

BLACKBERRY LIMITED

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

June 22, 2018

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

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

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

Cautionary Note Regarding Forward-Looking Statements

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

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

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

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

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

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

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

Business Overview

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

Strategy

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

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

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

Products and Services

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

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

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

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

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

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

Recent Developments

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

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

2019 Executive Chair Incentive Grant

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

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

Normal Course Issuer Bid

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

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

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

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

Non-GAAP Financial Measures

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

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

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

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

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

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

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

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

(3) Included in Enterprise software and services revenue.

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

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

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

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

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

Q1 Fiscal 2018 Non-GAAP Adjustments

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

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

(1) Included in Enterprise software and services revenue

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

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

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

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

Accounting Policies and Critical Accounting Estimates

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

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

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

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

Recently Issued Accounting Pronouncements

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

First Quarter Fiscal 2019 Summary Results of Operations

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

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

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

Financial Highlights

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

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

Free Cash Flow

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

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

Debentures Fair Value Adjustment

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

RAP

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

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

Consolidated Revenue

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

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

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

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

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

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

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

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

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

Consolidated Gross Margin

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

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

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

Revenue

Revenue by Geography

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

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

North America Revenues

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

Europe, Middle East and Africa Revenues

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

Other Region Revenues

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

Revenue by Product and Service

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

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

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

Enterprise Software and Services

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

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

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

BTS

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

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

Licensing, IP and Other

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

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

Handheld Devices

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

Service Access Fees

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

Operating Expenses

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

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

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

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

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

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

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

Research and Development Expenses

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

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

Selling, Marketing and Administration Expenses

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

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

Amortization Expense

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

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

Amortization

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

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

Cost of Sales

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

Investment Income

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

Income Taxes

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

Net Income (loss)

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

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

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

Common Shares Outstanding

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

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

Selected Quarterly Financial Data

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

(in millions, except per share data)

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

Financial Condition

Liquidity and Capital Resources

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

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

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

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

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

Current Assets

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

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

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

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

Current Liabilities

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

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

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

Operating Activities

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

Investing Activities

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

Financing Activities

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

Aggregate Contractual Obligations

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

Debenture Financing and Other Funding Sources

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

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

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

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

Legal Proceedings

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

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

Market Risk of Financial Instruments

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

Foreign Exchange

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

Interest Rate

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

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

Credit and Customer Concentration

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

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

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

Changes in Internal Control Over Financial Reporting

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