

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

Consolidated Balance Sheets

	As at	
	August 31, 2018	February 28, 2018
Assets		
Current		
Cash and cash equivalents	\$ 581	\$ 816
Short-term investments	1,683	1,443
Accounts receivable, net	145	151
Other receivables	52	71
Income taxes receivable	15	26
Other current assets	52	38
	2,528	2,545
Restricted cash and cash equivalents	32	39
Long-term investments	56	55
Other long-term assets	33	28
Deferred income tax assets	2	3
Property, plant and equipment, net	63	64
Goodwill	566	569
Intangible assets, net	422	477
	\$ 3,702	\$ 3,780
Liabilities		
Current		
Accounts payable	\$ 34	\$ 46
Accrued liabilities	162	205
Income taxes payable	20	18
Deferred revenue, current	177	142
	393	411
Deferred revenue, non-current	108	53
Other long-term liabilities	17	23
Long-term debt	739	782
Deferred income tax liabilities	5	6
	1,262	1,275
Shareholders' equity		
Capital stock and additional paid-in capital		
Preferred shares: authorized unlimited number of non-voting, cumulative, redeemable and retractable		
Common shares: authorized unlimited number of non-voting, redeemable, retractable Class A common shares and unlimited number of voting common shares		
Issued - 537,767,726 voting common shares (February 28, 2018 - 536,733,733)	2,600	2,560
Deficit	(142)	(45)
Accumulated other comprehensive loss	(18)	(10)
	2,440	2,505
	\$ 3,702	\$ 3,780

See notes to consolidated financial statements.

On behalf of the Board:

John S. Chen
 Director

Barbara Stymiest
 Director

BlackBerry Limited
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Consolidated Statements of Shareholders' Equity

	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at February 28, 2018	\$ 2,560	\$ (45)	\$ (10)	\$ 2,505
Net loss	—	(17)	—	(17)
Other comprehensive loss	—	—	(2)	(2)
Shares issued:				
Stock-based compensation	38	—	—	38
Employee share purchase plan	2	—	—	2
Cumulative impact of adoption of ASC 606	—	(86)	—	(86)
Cumulative impact of adoption of ASU 2016-01	—	6	(6)	—
Balance as at August 31, 2018	\$ 2,600	\$ (142)	\$ (18)	\$ 2,440

See notes to consolidated financial statements.

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

Consolidated Statements of Operations

	Three Months Ended		Six Months Ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
Revenue	\$ 210	\$ 238	\$ 423	\$ 473
Cost of sales	49	63	101	148
Gross margin	161	175	322	325
Operating expenses				
Research and development	51	60	112	121
Selling, marketing and administration	106	113	206	223
Amortization	35	39	72	79
Impairment of long-lived assets	—	11	—	11
Debentures fair value adjustment	(70)	(70)	(42)	148
Qualcomm arbitration award	—	—	—	(815)
	122	153	348	(233)
Operating income (loss)	39	22	(26)	558
Investment income, net	5	1	11	137
Income (loss) before income taxes	44	23	(15)	695
Provision for income taxes	1	4	2	5
Net income (loss)	\$ 43	\$ 19	\$ (17)	\$ 690
Earnings (loss) per share				
Basic	\$ 0.08	\$ 0.04	\$ (0.03)	\$ 1.30
Diluted	\$ (0.04)	\$ (0.08)	\$ (0.08)	\$ 1.26

See notes to consolidated financial statements.

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

Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended		Six Months Ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
Net income (loss)	\$ 43	\$ 19	\$ (17)	\$ 690
Other comprehensive income (loss)				
Net change in unrealized gains (losses) on available-for-sale investments	1	—	1	(3)
Net change in fair value of derivatives designated as cash flow hedges during the period, net of income taxes of nil for the three and six months ended August 31, 2018 and August 31, 2017	(2)	3	(2)	3
Amounts reclassified to net income (loss) during the period for derivatives designated as cash flow hedges, net of income taxes of nil for the three and six months ended August 31, 2018 and August 31, 2017	1	—	2	—
Foreign currency translation adjustment	—	5	(4)	9
Actuarial losses associated with other post-employment benefit obligations	—	—	—	(1)
Net change in fair value from instrument-specific credit risk on the Debentures	1	—	1	—
Other comprehensive income (loss)	<u>1</u>	<u>8</u>	<u>(2)</u>	<u>8</u>
Comprehensive income (loss)	<u>\$ 44</u>	<u>\$ 27</u>	<u>\$ (19)</u>	<u>\$ 698</u>

See notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

	Six Months Ended	
	August 31, 2018	August 31, 2017
Cash flows from operating activities		
Net income (loss)	\$ (17)	\$ 690
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization	79	96
Deferred income taxes	—	(2)
Stock-based compensation	39	24
Impairment of long-lived assets	—	11
Loss on sale, disposal and abandonment of long-lived assets	—	4
Debentures fair value adjustment	(42)	148
Other long-term receivables	—	(30)
Other	2	(3)
Net changes in working capital items:		
Accounts receivable, net	6	45
Other receivables	19	(11)
Income taxes receivable	11	(2)
Other assets	(9)	31
Accounts payable	(12)	(43)
Income taxes payable	2	4
Accrued liabilities	(43)	(49)
Deferred revenue	(7)	(42)
Other long-term liabilities	(6)	(4)
Net cash provided by operating activities	22	867
Cash flows from investing activities		
Acquisition of long-term investments	(1)	(25)
Proceeds on sale or maturity of long-term investments	—	1
Acquisition of property, plant and equipment	(9)	(6)
Proceeds on sale of property, plant and equipment	1	3
Acquisition of intangible assets	(16)	(14)
Acquisition of short-term investments	(2,178)	(1,693)
Proceeds on sale or maturity of short-term investments	1,939	732
Net cash used in investing activities	(264)	(1,002)
Cash flows from financing activities		
Issuance of common shares	2	3
Common shares repurchased	—	(17)
Net cash provided by (used in) financing activities	2	(14)
Effect of foreign exchange gain (loss) on cash, cash equivalents, restricted cash, and restricted cash equivalents	(2)	3
Net decrease in cash, cash equivalents, restricted cash, and restricted cash equivalents during the period	(242)	(146)
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	855	785
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	\$ 613	\$ 639
As at	August 31, 2018	February 28, 2018
Cash and cash equivalents	\$ 581	\$ 816
Restricted cash and cash equivalents	32	39
	\$ 613	\$ 855

See notes to consolidated financial statements.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Basis of Presentation and Preparation

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

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

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

Significant Accounting Policies and Critical Accounting Estimates

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

Revenue Recognition

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

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

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

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

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

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

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

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

Nature of products and services

Enterprise software and services

Enterprise software and services includes revenue from the Company's security, productivity, collaboration and end-point management solutions through the BlackBerry Secure platform, which includes BlackBerry Unified Endpoint Manager (UEM), BlackBerry Dynamics, BlackBerry Workspaces and BBM Enterprise, among other products and applications, as well as 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.

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

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

Revenue from technical support is recognized over the support period.

BlackBerry Technology Solutions

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

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

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

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

Licensing, IP and other

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

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

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

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

Handheld devices

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

SAF

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

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

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

Significant judgments

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

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

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

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

Revenue contract balances

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

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

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

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

Recently Adopted Accounting Pronouncements

ASC 606

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

The most significant impact of adopting the new standard relates to timing of revenue recognized on software licenses in Enterprise software and services contracts. Prior to the adoption of ASC 606, where vendor-specific objective evidence could not be determined, the Company recognized term licensed software ratably over the longest contract deliverable, with certain perpetual contracts recognized upon delivery. Under the new standard, on the software licensing component of enterprise software offerings, the Company recognizes revenue over the subscription term for term subscription contracts, and over the expected customer life for perpetual license contracts which, in most cases, is estimated to be four years. Given this, the adoption of ASC 606 has resulted in Enterprise software and services revenue previously recognized for certain perpetual licenses being reversed as a cumulative adjustment from deficit to deferred revenue to be recognized ratably over the remaining period of performance. Professional services revenue that otherwise would have been recognized over time have now been recognized at adoption as a cumulative adjustment to deficit, and such revenue will be recognized when the performance obligation has been fulfilled. There were no significant changes to any of the Company's other revenue streams and there was no tax impact for the three and six months ended August 31, 2018 due to the Company's valuation allowance.

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

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

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Notes to the Consolidated Financial Statements

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

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

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

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

Consolidated Balance Sheets	As at August 31, 2018		
	Balances Without Adoption of ASC 606	ASC 606 Adjustments	As Reported
Assets			
Other assets	\$ 73	\$ 12	\$ 85
Liabilities			
Deferred revenue	\$ 194	\$ 91	\$ 285
Shareholders' equity			
Deficit	\$ (63)	\$ (79)	\$ (142)
Consolidated Statements of Operations			
Three Months Ended August 31, 2018			
Revenue			
Revenue	\$ 198	\$ 12	\$ 210
Operating expenses			
Selling, marketing and administration	\$ 107	\$ (1)	\$ 106
Net income	\$ 30	\$ 13	\$ 43
Earnings (loss) per share			
Basic	\$ 0.06	\$ 0.02	\$ 0.08
Diluted	\$ (0.06)	\$ 0.02	\$ (0.04)

BlackBerry Limited

Notes to the Consolidated Financial Statements

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

	Six Months Ended August 31, 2018		
	Balances Without Adoption of ASC 606	ASC 606 Adjustments	As Reported
Consolidated Statements of Operations			
Revenue	\$ 405	\$ 18	\$ 423
Operating expenses			
Selling, marketing and administration	\$ 207	\$ (1)	\$ 206
Net loss	\$ (36)	\$ 19	\$ (17)
Loss per share			
Basic	\$ (0.07)	\$ 0.04	\$ (0.03)
Diluted	\$ (0.11)	\$ 0.03	\$ (0.08)

Other Accounting Standards Updates (“ASU”)

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

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

Recently Issued Accounting Pronouncements

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

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2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

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

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

	Cost Basis	Unrealized Gains	Unrealized Losses	Other-than-temporary Impairment	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments	Restricted Cash and Cash Equivalents
Bank balances	\$ 105	\$ —	\$ —	\$ —	\$ 105	\$ 105	\$ —	\$ —	\$ —
Other investments	36	—	—	—	36	—	—	36	—
	141	—	—	—	141	105	—	36	—
Level 1:									
Equity securities	10	—	(8)	—	2	—	2	—	—
Level 2:									
Term deposits, certificates of deposits and GICs	242	—	—	—	242	84	126	—	32
Bankers' acceptances/bearer deposit notes	242	—	—	—	242	178	64	—	—
Commercial paper	418	—	—	—	418	58	360	—	—
Non-U.S. promissory notes	179	—	—	—	179	75	104	—	—
Non-U.S. government sponsored enterprise notes	262	—	—	—	262	—	262	—	—
Non-U.S. treasury bills/notes	406	—	—	—	406	81	325	—	—
U.S. treasury bills/notes	440	—	—	—	440	—	440	—	—
	2,189	—	—	—	2,189	476	1,681	—	32
Level 3:									
Corporate bonds	1	—	—	—	1	—	—	1	—
Auction rate securities	20	2	—	(3)	19	—	—	19	—
	21	2	—	(3)	20	—	—	20	—
	<u>\$ 2,361</u>	<u>\$ 2</u>	<u>\$ (8)</u>	<u>\$ (3)</u>	<u>\$ 2,352</u>	<u>\$ 581</u>	<u>\$ 1,683</u>	<u>\$ 56</u>	<u>\$ 32</u>

BlackBerry Limited

Notes to the Consolidated Financial Statements

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

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

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

As at August 31, 2018, the Company had equity investments without readily determinable fair value of \$36 million (February 28, 2018 - \$35 million). There were no other-than-temporary impairment charges during the three and six months ended August 31, 2018 or the three and six months ended August 31, 2017.

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

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

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

	As at			
	August 31, 2018		February 28, 2018	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Due in one year or less	\$ 2,189	\$ 2,189	\$ 2,128	\$ 2,127
Due in one to five years	1	1	1	1
Due after five years	17	19	17	19
No fixed maturity	10	2	10	2
	<u>\$ 2,217</u>	<u>\$ 2,211</u>	<u>\$ 2,156</u>	<u>\$ 2,149</u>

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

As a result of the adoption of ASU 2016-01, the Company now records changes in fair value of equity securities through investment income, and has reclassified \$8 million in unrealized losses on equity securities through a cumulative adjustment to deficit on March 1, 2018. For a full description of how the Company assesses its investments for other-than-temporary impairment, see the “Investments” accounting policy in Note 1 to the Annual Financial Statements. For a description of the impact upon the adoption of ASU 2016-01 on the unrealized losses on equity securities, see Note 1.

3. FAIR VALUE MEASUREMENTS

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

Recurring Fair Value Measurements

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

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

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

For a description of how the fair values of currency forward contracts and currency option contracts, the fair value of the Debentures (as defined in Note 8), the fair value of the long-term intellectual property licensing receivable, the fair value of the long-term RAP (as defined in Note 5) liability and the fair value of certain stock-based compensation awards have been determined, see the “Derivative financial instruments” and “Convertible debentures” accounting policies in Note 1 to the Annual Financial Statements and Note 5, Note 6 and Note 9, respectively.

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

The Company’s Level 3 assets measured on a recurring basis include auction rate securities as well as corporate notes/bonds consisting of securities received in a payment-in-kind distribution from a former structured investment vehicle.

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For a detailed description of the Company's valuation of auction rate securities, see Note 4 to the Annual Financial Statements.

4. DERIVATIVE FINANCIAL INSTRUMENTS

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

	Derivative Assets ⁽¹⁾⁽²⁾		Derivative Liabilities ⁽¹⁾⁽³⁾	
	As at August 31, 2018	As at February 28, 2018	As at August 31, 2018	As at February 28, 2018
Foreign exchange contracts				
Fair value of derivatives designated as cash flow hedges	\$ —	\$ —	\$ (1)	\$ (1)
Fair value of derivatives not subject to hedge accounting	1	1	(1)	(1)
Total estimated fair value	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ (2)</u>	<u>\$ (2)</u>
Notional amount	<u>\$ 77</u>	<u>\$ 123</u>	<u>\$ 117</u>	<u>\$ 161</u>

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

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

(3) Derivative liabilities are included in accrued liabilities.

Foreign Exchange

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

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

The following table shows the impact of derivative instruments designated as cash flow hedges on the consolidated statements of operations and the consolidated statements of comprehensive income (loss) for the three and six months ended August 31, 2018:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivative Instruments (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	
			Three Months Ended August 31, 2018	Six Months Ended August 31, 2018
Foreign exchange contracts	\$ (2)	Selling, marketing and administration	\$ (1)	\$ (2)
Total	<u>\$ (2)</u>		<u>\$ (1)</u>	<u>\$ (2)</u>

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The following table shows the impact of derivative instruments designated as cash flow hedges on the consolidated statements of operations and the consolidated statements of comprehensive income (loss) for the three and six months ended August 31, 2017:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivative Instruments (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	
			Three Months Ended August 31, 2017	Six Months Ended August 31, 2017
Foreign exchange contracts	\$ 2	Selling, marketing and administration	\$ —	\$ —
Total	\$ 2		\$ —	\$ —

As part of its currency risk management strategy, the Company may maintain net monetary asset and/or liability balances in foreign currencies. The Company enters into foreign exchange forward contracts to economically hedge certain monetary assets and liabilities that are exposed to foreign currency risk. The principal currencies hedged include the Canadian dollar, euro, and British pound. These contracts are not subject to hedge accounting, and any realized and unrealized gains or losses are recognized in income each period, offsetting the change in the U.S. dollar value of the foreign currency denominated asset or liability. The maturity dates of these instruments range from September 2018 to November 2018. As at August 31, 2018, there were no unrealized gains or losses recorded in respect of these instruments (February 28, 2018 - nil). Unrealized gains associated with these contracts were recorded in other current assets and selling, marketing and administration expenses. Unrealized losses were recorded in accrued liabilities and selling, marketing and administration expenses.

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

	Location of Gain (Loss) Recognized in Income on Derivative Instruments	Amount of Gain (Loss) in Income on Derivative Instruments			
		Three Months Ended		Six Months Ended	
		August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
Foreign exchange contracts	Selling, marketing and administration	\$ 1	\$ (4)	\$ 4	\$ (8)
Total		\$ 1	\$ (4)	\$ 4	\$ (8)

Selling, marketing and administration expense for the three and six months ended August 31, 2018 included \$2 million and \$2 million, respectively, in losses with respect to foreign exchange net of balance sheet revaluation (three and six months ended August 31, 2017 - gains of \$4 million and \$5 million, respectively).

Credit Risk

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

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

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

Interest Rate Risk

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

5. CONSOLIDATED BALANCE SHEETS DETAILS

Accounts receivable, net

The allowance for doubtful accounts as at August 31, 2018 was \$23 million (February 28, 2018 - \$24 million).

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

Other current assets

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

Property, plant and equipment, net

Property, plant and equipment comprised the following:

	As at	
	August 31, 2018	February 28, 2018
Cost		
Buildings, leasehold improvements and other	\$ 61	\$ 60
BlackBerry operations and other information technology	191	186
Manufacturing, repair and research and development equipment	73	73
Furniture and fixtures	9	9
	334	328
Accumulated amortization	271	264
Net book value	\$ 63	\$ 64

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Intangible assets, net

Intangible assets comprised the following:

	As at August 31, 2018		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	\$ 680	\$ 542	\$ 138
Intellectual property	422	233	189
Other acquired intangibles	197	102	95
	<u>\$ 1,299</u>	<u>\$ 877</u>	<u>\$ 422</u>

	As at February 28, 2018		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	\$ 682	\$ 512	\$ 170
Intellectual property	411	212	199
Other acquired intangibles	197	89	108
	<u>\$ 1,290</u>	<u>\$ 813</u>	<u>\$ 477</u>

Other acquired intangible assets include items such as customer relationships and brand.

For the six months ended August 31, 2018, amortization expense related to intangible assets amounted to \$70 million, (six months ended August 31, 2017 - \$75 million). During the six months ended August 31, 2018, additions to intangible assets primarily consisted of payments for intellectual property relating to patent maintenance, registration and licenses.

Based on the carrying value of the identified intangible assets as at August 31, 2018 and assuming no subsequent impairment of the underlying assets, the annual amortization expense for the remainder of fiscal 2019 and each of the four succeeding years is expected to be as follows: 2019 - \$58 million; 2020 - \$96 million; 2021 - \$75 million; 2022 - \$56 million; and 2023 - \$33 million.

The weighted average remaining useful lives of the intangible assets are as follows:

	As at	
	August 31, 2018	February 28, 2018
Acquired technology	2.8 years	3.2 years
Intellectual property	6.5 years	7.0 years
Other acquired intangibles	3.9 years	4.4 years

Impairment of long-lived assets

A long-lived asset (“LLA”) impairment charge is recognized when the carrying value exceeds the fair value of an asset group. The Company recorded a charge of \$11 million relating to LLA impairment during the second quarter of fiscal 2018, applicable to certain prepaid royalty arrangements associated with the Company’s sale of handheld devices. There were no LLA impairment charges during the three and six months ended August 31, 2018.

Goodwill

Changes to the carrying amount of goodwill were as follows:

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

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Other long-term assets

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

	As at	
	August 31, 2018	February 28, 2018
Long-term intellectual property licensing receivable	\$ 25	\$ 25
Deferred commissions, non-current	8	3
	<u>\$ 33</u>	<u>\$ 28</u>

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

Accrued liabilities

Accrued liabilities comprised the following:

	As at	
	August 31, 2018	February 28, 2018
Variable incentive accrual	\$ 19	\$ 40
Other	143	165
	<u>\$ 162</u>	<u>\$ 205</u>

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

Other long-term liabilities

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

6. RESTRUCTURING AND INTEGRATION

Resource Alignment Program

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

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

	Employee Termination Benefits	Facilities Costs	Other Charges ⁽¹⁾	Total
Balance as at February 28, 2018	\$ 1	\$ 39	\$ 2	\$ 42
Charges incurred	6	1	—	7
Cash payments made	(6)	(10)	(2)	(18)
Balance as at August 31, 2018	<u>\$ 1</u>	<u>\$ 30</u>	<u>\$ —</u>	<u>\$ 31</u>
Current portion	\$ 1	\$ 13	\$ —	\$ 14
Long-term portion	—	17	—	17
	<u>\$ 1</u>	<u>\$ 30</u>	<u>\$ —</u>	<u>\$ 31</u>

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

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The long-term portion of the RAP liability is recorded at fair value, determined by measuring the remaining payments at present value using an effective interest rate of 2.0%, and the Company recording interest expense over time to arrive at the total face value of the remaining payments.

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

	Three Months Ended		Six Months Ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
Cost of sales	\$ 1	\$ 3	\$ 1	\$ 6
Research and development	—	1	2	4
Selling, marketing and administration	3	14	5	25
Total RAP charges	\$ 4	\$ 18	\$ 8	\$ 35

7. INCOME TAXES

For the six months ended August 31, 2018, the Company's net effective income tax expense rate was approximately 13% compared to a net effective income tax rate of 1% for the six months ended August 31, 2017. The Company's income tax rate reflects the fact that the Company has a significant valuation allowance against its deferred income tax assets, and in particular, the change in fair value of the Debentures, amongst other items, is offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

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

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

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

The Company is subject to ongoing examination by tax authorities in certain jurisdictions in which it operates. The Company regularly assesses the status of these examinations and the potential for adverse outcomes to determine the adequacy of the provision for income taxes as well as the provisions for indirect and other taxes and related penalties and interest. While the final resolution of audits is uncertain, the Company believes the ultimate resolution of these audits will not have a material adverse effect on its consolidated financial position, liquidity or results of operations.

8. LONG-TERM DEBT

3.75% Convertible Debentures

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

Interest on the Debentures is payable quarterly in arrears at a rate of 3.75% per annum. The Debentures mature on November 13, 2020, and each \$1,000 of Debentures is convertible at any time into 100 common shares of the Company

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for a total of 60.5 million common shares at a price of \$10.00 per share for all Debentures, subject to adjustments. Covenants associated with the Debentures include limitations on the Company's total indebtedness.

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

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

The following table summarizes the changes in fair value of the Debentures for the six months ended August 31, 2018:

	As At
	August 31, 2018
Balance as at February 28, 2018	\$ 782
Change in fair value of the Debentures	(43)
Balance as at August 31, 2018	\$ 739

The difference between the fair value of the Debentures and the unpaid principal balance of \$605 million is \$134 million. The fair value of the Debentures is measured using Level 2 fair value inputs.

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

The following table shows the impact of the change in fair value of the Debentures for the three and six months ended August 31, 2018 and August 31, 2017:

	Three Months Ended		Six Months Ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
Income (charge) associated with the change in fair value from non-credit components recorded in the statement of operations ⁽¹⁾	\$ 70	\$ 70	\$ 42	\$ (148)
Income (charge) associated with the change in fair value from instrument-specific credit components recorded in AOCI	1	—	1	—
Total decrease (increase) in the fair value of the Debentures	\$ 71	\$ 70	\$ 43	\$ (148)

(1) Prior to the adoption of ASU 2016-01 on March 1, 2018, the change in fair value from instrument-specific credit components of the Debentures was recorded in the statement of operations for the three and six months ended August 31, 2017.

For the three and six months ended August 31, 2018, the Company recorded interest expense related to the Debentures of \$6 million and \$11 million, respectively, which has been included in investment income in the Company's consolidated statements of operations (three and six months ended August 31, 2017 - \$6 million and \$12 million, respectively).

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

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9. CAPITAL STOCK

(a) Capital stock

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

	Capital Stock and Additional Paid-in Capital	
	Stock Outstanding (000s)	Amount
Common shares outstanding as at February 28, 2018	536,734	\$ 2,560
Stock-based compensation	—	38
Exercise of stock options	26	—
Common shares issued for restricted share units settlements	817	—
Common shares issued for employee share purchase plan	191	2
Common shares outstanding as at August 31, 2018	<u>537,768</u>	<u>\$ 2,600</u>

The Company had 538 million common shares, 1 million options to purchase common shares, 24 million RSUs and 0.7 million deferred share units outstanding as at September 25, 2018. In addition, 60.5 million common shares are issuable upon conversion in full of the Debentures as described in Note 8.

On June 23, 2017, the Company announced that it received acceptance from the Toronto Stock Exchange with respect to a normal course issuer bid to purchase for cancellation up to 31 million common shares of the Company, or approximately 6.4% of the outstanding public float at May 31, 2017. During the six months ended August 31, 2017, the Company repurchased approximately 2 million common shares at a cost of approximately \$17 million. The Company recorded a reduction of approximately \$9 million to capital stock and the amount paid in excess of the per share paid-in capital of the common shares of approximately \$8 million was charged to retained earnings. All common shares repurchased by the Company pursuant to the normal course issuer bid have been canceled. During the six months ended August 31, 2018, the Company did not repurchase any common shares. The common share repurchase program expired on June 26, 2018.

(b) Stock-based compensation

Restricted Share Units

The Company recorded compensation expense with respect to restricted share units (“RSUs”) of approximately \$19 million and \$38 million for the three and six months ended August 31, 2018 (three and six months ended August 31, 2017 - \$11 million and \$24 million, respectively).

The following table sets forth the Company’s RSU activity for the six months ended August 31, 2018:

	RSUs Outstanding			
	Number (000s)	Weighted- Average Grant Date Fair Value	Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (millions)
Balance as at February 28, 2018	14,932	\$ 7.87		
Granted during the period	10,311	9.20		
Vested during the period	(817)	8.97		
Forfeited/canceled during the period	(597)	8.79		
Balance as at August 31, 2018	<u>23,829</u>	<u>\$ 8.38</u>	<u>1.39</u>	<u>\$ 254</u>
Expected to vest as at August 31, 2018	<u>22,874</u>	<u>\$ 8.34</u>	<u>1.39</u>	<u>\$ 244</u>

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

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As at August 31, 2018, there was \$110 million of unrecognized compensation expense related to RSUs that will be expensed over the vesting period, which, on a weighted-average basis, results in a period of approximately 2.05 years.

During the six months ended August 31, 2018, there were 10,311,101 RSUs granted (six months ended August 31, 2017 - 523,452), all of which will be settled upon vesting by the issuance of new common shares.

2019 Executive Chair Incentive Grant

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

Time-Based Equity Award

The time-based equity award consists of 5 million time-based RSUs that will vest annually in five equal tranches beginning on November 3, 2019.

Market Performance-Based Equity Award

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

Contingent Cash Award

The contingent cash award consists of a cash amount of \$90 million that becomes payable should the 10-day average closing price of the Company’s common shares on the New York Stock Exchange reach \$30. As the award is triggered by the Company’s share price, it is considered stock-based compensation and accounted for as a share-based liability award, the fair value of which is determined at each reporting period end utilizing an option pricing model and the associated compensation expense for the reporting period recorded. If unearned, the contingent cash award will terminate on November 3, 2023. See also the discussion under “Other contingencies” in Note 12. The Company recorded compensation expense with respect to the contingent cash award of approximately \$1 million for the three and six months ended August 31, 2018. The liability recorded in respect to the award was \$1 million as at August 31, 2018 and is included within accrued liabilities.

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10. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended		Six Months Ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
Net income (loss) for basic earnings (loss) per share available to common shareholders	\$ 43	\$ 19	\$ (17)	\$ 690
Less: Debentures fair value adjustment ⁽¹⁾⁽²⁾	(70)	(70)	(42)	—
Add: Interest expense on Debentures ⁽¹⁾⁽²⁾	6	6	11	—
Net income (loss) for diluted earnings (loss) per share available to common shareholders	\$ (21)	\$ (45)	\$ (48)	\$ 690
Weighted average number of shares outstanding (000s) - basic	537,299	531,381	537,136	531,234
Effect of dilutive securities (000s)				
Stock-based compensation ⁽³⁾⁽⁴⁾⁽⁵⁾	—	—	—	14,898
Conversion of Debentures ⁽¹⁾⁽²⁾	60,500	60,500	60,500	—
Weighted average number of shares and assumed conversions (000s) - diluted ⁽⁴⁾	597,799	591,881	597,636	546,132
Earnings (loss) per share - reported				
Basic	\$ 0.08	\$ 0.04	\$ (0.03)	\$ 1.30
Diluted ⁽⁴⁾	\$ (0.04)	\$ (0.08)	\$ (0.08)	\$ 1.26

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

(2) The Company has presented the dilutive effect of the Debentures using the if-converted method, assuming conversion at the beginning of the quarter for the three and six months ended August 31, 2018 and three months ended August 31, 2017. Accordingly, to calculate diluted earnings (loss) per share, the Company adjusted net income (loss) by eliminating the fair value adjustment made to the Debentures and interest expense incurred on the Debentures in the three and six months ended August 31, 2018 and three months ended August 31, 2017, and added the number of shares that would have been issued upon conversion to the diluted weighted average number of shares outstanding. See Note 8 for details on the Debentures.

(3) The Company has not presented the dilutive effect of in-the-money options and RSUs that will be settled upon vesting by the issuance of new common shares in the calculation of earnings (loss) per share for the three and six months ended August 31, 2018, and three months ended August 31, 2017 as to do so would be antidilutive.

(4) The Company's Consolidated Financial Statements for the three and six months ended August 31, 2017, included in the calculation of diluted shares for the three months ended August 31, 2017 the effect of in-the-money options and RSUs which, if included after accounting for the dilutive effect of the Debentures using the if-converted method instead of before, is antidilutive. The Company previously calculated a weighted average of 606,645 thousand diluted shares and a diluted loss per share of \$0.07 for three months ended August 31, 2017, a difference of 14,764 thousand shares and approximately \$0.01 loss per share from the above.

(5) The Company has presented the dilutive effect of in-the-money options and RSUs that will be settled upon vesting by the issuance of new common shares in the calculation of earnings (loss) per share for the six months ended August 31, 2017. As at August 31, 2017, there were 1,240,054 options and 20,199,575 RSUs outstanding that were in-the-money and may have a dilutive effect on earnings (loss) per share in future periods.

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11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Foreign Currency Cumulative Translation Adjustment	Accumulated Net Unrealized Gains (Losses) on Cash Flow Hedges	Other Post- Employment Benefit Obligations	Accumulated Net Unrealized Gains (Losses) on Available- for-Sale Investments	Change in fair value from instrument- specific credit risk on Debentures	Total
AOCI as at February 28, 2018	\$ (1)	\$ (1)	\$ (1)	\$ (7)	\$ —	\$ (10)
Cumulative impact of adoption of ASU 2016-01	—	—	—	8	(14)	(6)
Other comprehensive income (loss) before reclassifications	(4)	(2)	—	1	1	(4)
Amounts reclassified from AOCI into income (loss)	—	2	—	—	—	2
Other comprehensive income (loss) for the period	(4)	—	—	9	(13)	(8)
AOCI as at August 31, 2018	<u>\$ (5)</u>	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ 2</u>	<u>\$ (13)</u>	<u>\$ (18)</u>

During the three and six months ended August 31, 2018, \$1 million and \$2 million, respectively, in losses (pre-tax and post-tax) associated with cash flow hedges were reclassified from AOCI into selling, marketing and administration costs.

12. COMMITMENTS AND CONTINGENCIES

(a) Letters of credit

The Company had \$29 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business as of August 31, 2018. See the discussion of restricted cash in Note 2.

(b) Qualcomm arbitration award

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

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

(c) Contingencies

Litigation

The Company is involved in litigation in the normal course of its business, both as a defendant and as a plaintiff. The Company is subject to a variety of claims (including claims related to patent infringement, purported class actions and other claims in the normal course of business) and may be subject to additional claims either directly or through indemnities against claims that it provides to certain of its partners and customers. In particular, the industry in which the Company competes has many participants that own, or claim to own, intellectual property, including participants that have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used by the Company in its products. The Company has received, and may receive in

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the future, assertions and claims from third parties that the Company's products infringe on their patents or other intellectual property rights. Litigation has been, and will likely continue to be, necessary to determine the scope, enforceability and validity of third-party proprietary rights or to establish the Company's proprietary rights. Regardless of whether claims against the Company have merit, those claims could be time-consuming to evaluate and defend, result in costly litigation, divert management's attention and resources, subject the Company to significant liabilities and could have the other effects that are described in greater detail under "Risk Factors" in the Company's unaudited Annual Information Form for the fiscal year ended February 28, 2018, which is included in the Company's Annual Report on Form 40-F, including the risk factors entitled "Litigation against the Company may result in adverse outcomes" and "The Company could be found to have infringed on the intellectual property rights of others".

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

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

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

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

On March 14, 2014, the four putative U.S. class actions were consolidated in the U.S. District Court for the Southern District of New York, and on May 27, 2014, a consolidated amended class action complaint was filed. On March 13, 2015, the Court issued an order granting the Company's motion to dismiss. The Court denied the plaintiffs' motion for reconsideration and for leave to file an amended complaint on November 13, 2015. On August 24, 2016, the U.S. Court of Appeals for the Second Circuit affirmed the District Court order dismissing the complaint, but vacated the order denying leave to amend and remanded to the District Court for further proceedings in connection with the plaintiffs' request for leave to amend. The Court granted the plaintiffs' motion for leave to amend on September 13, 2017. On September 29, 2017, the plaintiffs filed a second consolidated amended class action complaint (the "Second Amended Complaint"), which added the Company's Chief Legal Officer as a defendant. The Court denied the motion to dismiss the Second Amended Complaint on March 19, 2018. During the first quarter of fiscal 2019, the U.S. class actions lawsuit proceeded to Discovery.

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

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On October 12, 2015, a group of Good Technology Corporation's ("Good's") institutional investors filed a putative class action lawsuit on behalf of Good's common shareholders against members of Good's former board of directors (the "GTC Directors") related to the Company's acquisition of Good (the "GTC Lawsuit"). The plaintiffs allege that the GTC Directors breached their fiduciary duty by engaging in a self-interested transaction that benefited the preferred shareholders at the expense of the common shareholders. The plaintiffs are seeking monetary damages, as well as rescission of the merger agreement between Good and the Company. While neither Good nor the Company are parties to the GTC Lawsuit, Good has certain obligations to indemnify some of the defendants and is providing a defense. On October 29, 2015, Good filed a complaint alleging that the plaintiffs breached their contractual obligations under a voting agreement providing that, in the event of a sale transaction that was approved by both the GTC Directors and a majority of the Good preferred shareholders, the plaintiffs were required to vote their shares in favour of the transaction and refrain from exercising any appraisal or dissent rights (the "Voting Rights Lawsuit"). Good alleges that the filing of the GTC Lawsuit was a breach of the voting agreement. On December 31, 2015, several Good shareholders filed a petition seeking appraisal against Good (the "Appraisal Lawsuit"). On August 25, 2016, the Court granted the plaintiff's motion for leave to file an amended complaint in the GTC Lawsuit naming additional defendants, including JP Morgan Chase and various venture capital funds whose designees were Good directors (the "Fund Defendants"). Good and the Company are not named in the amended complaint. On May 23, 2017, the plaintiffs reached a tentative settlement with the GTC Directors and Fund Defendants of the GTC Lawsuit. On May 31, 2017, the plaintiffs and JP Morgan Chase reached a tentative settlement of the GTC Lawsuit. On July 24, 2017, Good, the petitioners in the Appraisal Lawsuit and the defendants in the Voting Rights Lawsuit entered into an Agreement of Settlement, Dismissal, and Release and filed same with the court. On August 8, 2017, the Court issued an order granting the parties' settlement terms. On August 18, 2017, the Company and JP Morgan Chase entered into a Settlement Funding Agreement, by which the Company agreed to fund JP Morgan Chase's settlement with the plaintiffs. On August 22, 2017, JP Morgan Chase and the plaintiffs filed a Stipulation and Agreement of Compromise and Settlement with the Court. The Court approved the settlement between plaintiffs and JP Morgan Chase and entered a Final Judgment on April 5, 2018. On November 9, 2017, the Company filed a demand for arbitration seeking the release of funds from an escrow fund account established when the Company acquired Good to indemnify the Company for certain costs incurred in connection with the defense and settlement of the GTC Lawsuit and the Appraisal Lawsuit. On August 15, 2018, all parties entered into a Global Settlement Agreement resolving all remaining disputes. The Court has scheduled a final approval hearing for November 5, 2018.

The GTC Lawsuit is stayed pending court approval of all tentative settlements. During the first quarter of fiscal 2018, the Company accrued \$10 million for legal costs related to litigation arising out of its acquisition of Good. As a result of the Global Settlement Agreement reached in the second quarter of fiscal 2019, the Company recorded a recovery of \$2 million against this accrual.

Other contingencies

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

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

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

(e) Indemnifications

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

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

13. REVENUE AND SEGMENT DISCLOSURES

Revenue

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

	Three Months Ended		Six Months Ended	
	August 31, 2018 ⁽¹⁾	August 31, 2017 ⁽²⁾	August 31, 2018 ⁽¹⁾	August 31, 2017 ⁽²⁾
North America ⁽³⁾	\$ 133	\$ 133	\$ 272	\$ 260
Europe, Middle East and Africa	53	76	105	146
Other regions	24	29	46	67
Total	\$ 210	\$ 238	\$ 423	\$ 473
North America ⁽³⁾	63.3%	55.9%	64.3%	55.0%
Europe, Middle East and Africa	25.3%	31.9%	24.8%	30.8%
Other regions	11.4%	12.2%	10.9%	14.2%
Total	100.0%	100.0%	100.0%	100.0%

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

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

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

Total revenue, classified by product and service type, was as follows:

	Three Months Ended		Six Months Ended	
	August 31, 2018 ⁽¹⁾	August 31, 2017 ⁽²⁾	August 31, 2018 ⁽¹⁾	August 31, 2017 ⁽²⁾
Enterprise software and services	\$ 88	\$ 91	\$ 167	\$ 183
BlackBerry Technology Solutions	49	38	96	74
Licensing, IP and other	56	56	119	88
Handheld devices	5	16	13	53
SAF	12	37	28	75
Total	\$ 210	\$ 238	\$ 423	\$ 473

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

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

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

	Three Months Ended August 31, 2018	Six Months Ended August 31, 2018
Products and services transferred over time	\$ 120	\$ 245
Products and services transferred at a point in time	90	178
Total	\$ 210	\$ 423

Revenue contract balances

The following table sets forth the activity in the Company's revenue contract balances for the six months ended August 31, 2018:

	Accounts Receivable	Deferred Revenue	Deferred Commissions
Opening balance as at March 1, 2018 (as adjusted for ASC 606)	\$ 151	\$ 292	\$ 21
Increases due to invoicing of new or existing contracts, associated contract acquisition costs, or other	353	295	9
Decreases due to payment, fulfillment of performance obligations, or other	(359)	(302)	(11)
Decrease, net	(6)	(7)	(2)
Closing balance as at August 31, 2018	\$ 145	\$ 285	\$ 19

Transaction price allocated to the remaining performance obligations

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

	As at August 31, 2018			
	Less than 12 Months	12 to 24 Months	Thereafter	Total
Remaining performance obligations	\$ 289	\$ 133	\$ 133	\$ 555

Revenue recognized for performance obligations satisfied in prior periods

For the three and six months ended August 31, 2018, \$5 million and \$11 million in revenue was recognized for performance obligations satisfied in previous periods.

Segment disclosures

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

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Geographical distribution of assets

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

	As at			
	August 31, 2018		February 28, 2018	
	Property, Plant and Equipment, Intangible Assets and Goodwill	Total Assets	Property, Plant and Equipment, Intangible Assets and Goodwill	Total Assets
Canada	\$ 387	\$ 637	\$ 425	\$ 640
United States	614	2,888	627	2,922
Other	50	177	58	218
	<u>\$ 1,051</u>	<u>\$ 3,702</u>	<u>\$ 1,110</u>	<u>\$ 3,780</u>

Information about major customers

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