

BLACKBERRY LIMITED

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

June 23, 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 months ended May 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 months ended May 31, 2017 and up to and including June 23, 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;
- the Company's anticipated level of decline in service access fees revenue in the second 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 second 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", "First Quarter Fiscal 2018 Summary Results of Operations - Financial Highlights - Free Cash Flow", "Results of Operations - Three months ended May 31, 2017 compared to three months ended May 31, 2016 - Revenue - Consolidated Revenue", "Results of Operations - Three months ended May 31, 2017 compared to three months ended May 31, 2016 - Revenue - Revenue by Product and Service - Service Access Fees", "Results of Operations - Three months ended May 31, 2017 compared to three months ended May 31, 2016 - Consolidated Gross Margin", "Results of Operations - Three months ended May 31, 2017 compared to three months ended May 31, 2016 - Operating Expenses", "Results of Operations - Three months ended May 31, 2017 compared to three months ended May 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 and its perception of 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, which is included in the Annual Report, 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; and
- risks related to acquisitions, divestitures, investments and other business initiatives, which may negatively affect the Company's results of operations.

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

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.

As a result of an internal reporting reorganization and a change in the way in which the Chief Operating Decision Maker ("CODM"), which for the Company is the Chief Executive Officer ("CEO"), reviews financial information, makes decisions and assesses the performance of the Company in the first quarter of fiscal 2018, the Company is now organized and managed as one operating segment. See Note 13 to the Consolidated Financial Statements for further information.

The Company's business includes revenues and operations relating to multiple software and service offerings and products, including:

- 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); and
- Professional Cybersecurity Services, which offers cybersecurity consulting services and tools.

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's product line includes the DTEK60, DTEK50, Priv, Leap and Passport smartphones and smartphone accessories, as well as non-warranty repair services.

The Company's business also generates 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.

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 has experienced a significant decline in revenue due to intense competition and other factors, as discussed below under "Results of Operations – Three months ended May 31, 2017 compared to the three months ended May 31, 2016 – Revenue".

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, crisis communications, enterprise applications, and related services, with hosting available on the Company's global, scalable, secure network.

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, which is included in the Annual Report.

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 continues to sell DTEK60, DTEK50, Priv, Leap and Passport smartphones, and as at the end of the first quarter of fiscal 2018, the Company had a smartphone user base of approximately 11 million users.

In the second half of fiscal 2018, the Company expects to launch 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;
- 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 a partnership with VoxSmart to support compliance with the European Union's Markets in Financial Instruments Directive by providing financial services firms with the ability to capture, record, store and analyze mobile voice, text and third-party instant messaging applications;
- Named as a Leader by Gartner, Inc. in its "Magic Quadrant for Enterprise Mobility Management Suites"; and
- Announced that FedEx has chosen BlackBerry Radar for its Custom Critical service in North America.

Segment Reporting

The Company reports segment information based on the "management" approach. The management approach designates the internal reporting used by the CODM for making decisions and assessing performance as a source of the Company's reportable operating segments. 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.

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 expenses 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.

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 would 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. There is no assurance that any shares will be purchased under the share repurchase program and the Company may elect to modify, suspend or discontinue the program at any time without prior notice.

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. On June 23, 2017, the Company announced financial results for the three months ended May 31, 2017, which included certain non-GAAP financial measures, including adjusted revenue, adjusted gross margin, adjusted gross margin percentage, adjusted EBITDA, adjusted income (loss) before income taxes, adjusted net income (loss) and adjusted income (loss) per share. The Company has included non-GAAP adjustments and has applied those adjustments to comparative periods. The Company believes this is appropriate due to its increased emphasis on software and its acquisitions of software firms with recurring revenue streams.

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

- recovery of the overpayment of royalties from the Qualcomm arbitration award of \$815 million;
- interest income related to the overpayment of the above royalties of \$139 million;
- the Q1 Fiscal 2018 Debentures Fair Value Adjustment (as defined below under "First Quarter Fiscal 2018 Summary Results of Operations – Financial Highlights – Debentures Fair Value Adjustment") of approximately \$218 million;
- RAP charges consisting of amounts associated with employee termination benefits, facilities, and certain other costs of approximately \$17 million;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately \$9 million;
- stock compensation expense of approximately \$13 million;
- amortization of intangible assets acquired through business combinations of approximately \$25 million; and
- business acquisition and integration costs incurred through business combinations of approximately \$11 million.

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The Company believes that presenting non-GAAP financial measures that exclude the impact of those items enables it and its shareholders to better assess the Company's operating performance relative to its consolidated financial results in prior and future periods and improves the comparability of the information presented. Readers are cautioned that adjusted revenue, adjusted gross margin, adjusted gross margin percentage, adjusted EBITDA, 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 described in this MD&A. A reconciliation from the most directly comparable U.S. GAAP measures to these non-GAAP financial measures for the three months ended May 31, 2017 was included in the Company's press release dated June 23, 2017, and is reflected in the table below:

Q1 Fiscal 2018 Non-GAAP Adjustments		For the Three Months Ended May 31, 2017 (in millions, 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		\$ 235	\$ 150	63.8%	\$ 672	\$ 671	\$ 1.26
Debtures fair value adjustment ⁽¹⁾	Debtures fair value adjustment	—	—	—%	218	218	
RAP charges ⁽²⁾	Cost of sales	—	3	1.3%	3	3	
RAP charges ⁽²⁾	Research and development	—	—	—%	3	3	
RAP charges ⁽²⁾	Selling, marketing and administration	—	—	—%	11	11	
Software deferred revenue acquired ⁽³⁾	Revenue	9	9	1.3%	9	9	
Stock compensation expense	Cost of sales	—	1	0.4%	1	1	
Stock compensation expense	Research and development	—	—	—%	4	4	
Stock compensation expense	Selling, marketing and administration	—	—	—%	8	8	
Acquired intangibles amortization	Amortization	—	—	—%	25	25	
Business acquisition and integration costs	Selling, marketing and administration	—	—	—%	11	11	
Qualcomm arbitration award ⁽⁴⁾	Qualcomm arbitration award	—	—	—%	(815)	(815)	
Qualcomm arbitration award ⁽⁴⁾	Investment income	—	—	—%	(139)	(139)	
Adjusted		<u>\$ 244</u>	<u>\$ 163</u>	<u>66.8%</u>	<u>\$ 11</u>	<u>\$ 10</u>	<u>\$ 0.02</u>

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

(2) See "First 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 June 23, 2016, the Company announced financial results for the three months ended May 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 May 31, 2016, these measures were adjusted for the following (collectively, the "Q1 Fiscal 2017 Non-GAAP Adjustments") (all items pre-tax and after tax):

- a long-lived asset impairment charge (the "LLA Impairment Charge"), recognized when the carrying value exceeds the fair value of an asset group of \$501 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 \$41 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 \$24 million;

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- RAP charges of approximately \$25 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 \$24 million;
- stock compensation expense of approximately \$12 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 \$7 million.

A reconciliation from the most directly comparable U.S. GAAP measures to these non-GAAP financial measures for the three months ended May 31, 2016 was included in the Company's press release, dated June 23, 2016, and is reflected in the table below.

Q1 Fiscal 2017 Non-GAAP Adjustments		For the Three Months Ended May 31, 2016 <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		\$ 400	\$ 154	38.5%	\$ (670)	\$ (670)	\$ (1.28)
LLA Impairment Charge	Impairment of long-lived assets	—	—	—%	501	501	
Goodwill Impairment Charge	Impairment of goodwill	—	—	—%	57	57	
Inventory write-down	Cost of sales	—	41	10.3%	41	41	
Debentures fair value adjustment	Debentures fair value adjustment	—	—	—%	(24)	(24)	
RAP charges	Cost of sales	—	7	1.7%	7	7	
RAP charges	Research and development	—	—	—%	2	2	
RAP charges	Selling, marketing and administration	—	—	—%	16	16	
CORE program recovery	Selling, marketing and administration	—	—	—%	(2)	(2)	
Software deferred revenue acquired ⁽¹⁾	Revenue	24	24	2.8%	24	24	
Stock compensation expense	Research and development	—	—	—%	4	4	
Stock compensation expense	Selling, marketing and administration	—	—	—%	8	8	
Acquired intangibles amortization	Amortization	—	—	—%	28	28	
Business acquisition and integration costs	Selling, marketing and administration	—	—	—%	7	7	
Adjusted		<u>\$ 424</u>	<u>\$ 226</u>	<u>53.3%</u>	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ 0.00</u>

(1) included in enterprise software and services revenue

The Company also reported adjusted EBITDA, as presented in the table below, for the three months ended May 31, 2017 and the three months ended May 31, 2016 of \$40 million and \$58 million, respectively. This is a non-GAAP financial measure that 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 (in millions)	
	May 31, 2017	May 31, 2016
Operating income (loss)	\$ 536	\$ (655)
Non-GAAP adjustments to operating income (loss)		
LLA Impairment Charge	—	501
Goodwill Impairment Charge	—	57
Inventory write-down	—	41
Debentures fair value adjustment	218	(24)
RAP charges	17	25
CORE program recoveries	—	(2)
Software deferred revenue acquired	9	24
Stock compensation expense	13	12
Acquired intangibles amortization	25	28
Business acquisition and integration costs	11	7
Qualcomm arbitration award	(815)	—
Total non-GAAP adjustments to operating loss	(522)	669
Non-GAAP operating income	14	14
Amortization	51	72
Acquired intangibles amortization	(25)	(28)
Adjusted EBITDA	\$ 40	\$ 58

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.

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. 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 expects that upon adoption of this standard, certain revenues which would otherwise have been recognized in future periods will instead be recognized in a cumulative adjustment to retained earnings. The Company also expects that upon adoption of this standard, certain revenues will be recognized earlier than they would be under the current standard.

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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.

First Quarter Fiscal 2018 Summary Results of Operations

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

	For the Three Months Ended <i>(in millions, except for share and per share amounts)</i>					
	May 31, 2017		May 31, 2016		Change	
Revenue ⁽¹⁾⁽²⁾	\$ 235	100.0%	\$ 400	100.0%	\$ (165)	
Gross margin ⁽¹⁾⁽²⁾	150	63.8%	154	38.5%	(4)	
Operating expenses ⁽¹⁾⁽²⁾	(386)	(164.3%)	809	202.3%	(1,195)	
Income (loss) before income taxes	672	286.0%	(670)	(167.5%)	1,342	
Provision for (recovery of) income taxes	1	0.4%	—	—%	1	
Net income (loss)	<u>\$ 671</u>	<u>285.5%</u>	<u>\$ (670)</u>	<u>(167.5%)</u>	<u>\$ 1,341</u>	
Earnings (loss) per share - reported						
Basic	<u>\$ 1.26</u>		<u>\$ (1.28)</u>		<u>\$ 2.54</u>	
Diluted ⁽³⁾	<u>\$ 1.23</u>		<u>\$ (1.28)</u>		<u>\$ 2.51</u>	
Weighted-average number of shares outstanding (000's)						
Basic	531,096		521,905			
Diluted ⁽³⁾	544,077		521,905			

- (1) See "Non-GAAP Financial Measures" for the impact of the Q1 Fiscal 2018 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin and adjusted operating expenses in the first quarter of fiscal 2018.
- (2) See "Non-GAAP Financial Measures" for the impact of the Q1 Fiscal 2017 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin and adjusted operating expenses in the first quarter of fiscal 2017.
- (3) Diluted loss per share on a U.S. GAAP basis for the first quarter of fiscal 2018 and fiscal 2017 do not include the dilutive effect of the 3.75% Debentures (as defined below in "Financial Highlights") and 6% Debentures as they would be anti-dilutive. See Note 10 to the Consolidated Financial Statements for the Company's calculation of diluted loss per share.

Financial Highlights

The Company had approximately \$2.55 billion in cash, cash equivalents and investments as of May 31, 2017.

In the first quarter of fiscal 2018, the Company recognized revenues of \$235 million and net income of \$671 million, or \$1.26 basic and \$1.23 diluted loss per share on a U.S. GAAP basis. As further discussed below, net income reflects recoveries associated with the Qualcomm arbitration award of \$954 million, a charge associated with the change in the fair value of its \$605 million principal value of debentures bearing 3.75% interest (the "3.75% Debentures") of \$218 million, restructuring charges of \$17 million related to the RAP, software deferred revenue acquired of \$9 million, stock compensation expense of \$13 million, acquired intangibles amortization of \$25 million, and business acquisition and integration costs of \$11 million in the first quarter of fiscal 2018. See also "Non-GAAP Financial Measures" and "Financial Condition – Debenture Financing and Other Funding Sources" in this MD&A.

Free Cash Flow

Free cash flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. Free cash flow does not have any standardized meaning as prescribed by U.S. GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. For the three months ended May 31, 2017, the Company reported usage of free cash of \$72 million, which consisted of net cash provided in operating activities of \$863 million minus capital expenditures of \$3 million, minus \$932 million associated with the \$940 million Qualcomm arbitration award, net of \$8 million of legal expense reimbursement. The Company anticipates generating positive free cash flow for the 2018 fiscal year.

Debentures Fair Value Adjustment

As previously disclosed, the Company elected the fair value option to account for the 3.75% 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 first quarter of fiscal 2018, the Company recorded a charge associated with the change in the fair value of the 3.75% Debentures of approximately \$218 million (pre-tax and after tax) (the "Q1 Fiscal 2018 Debentures Fair Value Adjustment").

RAP

During the first quarter of fiscal 2016, the Company commenced the RAP with the objectives of (i) reallocating resources to capitalize on growth opportunities, (ii) providing the operational ability to better leverage contract research and development services relating to its handheld devices, and (iii) reaching sustainable profitability. Other charges and cash costs may occur as programs are implemented or changes are completed. During the three months ended May 31, 2017, the Company incurred approximately \$17 million in total pre-tax charges related to this program for employee termination benefits and facilities costs.

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

Consolidated Revenue

Consolidated revenue decreased by \$165 million to approximately \$235 million in the first quarter of fiscal 2018 from \$400 million in the first quarter of fiscal 2017. The decrease was primarily due to a decrease of \$115 million in handheld devices revenue to \$37 million from \$152 million and a decrease of \$68 million in SAF revenues to \$38 million from \$106 million, net of increases in enterprise software and services, BTS, and licensing, IP and other revenues. See "Results of Operations - Three months ended May 31, 2017 compared to three months ended May 31, 2016 - Revenue - Revenue by Product and Service" below.

The decrease in handheld devices revenues of \$115 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.

The decrease in SAF of \$68 million, which is generated from users of BlackBerry 7 and prior BlackBerry operating systems, is primarily attributable to a lower number of BlackBerry 7 users, lower revenue from those users and a continued shift in the mix of the Company's customers from higher-tiered unlimited plans to prepaid and lower-tiered plans, compared to the first quarter of fiscal 2017.

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.

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, with growth principally in the second half of fiscal 2018.

The Company's enterprise software and services billings grew in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017.

Consolidated Gross Margin

Consolidated gross margin decreased by \$4 million to approximately \$150 million in the first quarter of fiscal 2018 from \$154 million in the first quarter of fiscal 2017. The decrease was primarily due to the decline in gross margin associated with service access fees, partially offset by an increase in gross margin from handheld devices and licensing, IP and other.

The decrease in gross margin associated with service access fees was primarily attributable to the decline in SAF revenues discussed above in "Consolidated Revenue", as cost of goods sold associated with SAF were consistent in the first quarter of fiscal 2018 and the first quarter of fiscal 2017. The increase in gross margin associated with handheld devices is primarily attributable to the inventory write-down charge in the first quarter of fiscal 2017 of \$41 million not recurring in the first quarter of fiscal 2018 (see "Non-GAAP Financial Measures" above). The increase in gross margin from licensing, IP and other is due to the Company's secure mobile device licensing arrangements.

The Company expects non-GAAP gross margins of approximately 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)					
	May 31, 2017		May 31, 2016		Change	
Revenue by Geography						
North America	\$ 127	54.1%	\$ 177	44.3%	\$ (50)	(28.2)%
Europe, Middle East and Africa	70	29.8%	166	41.4%	(96)	(57.8)%
Latin America	4	1.7%	10	2.5%	(6)	(60.0)%
Asia Pacific	34	14.5%	47	11.8%	(13)	(27.7)%
	<u>\$ 235</u>	<u>100.0%</u>	<u>\$ 400</u>	<u>100.0%</u>	<u>\$ (165)</u>	<u>(41.3)%</u>

North America Revenues

Revenues in North America were \$127 million, or 54.1% of revenue, in the first quarter of fiscal 2018, reflecting a decrease of \$50 million compared to \$177 million, or 44.3% of revenue, in the first quarter of fiscal 2017. Sales in the United States represented approximately 47.7% of total revenue in the first quarter of fiscal 2018, compared to 38.8% of total revenue in the first quarter of fiscal 2017 and sales in Canada represented approximately 6.4% of revenue in the first quarter of fiscal 2018, compared to 5.5% of revenue in the first quarter of fiscal 2017.

Revenues in North America decreased compared to the first quarter of fiscal 2017 primarily from a decrease in handheld devices due to the reasons discussed above in "Consolidated Revenue" and a decrease in SAF revenues due to the reasons discussed above in "Consolidated Revenue", partially offset by growth in enterprise software and services from the renewal of customers whose revenue was written down to fair value as part of the purchase accounting for the acquisition of Good Technologies.

Europe, Middle East and Africa Revenues

Revenues in Europe, Middle East and Africa were \$70 million or 29.8% of revenue in the first quarter of fiscal 2018, reflecting a decrease of \$96 million compared to \$166 million or 41.4% of revenue in the first 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 the reasons discussed above in "North America Revenues".

Latin America Revenues

Revenues in Latin America were \$4 million or 1.7% of revenue in the first quarter of fiscal 2018, reflecting a decrease of \$6 million compared to \$10 million or 2.5% of revenue in the first 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 \$34 million or 14.5% of revenue in the first quarter of fiscal 2018, reflecting a decrease of \$13 million compared to \$47 million or 11.8% of revenue in the first 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 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)					
	May 31, 2017		May 31, 2016		Change	
Revenue by Product and Service						
Enterprise software and services ⁽¹⁾	\$ 101	41.4%	\$ 106	25.0%	\$ (5)	(4.7)%
BTS	36	14.8%	35	8.3%	1	2.9 %
Licensing, IP and other	32	13.1%	25	5.9%	7	28.0 %
Handheld devices	37	15.2%	152	35.8%	(115)	(75.7)%
SAF	38	15.5%	106	25.0%	(68)	(64.2)%
	<u>\$ 244</u>	<u>100.0%</u>	<u>\$ 424</u>	<u>100.0%</u>	<u>\$ (180)</u>	<u>(42.5)%</u>

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

Enterprise Software and Services

Enterprise software and services revenue includes revenues from the Company's security, productivity, collaboration and end-point management solutions through the BlackBerry Secure platform, which includes BlackBerry UEM, BlackBerry Workspaces and BBM Protected, 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 \$101 million, or 41.4% of revenue, in the first quarter of fiscal 2018, compared to \$106 million, or 25.0% of revenue, in the first quarter of fiscal 2017, representing a decrease of \$5 million, or 4.7%. The decrease in revenue was primarily attributable to a decrease of \$15 million in the non-GAAP adjustment of deferred software revenue acquired to \$9 million in the first quarter of fiscal 2018 versus \$24 million in the first quarter of fiscal 2017, partially offset by increases in new business.

Excluding the deferred software revenue acquired adjustment, enterprise software and services was \$92 million, or 39.1% of revenue in the first quarter of fiscal 2018, compared to \$82 million, or 20.5% of revenue, in the first quarter of fiscal 2017, representing an increase of \$10 million, or 12.2%.

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 \$36 million, or 14.8% of revenue, in the first quarter of fiscal 2018, compared to \$35 million, or 8.3% of revenue, in the first quarter of fiscal 2017, representing an increase of \$1 million, or 2.9%.

Licensing, IP and Other

Licensing, IP and other 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 was \$32 million, or 13.1% of revenue, in the first quarter of fiscal 2018, compared to \$25 million, or 5.9% of revenue, in the first quarter of fiscal 2017, representing an increase of \$7 million, or 28.0%. The \$7 million increase was due to the Company's secure device licensing arrangements.

Handheld Devices

Handheld devices includes revenues from the sale of the DTEK60 and all prior BlackBerry smartphone models to carriers and distributors, accessories and repair services of handheld devices, and was \$37 million, or 15.2% of revenue, in the first quarter of fiscal 2018, compared to \$152 million, or 35.8% of revenue, in the first quarter of fiscal 2017, representing a decrease of \$115 million, or 75.7%. The \$115 million decrease in handheld devices revenue was primarily due to the reasons discussed above in "Consolidated Revenue".

Service Access Fees

SAF revenue decreased by \$68 million, or 64.2%, to \$38 million, or 15.5% of revenue, in the first quarter of fiscal 2018, compared to \$106 million, or 25.0% of revenue, in the first quarter of fiscal 2017. The decrease was due to the reasons discussed above in "Consolidated Revenue".

In the fourth quarter of fiscal 2017, the Company stated its expectations that SAF revenue would decline by approximately 25% in the first quarter of fiscal 2018. SAF revenue for the first quarter of fiscal 2018 decreased by approximately 23% compared to the fourth quarter of fiscal 2017. The Company expects SAF segment revenue to decline by approximately 25% in the second quarter of fiscal 2018.

Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expense for the quarter ended May 31, 2017, compared to the quarter ended February 28, 2017 and the quarter ended May 31, 2016. The Company believes it is meaningful to also provide a comparison between the first quarter of fiscal 2018 and the fourth quarter of fiscal 2017 given that the Company's quarterly operating results vary substantially.

	For the Three Months Ended (in millions)					
	May 31, 2017		February 28, 2017		May 31, 2016	
	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue
Revenue	\$ 235		\$ 286		\$ 400	
Operating expenses						
Research and development ⁽¹⁾⁽²⁾⁽³⁾	\$ 61	26.0 %	\$ 57	19.9 %	\$ 89	22.3 %
Selling, marketing and administration ⁽¹⁾⁽²⁾⁽³⁾	110	46.8 %	143	50.0 %	132	33.0 %
Amortization ⁽¹⁾⁽²⁾⁽³⁾	40	17.0 %	45	15.7 %	54	13.5 %
Impairment of goodwill ⁽²⁾	—	— %	—	— %	57	14.2 %
Impairment of long-lived assets ⁽²⁾	—	— %	—	— %	501	125.2 %
Debentures fair value adjustment ⁽¹⁾⁽²⁾⁽³⁾	218	92.8 %	(16)	(5.6)%	(24)	(6.0)%
Qualcomm arbitration award ⁽¹⁾	(815)	(346.8)%	—	—	—	— %
Total	\$ (386)	(164.2)%	\$ 229	80.0 %	\$ 809	202.2 %

- (1) See "Non-GAAP Financial Measures" for the impact of the Q1 Fiscal 2018 Non-GAAP Adjustments on adjusted operating expenditures in the first quarter of fiscal 2018.
- (2) See "Non-GAAP Financial Measures" for the impact of the Q1 Fiscal 2017 Non-GAAP Adjustments on adjusted operating expenditures in the first quarter of fiscal 2017.
- (3) In the fourth quarter of fiscal 2017, the Company recognized non-cash recoveries associated with a change in the fair value of the 3.75% Debentures of approximately \$16 million, RAP charges of approximately \$3 million and \$15 million in research and development and selling, marketing and administration expenses, respectively, stock compensation expense of \$5 million and \$9 million in research and development and selling, marketing and administration expenses, respectively, selective patent abandonments of \$1 million, acquired intangibles amortization of \$28 million, and \$3 million in business acquisition and integration costs in selling, marketing and administration expenses (collectively the "Q4 Fiscal 2017 Non-GAAP Adjustments").

Operating expenses decreased by \$615 million, or 268.6%, to \$(386) million, or (164.2)% of revenue, in the first quarter of fiscal 2018, compared to \$229 million, or 80.0% of revenue, in the fourth quarter of fiscal 2017. The decrease was primarily attributable to the Qualcomm arbitration award, a decrease in salaries and benefits costs and a reduction in headcount, partially offset by an increase in non-cash charges associated with a change in the fair value of the 3.75% Debentures.

Excluding the impact of the relevant Q1 Fiscal 2018 Non-GAAP Adjustments and Q4 Fiscal 2017 Non-GAAP Adjustments, operating expenses decreased by \$32 million. The decrease was primarily attributable to an absence of legal expenses which were present in the fourth quarter of fiscal 2017 and the recovery of those legal expenses in connection with the Qualcomm

arbitration award, reduced salaries and benefits, and a reduction in consulting and outsourcing expenses in the first quarter of fiscal 2018.

Operating expenses decreased by \$1,195 million, or 147.7%, to \$(386) million or 164.2% of revenue in the first quarter of fiscal 2018, compared to approximately \$809 million or 202.2% of revenue in the first quarter of fiscal 2017. The decrease was primarily attributable to the Qualcomm arbitration award, the LLA Impairment Charge and Goodwill Impairment Charge in the first quarter of fiscal 2017, a decrease in amortization and reduced salaries and benefits, partially offset by an increase in non-cash charges associated with a change in the fair value of the 3.75% debentures.

Excluding the impact of the relevant Q1 Fiscal 2018 Non-GAAP Adjustments and Q1 Fiscal 2017 Non-GAAP Adjustments, operating expenses decreased by \$63 million. The decrease was primarily attributable to a decrease in salaries and benefits, a decrease in amortization, and a reduction in headcount-related costs such as professional fees and travel expenses.

The Company expects operating expenses to increase in the second quarter of fiscal 2017 compared to the first quarter of fiscal 2018, as the recovery of legal expenses in connection with the Qualcomm arbitration award will not recur.

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 \$28 million, or 31.5%, to \$61 million in the first quarter of fiscal 2018, compared to \$89 million in the first quarter of fiscal 2017. Excluding the impact of the relevant Q1 Fiscal 2018 Non-GAAP Adjustments and Q1 Fiscal 2017 Non-GAAP Adjustments, research and development expenses decreased by \$29 million. The decrease was primarily attributable to reduced salaries and benefits costs 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 \$22 million, or 16.7%, to \$110 million in the first quarter of fiscal 2018 compared to \$132 million in the first quarter of fiscal 2017. Excluding the impact of the relevant Q1 Fiscal 2018 Non-GAAP Adjustments and Q1 Fiscal 2017 Non-GAAP Adjustments, selling, marketing and administration expenses decreased by \$23 million. The decrease was primarily attributable to reduced legal costs and recovery thereof in connection with the Qualcomm arbitration award, 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 first quarter of fiscal 2018 compared to the first 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		
	May 31, 2017	May 31, 2016	Change	May 31, 2017	May 31, 2016	Change
Property, plant and equipment	\$ 5	\$ 12	\$ (7)	\$ 7	\$ 12	\$ (5)
Intangible assets	35	42	(7)	4	6	(2)
Total	\$ 40	\$ 54	\$ (14)	\$ 11	\$ 18	\$ (7)

Amortization

Amortization expense relating to certain property, plant and equipment and intangible assets decreased by \$14 million to \$40 million for the first quarter of fiscal 2018, compared to \$54 million for the first quarter of fiscal 2017. The decrease in amortization expense reflects the held for sale classification of data centers in 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 Q1 Fiscal 2018 Non-GAAP Adjustments and Q1 Fiscal 2017 Non-GAAP Adjustments, amortization decreased by \$11 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 \$11 million for the first quarter of fiscal 2018, compared to \$18 million for first quarter of fiscal 2017. The decrease primarily reflects the held for sale classification of data centers in 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 income earned under the Qualcomm arbitration award, and interest expense from the 3.75% Debentures, increased by \$151 million to \$136 million in investment income in the first quarter of fiscal 2018 from an investment loss of \$15 million in the first quarter of fiscal 2017. The increase in investment income 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 quarter of fiscal 2018 versus the 6% Debentures in the first quarter of fiscal 2017, and the absence of an other-than-temporary impairment present in the first quarter of fiscal 2017.

Income Taxes

For the first quarter of fiscal 2018, the Company's net effective income tax expense rate was approximately 0%, 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 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 quarter of fiscal 2018 was \$671 million, reflecting an increase in net income of \$1,341 million, compared to net loss of \$670 million in the first quarter of fiscal 2017, primarily due to the Qualcomm arbitration award, the absence of the LLA Impairment Charge and Goodwill Impairment Charge, and higher fair value adjustment on the 3.75% Debentures in the first quarter of fiscal 2018 than on the 6% Debentures in the first quarter of fiscal 2017. After giving effect to the relevant Q1 Fiscal 2018 Non-GAAP Adjustments and Q1 Fiscal 2017 Non-GAAP Adjustments, the Company's non-GAAP net income was \$10 million compared to a non-GAAP net loss of \$1 million, reflecting an increase in net income of \$11 million primarily due to a lower investment loss, the lower rate of interest on the 3.75% Debentures in the first quarter of fiscal 2018 than the the 6% Debentures in the first quarter of fiscal 2017, and the absence of an other-than-temporary impairment present in the first quarter of fiscal 2017.

For the first quarter of fiscal 2018, basic earnings per share was \$1.26 and diluted earnings per share was \$1.23, compared to a basic and diluted loss per share of \$1.28 for the same period in the prior fiscal year. The Company expects positive adjusted net income and positive adjusted EBITDA for fiscal 2018.

Common Shares Outstanding

On June 20, 2017, there were 531 million common shares, options to purchase 1 million common shares, 20 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 8 to the Consolidated Financial Statements.

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

Selected Quarterly Financial Data

The following table sets forth the Company's unaudited quarterly consolidated results of operations data for each of the eight most recent quarters, including the quarter ended May 31, 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		
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter
Revenue	\$ 235	\$ 286	\$ 289	\$ 334	\$ 400	\$ 464	\$ 548	\$ 490
Gross margin	150	172	193	98	154	210	236	185
Operating expenses	(386)	229	307	453	809	451	340	152
Income (loss) before income taxes	672	(49)	(118)	(371)	(670)	(256)	(120)	21
Provision for (recovery of) income taxes	1	(2)	(1)	1	—	(18)	(31)	(30)
Net income (loss)	<u>671</u>	<u>\$ (47)</u>	<u>\$ (117)</u>	<u>\$ (372)</u>	<u>\$ (670)</u>	<u>\$ (238)</u>	<u>\$ (89)</u>	<u>\$ 51</u>
Earnings (loss) per share								
Basic earnings (loss) per share	<u>\$ 1.26</u>	<u>\$ (0.09)</u>	<u>\$ (0.22)</u>	<u>\$ (0.71)</u>	<u>\$ (1.28)</u>	<u>\$ (0.45)</u>	<u>\$ (0.17)</u>	<u>\$ 0.10</u>
Diluted earnings (loss) per share	<u>\$ 1.23</u>	<u>\$ (0.10)</u>	<u>\$ (0.22)</u>	<u>\$ (0.71)</u>	<u>\$ (1.28)</u>	<u>\$ (0.45)</u>	<u>\$ (0.17)</u>	<u>\$ (0.24)</u>

Financial Condition

Liquidity and Capital Resources

Cash, cash equivalents, and investments increased by \$855 million to approximately \$2.55 billion as at May 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 May 31, 2017.

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

	As at (in millions)		
	May 31, 2017	February 28, 2017	Change
Cash and cash equivalents	\$ 933	\$ 734	\$ 199
Restricted cash and cash equivalents	48	51	(3)
Short-term investments	1,278	644	634
Long-term investments	294	269	25
Cash, cash equivalents, and investments	<u>\$ 2,553</u>	<u>\$ 1,698</u>	<u>\$ 855</u>

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

	As at (in millions)		
	May 31, 2017	February 28, 2017	Change
Current assets	\$ 2,464	\$ 1,691	\$ 773
Current liabilities	463	606	(143)
Working capital	<u>\$ 2,001</u>	<u>\$ 1,085</u>	<u>\$ 916</u>

Current Assets

The increase in current assets of \$773 million at the end of the first quarter of fiscal 2018 from the end of the fourth quarter of fiscal 2017 was primarily due to increases in short-term investments of \$634 million and cash and cash equivalents of \$199 million, partially offset by decreases in accounts receivable of \$29 million and inventories of \$15 million.

At May 31, 2017, accounts receivable was \$152 million, a decrease of \$29 million from February 28, 2017. The decrease reflects the lower revenues recognized in the first quarter of fiscal 2018, offset by an increase in days sales outstanding to 60 days at the end of the first quarter of fiscal 2018 from 57 days at the end of the fourth quarter of fiscal 2017.

At May 31, 2017, income taxes receivable was \$12 million, a decrease of \$5 million from February 28, 2017. The decrease in income tax receivable was due to the adoption of ASU 2016-16 as described above in "Accounting Policies and Critical Accounting Estimates".

At May 31, 2017, inventories were \$11 million, a decrease of \$15 million from February 28, 2017. The decrease in inventories was primarily due to the sale of handheld devices.

At May 31, 2017, other current assets were \$48 million, a decrease of \$7 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 \$143 million at the end of the first quarter of fiscal 2018 from the end of the fourth quarter of fiscal 2017 was primarily due to a decrease in accounts payable of \$55 million, a decrease in deferred revenue of \$34 million and a decrease in accrued liabilities of \$54 million. As at May 31, 2017, deferred revenue was \$211 million, reflecting a decrease of \$34 million from February 28, 2017, which was primarily attributable to the recognition of handheld devices sold through to end users. Accrued liabilities were \$204 million, reflecting a decrease of \$54 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 three months ended May 31, 2017 compared to the three months ended May 31, 2016 were as follows:

	For The Three Months Ended (in millions)		
	May 31, 2017	May 31, 2016	Change
Net cash flows provided by (used in):			
Operating activities	\$ 863	\$ (61)	\$ 924
Investing activities	(671)	342	(1,013)
Financing activities	6	(15)	21
Effect of foreign exchange on cash and cash equivalents	1	2	(1)
Net increase in cash and cash equivalents	<u>\$ 199</u>	<u>\$ 268</u>	<u>\$ (69)</u>

Operating Activities

The increase in net cash flows provided by operating activities of \$924 million for the first three months of fiscal 2018 primarily reflects the Qualcomm arbitration award.

Investing Activities

During the three months ended May 31, 2017, cash flows used in investing activities were \$671 million and included cash used in transactions involving the acquisitions of short-term and long-term investments, net of the proceeds on sale or maturity in the amount of \$662 million, intangible asset additions of \$7 million, and acquisitions of property, plant and equipment of \$3 million. For the same period in the prior fiscal year, cash flows provided by investing activities were \$342 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 \$355 million, offset by intangible asset additions of \$9 million and acquisitions of property, plant and equipment of \$4 million.

Financing Activities

The increase in cash flows provided by financing activities was \$21 million for the first three months of fiscal 2018 and was primarily a result of the payment of contingent consideration from business acquisitions in the first quarter of fiscal 2017.

Aggregate Contractual Obligations

Purchase obligations and commitments amounted to approximately \$384 million as at May 31, 2017, including future interest payments of \$78 million on the 3.75% Debentures and operating lease obligations of \$147 million. The remaining balance consists of purchase orders or contracts with suppliers of raw materials, as well as other goods and services utilized in the operations of the Company, including payments on account of licensing agreements. Total aggregate contractual obligations as at May 31, 2017 decreased by \$14 million as compared to the February 28, 2017 balance of approximately \$398 million, which was primarily attributable to decreases in operating lease obligations and interest payments on the Debentures.

Debenture Financing and Other Funding Sources

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

The Company has \$43 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business. See Note 2 to the Consolidated Financial Statements for further information concerning the Company's restricted cash.

Cash, cash equivalents, and investments were approximately \$2.55 billion as at May 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 provide for claims for which the outcome is not determinable or claims for which the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

As of May 31, 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 12 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 12 to the Consolidated Financial Statements for a further discussion of the Company's legal matters.

Market Risk of Financial Instruments

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

Foreign Exchange

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the U.S. dollar. The majority of the Company's revenues in the first quarter of fiscal 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 May 31, 2017, approximately 6% of cash and cash equivalents, 33% of accounts receivables and 9% 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 has historically been dependent on a number of significant telecommunication carriers and distribution partners and on larger more complex contracts with respect to sales of the majority of its products and services. The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. The Company establishes an allowance for doubtful accounts ("AFDA") that corresponds to the specific credit risk of its customers, historical trends and economic circumstances. The AFDA as at May 31, 2017 was \$13 million (February 28, 2017 - \$12 million). There was one customer that comprised more than 10% of accounts receivable as at May 31, 2017 and at February 28, 2017. Additionally, there were no customers that comprised more than 10% of the Company's revenue in the first quarter of fiscal 2018 or the first quarter of fiscal 2017. During the first quarter of fiscal 2018, the percentage of the Company's receivable balance that was past due decreased by 5.1% 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 from its carrier and distributor partners 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 three months ended May 31, 2017 the Company did not record any other-than-temporary impairment charges related to investments (three months ended May 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 May 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.