2016.

Common Shares Outstanding

On September 26, 2017, there were 530 million common shares, options to purchase 1 million common shares, 19 million restricted share units and 0.6 million deferred share units outstanding. In addition, 60.5 million common shares are issuable upon conversion in full of the 3.75% Debentures as described in Note 9 to the Consolidated Financial Statements.

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

Results of Operations - Six months ended August 31, 2017 compared to six months ended August 31, 2016

The following table sets forth certain unaudited consolidated statements of operations data as at August 31, 2017 and August 31, 2016 under U.S. GAAP.

	For the Six Months Ended (in millions, except for share and per share amounts)				
	August 31, 2017		August 31, 2016		Change
Revenue ⁽¹⁾⁽²⁾	\$ 473	100.0%	\$ 734	100.0%	\$ (261)
Gross margin ⁽¹⁾⁽²⁾	325	68.7%	252	34.3%	73
Operating expenses ⁽¹⁾⁽²⁾	(233)	(49.3%)	1,262	171.9%	(1,495)
Income (loss) before income taxes	695	146.9%	(1,041)	(141.8%)	1,736
Provision for income taxes	5	1.1%	1	0.1%	4
Net income (loss)	<u>\$ 690</u>	<u>146.0%</u>	<u>\$ (1,042)</u>	<u>(142.0%)</u>	<u>\$ 1,732</u>
Earnings (loss) per share - reported					
Basic	<u>\$ 1.30</u>		<u>\$ (1.99)</u>		<u>\$ 3.29</u>
Diluted	<u>\$ 1.26</u>		<u>\$ (1.99)</u>		<u>\$ 3.25</u>
Weighted-average number of shares outstanding (000's)					
Basic	531,234		522,362		
Diluted	546,132		522,362		

- (1) See "Non-GAAP Financial Measures" for the impact of the Fiscal 2018 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin and adjusted operating expenses in fiscal 2018.
- (2) See "Non-GAAP Financial Measures" for the impact of the Fiscal 2017 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin and adjusted operating expenses in fiscal 2017.

Consolidated Revenue

Consolidated revenue decreased by \$261 million to approximately \$473 million in the first six months of fiscal 2018 from \$734 million in the first six months of fiscal 2017. The decrease was primarily due to a decrease of \$204 million in handheld devices revenue to \$53 million from \$257 million and a decrease of \$122 million in SAF revenues to \$75 million from \$197 million, net of increases in enterprise software and services, BTS, and licensing, IP and other revenues.

The decrease in handheld devices revenues of \$204 million was primarily attributable to decreased demand, the Company's aging product portfolio, and 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 \$122 million decrease in SAF revenues, 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 six months of fiscal 2017.

Consolidated Gross Margin

Consolidated gross margin increased by \$73 million to approximately \$325 million in the first six months of fiscal 2018 from \$252 million in the first six months of fiscal 2017. The increase was primarily due to the increase in gross margin associated with handheld devices and licensing, IP and other, and enterprise software and services, partially offset by declines in SAF.

The increase in margin associated with handheld devices was primarily attributable to the \$137 million write-down on inventory taken during the first six months of fiscal 2017 which did not recur during the first six months of fiscal 2018 (see "Non-GAAP Financial Measures" above), offset by the changes described above in "Consolidated Revenue". The increase in gross margin from licensing, IP and other revenues was primarily due to the meeting of revenue recognition criteria for a previously signed intellectual property arrangement during the first six months of fiscal 2018 and revenue from the Company's mobility licensing software arrangements. The increase in gross margin from enterprise software and services was primarily due to growth in the business from new customers and expanded services to existing customers. The decrease in gross margin associated with SAF was primarily attributable to the same reasons as discussed above in "Consolidated Revenue", as cost of

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goods sold associated with SAF revenues were consistent in the first six months of fiscal 2018 and the first six months of fiscal 2017.

Revenue

Revenue by Product and Service

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

	For the Six Months Ended (in millions)					
	August 31, 2017		August 31, 2016		Change	
Revenue by Product and Service						
Enterprise software and services ⁽¹⁾⁽²⁾	\$ 203	41.2%	\$ 208	26.8%	\$ (5)	(2.4)%
BTS	74	15.0%	73	9.4%	1	1.4 %
Licensing, IP and other	88	17.7%	41	5.3%	47	114.6 %
Handheld devices	53	10.8%	257	33.1%	(204)	(79.4)%
SAF	75	15.2%	197	25.4%	(122)	(61.9)%
	<u>\$ 493</u>	<u>100.0%</u>	<u>\$ 776</u>	<u>100.0%</u>	<u>\$ (283)</u>	<u>(36.5)%</u>

- (1) See "Non-GAAP Financial Measures" for the relevant Fiscal 2018 Non-GAAP Adjustments made to enterprise software and services revenue.
- (2) See "Non-GAAP Financial Measures" for the relevant Fiscal 2017 Non-GAAP Adjustments made to enterprise software and services revenue.

Enterprise Software and Services

Enterprise software and services revenue decreased by \$5 million, or 2.4%, to \$203 million, or 41.2% of revenues, in the first six months of fiscal 2018, compared to \$208 million, or 26.8% of revenues, in the first six months of fiscal 2017.

The \$5 million decrease in enterprise software and services revenue was primarily attributable to a decrease of \$22 million in the non-GAAP adjustment of deferred software revenue acquired to \$20 million in the first six months of fiscal 2018 versus \$42 million in the first six months of fiscal 2017, partially offset by increases in new business.

Excluding the deferred software revenue acquired adjustment, enterprise software and services revenue was \$183 million, or 38.7% of revenue in the first six months of fiscal 2018, compared to \$166 million, or 22.6% of revenue, in the first six months of fiscal 2017, representing an increase of \$17 million, or 10.2%.

BTS

BTS revenue increased by \$1 million, or 1.4%, to 74 million, or 15.0% of revenues, in the first six months of fiscal 2018, compared to 73 million, or 9.4% of revenue, in the first six months of fiscal 2017.

Licensing, IP and Other

Licensing, IP and other revenues increased by \$47 million, or 114.6%, to \$88 million, or 17.7% of revenues in the first six months of fiscal 2018, compared to \$41 million, or 5.3% of revenue, in the first six months of fiscal 2017. The \$47 million increase was primarily due to the meeting of revenue recognition criteria for a previously signed intellectual property arrangement during the first six months of fiscal 2018 and revenue from the Company's mobility licensing software arrangements.

Handheld Devices

Handheld devices revenue was \$53 million, or 10.8% of revenues, in the first six months of fiscal 2018 compared to \$257 million, or 33.1% of revenues, in the first six months of fiscal 2017, representing a decrease of \$204 million, or 79.4%.

The \$204 million decrease in handheld devices revenue was primarily due to the reasons discussed above in "Consolidated Revenue".

Service Access Fees

SAF revenue decreased by \$122 million, or 61.9%, to \$75 million, or 15.2% of revenues, in the first six months of fiscal 2018, compared to \$197 million, or 25.4% of revenues, in the first six months of fiscal 2017.

The decrease in SAF revenue is primarily 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 expenses for the six months ended August 31, 2017, compared to the six months ended August 31, 2016.

	For the Six Months Ended (in thousands)					
	August 31, 2017		August 31, 2016		Change	
	\$	% of Revenue	\$	% of Revenue	\$	% of Change
Revenue	\$ 473		\$ 734		\$ (261)	(35.6)%
Operating expenses						
Research and development ⁽¹⁾⁽²⁾	\$ 121	25.6 %	\$ 174	23.7%	\$ (53)	(30.5)%
Selling, marketing and administration ⁽¹⁾⁽²⁾	219	46.3 %	267	36.4%	(48)	(18.0)%
Amortization	79	16.7 %	98	13.4%	(19)	(19.4)%
Impairment of goodwill ⁽¹⁾	—	— %	57	7.8%	(57)	(100.0)%
Impairment of long-lived assets ⁽¹⁾	11	2.3 %	501	68.3%	(490)	(97.8)%
Loss on sale, disposal and abandonment of long-lived assets ⁽¹⁾⁽²⁾	4	0.8 %	127	17.3%	(123)	(96.9)%
Debentures fair value adjustment ⁽¹⁾	148	31.3 %	38	5.2%	110	289.5 %
Qualcomm arbitration award	(815)	(172.3)%	—	—%	(815)	— %
Total	<u>\$ (233)</u>	<u>(49.3)%</u>	<u>\$ 1,262</u>	<u>172.1%</u>	<u>\$ (1,495)</u>	<u>(118.5)%</u>

(1) See “Non-GAAP Financial Measures” for the impact of the Fiscal 2018 Non-GAAP Adjustments on adjusted operating expenditures in fiscal 2018.

(2) See “Non-GAAP Financial Measures” for the impact of the Fiscal 2017 Non-GAAP Adjustments on adjusted operating expenditures in fiscal 2017.

Operating expenses decreased by \$1.50 billion, or 118.5%, to \$(233) million or (49.3)% of revenue in the first six months of fiscal 2018, compared to approximately \$1.26 billion or 172.1% of revenue in the first six months of fiscal 2017. The decrease was primarily attributable to the Qualcomm arbitration award, a decrease in impairment of long-lived assets due to the lower amount of the Fiscal 2018 LLA Impairment Charge versus the Fiscal 2017 LLA Impairment Charge, a lower amount of loss on sale, disposal and abandonment of long lived assets due to the write-down to fair value for assets held for sale in the first six months of fiscal 2017, reduced salaries and benefits costs and a decrease in amortization expense, partially offset by an increase in the Debentures fair value adjustment. Excluding the impact of the relevant Q2 Fiscal 2018 Non-GAAP Adjustments and Q2 Fiscal 2017 Non-GAAP Adjustments, operating expenses decreased by \$108 million due to the reasons discussed below in “Research and Development Expenses”, “Selling, Marketing and Administrative Expenses” and “Amortization Expense”.

Research and Development Expenses

Research and development expenses decreased by \$53 million to \$121 million, or 25.6% of revenue, in the first six months of fiscal 2018, compared to \$174 million, or 23.7% of revenue, in the first six months of fiscal 2017. Excluding the impact of the relevant Fiscal 2018 Non-GAAP Adjustments and Fiscal 2017 Non-GAAP Adjustments, research and development expenses decreased by \$54 million. The decrease is primarily attributable to reduced salaries and benefits costs, as well as reductions in research costs related to handheld devices and outsourcing costs compared to the first six months of fiscal 2017.

Selling, Marketing and Administration Expenses

Selling, marketing and administration expenses decreased by \$48 million to \$219 million for the first six months of fiscal 2018 compared to approximately \$267 million for the comparable period in fiscal 2017. As a percentage of revenue, selling, marketing and administration expenses increased to 46.3% in the first six months of fiscal 2018 as compared to 36.4% in the first six months of fiscal 2017. Excluding the impact of the relevant Fiscal 2018 Non-GAAP Adjustments and Fiscal 2017 Non-GAAP Adjustments, selling marketing and administration expenses decreased by \$39 million. The decrease is primarily attributable to reduced salaries and benefits costs, a decrease in legal costs, and reduced marketing and advertising costs compared to the first six months of fiscal 2017.

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 six months ended August 31, 2017 compared to the six months ended August 31, 2016. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Six Months Ended (in thousands)					
	Included in Amortization			Included in Cost of sales		
	August 31, 2017	August 31, 2016	Change	August 31, 2017	August 31, 2016	Change
Property, plant and equipment	\$ 10	\$ 20	\$ (10)	\$ 11	\$ 24	\$ (13)
Intangible assets	69	78	(9)	6	7	(1)
Total	\$ 79	\$ 98	\$ (19)	\$ 17	\$ 31	\$ (14)

Amortization

Amortization expense relating to certain property, plant and equipment and certain intangible assets decreased by \$19 million to \$79 million in the first six months of fiscal 2018 compared to \$98 million for the comparable period in fiscal 2017. The decrease in amortization expense reflects the sale of data centers during the fourth quarter of fiscal 2017, the LLA impairment charge, and certain assets becoming fully depreciated.

Excluding the impact of the relevant Fiscal 2018 Non-GAAP Adjustments and Fiscal 2017 Non-GAAP Adjustments, amortization decreased by \$12 million.

Cost of sales

Amortization expense relating to certain property, plant and equipment and certain intangible assets employed in the Company's manufacturing operations and BlackBerry service operations decreased by \$14 million to \$17 million in the first six months of fiscal 2018 compared to \$31 million for the comparable period in fiscal 2017. This decrease primarily reflects the lower cost base of assets as a result of the LLA impairment charges and patent abandonments during fiscal 2017 and fiscal 2018.

Investment Income (loss)

Investment income (loss), which includes the interest expense from the Debentures, increased by \$168 million to \$137 million in investment income in the first six months of fiscal 2018, from an investment income (loss) of \$(31) million in the comparable period of fiscal 2017. The increase is primarily attributable to the interest paid by Qualcomm on the arbitration award, the lower rate of interest on the 3.75% Debentures in the first six months of fiscal 2018 versus the 6% Debentures in the six months of fiscal 2017 and the absence of an other-than-temporary impairment which was present in the six months of fiscal 2017. See "Financial Condition – Liquidity and Capital Resources".

Income Taxes

For the first six months of fiscal 2018, the Company's net effective income tax expense rate was approximately 1%, 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 fact that the Company has a significant valuation allowance against its deferred tax assets, and in particular, the impairment charges and the change in fair value of the Debentures and the impact of the Qualcomm arbitration award, 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 income for the first six months of fiscal 2018 was \$690 million, reflecting an increase in net income of \$1.73 billion compared to net loss of approximately \$1.04 billion in the first six months of fiscal 2017, primarily due to the Qualcomm arbitration award, the lower amount of the Fiscal 2018 LLA Impairment Charge versus the Fiscal 2017 LLA Impairment charge, the absence of the Goodwill Impairment Charge and the write-down to fair value for the data center assets held for sale in the first six months of fiscal 2017. Excluding the impact of the relevant Fiscal 2018 Non-GAAP Adjustments and Fiscal 2017 Non-GAAP Adjustments, the Company's non-GAAP net income for the first six months of fiscal 2018 was \$36 million compared to a non-GAAP net loss of \$2 million for the first six months of fiscal 2017, reflecting an increase in net income of \$38 million primarily due to the lower rate of interest and principal amount of the 3.75% Debentures in the first six

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months of fiscal 2018 than the 6% Debentures in the first six months of fiscal 2017, the absence of an other-than-temporary impairment present in the first six months of fiscal 2017, and a reduction in operating expenditures.

Basic and diluted earnings per share were \$1.30 and \$1.26, respectively, in the first six months of fiscal 2018, compared to basic and diluted loss per share of \$1.99 in the first six months of fiscal 2017, due to the reasons noted above.

The weighted average number of shares outstanding was approximately 531 million common shares for basic earnings (loss) per share and 546 million for diluted earnings (loss) per share for the six months ended August 31, 2017, and approximately 522 million common shares for basic and diluted earnings (loss) per share for the six months ended August 31, 2016.

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 August 31, 2017. 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 2018		Fiscal Year 2017				Fiscal Year 2016	
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
Revenue	\$ 238	\$ 235	\$ 286	\$ 289	\$ 334	\$ 400	\$ 464	\$ 548
Gross margin	175	150	172	193	98	154	210	236
Operating expenses	153	(386)	229	307	453	809	451	340
Income (loss) before income taxes	23	672	(49)	(118)	(371)	(670)	(256)	(120)
Provision for (recovery of) income taxes	4	1	(2)	(1)	1	—	(18)	(31)
Net income (loss)	19	\$ 671	\$ (47)	\$ (117)	\$ (372)	\$ (670)	\$ (238)	\$ (89)
Earnings (loss) per share								
Basic earnings (loss) per share	\$ 0.04	\$ 1.26	\$ (0.09)	\$ (0.22)	\$ (0.71)	\$ (1.28)	\$ (0.45)	\$ (0.17)
Diluted earnings (loss) per share	\$ (0.07)	\$ 1.23	\$ (0.10)	\$ (0.22)	\$ (0.71)	\$ (1.28)	\$ (0.45)	\$ (0.17)

Financial Condition

Liquidity and Capital Resources

Cash, cash equivalents, and investments increased by \$836 million to approximately \$2.53 billion as at August 31, 2017 from approximately \$1.70 billion as at February 28, 2017, primarily as a result of the Qualcomm arbitration award, which was partially offset by changes in working capital. The majority of the Company's cash, cash equivalents, and investments are denominated in U.S. dollars as at August 31, 2017.

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

	As at (in millions)		
	August 31, 2017	February 28, 2017	Change
Cash and cash equivalents	\$ 586	\$ 734	\$ (148)
Restricted cash and cash equivalents	53	51	2
Short-term investments	1,766	644	1,122
Long-term investments	129	269	(140)
Cash, cash equivalents, and investments	\$ 2,534	\$ 1,698	\$ 836

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

	As at (in millions)		
	August 31, 2017	February 28, 2017	Change
Current assets	\$ 2,624	\$ 1,717	\$ 907
Current liabilities	506	639	(133)
Working capital	<u>\$ 2,118</u>	<u>\$ 1,078</u>	<u>\$ 1,040</u>

Current Assets

The increase in current assets of \$907 million at the end of the second quarter of fiscal 2018 from the end of the fourth quarter of fiscal 2017 was primarily due to increases in short-term investments of \$1,122 million and cash and cash equivalents of \$148 million, partially offset by decreases in accounts receivable of \$45 million and inventories of \$18 million.

At August 31, 2017, accounts receivable was \$155 million, a decrease of \$45 million from February 28, 2017. The decrease reflects the lower revenues recognized over the six months ended August 31, 2017 as well as a decrease in days sales outstanding to 60 days at the end of the second quarter of fiscal 2018 from 65 days at the end of the fourth quarter of fiscal 2017.

At August 31, 2017, income taxes receivable was \$27 million, a decrease of \$4 million from February 28, 2017. The decrease in income tax receivable was primarily due to the adoption of ASU 2016-16 as described above in "Accounting Policies and Critical Accounting Estimates".

At August 31, 2017, inventories were \$8 million, a decrease of \$18 million from February 28, 2017. The decrease in inventories was primarily due to the sale of handheld devices.

At August 31, 2017, other current assets were \$44 million, a decrease of \$11 million from February 28, 2017. The decrease in other current assets was primarily due to the recognition of previously deferred cost of goods sold, upon recognition of the related deferred revenue, partially offset by an increase in prepaid maintenance.

Current Liabilities

The decrease in current liabilities of \$133 million at the end of the second quarter of fiscal 2018 from the end of the fourth quarter of fiscal 2017 was primarily due to a decrease in accounts payable of \$43 million, a decrease in deferred revenue of \$42 million and a decrease in accrued liabilities of \$52 million. As at August 31, 2017, deferred revenue was \$197 million, reflecting a decrease of \$42 million from February 28, 2017, which was primarily attributable to the recognition of handheld devices sold through to end users and the recognition of legacy perpetual software arrangements. Accrued liabilities were \$206 million, reflecting a decrease of \$52 million from February 28, 2017, which was primarily attributable to decreases in accrued royalties, vendor liabilities, and restructuring and manufacturing accruals compared to the fourth quarter of fiscal 2017.

Cash flows for the six months ended August 31, 2017 compared to the six months ended August 31, 2016 were as follows:

	For The Six Months Ended (in millions)		
	August 31, 2017	August 31, 2016	Change
Net cash flows provided by (used in):			
Operating activities	\$ 867	\$ (93)	\$ 960
Investing activities	(1,002)	843	(1,845)
Financing activities	(16)	(21)	5
Effect of foreign exchange on cash and cash equivalents	3	1	2
Net increase (decrease) in cash and cash equivalents	<u>\$ (148)</u>	<u>\$ 730</u>	<u>\$ (878)</u>

Operating Activities

The increase in net cash flows provided by operating activities of \$960 million for the first six months of fiscal 2018 primarily reflects the Qualcomm Arbitration Award. The Company also reported break-even free cash flow as described above in "Second Quarter Fiscal 2018 Summary Results - Free Cash Flow".

Investing Activities

During the six months ended August 31, 2017, cash flows used in investing activities were \$1,002 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 \$985 million, intangible asset additions of \$14 million, and acquisitions of property, plant and equipment of \$6 million. For the same period in the prior fiscal year, cash flows provided by investing activities were \$843 million and included cash provided by transactions involving the acquisitions of short-term and long-term investments, net of the proceeds on sale or maturity in the amount of \$864 million, offset by intangible asset additions of \$19 million and acquisitions of property, plant and equipment of \$7 million.

Financing Activities

The decrease in cash flows used in financing activities was \$5 million for the first six months of fiscal 2018 and was primarily a result of the payment of contingent consideration from business acquisitions and repurchases of the 6% Debentures during the six months ended August 31, 2016 that did not recur during the six months ended August 31, 2017, partially offset by common share repurchases under the normal course issuer bid discussed under "Business Overview - Normal Course Issuer Bid" above.

Aggregate Contractual Obligations

Purchase obligations and commitments amounted to approximately \$353 million as at August 31, 2017, including future interest payments of \$73 million on the 3.75% Debentures and operating lease obligations of \$143 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 August 31, 2017 decreased by \$45 million as compared to the February 28, 2017 balance of approximately \$398 million, which was attributable to decreases in operating lease obligations, interest payments on the Debentures, and purchase orders for goods and services used in operations.

Debenture Financing and Other Funding Sources

See Note 9 to the Consolidated Financial Statements for a description of the Debentures.

The Company had \$46 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business as of August 31, 2017. See Note 2 to the Consolidated Financial Statements for further information concerning the Company's restricted cash.

Cash, cash equivalents, and investments were approximately \$2.53 billion as at August 31, 2017. 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 provision 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 August 31, 2017, with the exception of an accrual for \$10 million in legal costs related to litigation arising out of the Company's acquisition of Good as described in Note 13 to the Consolidated Financial Statements, 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 13 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 second quarter of fiscal 2018 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, certain operating costs and manufacturing overhead were incurred primarily in Canadian dollars, but were also incurred in U.S. dollars, euros and British pounds. At August 31, 2017, approximately 9% of cash and cash equivalents, 26% of accounts receivables and 12% of accounts payable were denominated in foreign currencies (February 28, 2017 – 8%, 35% and 23%, 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 3.75% Debentures with a fixed 3.75% interest rate. The fair value of the 3.75% 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 3.75% Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio.

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 August 31, 2017 was \$19 million (February 28, 2017 - \$12 million). There was one customer that comprised more than 10% of accounts receivable as at August 31, 2017 (February 28, 2017 - one customer that comprised more than 10%). There was one customer that comprised more than 10% of the Company's revenue in the second quarter of fiscal 2018 (no customer comprised more than 10% of the Company's revenue in the second quarter of fiscal 2017). During the second quarter of fiscal 2018, the percentage of the Company's receivable balance that was past due decreased by 10.4% compared to the fourth quarter of fiscal 2017. 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.

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 six months ended August 31, 2017 the Company did not record any other-than-temporary impairment charges related to investments (six months ended August 31, 2016 - \$7 million relating to certain cost-based investments)

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 August 31, 2017, no changes were made to 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.