

BLACKBERRY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED NOVEMBER 30, 2018

December 20, 2018

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read together with the unaudited interim consolidated financial statements and the accompanying notes (the "Consolidated Financial Statements") of BlackBerry Limited (the "Company" or "BlackBerry") for the three and nine months ended November 30, 2018, as well as the Company's audited consolidated financial statements and accompanying notes, and MD&A for the fiscal year ended February 28, 2018 (the "Annual MD&A"). The Consolidated Financial Statements are presented in U.S. dollars and have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). All financial information in this MD&A is presented in U.S. dollars, unless otherwise indicated.

The Company has prepared this MD&A with reference to *National Instrument 51-102* "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which are different from those of the United States. This MD&A provides information for the three and nine months ended November 30, 2018 and up to and including December 20, 2018.

Additional information about the Company, including the Company's Annual Information Form for the fiscal year ended February 28, 2018 (the "AIF"), which is included in the Company's Annual Report on Form 40-F for the fiscal year ended February 28, 2018 (the "Annual Report"), can be found on SEDAR at www.sedar.com 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 and its intentions to grow revenue and increase and enhance its product and service offerings;
- the Company's expectations regarding its free cash flow, recurring total software and services revenue, excluding intellectual property ("IP") and professional services, recurring Licensing, IP and other revenue, total software and services revenue growth, Enterprise software and services revenue, BTS revenue growth, IP revenue, BlackBerry Radar revenue, total software and services billings growth, BTS billings growth, Licensing, IP and other billings growth, Enterprise software and services billings growth, and non-GAAP earnings per share for fiscal 2019;
- the Company's estimates of purchase obligations and other contractual commitments; and
- the Company's expectations with respect to the sufficiency of its financial resources.

The words "expect", "anticipate", "estimate", "may", "will", "should", "could", "intend", "believe", "target", "plan" and similar expressions are intended to identify forward-looking statements in this MD&A, including in the sections entitled "Business Overview", "Business Overview -Strategy", "Third Quarter Fiscal 2019 Summary Results of Operations - Financial Highlights - Free Cash Flow", "Results of Operations – Three months ended November 30, 2018 compared to three months ended November 30, 2017 - Consolidated Revenue", "Results of Operations – Nine months ended November 30, 2018 compared to nine months ended November 30, 2017 – Net Income (Loss)", and "Financial Condition – Debenture Financing and Other Funding Sources". Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience, historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the factors discussed in the "Risk Factors" section of the AIF and the following:

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

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

All of these factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. Any statements that are forward-looking statements are intended to enable the Company's shareholders to view the anticipated performance and prospects of the Company from management's perspective at the time such statements are made, and they are subject to the risks that are inherent in all forward-looking statements, as described above, as well as difficulties in forecasting the Company's financial results and performance for future periods, particularly over longer periods, given changes in technology and the Company's business strategy, 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 enables the Enterprise of Things by providing the technology that allows endpoints to trust one another, communicate securely, and maintain privacy. Based in Waterloo, Ontario, the Company was founded in 1984 and operates globally. The Company's common shares trade under the ticker symbol "BB" on the New York Stock Exchange and the Toronto Stock Exchange.

Strategy

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

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

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

Products and Services

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

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

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

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

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

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

Recent Developments

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

- Entered into a definitive agreement to wholly acquire Cylance Inc. ("Cylance"), an artificial intelligence and cybersecurity leader, for \$1.4 billion in cash, plus the assumption of unvested employee incentive awards;
- Announced new software and services as part of BlackBerry Spark, the Company's new Enterprise of Things platform designed and built for ultra-secure hyperconnectivity;
- Recognized as a leader in Gartner's magic quadrant for unified endpoint management tools;
- Recognized as a leader in the 2018 IDC MarketScape assessment of enterprise mobility management vendors;
- Launched three new automotive software products certified to ISO 26262, the automotive industry's functional safety standard: BlackBerry's QNX Hypervisor for Safety, QNX Platform for ADAS 2.0, and QNX OS for Safety 2.0, enabling automakers to accelerate development timelines and reduce cost;
- Announced that BlackBerry QNX software is embedded in the advanced driver assistance system, digital instrument clusters, connectivity modules, handsfree systems or infotainment systems of more than 120 million cars on the road;
- Entered into a strategic partnership with Microsoft Corp. to offer enterprises BlackBerry Enterprise Bridge, a solution that integrates BlackBerry's expertise in mobility and security with Microsoft's cloud and productivity products;
- Entered into a multi-year agreement with Jaguar Land Rover to collaborate and develop technology for the automotive manufacturer's next-generation vehicles;
- Collaborated with the Government of Canada to modernize their operations centers during G7 ministerial meetings and the 2018 G7 Summit;

- Joined the OmniAir Consortium as an executive member to help advance the testing, certification, and deployment of technologies for connected vehicles and intelligent transportation systems;
- Signed a technology and brand licensing deal for BlackBerry Secure with Swiss consumer electronics maker Punkt Tronics AG;
- Entered into a licensing agreement with Bullitt Group to embed BlackBerry cybersecurity technology into a range of highly-secure, rugged Caterpillar- and Land Rover-branded connected devices to be certified as “BlackBerry Secure”;
- Entered into an arrangement with electric vehicle maker BYTON to license BlackBerry QNX technologies for the in-car experience within its first series of production vehicles;
- Entered into a multi-year strategic relationship with Samsung Electronics Co. Ltd. to collaborate on integrated solutions to accelerate the digital transformation of their shared enterprise customers;
- Launched a new ransomware recovery capability within BlackBerry Workspaces that allows organizations to quickly recover from cyberattacks;
- Entered into a global independent software vendor partnership with Check Point Software Technologies Ltd. to mitigate cybersecurity threats;
- Entered into a partnership with L-SPARK to help small and medium-sized technology enterprises grow their businesses and bring new products to market using BlackBerry QNX technology;
- Entered into a partnership with Global Commission, using the renowned carrier-grade network operation center to power a blockchain digital ledger, provided by ONEBIO, to create an ultra-secure global ecosystem for the storing and sharing of medical data;
- Launched QNX OS Medical 2.0, a real-time operating system for use in the development of medical device manufacturing;
- Entered into a partnership with Mackenzie Innovation Institute to explore security and connectivity between the BlackBerry Spark platform and its ‘smart’ healthcare technology vision;
- Entered into a partnership with the Melanoma Institute of Australia to enable researchers to securely share critical research data and patient records with BlackBerry Workspaces;
- Launched a quantum-resistant code signing server to supplement BlackBerry’s array of cryptography tools;
- Entered into a partnership with Virginia Tech to help advance the Department of Mechanical Engineering’s connected and autonomous vehicle research and provide hands-on training with BlackBerry QNX software;
- Expanded a partnership with Renesas to offer an integrated virtualization, functional safety and secure development environment for the Renesas R-Car system-on-chip devices; and
- Announced its commitment to helping the private and public sectors come together to accelerate the development of Smart Cities and Intelligent Transportation Systems with a Security Credential Management System service.

Acquisition of Cylance

On November 16, 2018, the Company announced that it had entered into a definitive agreement to wholly acquire Cylance for \$1.4 billion in cash, plus the assumption of unvested employee incentive awards. Cylance develops artificial intelligence to deliver prevention-first, predictive security products and smart, simple, secure solutions that change how organizations approach endpoint security. Cylance provides full spectrum predictive threat prevention and visibility across the enterprise to combat the most notorious and advanced cybersecurity attacks.

The acquisition will complement the Company’s technology portfolio and the Company believes that the addition of Cylance’s capabilities will enhance the forthcoming BlackBerry Spark platform. Pending regulatory approvals and other customary closing conditions, the deal is expected to close prior to the end of fiscal 2019.

2019 Executive Chair Incentive Grant

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

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

Normal Course Issuer Bid

The common share repurchase program that the Company commenced on June 23, 2017 expired on June 26, 2018. Over the course of the program, the Company repurchased for cancellation approximately 2 million common shares for approximately \$18 million. During the three and nine months ended November 30, 2018, the Company did not repurchase any common shares.

Non-GAAP Financial Measures

The Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, and information contained in this MD&A is presented on that basis unless otherwise noted. On December 20, 2018, the Company announced financial results for the three and nine months ended November 30, 2018, which included certain non-GAAP financial measures, including adjusted revenue, adjusted gross margin, adjusted gross margin percentage, adjusted EBITDA, adjusted EBITDA margin, adjusted income before income taxes, adjusted net income and adjusted earnings 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 November 30, 2018, these measures were adjusted for the following (collectively, the "Q3 Fiscal 2019 Non-GAAP Adjustments") (all items pre-tax and after-tax):

- the Q3 Fiscal 2019 Debentures Fair Value Adjustment (as defined below under "Third Quarter Fiscal 2019 Summary Results of Operations – Financial Highlights – Debentures Fair Value Adjustment") of approximately \$69 million;
- restructuring charges from the Resource Allocation Program ("RAP") consisting of amounts associated with employee termination benefits, facilities, and certain other costs of approximately \$1 million;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately \$2 million;
- stock compensation expense of approximately \$15 million; and
- amortization of intangible assets acquired through business combinations of approximately \$20 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 before income taxes, adjusted net income, adjusted earnings per share and similar measures do not have any standardized meaning prescribed by U.S. GAAP and therefore might not be comparable to similarly titled measures reported by other companies. These non-GAAP financial measures should be considered in the context of the U.S. GAAP results, which are presented in the Consolidated Financial Statements and are described in this MD&A. A reconciliation from the most directly comparable U.S. GAAP measures to these non-GAAP financial measures for the three months ended November 30, 2018 was included in the Company's press release dated December 20, 2018, and is reflected in the table below:

| Q3 Fiscal 2019 Non-GAAP Adjustments | | For the Three Months Ended November 30, 2018 <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 before income taxes | Net income | Basic earnings per share |
| As reported | | \$ 226 | \$ 170 | 75.2% | \$ 60 | \$ 59 | \$ 0.11 |
| Debentures fair value adjustment ⁽¹⁾ | Debentures fair value adjustment | — | — | —% | (69) | (69) | |
| Restructuring charges ⁽²⁾ | Selling, marketing and administration | — | — | —% | 1 | 1 | |
| Software deferred revenue acquired ⁽³⁾ | Revenue | 2 | 2 | 0.2% | 2 | 2 | |
| Stock compensation expense | Cost of sales | — | 1 | 0.5% | 1 | 1 | |
| Stock compensation expense | Research and development | — | — | —% | 3 | 3 | |
| Stock compensation expense | Selling, marketing and administration | — | — | —% | 11 | 11 | |
| Acquired intangibles amortization | Amortization | — | — | —% | 20 | 20 | |
| Adjusted | | <u>\$ 228</u> | <u>\$ 173</u> | <u>75.9%</u> | <u>\$ 29</u> | <u>\$ 28</u> | <u>\$ 0.05</u> |

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

(2) See "Third Quarter Fiscal 2019 Summary Results of Operations – Financial Highlights - Restructuring Charges".

(3) Included in Enterprise software and services revenue.

For the nine months ended November 30, 2018, these non-GAAP measures were adjusted for the following (collectively, the "Fiscal 2019 Non-GAAP Adjustments") (all items pre-tax and after-tax):

- the Fiscal 2019 Debentures Fair Value Adjustment (as defined below under "Third Quarter Fiscal 2019 Summary Results of Operations – Financial Highlights – Debentures Fair Value Adjustment") of approximately \$111 million;
- restructuring charges from RAP and recoveries from Cost Optimization and Resource Efficiency ("CORE") programs consisting of amounts associated with employee termination benefits, facilities, and certain other costs of approximately \$8 million on a net basis;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately \$10 million;
- stock compensation expense of approximately \$54 million;
- amortization of intangible assets acquired through business combinations of approximately \$64 million; and
- business acquisition and integration costs recovered through business combinations of approximately \$1 million.

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A reconciliation from the most directly comparable U.S. GAAP measures to the non-GAAP financial measures for the nine months ended November 30, 2018 is reflected in the table below.

| Fiscal 2019 Non-GAAP Adjustments | | For the Nine Months Ended November 30, 2018 <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 before income taxes | Net income | Basic earnings per share |
| As reported | | \$ 649 | \$ 492 | 75.8% | \$ 45 | \$ 42 | \$ 0.08 |
| Debentures fair value adjustment ⁽¹⁾ | Debentures fair value adjustment | — | — | —% | (111) | (111) | |
| Restructuring charges ⁽²⁾ | Cost of sales | — | 1 | 0.2% | 1 | 1 | |
| Restructuring charges ⁽²⁾ | Research and development | — | — | —% | 2 | 2 | |
| Restructuring charges ⁽²⁾ | Selling, marketing and administration | — | — | —% | 5 | 5 | |
| Software deferred revenue acquired ⁽³⁾ | Revenue | 10 | 10 | 0.3% | 10 | 10 | |
| Stock compensation expense | Cost of sales | — | 3 | 0.5% | 3 | 3 | |
| Stock compensation expense | Research and development | — | — | —% | 9 | 9 | |
| Stock compensation expense | Selling, marketing and administration | — | — | —% | 42 | 42 | |
| Acquired intangibles amortization | Amortization | — | — | —% | 64 | 64 | |
| Business acquisition and integration costs recovered | Selling, marketing and administration | — | — | —% | (1) | (1) | |
| Adjusted | | <u>\$ 659</u> | <u>\$ 506</u> | <u>76.8%</u> | <u>\$ 69</u> | <u>\$ 66</u> | <u>\$ 0.12</u> |

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

(2) See "Third Quarter Fiscal 2019 Summary Results of Operations – Financial Highlights - Restructuring Charges".

(3) Included in Enterprise software and services revenue.

Similarly, on December 20, 2017, the Company announced financial results for the three and nine months ended November 30, 2017, which included certain non-GAAP financial measures, including adjusted revenue, adjusted gross margin, gross margin percentage, adjusted EBITDA, adjusted income (loss) before income taxes, adjusted net income (loss) and adjusted earnings per share.

For the three months ended November 30, 2017, these measures were adjusted for the following (collectively, the "Q3 Fiscal 2018 Non-GAAP Adjustments") (all items pre-tax and after tax):

- a fair value adjustment associated with the Company's convertible debentures of approximately \$77 million (the "Q3 Fiscal 2018 Debentures Fair Value Adjustment");
- RAP charges of approximately \$20 million;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately \$9 million;
- stock compensation expense of approximately \$12 million;
- amortization of intangible assets acquired through business combinations of approximately \$23 million;
- business acquisition and integration costs incurred through business combinations of approximately \$1 million;
- operating expenses in connection with the Nokia arbitration decision of \$132 million; and
- interest expense in connection with the Nokia arbitration decision of \$17 million.

For the nine months ended November 30, 2017, these measures were adjusted for the following (collectively, the "Fiscal 2018 Non-GAAP Adjustments") (all items pre-tax and after tax):

- a fair value adjustment associated with the Company's convertible debentures of approximately \$225 million (the "Fiscal 2018 Debentures Fair Value Adjustment");

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- 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;
- RAP charges of approximately \$55 million;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately \$29 million;
- stock compensation expense of approximately \$36 million;
- amortization of intangible assets acquired through business combinations of approximately \$72 million;
- business acquisition and integration costs incurred through business combinations of approximately \$13 million;
- net arbitration awards in connection with the Qualcomm and Nokia arbitrations of \$683 million; and
- net interest income in connection with the Qualcomm and Nokia arbitrations of \$122 million.

A reconciliation from the most directly comparable U.S. GAAP measures to these non-GAAP financial measures for the three and nine months ended November 30, 2017 was included in the Company’s press release, dated December 20, 2017, and is reflected in the table below.

| | Income statement location | For the Three Months Ended November 30, 2017 | | | | For the Nine Months Ended November 30, 2017 | | | |
|---|---------------------------------------|--|-----------------------------|-----------------------------------|-------------------|---|-----------------------------|----------------------------|--------------|
| | | <i>(in millions)</i> | | | | | | | |
| | | Revenue | Gross margin (before taxes) | Income (loss) before income taxes | Net income (loss) | Revenue | Gross margin (before taxes) | Income before income taxes | Net income |
| As reported | | \$ 226 | \$ 168 | \$ (275) | \$ (275) | \$ 699 | \$ 493 | \$ 420 | \$ 415 |
| Debentures fair value adjustment | Debentures fair value adjustment | — | — | 77 | 77 | — | — | 225 | 225 |
| LLA impairment charge | Impairment of long-lived assets | — | — | — | — | — | — | 11 | 11 |
| RAP charges | Cost of sales | — | 2 | 2 | 2 | — | 8 | 8 | 8 |
| RAP charges | Research and development | — | — | 1 | 1 | — | — | 5 | 5 |
| RAP charges | Selling, marketing and administration | — | — | 17 | 17 | — | — | 42 | 42 |
| Software deferred revenue acquired ⁽¹⁾ | Revenue | 9 | 9 | 9 | 9 | 29 | 29 | 29 | 29 |
| Stock compensation expense | Cost of sales | — | 1 | 1 | 1 | — | 3 | 3 | 3 |
| Stock compensation expense | Research and development | — | — | 3 | 3 | — | — | 9 | 9 |
| Stock compensation expense | Selling, marketing and administration | — | — | 8 | 8 | — | — | 24 | 24 |
| Acquired intangibles amortization | Amortization | — | — | 23 | 23 | — | — | 72 | 72 |
| Business acquisition and integration costs | Selling, marketing and administration | — | — | 1 | 1 | — | — | 13 | 13 |
| Arbitration awards, net | Arbitration charges (awards) | — | — | 132 | 132 | — | — | (683) | (683) |
| Arbitration awards, net | Investment income (loss), net | — | — | 17 | 17 | — | — | (122) | (122) |
| Adjusted | | <u>\$ 235</u> | <u>\$ 180</u> | <u>\$ 16</u> | <u>\$ 16</u> | <u>\$ 728</u> | <u>\$ 533</u> | <u>\$ 56</u> | <u>\$ 51</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 nine months ended November 30, 2018 of \$44 million and 19%, and \$108 million and 16%, respectively. These are non-GAAP financial measures that do not have any standardized meaning as prescribed by U.S. GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

| | For the Three Months Ended November 30, 2018 <i>(in millions)</i> | For the Nine Months Ended November 30, 2018 <i>(in millions)</i> |
|--|--|---|
| Operating income | \$ 58 | \$ 32 |
| Non-GAAP adjustments to operating income | | |
| Debentures fair value adjustment | (69) | (111) |
| Restructuring charges | 1 | 8 |
| Software deferred revenue acquired | 2 | 10 |
| Stock compensation expense | 15 | 54 |
| Acquired intangibles amortization | 20 | 64 |
| Business acquisition and integration recovery | — | (1) |
| Total non-GAAP adjustments to operating income | <u>(31)</u> | <u>24</u> |
| Non-GAAP operating income | 27 | 56 |
| Amortization | 37 | 116 |
| Acquired intangibles amortization | (20) | (64) |
| Adjusted EBITDA | \$ 44 | \$ 108 |
| Adjusted revenue (per above) | 228 | 659 |
| Adjusted EBITDA margin | <u>19%</u> | <u>16%</u> |

Adjusted EBITDA and adjusted EBITDA margin for the three and nine months ended November 30, 2017 are reflected in the table below:

| | For the Three Months Ended November 30, 2017 <i>(in millions)</i> | For the Nine Months Ended November 30, 2017 <i>(in millions)</i> |
|---|--|---|
| Operating income (loss) | \$ (258) | \$ 300 |
| Non-GAAP adjustments to operating income (loss) | | |
| Debentures fair value adjustment | 77 | 225 |
| LLA impairment | — | 11 |
| RAP charges | 20 | 55 |
| Software deferred revenue acquired | 9 | 29 |
| Stock compensation expense | 12 | 36 |
| Acquired intangibles amortization | 23 | 72 |
| Business acquisition and integration costs | 1 | 13 |
| Arbitration charges (awards) | 132 | (683) |
| Total non-GAAP adjustments to operating income (loss) | <u>274</u> | <u>(242)</u> |
| Non-GAAP operating income | 16 | 58 |
| Amortization | 42 | 138 |
| Acquired intangibles amortization | (23) | (72) |
| Adjusted EBITDA | \$ 35 | \$ 124 |
| Adjusted revenue (per above) | 235 | 728 |
| Adjusted EBITDA margin | <u>15%</u> | <u>17%</u> |

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

Accounting Policies and Critical Accounting Estimates

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

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

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

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

Recently Issued Accounting Pronouncements

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

Third Quarter Fiscal 2019 Summary Results of Operations

The following table sets forth certain unaudited consolidated statements of operations data for the quarter ended November 30, 2018 compared to the quarter ended November 30, 2017 under U.S. GAAP.

| | For the Three Months Ended | | | | |
|---|--|--------------|-------------------|-----------------|----------------|
| | <i>(in millions, except for share and per share amounts)</i> | | | | |
| | November 30, 2018 | | November 30, 2017 | | Change |
| Revenue ⁽¹⁾⁽²⁾ | \$ 226 | 100.0% | \$ 226 | 100.0% | \$ — |
| Gross margin ⁽¹⁾⁽²⁾ | 170 | 75.2% | 168 | 74.3% | 2 |
| Operating expenses ⁽¹⁾⁽²⁾ | 112 | 49.6% | 426 | 188.5% | (314) |
| Income before income taxes ⁽¹⁾ | 60 | 26.5% | (275) | (121.7%) | 335 |
| Provision for income taxes | 1 | 0.4% | — | —% | 1 |
| Net income | <u>\$ 59</u> | <u>26.1%</u> | <u>\$ (275)</u> | <u>(121.7%)</u> | <u>\$ 334</u> |
| Earnings (loss) per share - reported | | | | | |
| Basic | <u>\$ 0.11</u> | | <u>\$ (0.52)</u> | | <u>\$ 0.63</u> |
| Diluted ⁽³⁾⁽⁴⁾ | <u>\$ (0.01)</u> | | <u>\$ (0.52)</u> | | <u>\$ 0.51</u> |
| Weighted-average number of shares outstanding (000s) | | | | | |
| Basic | 540,406 | | 532,496 | | |
| Diluted ⁽³⁾⁽⁴⁾ | 600,906 | | 532,496 | | |

- (1) See “Non-GAAP Financial Measures” for the impact of the Q3 Fiscal 2019 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin and adjusted operating expenses in the third quarter of fiscal 2019.
- (2) See “Non-GAAP Financial Measures” for the impact of the Q3 Fiscal 2018 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin, adjusted operating expenses and income before income taxes in the third quarter of fiscal 2018.
- (3) Diluted loss per share on a U.S. GAAP basis for the third quarter of fiscal 2019 and fiscal 2018 does not include the dilutive effect of in-the-money options and RSUs that will be settled upon vesting by the issuance of new common shares, as it would be anti-dilutive. See Note 10 to the Consolidated Financial Statements for the Company’s calculation of diluted loss per share.
- (4) Diluted loss per share on a U.S. GAAP basis for the third quarter of fiscal 2018 does not include the dilutive effect of the Debentures as it would be anti-dilutive. See Note 10 to the Consolidated Financial Statements for the Company’s calculation of diluted loss per share.

Financial Highlights

The Company had approximately \$2.40 billion in cash, cash equivalents and investments as of November 30, 2018.

In the third quarter of fiscal 2019, the Company recognized revenue of \$226 million and net income of \$59 million, or \$0.11 basic earnings per share on a U.S. GAAP basis. The Company incurred a diluted loss per share of \$0.01 on a U.S. GAAP basis. The Company recognized adjusted revenue of \$228 million and adjusted net income of \$28 million, or adjusted earnings of \$0.05 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 therefore may not be comparable to similar measures presented by other companies. For the three months ended November 30, 2018, the Company’s net cash provided by operating activities was \$62 million and capital expenditures were \$5 million, resulting in the Company reporting free cash flow of \$57 million. Free cash flow was \$39 million for the three months ended November 30, 2018 before taking into account payments related to restructuring and \$25 million recovered from escrow related to the Settlement Funding Agreement with JP Morgan Chase as described in Note 12 to the Consolidated Financial Statements.

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

Debentures Fair Value Adjustment

As previously disclosed, the Company elected the fair value option to account for the 3.75% unsecured convertible 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 Debentures such as the face value, the redemption features or the conversion price.

In the third quarter of fiscal 2019, the fair value of the Debentures decreased by approximately \$74 million. For the three months ended November 30, 2018, the Company recorded non-cash income relating to changes in fair value from instrument-specific credit risk of \$5 million in AOCI and non-cash income relating to changes in fair value from non-credit components of \$69 million (pre-tax and after tax) (the "Q3 Fiscal 2019 Debentures Fair Value Adjustment") in the Company's consolidated statements of operations. For the nine months ended November 30, 2018, the Company recorded non-cash income relating to changes in fair value from instrument-specific credit risk of \$6 million in AOCI and non-cash income relating to changes in fair value from non-credit components of \$111 million (pre-tax and after tax) (the "Fiscal 2019 Debentures Fair Value Adjustment") in the Company's consolidated statements of operations.

Restructuring Charges

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 nine months ended November 30, 2018, the Company incurred approximately \$1 million and \$9 million, respectively, in total pre-tax charges related to this program. During the three and nine months ended November 30, 2018, the Company recovered approximately nil and \$1 million, respectively, in total pre-tax recoveries related to the CORE program.

Results of Operations - Three months ended November 30, 2018 compared to three months ended November 30, 2017

Consolidated Revenue

Consolidated revenue was consistent at approximately \$226 million in the third quarter of fiscal 2019, compared to \$226 million in the third quarter of fiscal 2018. An increase of \$18 million in Licensing, IP and other revenue to \$68 million from \$50 million and an increase of \$10 million in BTS revenue to \$53 million from \$43 million were offset by a decrease of \$18 million in SAF revenue to \$9 million from \$27 million, a decrease of \$9 million in handheld devices revenue to nil from \$9 million and a \$1 million decrease in Enterprise software and services revenue to \$96 million from \$97 million. See "Results of Operations - Three months ended November 30, 2018 compared to three months ended November 30, 2017 - Revenue - Revenue by Product and Service" below.

The increase in Licensing, IP and other revenue of \$18 million was primarily due to higher IP revenue from the Company's patent licensing agreement with Telety that allows it to sublicense a broad range of the Company's patents to a majority of global smartphone manufacturers, beginning in the third quarter of fiscal 2018, partially offset by a decrease in revenue from BBM Consumer due to a decrease in infrastructure hosting revenue.

The increase in BTS revenue of \$10 million was primarily due to increased royalty revenue, increased development seats revenue and increased professional services revenue.

The \$18 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 third quarter of fiscal 2018.

The decrease in handheld devices revenue of \$9 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. The Company's partners are responsible for 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, followed solely by the release of previously accrued amounts when the Company determines it has no further performance obligations.

The decrease in Enterprise software and services revenue of \$1 million was due to a lower number of perpetual licenses sold and a reduction in revenue recognized on perpetual licenses as a result of the adoption of ASC 606.

Total software and services revenue, excluding IP and professional services, was approximately 79% recurring (subscription based) in the third quarter of fiscal 2019. The Company expects that in fiscal 2019, between 80% and 85% of software and

services revenue, excluding IP and professional services, will be recurring. Total software and services revenue after including perpetual licenses that are not recognized ratably, excluding IP and professional services, was approximately 88% recurring in the third quarter of fiscal 2019. The Company expects to generate recurring Licensing, IP and other revenue of between \$40 million and \$45 million per quarter.

The Company expects year-over-year total software and services revenue growth of between 8% and 10% in fiscal 2019. Total software and services includes Enterprise software and services, BTS, and Licensing, IP and other.

The Company expects Enterprise software and services revenue to grow sequentially in the fourth quarter of fiscal 2019. In the second quarter of fiscal 2019, the Company stated that it expected Enterprise software and services revenue to grow sequentially in the third quarter of fiscal 2019. Enterprise software and services revenue grew 7% in the third quarter of fiscal 2019, compared to the second quarter of fiscal 2019.

The Company expects BTS revenue to grow between 20% and 25% in fiscal 2019.

In the second quarter of fiscal 2019, the Company stated that it expected IP revenue of between \$120 million and \$140 million in fiscal 2019. The Company now expects to earn more than \$140 million in IP revenue in fiscal 2019 due to better than expected revenues from its IP sublicensing program with Telety. The Company expects to generate \$100 million in cumulative revenue from its BlackBerry Radar asset tracking solution over the next three years.

In the third quarter of fiscal 2019, total software and services billings grew by a single-digit percentage versus the third quarter of fiscal 2018. The Company expects double-digit year-over-year total software and services billings growth in fiscal 2019, due to growth in BTS and Licensing, IP and other billings. The Company expects Enterprise software and services billings to grow sequentially in the fourth quarter of fiscal 2019. In the second quarter of fiscal 2019, the Company stated that it expected Enterprise software and services billings to grow sequentially in the third quarter of fiscal 2019. Enterprise software and services billings declined 8% in the third quarter of fiscal 2019 compared to the second quarter of fiscal 2019, due to the Company's salesforce continuing to adapt to the previously announced change to a subscription sales-based model. In the second quarter of fiscal 2019, the Company stated its expectation that Enterprise software and services billings would be relatively flat in fiscal 2019 compared to fiscal 2018. Enterprise software and services billings are now expected to decline in fiscal 2019 compared to fiscal 2018 due to the same reason noted above.

Consolidated Gross Margin

Consolidated gross margin increased by \$2 million to approximately \$170 million, or 75.2% of consolidated revenue in the third quarter of fiscal 2019 from \$168 million, or 74.3% of consolidated revenue in the third quarter of fiscal 2018. The increase was primarily due to an increase in gross margin associated with Licensing, IP and other revenue and BTS offset by a decrease in gross margin associated with SAF and Enterprise software and services.

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

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) | | | | | |
|--------------------------------|---|---------------|-------------------|---------------|-------------|------------|
| | November 30, 2018 | | November 30, 2017 | | Change | |
| Revenue by Geography | | | | | | |
| North America | \$ 151 | 66.8% | \$ 133 | 58.8% | \$ 18 | 13.5 % |
| Europe, Middle East and Africa | 56 | 24.8% | 69 | 30.5% | (13) | (18.8)% |
| Other regions | 19 | 8.4% | 24 | 10.7% | (5) | (20.8)% |
| | <u>\$ 226</u> | <u>100.0%</u> | <u>\$ 226</u> | <u>100.0%</u> | <u>\$ —</u> | <u>— %</u> |

North America Revenue

Revenue in North America was \$151 million, or 66.8% of revenue in the third quarter of fiscal 2019, reflecting an increase of \$18 million compared to \$133 million, or 58.8% of revenue, in the third quarter of fiscal 2018. The increase in revenue is primarily due to increases in Licensing, IP and other revenue and BTS revenue due to the reasons discussed above in "Consolidated Revenue", partially offset by a decrease in handheld device revenue and SAF due to the reasons discussed above in "Consolidated Revenue".

Europe, Middle East and Africa Revenue

Revenue in Europe, Middle East and Africa was \$56 million or 24.8% of revenue in the third quarter of fiscal 2019, reflecting a decrease of \$13 million compared to \$69 million or 30.5% of revenue in the third quarter of fiscal 2018. The decrease in revenue is primarily due to decreases in SAF revenue and handheld device revenue due to the reasons discussed above in "Consolidated Revenue", partially offset by an increase in BTS revenue due to an increase in sales of development seats and professional services.

Other Region Revenue

Revenue in other regions was \$19 million or 8.4% of revenue in the third quarter of fiscal 2019, reflecting a decrease of \$5 million compared to \$24 million or 10.7% of revenue in the third quarter of fiscal 2018. The decrease in revenue is due to a decrease in SAF revenue and Enterprise software and services revenue due to the reasons discussed above in "Consolidated Revenue".

Revenue by Product and Service

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

| | For the Three Months Ended (in millions) | | | | | |
|---|---|---------------|-------------------|---------------|---------------|---------------|
| | November 30, 2018 | | November 30, 2017 | | Change | |
| Revenue by Product and Service | | | | | | |
| Enterprise software and services ⁽¹⁾ | \$ 98 | 43.0% | \$ 106 | 45.1% | \$ (8) | (7.5)% |
| BTS | 53 | 23.2% | 43 | 18.3% | 10 | 23.3 % |
| Licensing, IP and other | 68 | 29.8% | 50 | 21.3% | 18 | 36.0 % |
| Handheld devices | — | —% | 9 | 3.8% | (9) | (100.0)% |
| SAF | 9 | 4.0% | 27 | 11.5% | (18) | (66.7)% |
| | <u>\$ 228</u> | <u>100.0%</u> | <u>\$ 235</u> | <u>100.0%</u> | <u>\$ (7)</u> | <u>(3.0)%</u> |

- (1) See "Non-GAAP Financial Measures" for the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments made to Enterprise software and services revenue.

Enterprise Software and Services

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

Enterprise software and services non-GAAP revenue was \$98 million, or 43.0% of revenue, in the third quarter of fiscal 2019, a decrease of \$8 million compared to revenue of \$106 million, or 45.1% of revenue, in the third quarter of fiscal 2018. Enterprise software and services non-GAAP revenue decreased due to a decrease of \$7 million in the non-GAAP adjustment of deferred software revenue acquired to \$2 million in the third quarter of fiscal 2019 from \$9 million in the third quarter of fiscal 2018 and due to the reasons described above in "Consolidated Revenue".

Excluding the deferred software revenue acquired adjustment described under "Non-GAAP Financial Measures", Enterprise software and services U.S. GAAP revenue was \$96 million, or 42.5% of revenue, in the third quarter of fiscal 2019, compared to \$97 million, or 42.9% of revenue, in the third quarter of fiscal 2018, representing a decrease of \$1 million, or 1.0%, due to the reasons described above in "Consolidated Revenue".

BTS

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

BTS revenue was \$53 million, or 23.2% of revenue, in the third quarter of fiscal 2019, an increase of \$10 million compared to \$43 million, or 18.3% of revenue, in the third quarter of fiscal 2018. BTS revenue increased due to the reasons described above in "Consolidated Revenue".

Licensing, IP and Other

Licensing, IP and other revenue includes revenue 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 revenue were \$68 million, or 29.8% of revenue, in the third quarter of fiscal 2019, an increase of \$18 million compared to \$50 million, or 21.3% of revenue from the third quarter of fiscal 2018. Licensing, IP and other revenue increased due to the reasons described above in "Consolidated Revenue".

Handheld Devices

Handheld devices includes revenue from the sale of the Company's remaining inventory of legacy smartphones and smartphone accessories, as well as non-warranty repair services and the release of previously accrued amounts when the Company determines it has no further performance obligations. Handheld device revenue was nil, or 0.0% of revenue, in the third quarter of fiscal 2019, compared to \$9 million, or 3.8% of revenue, in the third quarter of fiscal 2018, representing a decrease of \$9 million, or 100.0%. The \$9 million decrease in handheld devices revenue was primarily due to the reasons discussed above in "Consolidated Revenue".

Service Access Fees

SAF revenue decreased by \$18 million, or 66.7%, to \$9 million, or 4.0% of revenue, in the third quarter of fiscal 2019, compared to \$27 million, or 11.5% of revenue, in the third quarter of fiscal 2018. The decrease was due to the reasons discussed above in "Consolidated Revenue".

Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expense for the quarter ended November 30, 2018, compared to the quarter ended August 31, 2018 and the quarter ended November 30, 2017. The Company believes it is also meaningful to provide a sequential comparison between the third quarter of fiscal 2019 and the second quarter of fiscal 2019.

| | For the Three Months Ended (in millions) | | | | | |
|--|---|---------------|-----------------|---------------|-------------------|---------------|
| | November 30, 2018 | | August 31, 2018 | | November 30, 2017 | |
| | \$ | % of Revenue | \$ | % of Revenue | \$ | % of Revenue |
| Revenue | \$ 226 | | \$ 210 | | \$ 226 | |
| Operating expenses | | | | | | |
| Research and development ⁽¹⁾⁽²⁾⁽³⁾ | \$ 55 | 24.3 % | \$ 51 | 24.3 % | \$ 60 | 26.5% |
| Selling, marketing and administration ⁽¹⁾⁽²⁾⁽³⁾ | 93 | 41.2 % | 106 | 50.5 % | 120 | 53.1% |
| Amortization ⁽¹⁾⁽²⁾⁽³⁾ | 33 | 14.6 % | 35 | 16.7 % | 37 | 16.4% |
| Debentures fair value adjustment ⁽¹⁾⁽²⁾⁽³⁾ | (69) | (30.5)% | (70) | (33.3)% | 77 | 34.1% |
| Arbitration charges ⁽²⁾ | — | — % | — | — % | 132 | 58.4% |
| Total | <u>\$ 112</u> | <u>49.6 %</u> | <u>\$ 122</u> | <u>58.1 %</u> | <u>\$ 426</u> | <u>188.5%</u> |

- (1) See “Non-GAAP Financial Measures” for the impact of the Q3 Fiscal 2019 Non-GAAP Adjustments on adjusted operating expenditures in the third quarter of fiscal 2019.
- (2) See “Non-GAAP Financial Measures” for the impact of the Q3 Fiscal 2018 Non-GAAP Adjustments on adjusted operating expenditures in the third quarter of fiscal 2018.
- (3) In the second quarter of fiscal 2019, the Company recognized non-cash income associated with a change in the fair value of the Debentures of approximately \$70 million (the “Q2 Fiscal 2019 Debentures Fair Value Adjustment”), net restructuring charges of approximately \$2 million in selling, marketing and administration expenses, stock compensation expense of \$3 million and \$17 million in research and development and selling, marketing and administration expenses, respectively, acquired intangibles amortization of \$22 million and a recovery of \$2 million in business acquisition and integration costs in selling, marketing and administration expenses (collectively the “Q2 Fiscal 2019 Non-GAAP Adjustments”).

Operating expenses decreased by \$10 million, or 8.2%, to \$112 million, or 49.6% of revenue, in the third quarter of fiscal 2019, compared to \$122 million, or 58.1% of revenue, in the second quarter of fiscal 2019. The decrease was primarily attributable to a decrease in stock-based compensation, a decrease in severance paid, and favourable foreign currency translation, partially offset by increases in legal and professional fees.

After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q2 Fiscal 2019 Non-GAAP Adjustments, non-GAAP operating expenses decreased by \$4 million. The decrease was primarily attributable to a decrease in severance paid and favourable foreign currency translation, partially offset by increases in professional and legal fees.

Operating expenses decreased by \$314 million, or 73.7%, to \$112 million or 49.6% of revenue in the third quarter of fiscal 2019, compared to approximately \$426 million or 188.5% of revenue in the third quarter of fiscal 2018. The decrease was primarily attributable to the difference between the Q3 Fiscal 2019 Debentures Fair Value Adjustment and Q3 Fiscal 2018 Debentures Fair Value Adjustment, the Nokia arbitration decision in the third quarter of fiscal 2018, a decrease in restructuring charges, a lower amortization expense, and favourable foreign currency translation.

After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments, non-GAAP operating expenses decreased by \$18 million in the third quarter of fiscal 2019, compared to the third quarter of fiscal 2018. The decrease was primarily attributable to a reduction in salaries and benefits, favourable foreign currency translation, a favourable change in the fair value of the Company's deferred share unit liability, and a lower bad debt expense.

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 decreased by \$5 million, or 8.3%, to \$55 million in the third quarter of fiscal 2019 compared to \$60 million in the third quarter of fiscal 2018. After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments, non-GAAP research and development expenses decreased by \$4 million. The decrease was primarily attributable to a decrease in salaries and benefits, and a decrease in outsourcing 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 \$27 million, or 22.5%, to \$93 million in the third quarter of fiscal 2019 compared to \$120 million in the third quarter of fiscal 2018. After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments, non-GAAP selling, marketing and administration expenses decreased by \$13 million. The decrease was primarily attributable to favourable foreign currency translation, a favourable change in the fair value of the Company's deferred share unit liability, a lower bad debt expense, and a reduction 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 third quarter of fiscal 2019 compared to the third quarter of fiscal 2018. 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 | | |
| | November 30, 2018 | November 30, 2017 | Change | November 30, 2018 | November 30, 2017 | Change |
| Property, plant and equipment | \$ 4 | \$ 3 | \$ 1 | \$ 2 | \$ 5 | \$ (3) |
| Intangible assets | 29 | 34 | (5) | 2 | — | 2 |
| Total | \$ 33 | \$ 37 | \$ (4) | \$ 4 | \$ 5 | \$ (1) |

Amortization

Amortization expense relating to certain property, plant and equipment and intangible assets decreased by \$4 million to \$33 million for the third quarter of fiscal 2019, compared to \$37 million for the third quarter of fiscal 2018. The decrease in amortization expense reflects the full depreciation of certain assets.

After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments, non-GAAP amortization expense decreased by \$1 million.

Cost of Sales

Amortization expense relating to certain property, plant and equipment and intangible assets employed in the Company's service and IP operations decreased by \$1 million to \$4 million for the third quarter of fiscal 2019, compared to \$5 million for the third quarter of fiscal 2018. The decrease primarily reflects the full depreciation of assets, partially offset by a portion of the amortization of patents being classified as cost of goods sold due to the Company's intellectual property licensing arrangements.

Investment Income (Loss)

Investment income, which includes the interest expense from the Debentures, increased by \$19 million to \$2 million in investment income in the third quarter of fiscal 2019, compared to an investment loss of \$17 million in the third quarter of fiscal 2018. The increased investment income was due to interest expense on the Nokia arbitration decision in the third quarter of fiscal 2018.

After giving effect to the relevant Q3 Fiscal 2018 Non-GAAP Adjustments, non-GAAP investment income increased by \$2 million. The increase was due to a higher yield on the Company's average cash and investment balances.

Income Taxes

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

Net Income

The Company's net income for the third quarter of fiscal 2019 was \$59 million, reflecting an increase in net income of \$334 million, compared to net loss of \$275 million in the third quarter of fiscal 2018, primarily due to the difference between the Q3 Fiscal 2019 Debentures Fair Value Adjustment and Q3 Fiscal 2018 Debentures Fair Value Adjustment, the Nokia arbitration decision in the third quarter of fiscal 2018 and a decrease in operating expenses, as described above in "Operating Expenses". After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments, the Company's non-GAAP net income was \$28 million for the third quarter of fiscal 2019 compared to non-GAAP net income of \$16 million for the third quarter of fiscal 2018, reflecting an increased in non-GAAP net income of \$12 million primarily due to a decrease in operating expenses as described above in "Operating Expenses".

For the third quarter of fiscal 2019, U.S. GAAP basic earnings and diluted loss per share were \$0.11 and \$0.01, respectively, compared to U.S. GAAP basic and diluted loss per share of \$0.52 for the same period in the prior fiscal year. After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments, the Company's non-GAAP basic earnings per share was \$0.05 for the third quarter of fiscal 2019 compared to non-GAAP basic earnings per share of \$0.03 for the third quarter of fiscal 2018.

The weighted average number of shares outstanding was approximately 540 million common shares for basic earnings per share and 601 million common shares for diluted loss per share for the three months ended November 30, 2018, and approximately 532 million common shares for basic and diluted loss per share for the three months ended November 30, 2017.

Common Shares Outstanding

On December 17, 2018, there were 547 million common shares, 0.7 million options to purchase common shares, 17 million restricted share units and 0.8 million deferred share units outstanding. In addition, 60.5 million common shares are issuable upon conversion in full of the Debentures as described in Note 8 to the Consolidated Financial Statements.

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

Results of Operations - Nine months ended November 30, 2018 compared to nine months ended November 30, 2017

The following table sets forth certain unaudited consolidated statements of operations data as at November 30, 2018 and November 30, 2017 under U.S. GAAP.

| | For the Nine Months Ended | | | | |
|---|--|-------------|-------------------|--------------|------------------|
| | <i>(in millions, except for share and per share amounts)</i> | | | | |
| | November 30, 2018 | | November 30, 2017 | | Change |
| Revenue ⁽¹⁾⁽²⁾ | \$ 649 | 100.0% | \$ 699 | 100.0% | \$ (50) |
| Gross margin ⁽¹⁾⁽²⁾ | 492 | 75.8% | 493 | 70.5% | (1) |
| Operating expenses ⁽¹⁾⁽²⁾ | 460 | 70.9% | 193 | 27.6% | 267 |
| Income before income taxes ⁽²⁾ | 45 | 6.9% | 420 | 60.1% | (375) |
| Provision for income taxes | 3 | 0.5% | 5 | 0.7% | (2) |
| Net income | <u>\$ 42</u> | <u>6.5%</u> | <u>\$ 415</u> | <u>60.0%</u> | <u>\$ (373)</u> |
| Earnings (loss) per share - reported | | | | | |
| Basic | <u>\$ 0.08</u> | | <u>\$ 0.78</u> | | <u>\$ (0.70)</u> |
| Diluted | <u>\$ (0.09)</u> | | <u>\$ 0.76</u> | | <u>\$ (0.85)</u> |
| Weighted-average number of shares outstanding (000s) | | | | | |
| Basic | 538,251 | | 531,651 | | |
| Diluted | 598,751 | | 548,514 | | |

(1) See "Non-GAAP Financial Measures" for the impact of the Fiscal 2019 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin and adjusted operating expenses in fiscal 2019.

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

Consolidated Revenue

Consolidated revenue decreased by \$50 million to approximately \$649 million in the first nine months of fiscal 2019 from \$699 million in the first nine months of fiscal 2018. The decrease was primarily due to a decrease of \$65 million in SAF revenue to \$37 million from \$102 million, a decrease of \$49 million in handheld devices revenue to \$13 million from \$62 million and a decrease of \$17 million in Enterprise software and services to \$263 million from \$280 million, offset by an increase of \$49 million in Licensing, IP and other revenue to \$187 million from \$138 million and an increase of \$32 million in BTS revenue to \$149 million from \$117 million.

The \$65 million decrease in SAF revenue, 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 nine months of fiscal 2018.

The decrease in handheld devices revenue of \$49 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. The Company's partners are responsible for 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, followed solely by the release of previously accrued amounts when the Company determines it has no further performance obligations.

The decrease in Enterprise software and services revenue of \$17 million was due to a lower number of perpetual licenses sold and a reduction in revenue recognized on perpetual licenses as a result of the adoption of ASC 606.

The increase in Licensing, IP and other revenue of \$49 million was primarily due to higher IP revenue as a result of the Company's patent licensing agreement with Telety that allows it to sublicense a broad range of the Company's patents to a majority of global smartphone manufacturers, beginning in the third quarter of fiscal 2018, partially offset by revenue recognized on a long-term licensing agreement due to meeting the revenue recognition criteria under ASC 605 in the second quarter of fiscal 2018 which did not recur.

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The increase in BTS revenue of \$32 million was primarily due to increased royalty revenue, the Company's agreement with Qualcomm Technologies Inc. ("Qualcomm") to optimize select Qualcomm hardware platforms with BlackBerry QNX software, beginning in the third quarter of fiscal 2018, and increased development seats revenue.

Consolidated Gross Margin

Consolidated gross margin decreased by \$1 million to approximately \$492 million in the first nine months of fiscal 2019 from \$493 million in the first nine months of fiscal 2018. The decrease was primarily due to the decrease in gross margin associated with SAF and Enterprise software and services offset by an increase in gross margin associated with Licensing, IP and other and BTS.

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

Revenue

Revenue by Product and Service

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

| | For the Nine Months Ended | | | | | |
|--|---------------------------|--------|-------------------|--------|---------|---------|
| | <i>(in millions)</i> | | | | | |
| | November 30, 2018 | | November 30, 2017 | | Change | |
| Revenue by Product and Service | | | | | | |
| Enterprise software and services ⁽¹⁾⁽²⁾ | \$ 273 | 41.4% | \$ 309 | 42.4% | \$ (36) | (11.7)% |
| BTS | 149 | 22.6% | 117 | 16.1% | 32 | 27.4 % |
| Licensing, IP and other | 187 | 28.4% | 138 | 19.0% | 49 | 35.5 % |
| Handheld devices | 13 | 2.0% | 62 | 8.5% | (49) | (79.0)% |
| SAF | 37 | 5.6% | 102 | 14.0% | (65) | (63.7)% |
| | \$ 659 | 100.0% | \$ 728 | 100.0% | \$ (69) | (9.5)% |

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

Enterprise Software and Services

Enterprise software and services non-GAAP revenue decreased by \$36 million, or 11.7%, to \$273 million, or 41.4% of revenue, in the first nine months of fiscal 2019, compared to \$309 million, or 42.4% of revenue, in the first nine months of fiscal 2018. The \$36 million decrease in Enterprise software and services non-GAAP revenue was primarily due to a decrease of \$19 million in the non-GAAP adjustment of deferred software revenue acquired to \$10 million in the first nine months of fiscal 2019 versus \$29 million in the first nine months of fiscal 2018 and also due to the reasons described above in "Consolidated Revenue".

Excluding the deferred software revenue acquired adjustment, Enterprise software and services U.S. GAAP revenue was \$263 million, or 40.5% of revenue in the first nine months of fiscal 2019, compared to \$280 million, or 40.1% of revenue, in the first nine months of fiscal 2018, representing a decrease of \$17 million, or 6.1%.

BTS

BTS revenue increased by \$32 million, or 27.4%, to \$149 million, or 22.6% of revenue, in the first nine months of fiscal 2019, compared to \$117 million, or 16.1% of revenue, in the first nine months of fiscal 2018. BTS revenue increased due to the reasons described above in "Consolidated Revenue".

Licensing, IP and Other

Licensing, IP and other revenue increased by \$49 million, or 35.5%, to \$187 million, or 28.4% of revenue in the first nine months of fiscal 2019, compared to \$138 million, or 19.0% of revenue, in the first nine months of fiscal 2018. The \$49 million increase was primarily due to the reasons described above in "Consolidated Revenue".

Handheld Devices

Handheld devices revenue was \$13 million, or 2.0% of revenue, in the first nine months of fiscal 2019 compared to \$62 million, or 8.5% of revenue, in the first nine months of fiscal 2018, representing a decrease of \$49 million, or 79.0%. The \$49 million decrease in handheld devices revenue was primarily due to the reasons discussed above in "Consolidated Revenue".

Service Access Fees

SAF revenue decreased by \$65 million, or 63.7%, to \$37 million, or 5.6% of revenue, in the first nine months of fiscal 2019, compared to \$102 million, or 14.0% of revenue, in the first nine months of fiscal 2018. 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 nine months ended November 30, 2018, compared to the nine months ended November 30, 2017.

| | For the Nine Months Ended (in millions) | | | | | |
|---|--|---------------|-------------------|---------------|---------------|----------------|
| | November 30, 2018 | | November 30, 2017 | | Change | |
| | \$ | % of Revenue | \$ | % of Revenue | \$ | % of Change |
| Revenue | \$ 649 | | \$ 699 | | \$ (50) | (7.2)% |
| Operating expenses | | | | | | |
| Research and development ⁽¹⁾⁽²⁾ | \$ 167 | 25.7 % | \$ 181 | 25.9 % | \$ (14) | (7.7)% |
| Selling, marketing and administration ⁽¹⁾⁽²⁾ | 299 | 46.1 % | 343 | 49.1 % | (44) | (12.8)% |
| Amortization ⁽¹⁾⁽²⁾ | 105 | 16.2 % | 116 | 16.6 % | (11) | (9.5)% |
| Impairment of long-lived assets ⁽²⁾ | — | — % | 11 | 1.6 % | (11) | (100.0)% |
| Debentures fair value adjustment ⁽¹⁾⁽²⁾ | (111) | (17.1)% | 225 | 32.2 % | (336) | (149.3)% |
| Arbitration awards, net ⁽²⁾ | — | — % | (683) | (97.7)% | 683 | (100.0)% |
| Total | <u>\$ 460</u> | <u>70.9 %</u> | <u>\$ 193</u> | <u>27.7 %</u> | <u>\$ 267</u> | <u>138.3 %</u> |

(1) See "Non-GAAP Financial Measures" for the impact of the Fiscal 2019 Non-GAAP Adjustments on adjusted operating expenditures in fiscal 2019.

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

Operating expenses increased by \$267 million, or 138.3%, to \$460 million or 70.9% of revenue in the first nine months of fiscal 2019, compared to approximately \$193 million or 27.7% of revenue in the first nine months of fiscal 2018. The increase was primarily attributable to the Qualcomm arbitration award in the first quarter of fiscal 2018, partially offset by the difference between the Fiscal 2019 Debentures Fair Value Adjustment and the Fiscal 2018 Debentures Fair Value Adjustment, the Nokia arbitration decision in the third quarter of fiscal 2018, lower restructuring charges, a lower amortization expense, the absence of the Fiscal 2018 LLA Impairment Charge, and a lower bad debt expense.

After giving effect to the relevant Fiscal 2019 Non-GAAP Adjustments and Fiscal 2018 Non-GAAP Adjustments, non-GAAP operating expenses decreased by \$25 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 \$14 million to \$167 million, or 25.7% of revenue, in the first nine months of fiscal 2019, compared to \$181 million, or 25.9% of revenue, in the first nine months of fiscal 2018. After giving effect to the relevant Fiscal 2019 Non-GAAP Adjustments and Fiscal 2018 Non-GAAP Adjustments, non-GAAP research and development expenses decreased by \$11 million. The decrease is primarily attributable to a decrease in salaries and benefits and a reduction in outsourcing costs compared to the first nine months of fiscal 2018.

Selling, Marketing and Administration Expenses

Selling, marketing and administration expenses decreased by \$44 million to \$299 million, or 46.1% of revenue, in the first nine months of fiscal 2019, compared to approximately \$343 million, or 49.1% of revenue, in the first nine months of fiscal 2018. After giving effect to the relevant Fiscal 2019 Non-GAAP Adjustments and Fiscal 2018 Non-GAAP Adjustments, non-GAAP selling marketing and administration expenses decreased by \$11 million. The decrease is primarily attributable to a lower bad debt expense, a decrease in salaries and benefits, a favourable change in the fair value of the deferred share unit liability, and lower accounting fees, partially offset by an increase in legal costs compared to the first nine months of fiscal 2018.

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 nine months ended November 30, 2018 compared to the nine months ended November 30, 2017. Intangible assets are comprised of patents, licenses and acquired technology.

| | For the Nine Months Ended (in millions) | | | | | |
|-------------------------------|--|----------------------|----------------|---------------------------|----------------------|----------------|
| | Included in Amortization | | | Included in Cost of sales | | |
| | November 30, 2018 | November 30, 2017 | Change | November 30, 2018 | November 30, 2017 | Change |
| Property, plant and equipment | \$ 10 | \$ 13 | \$ (3) | \$ 5 | \$ 16 | \$ (11) |
| Intangible assets | 95 | 103 | (8) | 6 | 6 | — |
| Total | \$ 105 | \$ 116 | \$ (11) | \$ 11 | \$ 22 | \$ (11) |

Amortization

Amortization expense relating to certain property, plant and equipment and certain intangible assets decreased by \$11 million to \$105 million in the first nine months of fiscal 2019 compared to \$116 million for the comparable period in fiscal 2018. The decrease in amortization expense primarily reflects the full depreciation of certain assets.

After giving effect to the relevant Fiscal 2019 Non-GAAP Adjustments and Fiscal 2018 Non-GAAP Adjustments, non-GAAP amortization expense decreased by \$3 million.

Cost of sales

Amortization expense relating to certain property, plant and equipment and certain intangible assets employed in the Company's service operations decreased by \$11 million to \$11 million in the first nine months of fiscal 2019 compared to \$22 million for the comparable period in fiscal 2018. This decrease primarily reflects the full depreciation of assets, partially offset by a portion of the amortization of patents being classified as cost of goods sold due to the Company's intellectual property licensing arrangements.

Investment Income

Investment income, which includes the interest expense from the Debentures, decreased by \$107 million to \$13 million in investment income in the first nine months of fiscal 2019, from an investment income of \$120 million in the comparable period of fiscal 2018. The decrease is primarily attributable to the interest received from the Qualcomm arbitration award in the first nine months of fiscal 2018.

After giving effect to the relevant Fiscal 2018 Non-GAAP Adjustments, non-GAAP investment income increased by \$15 million. The increase was due to a higher yield on the Company's average cash and investment balances.

Income Taxes

For the first nine months of fiscal 2019, the Company's net effective income tax expense rate was approximately 7%, compared to a net effective income tax expense rate of approximately 1% 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 nine months of fiscal 2019 was \$42 million, reflecting a decrease in net income of \$373 million compared to net income of approximately \$415 million in the first nine months of fiscal 2018, primarily due to the Qualcomm arbitration award in the first nine months of fiscal 2018, offset by the difference between the Fiscal 2019 Debentures Fair Value Adjustment and Fiscal 2018 Debentures Fair Value Adjustment, the Nokia arbitration decision in the third quarter of fiscal 2018, a decrease in operating expenses, as described above in "Operating Expenses" and the absence of the LLA Impairment Charge. After giving effect to the relevant Fiscal 2019 Non-GAAP Adjustments and Fiscal 2018 Non-GAAP Adjustments, the Company's non-GAAP net income for the first nine months of fiscal 2019 was \$66 million compared to non-GAAP net income of \$51 million for the first nine months of fiscal 2018, reflecting an increase in net income of \$15 million primarily due to a reduction in operating expenditures and an increase in the gross margin percentage, partially offset by a decrease in revenue.

U.S. GAAP basic earnings and diluted loss per share were \$0.08 and \$0.09, respectively, in the first nine months of fiscal 2019, compared to a U.S. GAAP basic and diluted earnings per share of \$0.78 and \$0.76, respectively, in the first nine months of fiscal 2018, due to the reasons noted above. After giving effect to the relevant Fiscal 2019 Non-GAAP Adjustments and Fiscal 2018 Non-GAAP Adjustments, the Company's non-GAAP basic earnings per share was \$0.12 for the first nine months of fiscal 2019 compared to non-GAAP basic earnings per share of \$0.10 for the first nine months of fiscal 2018. The Company expects positive adjusted non-GAAP earnings per share for fiscal 2019.

The weighted average number of shares outstanding was approximately 538 million common shares for basic earnings per share and 599 million for diluted loss per share for the nine months ended November 30, 2018, and approximately 532 million common shares for basic earnings per share and 549 million for diluted earnings per share for the nine months ended November 30, 2017.

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 November 30, 2018. The information in the table below has been derived from the Company's unaudited interim consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements of the Company and include all adjustments necessary for a fair presentation of information when read in conjunction with the audited consolidated financial statements of the Company. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

(in millions, except per share data)

| | Fiscal Year 2019 | | | Fiscal Year 2018 | | | Fiscal Year 2017 | |
|--|------------------|----------------|---------------|------------------|---------------|----------------|------------------|----------------|
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter |
| Revenue | \$ 226 | \$ 210 | \$ 213 | \$ 233 | \$ 226 | \$ 238 | \$ 235 | \$ 286 |
| Gross margin | 170 | 161 | 161 | 177 | 168 | 175 | 150 | 172 |
| Operating expenses | 112 | 122 | 226 | 194 | 426 | 153 | (386) | 229 |
| Income (loss) before income taxes | 60 | 44 | (59) | (14) | (275) | 23 | 672 | (49) |
| Provision for (recovery of) income taxes | 1 | 1 | 1 | (4) | — | 4 | 1 | (2) |
| Net income (loss) | \$ 59 | \$ 43 | \$ (60) | \$ (10) | \$ (275) | \$ 19 | \$ 671 | \$ (47) |
| Earnings (loss) per share | | | | | | | | |
| Basic earnings (loss) per share | \$ 0.11 | \$ 0.08 | \$ (0.11) | \$ (0.02) | \$ (0.52) | \$ 0.04 | \$ 1.26 | \$ (0.09) |
| Diluted earnings (loss) per share | \$ (0.01) | \$ (0.04) | \$ (0.11) | \$ (0.06) | \$ (0.52) | \$ (0.08) | \$ 1.23 | \$ (0.10) |

Financial Condition

Liquidity and Capital Resources

Cash, cash equivalents, and investments increased by \$46 million to approximately \$2.40 billion as at November 30, 2018 from approximately \$2.35 billion as at February 28, 2018, primarily as a result of changes in working capital, partially offset by acquisitions of intangible assets and property, plant and equipment. The majority of the Company's cash, cash equivalents, and investments are denominated in U.S. dollars as at November 30, 2018.

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As noted in "Business Overview - Acquisition of Cylance", the Company announced on November 16, 2018 that it had entered into a definitive agreement to wholly acquire Cylance for \$1.4 billion in cash, plus the assumption of unvested employee incentive awards. If the acquisition had been completed in the third quarter of fiscal 2019, the Company's cash, cash equivalents, and investments balance would be approximately \$1.00 billion.

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

| | As at (in millions) | | |
|---|------------------------|-------------------|--------------|
| | November 30, 2018 | February 28, 2018 | Change |
| Cash and cash equivalents | \$ 1,084 | \$ 816 | \$ 268 |
| Short-term investments | 1,234 | 1,443 | (209) |
| Restricted cash and cash equivalents | 26 | 39 | (13) |
| Long-term investments | 55 | 55 | — |
| Cash, cash equivalents, and investments | <u>\$ 2,399</u> | <u>\$ 2,353</u> | <u>\$ 46</u> |

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

| | As at (in millions) | | |
|---------------------|------------------------|-------------------|--------------|
| | November 30, 2018 | February 28, 2018 | Change |
| Current assets | \$ 2,544 | \$ 2,545 | \$ (1) |
| Current liabilities | 376 | 411 | (35) |
| Working capital | <u>\$ 2,168</u> | <u>\$ 2,134</u> | <u>\$ 34</u> |

Current Assets

The decrease in current assets of \$1 million at the end of the third quarter of fiscal 2019 from the end of the fourth quarter of fiscal 2018 was primarily due to a decrease in short-term investments of \$209 million, other receivables of \$46 million, accounts receivable of \$13 million and income taxes receivable \$13 million, partially offset by an increase in cash and cash equivalents of \$268 million and other current assets of \$12 million.

At November 30, 2018, accounts receivable was \$138 million, a decrease of \$13 million from February 28, 2018. The decrease reflects the lower revenue recognized over the nine months ended November 30, 2018 and a decrease in days sales outstanding to 57 days at the end of the third quarter of fiscal 2019 from 61 days at the end of the fourth quarter of fiscal 2018.

At November 30, 2018, other receivables were \$25 million, a decrease of \$46 million from February 28, 2018. The decrease is primarily due to funds recovered from escrow relating to the Good Technology Corporation litigation.

At November 30, 2018, income taxes receivable was \$13 million, a decrease of \$13 million from February 28, 2018. The decrease in income taxes receivable was due to refunds received in the first nine months of fiscal 2019.

At November 30, 2018, other current assets were \$50 million, an increase of \$12 million from February 28, 2018. The increase in other current assets was primarily due to increases in prepaid maintenance and deferred commission as a result of the adoption of ASC 606.

Current Liabilities

The decrease in current liabilities of \$35 million at the end of the third quarter of fiscal 2019 from the end of the fourth quarter of fiscal 2018 was primarily due to a decrease in accrued liabilities of \$49 million and accounts payable of \$14 million offset by an increase in current deferred revenue of \$29 million. As at November 30, 2018, current deferred revenue was \$171 million, reflecting an increase of \$29 million from February 28, 2018, which was primarily attributable to the adoption of ASC 606. Accrued liabilities were \$156 million, reflecting a decrease of \$49 million from February 28, 2018, which was primarily attributable to the decreases in vendor liabilities and a variable incentive plan accrual compared to the fourth quarter of fiscal 2018.

Cash flows for the nine months ended November 30, 2018 compared to the nine months ended November 30, 2017 were as follows:

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| | For the Nine Months Ended | | |
|---|---------------------------|-------------------|---------------|
| | (in millions) | | |
| | November 30, 2018 | November 30, 2017 | Change |
| Net cash flows provided by (used in): | | | |
| Operating activities | \$ 82 | \$ 866 | \$ (784) |
| Investing activities | 171 | (1,069) | 1,240 |
| Financing activities | 5 | (11) | 16 |
| Effect of foreign exchange on cash and cash equivalents | (3) | 3 | (6) |
| Net decrease in cash and cash equivalents | <u>\$ 255</u> | <u>\$ (211)</u> | <u>\$ 466</u> |

Operating Activities

The decrease in net cash flows provided by operating activities of \$784 million for the first nine months of fiscal 2019 primarily reflects the Qualcomm arbitration award in the first nine months of fiscal 2018.

Investing Activities

During the nine months ended November 30, 2018, cash flows provided by investing activities were \$171 million and included cash provided by transactions involving the proceeds on sale or maturity of short-term and long-term investments, net of acquisitions in the amount of \$208 million offset by cash used in intangible asset additions of \$24 million, and acquisitions of property, plant and equipment of \$14 million. For the same period in the prior fiscal year, cash flows used in investing activities were \$1.07 billion 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 \$1.04 billion, intangible asset additions of \$22 million and acquisitions of property, plant and equipment of \$11 million offset by proceeds on sale of property, plant and equipment \$3 million.

Financing Activities

The increase in cash flows provided by financing activities was \$16 million for the first nine months of fiscal 2019 due to common share repurchases made under the normal course issuer bid discussed under "Business Overview - Normal Course Issuer Bid" above in the first nine months of fiscal 2018.

Aggregate Contractual Obligations

Purchase obligations and commitments amounted to approximately \$243 million as at November 30, 2018, including future interest payments of \$44 million on the Debentures and operating lease obligations of \$116 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 November 30, 2018 decreased by \$62 million as compared to the February 28, 2018 balance of approximately \$305 million, which was attributable to decreases in purchase orders for goods and services used in operations, decreases in operating lease obligations and a decrease in future interest payments on the Debentures.

Debenture Financing and Other Funding Sources

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

The Company had \$24 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business as of November 30, 2018. See Note 2 to the Consolidated Financial Statements for further information concerning the Company's restricted cash.

Cash, cash equivalents, and investments were approximately \$2.40 billion as at November 30, 2018. The Company's management remains focused on maintaining appropriate cash balances, efficiently managing working capital balances and managing the liquidity needs of the business. Based on its current financial projections, the Company believes its financial resources, together with expected future operating cash generating and operating expense reduction activities and access to other potential financing arrangements, should be sufficient to meet funding requirements for current financial commitments and future operating expenditures not yet committed, and should provide the necessary financial capacity for the foreseeable future.

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

Legal Proceedings

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

As of November 30, 2018, there are no claims outstanding for which the Company has assessed the potential loss as both probable to result and reasonably estimable, therefore no accrual has been made. See Note 12 to the Consolidated Financial Statements for a further discussion of the Company's legal matters.

Market Risk of Financial Instruments

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

Foreign Exchange

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the U.S. dollar. The majority of the Company's revenue in the third quarter of fiscal 2019 were transacted in U.S. dollars. Portions of the revenue were denominated in Canadian dollars, euros and British pounds. Purchases of raw materials were primarily transacted in U.S. dollars. Other expenses, consisting mainly of salaries and certain operating costs were incurred primarily in Canadian dollars, but were also incurred in U.S. dollars, euros and British pounds. At November 30, 2018, approximately 4% of cash and cash equivalents, 27% of accounts receivables and 8% of accounts payable were denominated in foreign currencies (February 28, 2018 – 9%, 35% and 6%, respectively). These foreign currencies primarily include the Canadian dollar, euro and British pound. As part of its risk management strategy, the Company maintains net monetary asset and/or liability balances in foreign currencies and engages in foreign currency hedging activities using derivative financial instruments, including currency forward contracts and currency options. The Company does not use derivative instruments for speculative purposes. See Note 4 to the Consolidated Financial Statements for information concerning the Company's foreign currency hedging activities.

Interest Rate

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

Credit and Customer Concentration

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. The Company establishes an allowance for doubtful accounts ("AFDA") that corresponds to the specific credit risk of its customers, historical trends and economic circumstances. The AFDA as at November 30, 2018 was \$22 million (February 28, 2018 - \$24 million). There was one customer that comprised more than 10% of accounts receivable as at November 30, 2018 (February 28, 2018 - no customers comprised more than 10%). During the third quarter of fiscal 2019, the percentage of the Company's receivable balance that was past due increased by 4.5% compared to the fourth quarter of fiscal 2018. Although the Company actively monitors and attempts to collect on its receivables as they become due, the risk of further delays or challenges in obtaining timely payments of receivables exists. The occurrence of such delays or challenges in obtaining timely payments could negatively impact the Company's liquidity and financial condition. There was one customer that comprised more than 10% of the Company's revenue in the third quarter of fiscal 2019 (one customer comprised more than 10% of the Company's revenue in the third quarter of fiscal 2018).

Market values are determined for each individual security in the investment portfolio. The Company assesses declines in the value of individual investments for impairment to determine whether the decline is other-than-temporary. The Company makes this assessment by considering available evidence including changes in general market conditions, specific industry and individual company data, the length of time and the extent to which the fair value has been less than cost, the financial condition, the near-term prospects of the individual investment and, in the case of debt securities, the Company's ability and

intent to hold the investments to maturity. During the nine months ended November 30, 2018 the Company did not record any other-than-temporary impairment charges related to investments (November 30, 2017 - nil).

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

Changes in Internal Control Over Financial Reporting

During the three months ended November 30, 2018, 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.