

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

Consolidated Balance Sheets

	As at	
	August 31, 2019	February 28, 2019
Assets		
Current		
Cash and cash equivalents	\$ 460	\$ 548
Short-term investments	389	368
Accounts receivable, net	194	194
Other receivables	18	19
Income taxes receivable	10	9
Other current assets	60	56
	1,131	1,194
Restricted cash and cash equivalents	34	34
Long-term investments	55	55
Other long-term assets	35	28
Deferred income tax assets	—	2
Operating lease right-of-use assets	145	—
Property, plant and equipment, net	79	85
Goodwill	1,458	1,463
Intangible assets, net	996	1,068
	\$ 3,933	\$ 3,929
Liabilities		
Current		
Accounts payable	\$ 37	\$ 48
Accrued liabilities	191	192
Income taxes payable	18	17
Deferred revenue, current	249	214
	495	471
Deferred revenue, non-current	107	136
Operating lease liabilities	135	—
Other long-term liabilities	6	19
Long-term debt	627	665
Deferred income tax liabilities	1	2
	1,371	1,293
Commitments and contingencies (Note 11)		
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 - 548,335,900 voting common shares (February 28, 2019 - 547,357,972)	2,722	2,688
Deficit	(125)	(32)
Accumulated other comprehensive loss	(35)	(20)
	2,562	2,636
	\$ 3,933	\$ 3,929

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, 2019	\$ 2,688	\$ (32)	\$ (20)	\$ 2,636
Net loss	—	(79)	—	(79)
Other comprehensive loss	—	—	(15)	(15)
Cumulative impact of adoption of ASC 842	—	(14)	—	(14)
Shares issued:				
Stock-based compensation	31	—	—	31
Exercise of stock options	1	—	—	1
Employee share purchase plan	2	—	—	2
Balance as at August 31, 2019	\$ 2,722	\$ (125)	\$ (35)	\$ 2,562
	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)
Cumulative impact of adoption of ASC 606	—	(86)	—	(86)
Cumulative impact of adoption of ASU 2016-01	—	6	(6)	—
Shares issued:				
Stock-based compensation	38	—	—	38
Employee share purchase plan	2	—	—	2
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, 2019	August 31, 2018	August 31, 2019	August 31, 2018
Revenue	\$ 244	\$ 210	\$ 491	\$ 423
Cost of sales	68	49	138	101
Gross margin	176	161	353	322
Operating expenses				
Research and development	62	51	133	112
Selling, marketing and administration	132	106	253	206
Amortization	48	35	97	72
Debentures fair value adjustment	(23)	(70)	(51)	(42)
	219	122	432	348
Operating income (loss)	(43)	39	(79)	(26)
Investment income, net	—	5	3	11
Income (loss) before income taxes	(43)	44	(76)	(15)
Provision for income taxes	1	1	3	2
Net income (loss)	\$ (44)	\$ 43	\$ (79)	\$ (17)
Earnings (loss) per share				
Basic	\$ (0.08)	\$ 0.08	\$ (0.14)	\$ (0.03)
Diluted	\$ (0.10)	\$ (0.04)	\$ (0.19)	\$ (0.08)

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, 2019	August 31, 2018	August 31, 2019	August 31, 2018
Net income (loss)	\$ (44)	\$ 43	\$ (79)	\$ (17)
Other comprehensive income (loss)				
Net change in unrealized gains on available-for-sale debt securities	—	1	—	1
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, 2019 and August 31, 2018	1	(2)	—	(2)
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, 2019 and August 31, 2018	—	1	—	2
Foreign currency translation adjustment	(1)	—	(2)	(4)
Gain (loss) from change in fair value from instrument-specific credit risk on the Debentures	(6)	1	(13)	1
Other comprehensive income (loss)	<u>(6)</u>	<u>1</u>	<u>(15)</u>	<u>(2)</u>
Comprehensive income (loss)	<u>\$ (50)</u>	<u>\$ 44</u>	<u>\$ (94)</u>	<u>\$ (19)</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, 2019	August 31, 2018
Cash flows from operating activities		
Net loss	\$ (79)	\$ (17)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization	107	79
Deferred income taxes	1	—
Stock-based compensation	31	39
Non-cash consideration received from contract with a customer	(8)	—
Debentures fair value adjustment	(51)	(42)
Operating leases	(10)	—
Other	4	2
Net changes in working capital items:		
Accounts receivable, net	—	6
Other receivables	1	19
Income taxes receivable	(1)	11
Other assets	(10)	(9)
Accounts payable	(11)	(12)
Income taxes payable	1	2
Accrued liabilities	(26)	(43)
Deferred revenue	4	(7)
Other long-term liabilities	—	(6)
Net cash provided by (used in) operating activities	(47)	22
Cash flows from investing activities		
Acquisition of long-term investments	—	(1)
Acquisition of property, plant and equipment	(6)	(9)
Proceeds on sale of property, plant and equipment	—	1
Acquisition of intangible assets	(16)	(16)
Business acquisitions, net of cash acquired	1	—
Acquisition of short-term investments	(553)	(2,178)
Proceeds on sale or maturity of short-term investments	532	1,939
Net cash used in investing activities	(42)	(264)
Cash flows from financing activities		
Issuance of common shares	3	2
Finance lease liability	(1)	—
Net cash provided by financing activities	2	2
Effect of foreign exchange loss on cash, cash equivalents, restricted cash, and restricted cash equivalents	(1)	(2)
Net decrease in cash, cash equivalents, restricted cash, and restricted cash equivalents during the period	(88)	(242)
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	582	855
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	\$ 494	\$ 613

See notes to consolidated financial statements.

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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)

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, 2019 (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, 2019 are not necessarily indicative of the results that may be expected for the full year ending February 29, 2020.

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, which were adopted during fiscal 2020.

Leases

On March 1, 2019, the Company adopted the new standard on leases, Accounting Standards Codification 842 (“ASC 842”). The Company determines if an arrangement is or contains a lease at inception. Such determination requires consideration of all relevant facts and circumstances. Operating leases are included in operating lease right-of-use (“ROU”) assets, accrued liabilities, and operating lease liabilities on the Company’s consolidated balance sheets. Finance leases are included in property, plant and equipment, net, accrued liabilities, and other long-term liabilities on the Company’s consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. As most of the Company’s leases do not provide an implicit discount rate, the Company primarily uses its incremental borrowing rate, based on the information available at the commencement date of the lease, in determining the present value of future payments. The Company’s incremental borrowing rate is determined based on the rate of interest that the Company would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term in a similar economic environment. The operating lease ROU asset includes any lease payments made, lease incentives and initial direct costs incurred. The lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. In some cases, the Company has index-based variable lease payments for which an estimated rate is applied to the initial lease payment to determine future lease payment amounts.

The Company has building, car and data center lease agreements with lease and non-lease components that are accounted for separately. The Company has elected the short-term lease exemption, which allows the Company to not apply the recognition requirements to lease terms of 12 months or less on commencement date. The Company also elected the package of practical expedients where lease classification, embedded leases, and initial direct costs are not reassessed upon adoption of ASC 842.

For additional information concerning the Company’s leases, see Note 12.

Derivative financial instruments

On March 1, 2019, the Company adopted the new Accounting Standards Update (“ASU”) 2017-12 related to accounting for hedging activities. The Company uses derivative financial instruments, including forward contracts and options, to hedge certain foreign currency exposures. The Company does not use derivative financial instruments for speculative purposes.

The Company records all derivative instruments at fair value on the consolidated balance sheets. The fair value of these instruments is calculated based on notional and exercise values, transaction rates, market quoted currency spot rates,

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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)

forward points, volatilities and interest rate yield curves. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative instrument and the resulting designation.

For derivative instruments designated as cash flow hedges, the entire change in the value of the hedging instrument included in the assessment of hedge effectiveness is initially reported as a component of accumulated other comprehensive income (loss) (“AOCI”), net of tax, and subsequently reclassified into income in the same period or periods in which the hedged item affects income. In order for the Company to receive hedge accounting treatment, the cash flow hedge must be highly effective in offsetting changes in the value of the hedged item and the relationship between the hedging instrument and the associated hedged item must be formally documented at the inception of the hedge relationship. Hedge effectiveness is formally assessed, both at hedge inception and on an ongoing basis, to determine whether the derivatives used in hedging transactions are highly effective in offsetting changes in the value of the hedged items and whether they are expected to continue to be highly effective in future periods.

The Company formally documents relationships between hedging instruments and associated hedged items. This documentation includes: identification of the specific foreign currency asset, liability or forecasted transaction being hedged; the nature of the risk being hedged; the hedge objective; and the method of assessing hedge effectiveness. If an anticipated transaction is deemed no longer likely to occur, the corresponding derivative instrument is de-designated as a hedge and any associated unrealized gains and losses in AOCI are recognized in income at that time. Any future changes in the fair value of the instrument are recognized in current income.

For any derivative instruments that do not meet the requirements for hedge accounting, or for any derivative instruments for which hedge accounting is not elected, the changes in fair value of the instruments are recognized in income in the current period and will generally offset the changes in the U.S. dollar value of the associated asset, liability or forecasted transaction.

Accounting Standards Adopted during Fiscal 2020

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASC 842 on leases. The 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 result in the lessee recognizing a ROU asset and a corresponding lease liability. The operating lease ROU asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred on transition. 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. The Company adopted this guidance in the first quarter of fiscal 2020 using the modified retrospective method for all leases that existed at or commence after the date of initial application. As a result of the adoption of the new standard on leases, the Company recognized ROU assets of approximately \$161 million, lease liabilities of approximately \$175 million, and a cumulative adjustment to increase the deficit of approximately \$14 million in the consolidated balance sheet as at March 1, 2019. Future lease costs included in the Resource Alignment Program (“RAP”) of approximately \$14 million, which were accrued for prior to adoption of ASC 842, and were previously included in accrued liabilities and other long-term liabilities, are now presented in accrued liabilities and operating lease liabilities in the consolidated balance sheet as at March 1, 2019. As a result, total operating lease liabilities were \$189 million in the consolidated balance sheet as at March 1, 2019.

In August 2017, the FASB issued ASU 2017-12. This guidance expands the range of strategies that qualify for hedge accounting, changes how certain hedging relationships are presented in the financial statements, and simplifies the application of hedge accounting in certain situations. The guidance is effective for interim and annual periods beginning after December 15, 2018. The Company adopted this guidance in the first quarter of fiscal 2020 and it did not have a material impact to the consolidated financial results.

Issued Accounting Pronouncements

In June 2016, the FASB issued guidance related to the measurement of credit losses on financial instruments, ASU 2016-13. This guidance replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses, requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates, and requires entities to estimate an expected lifetime credit loss on its financial assets. The guidance is effective for interim and annual periods beginning after December 15, 2019. The Company will adopt this guidance in the first quarter of fiscal 2021 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

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2. FAIR VALUE MEASUREMENTS, CASH, CASH EQUIVALENTS AND INVESTMENTS

Fair Value

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.

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. 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 and the fair value of the Debentures (as defined in Note 7) are determined, see the "Derivative financial instruments" and "Convertible debentures" accounting policies in Note 1 to the Annual Financial Statements.

There were no changes in the fair value of the Company's Level 3 assets for the three and six months ended August 31, 2019 and August 31, 2018. 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 transfers in or out of Level 3 assets during the three and six months ended August 31, 2019 or August 31, 2018.

The Company's Level 3 assets measured on a recurring basis consist of auction rate securities. For a detailed description of the Company's valuation of auction rate securities, see Note 4 to the Annual Financial Statements.

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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)

Cash, Cash Equivalents and Investments

The components of cash, cash equivalents and investments by fair value level as at August 31, 2019 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	\$ 174	\$ —	\$ —	\$ —	\$ 174	\$ 170	\$ —	\$ —	\$ 4
Other investments	36	—	—	—	36	—	—	36	—
	<u>210</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>210</u>	<u>170</u>	<u>—</u>	<u>36</u>	<u>4</u>
Level 1:									
Equity securities	10	—	(10)	—	—	—	—	—	—
Level 2:									
Term deposits, certificates of deposits and GICs	135	—	—	—	135	25	80	—	30
Bankers' acceptances/bearer deposit notes	78	—	—	—	78	27	51	—	—
Commercial paper	204	—	—	—	204	155	49	—	—
Non-U.S. promissory notes	75	—	—	—	75	30	45	—	—
Non-U.S. government sponsored enterprise notes	176	—	—	—	176	38	138	—	—
Non-U.S. treasury bills/notes	14	—	—	—	14	—	14	—	—
U.S. treasury bills/notes	27	—	—	—	27	15	12	—	—
	<u>709</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>709</u>	<u>290</u>	<u>389</u>	<u>—</u>	<u>30</u>
Level 3:									
Auction rate securities	20	2	—	(3)	19	—	—	19	—
	<u>\$ 949</u>	<u>\$ 2</u>	<u>\$ (10)</u>	<u>\$ (3)</u>	<u>\$ 938</u>	<u>\$ 460</u>	<u>\$ 389</u>	<u>\$ 55</u>	<u>\$ 34</u>

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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 components of cash, cash equivalents and investments by fair value level as at February 28, 2019 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	\$ 326	\$ —	\$ —	\$ —	\$ 326	\$ 322	\$ —	\$ —	\$ 4
Other investments	36	—	—	—	36	—	—	36	—
	<u>362</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>362</u>	<u>322</u>	<u>—</u>	<u>36</u>	<u>4</u>
Level 1:									
Equity securities	10	—	(10)	—	—	—	—	—	—
Level 2:									
Term deposits, certificates of deposits and GICs	85	—	—	—	85	—	55	—	30
Bankers' acceptances	39	—	—	—	39	4	35	—	—
Commercial paper	264	—	—	—	264	177	87	—	—
Non-U.S. promissory notes	20	—	—	—	20	20	—	—	—
Non-U.S. government sponsored enterprise notes	139	—	—	—	139	25	114	—	—
Non-U.S. treasury bills/notes	35	—	—	—	35	—	35	—	—
U.S. treasury bills/notes	42	—	—	—	42	—	42	—	—
	<u>624</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>624</u>	<u>226</u>	<u>368</u>	<u>—</u>	<u>30</u>
Level 3:									
Auction rate securities	20	2	—	(3)	19	—	—	19	—
	<u>\$ 1,016</u>	<u>\$ 2</u>	<u>\$ (10)</u>	<u>\$ (3)</u>	<u>\$ 1,005</u>	<u>\$ 548</u>	<u>\$ 368</u>	<u>\$ 55</u>	<u>\$ 34</u>

As at August 31, 2019, the Company had equity investments without readily determinable fair value of \$36 million (February 28, 2019 - \$36 million).

There were no realized gains or losses on available-for-sale securities for the three and six months ended August 31, 2019 or the three and six months ended August 31, 2018.

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 primarily support certain leasing arrangements entered into in the ordinary course of business, for terms ranging from one month to nine 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.

The following table provides a reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents as at August 31, 2019 and February 28, 2019 from the consolidated balance sheets to the consolidated statements of cash flows:

	As at	
	August 31, 2019	February 28, 2019
Cash and cash equivalents	\$ 460	\$ 548
Restricted cash and cash equivalents	34	34
Total cash, cash equivalents, restricted cash, and restricted cash equivalents presented in the consolidated statements of cash flows	<u>\$ 494</u>	<u>\$ 582</u>

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The contractual maturities of available-for-sale investments as at August 31, 2019 and February 28, 2019 were as follows:

	As at			
	August 31, 2019		February 28, 2019	
	Cost Basis ⁽¹⁾	Fair Value	Cost Basis ⁽¹⁾	Fair Value
Due in one year or less	\$ 709	\$ 709	\$ 624	\$ 624
Due after five years	17	19	17	19
No fixed maturity	10	—	10	—
	<u>\$ 736</u>	<u>\$ 728</u>	<u>\$ 651</u>	<u>\$ 643</u>

⁽¹⁾ Cost basis includes other-than-temporary impairment.

As at August 31, 2019, the Company had investments with continuous unrealized losses totaling \$10 million, consisting of unrealized losses on equity securities (February 28, 2019 - continuous unrealized losses totaling \$10 million).

3. 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, 2019	As at February 28, 2019	As at August 31, 2019	As at February 28, 2019
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)	—
Total estimated fair value	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ (1)</u>	<u>\$ (1)</u>
Notional amount	<u>\$ 94</u>	<u>\$ 93</u>	<u>\$ 144</u>	<u>\$ 91</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.

The Company enters into forward and option contracts to hedge exposures relating to anticipated foreign currency transactions. These contracts have been designated as cash flow hedges. The maturity dates of these instruments range from September 2019 to August 2020. As at August 31, 2019, the net unrealized loss on these forward and option contracts (including option premiums paid) was nil (February 28, 2019 - net unrealized loss of nil). 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, 2019, the Company estimates that approximately nil 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, 2019:

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

	Amount of Loss Recognized in Other Comprehensive Loss on Derivative Instruments (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Loss Reclassified from AOCI into Income (Effective Portion)	
			Three Months Ended August 31, 2019	Six Months Ended August 31, 2019
Foreign exchange contracts	\$ —	Selling, marketing and administration	\$ —	\$ —
Total	\$ —		\$ —	\$ —

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 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 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	\$ (2)		\$ (1)	\$ (2)

As part of its business operations, 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 (loss) 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 2019 to November 2019. As at August 31, 2019, there were no unrealized gains or losses recorded in respect of these instruments (February 28, 2019 - 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, 2019 and August 31, 2018:

	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, 2019	August 31, 2018	August 31, 2019	August 31, 2018
Foreign exchange contracts	Selling, marketing and administration	\$ 1	\$ 1	\$ —	\$ 4
Total		\$ 1	\$ 1	\$ —	\$ 4

Selling, marketing and administration expense for the three and six months ended August 31, 2019 included nil in gains and losses with respect to foreign exchange, net of balance sheet revaluation (three and six months ended August 31, 2018 - losses of \$2 million and \$2 million, respectively).

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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, 2019, 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 100% (February 28, 2019 - 58%). As at August 31, 2019, the Company had a credit risk exposure to counterparties with outstanding or unsettled foreign exchange derivative instruments of \$1 million on a notional amount of \$57 million relating to derivative assets and a notional amount of \$47 million relating to derivative liabilities (February 28, 2019 - total credit risk exposure of nil on a notional amount of \$93 million relating to derivative assets and a notional amount of \$91 million relating to derivative liabilities).

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, 2019, no single issuer represented more than 9% of the total cash, cash equivalents and investments (February 28, 2019 - no single issuer represented more than 16% of the total cash, cash equivalents and investments), and the largest single issuer was HSBC.

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 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.

4. CONSOLIDATED BALANCE SHEETS DETAILS

Accounts Receivable, Net

The allowance for doubtful accounts as at August 31, 2019 was \$25 million (February 28, 2019 - \$25 million).

There were two customers that each comprised more than 10% of accounts receivable as at August 31, 2019 (February 28, 2019 - one customer comprised more than 10%).

Other Current Assets

As at August 31, 2019, other current assets include items such as the current portion of deferred commissions, and prepaid expenses, among other items, none of which were greater than 5% of the current assets balance in all periods presented.

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Property, Plant and Equipment, Net

Property, plant and equipment comprised the following:

	As at	
	August 31, 2019	February 28, 2019
Cost		
Buildings, leasehold improvements and other	\$ 67	\$ 68
BlackBerry operations and other information technology	89	85
Manufacturing, repair and research and development equipment	73	73
Furniture and fixtures	13	14
	<u>242</u>	<u>240</u>
Accumulated amortization	163	155
Net book value	<u>\$ 79</u>	<u>\$ 85</u>

Intangible Assets, Net

Intangible assets comprised the following:

	As at August 31, 2019		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	\$ 1,019	\$ 597	\$ 422
Intellectual property	486	261	225
Other acquired intangibles	494	145	349
	<u>\$ 1,999</u>	<u>\$ 1,003</u>	<u>\$ 996</u>
	As at February 28, 2019		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	\$ 1,020	\$ 557	\$ 463
Intellectual property	466	239	227
Other acquired intangibles	494	116	378
	<u>\$ 1,980</u>	<u>\$ 912</u>	<u>\$ 1,068</u>

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

For the six months ended August 31, 2019, amortization expense related to intangible assets amounted to \$95 million (six months ended August 31, 2018 - \$70 million). During the six months ended August 31, 2019, additions to intangible assets primarily consisted of patents received as non-cash consideration in a contract with a customer, 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, 2019 and assuming no subsequent impairment of the underlying assets, the annual amortization expense for the remainder of fiscal 2020 and each of the five succeeding years is expected to be as follows: 2020 - \$89 million; 2021 - \$153 million; 2022 - \$135 million; 2023 - \$105 million; 2024 - \$98 million; and 2025 - \$92 million.

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Goodwill

Changes to the carrying amount of goodwill were as follows:

	Carrying Amount
Carrying amount as at February 28, 2019	\$ 1,463
Effect of foreign exchange on non-U.S. dollar denominated goodwill	(3)
Measurement period adjustment (see Note 5)	(2)
Carrying amount as at August 31, 2019	\$ 1,458

Other Long-term Assets

As at August 31, 2019, other long-term assets include items such as long-term portion of deferred commission and long-term receivables, among other items, none of which were greater than 5% of total assets in any of the periods presented.

Accrued Liabilities

Accrued liabilities comprised the following:

	As at	
	August 31, 2019	February 28, 2019
Variable incentive accrual	\$ 16	\$ 36
Operating lease liabilities, current	33	—
Other	142	156
	\$ 191	\$ 192

Other accrued liabilities include, among other items, accrued royalties, current RAP liabilities, 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 consist of the long-term portion of finance lease liabilities and non-lease components of RAP liabilities. It previously included the present value of the long-term portion of accrued future lease payments associated with RAP, which are presented in operating lease liabilities as of the adoption of ASC 842. See Note 1.

5. BUSINESS ACQUISITIONS

On February 21, 2019, the Company acquired all of the issued and outstanding shares of Cylance Inc. (“Cylance”), an artificial intelligence and cybersecurity leader, for approximately \$1.4 billion in cash and common shares, plus the assumption of unvested employee incentive awards. The acquisition of Cylance is a strategic addition to the Company’s end-to-end secure communications portfolio. The accounting for the acquisition of Cylance was completed in the second quarter of fiscal 2020, as the final calculation of working capital of Cylance was finalized.

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The following table summarizes the fair value allocations of the acquisition price of the assets acquired and liabilities assumed during fiscal 2019:

	Preliminary balance at February 28, 2019	Measurement Period Adjustment	Balance as at August 31, 2019
Non-cash assets acquired			
Current assets	\$ 40	\$ (6)	\$ 34
Property, plant and equipment and other long-term assets	25	—	25
Intangible assets			
Acquired technology	283	—	283
In-process research and development	66	—	66
Customer relationships	277	—	277
Trade name	20	—	20
Goodwill ⁽¹⁾	899	(2)	897
	<u>1,610</u>	<u>(8)</u>	<u>1,602</u>
Liabilities assumed			
Current liabilities	27	1	28
Debt	125	—	125
Deferred revenue ⁽²⁾	95	(2)	93
Deferred tax liability	22	1	23
Other long-term liabilities	8	(7)	1
	<u>277</u>	<u>(7)</u>	<u>270</u>
Net non-cash assets acquired	<u>1,333</u>	<u>(1)</u>	<u>1,332</u>
Cash acquired	10	—	10
Restricted cash acquired	4	—	4
Net assets acquired	<u>1,347</u>	<u>(1)</u>	<u>1,346</u>
Settlement of acquiree debt ⁽³⁾	125	—	125
	<u>\$ 1,472</u>	<u>\$ (1)</u>	<u>\$ 1,471</u>
Consideration			
Cash consideration	\$ 1,416	\$ (1)	\$ 1,415
Replacement Awards issued ⁽⁴⁾	21	—	21
Exchange shares ⁽⁵⁾	35	—	35
Total consideration	<u>\$ 1,472</u>	<u>\$ (1)</u>	<u>\$ 1,471</u>

(1) Goodwill represents the excess of the acquisition price over the fair value of net assets acquired, which is not expected to be deductible for tax purposes when goodwill results from share purchases.

(2) The fair value of deferred revenue represents the costs to service the assumed obligations, plus a normal profit margin as required under purchase accounting.

(3) \$125 million in cash was paid to existing debt holders to settle Cylance debt outstanding at acquisition.

(4) Fair value of 8,320,130 options and 824,046 RSUs (“Replacement Awards”) issued in connection with unvested Cylance employee equity awards, related to pre-combination service and considered purchase consideration. See Note 11(b) to the Annual Financial Statements for details on the Replacement Awards.

(5) In lieu of cash, a proportion of consideration owed to certain Cylance shareholders will be paid in BlackBerry common shares issued from treasury in equal instalments on the next three anniversary dates of the acquisition. There are no service or other requirements associated with the issuance of these shares.

The weighted average amortization period of the acquired technology, in-process research and development, customer relationships and trade name related to the business acquisitions completed during the year ended February 28, 2019 is approximately 8 years, 9 years, 9 years and 7 years, respectively.

The Company incurred \$12 million in acquisition-related costs included in selling, general and administration expenses for the fiscal year ended February 28, 2019.

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The Company recorded a measurement period recovery of \$3 million in selling, general and administration expenses for the six months ended August 31, 2019, as the amount would have been recognized in the prior fiscal year, if the adjustment to the provisional amounts had been recognized as of the acquisition date.

The amounts of revenue and loss before income taxes of the acquisition above included in the consolidated statements of operations for the year ended February 28, 2019 are as follows:

	Revenue	Loss before income taxes
Actuals from acquisition date to February 28, 2019	\$ 2	\$ (5)

Supplemental Pro Forma Combined Financial Statements

The following pro forma combined results for the year ended February 28, 2019 reflect the consolidated statements of operations of the Company as if the acquisition of Cylance had occurred at the beginning of fiscal 2019. These results combine the historical results of Cylance’s consolidated statements of operations and are not necessarily indicative of the consolidated results of operations of the combined business had the acquisitions actually occurred at the beginning of fiscal 2019 or of the results of future operations of the combined business.

The supplemental pro forma information, as if the acquisitions had occurred on March 1, 2018, is as follows:

	For the Year Ended February 28, 2019
Revenue	\$ 1,027
Net loss ⁽¹⁾	(78)

⁽¹⁾ Includes measurement period adjustments identified for the six months ended August 31, 2019 of \$3 million to reflect if the adjustment to the provisional amounts had been recognized as of the acquisition date.

6. INCOME TAXES

For the six months ended August 31, 2019, the Company’s net effective income tax expense rate was approximately 4% compared to a net effective income tax expense rate of 13% for the six months ended August 31, 2018. 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, 2019 were \$84 million (February 28, 2019 - \$84 million). As at August 31, 2019, \$72 million of the unrecognized income tax benefits have been netted against deferred income tax assets and \$12 million has been recorded within income taxes payable on the Company’s consolidated balance sheets.

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.

7. 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 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.

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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 change in fair value of the Debentures for the six months ended August 31, 2019:

	As at August 31, 2019
Balance as at February 28, 2019	\$ 665
Change in fair value of the Debentures	(38)
Balance as at August 31, 2019	<u>\$ 627</u>

The difference between the fair value of the Debentures and the unpaid principal balance of \$605 million is \$22 million. The fair value of the Debentures is measured using Level 2 fair value inputs.

The following table shows the impact of the change in fair value of the Debentures for the three and six months ended August 31, 2019 and August 31, 2018:

	Three Months Ended		Six Months Ended	
	August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018
Income associated with the change in fair value from non-credit components recorded in the consolidated statements of operations	\$ 23	\$ 70	\$ 51	\$ 42
Income (expense) associated with the change in fair value from instrument-specific credit components recorded in AOCI	(6)	1	(13)	1
Total decrease in the fair value of the Debentures	<u>\$ 17</u>	<u>\$ 71</u>	<u>\$ 38</u>	<u>\$ 43</u>

For the three and six months ended August 31, 2019, the Company recorded interest expense related to the Debentures of \$6 million and \$11 million, respectively, which has been included in investment income, net in the Company's consolidated statements of operations (three and six months ended August 31, 2018 - \$6 million and \$11 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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8. CAPITAL STOCK

(a) Capital Stock

The following details the changes in issued and outstanding common shares for the six months ended August 31, 2019:

	Capital Stock and Additional Paid-in Capital	
	Stock Outstanding (000s)	Amount
Common shares outstanding as at February 28, 2019	547,358	\$ 2,688
Stock-based compensation	—	31
Exercise of stock options	479	1
Common shares issued for restricted share unit settlements	320	—
Common shares issued for employee share purchase plan	179	2
Common shares outstanding as at August 31, 2019	<u>548,336</u>	<u>\$ 2,722</u>

The Company had 548 million common shares, 7 million options to purchase common shares, 20 million restricted share units and 0.9 million deferred share units outstanding as at September 19, 2019. In addition, 60.5 million common shares are issuable upon conversion in full of the Debentures as described in Note 7.

(b) Stock-based Compensation

Inducement Awards

In the first quarter of fiscal 2020, the Board approved an agreement to grant performance-based equity awards (“Inducement Awards”) to the co-founders of Cylance covering up to 4,182,189 common shares. Up to 25%, 35% and 40% of the Inducement Awards may be earned at the end of the Company’s 2020, 2021 and 2022 fiscal years, respectively, if certain performance conditions are met, and any earned amounts will vest at the end of fiscal 2022. The Company also notes that 75% of the awards eligible to vest in a given year are based on achievement of a billings goal and 25% are based on achievement of a contribution margin goal. The Company recorded a recovery of approximately \$1 million for the three months ended August 31, 2019 and expense of \$1 million for the six months ended August 31, 2019 relating to the Inducement Awards.

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9. 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, 2019	August 31, 2018	August 31, 2019	August 31, 2018
Net income (loss) for basic earnings (loss) per share available to common shareholders	\$ (44)	\$ 43	\$ (79)	\$ (17)
Less: Debentures fair value adjustment ⁽¹⁾	(23)	(70)	(51)	(42)
Add: Interest expense on Debentures ⁽¹⁾	6	6	11	11
Net loss for diluted loss per share available to common shareholders	\$ (61)	\$ (21)	\$ (119)	\$ (48)
Weighted average number of shares outstanding (000s) - basic ⁽²⁾	552,343	537,299	552,096	537,136
Effect of dilutive securities (000s)				
Stock-based compensation ⁽³⁾	—	—	—	—
Conversion of Debentures ⁽¹⁾	60,500	60,500	60,500	60,500
Weighted average number of shares and assumed conversions (000s) - diluted	612,843	597,799	612,596	597,636
Earnings (loss) per share - reported				
Basic	\$ (0.08)	\$ 0.08	\$ (0.14)	\$ (0.03)
Diluted	\$ (0.10)	\$ (0.04)	\$ (0.19)	\$ (0.08)

⁽¹⁾ 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, 2019, and three and six months ended August 31, 2018. Accordingly, to calculate diluted 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, 2019, and three and six months ended August 31, 2018, and added the number of shares that would have been issued upon conversion to the diluted weighted average number of shares outstanding. See Note 7 for details on the Debentures.

⁽²⁾ Includes approximately 4,182,189 common shares to be issued in equal instalments on the next three anniversary dates of the Cylance acquisition, in consideration for the acquisition. There are no service or other requirements associated with the issuance of these shares.

⁽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, 2019, and three and six months ended August 31, 2018 as to do so would be antidilutive.

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in AOCI by component, net of tax, for the six months ended August 31, 2019 were as follows:

	Foreign Currency Cumulative Translation Adjustment	Accumulated Net Unrealized Losses on Cash Flow Hedges	Other Post- Employment Benefit Obligations	Accumulated Net Unrealized Gains on Available-for- Sale Debt Securities	Change in fair value from instrument- specific credit risk on Debentures	Total
AOCI as at February 28, 2019	\$ (7)	\$ —	\$ (1)	\$ 2	\$ (14)	\$ (20)
Change in cumulative comprehensive loss for the period	(2)	—	—	—	(13)	(15)
AOCI as at August 31, 2019	\$ (9)	\$ —	\$ (1)	\$ 2	\$ (27)	\$ (35)

During the three and six months ended August 31, 2019, nil losses (pre-tax and post-tax) associated with cash flow hedges were reclassified from AOCI into selling, marketing and administration expenses.

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11. COMMITMENTS AND CONTINGENCIES

(a) Letters of Credit

The Company had \$28 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, 2019. See the discussion of restricted cash in Note 2.

(b) 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 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, 2019, 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, 2019, 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 probable 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 claims that have allegedly been infringed or the products that are alleged to infringe; 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

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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 former 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 August 2, 2019, the Magistrate Judge issued a Report and Recommendation that the Court grant Defendants' motion for judgment on the pleadings dismissing the claims of Additional Plaintiffs Cho and Ulug. Plaintiffs filed an objection to the Report and Recommendation on August 16, 2019, and the defendants filed a response on August 30, 2019. All other proceedings, including plaintiffs' pending motion for class certification but excluding fact and expert discovery, are currently suspended pending the decision of the Second Circuit Court of Appeals in *Arkansas Teachers Retirement System et al. v. Goldman Sachs Group, Inc., et al.*, which involves an issue relevant to the motion for class certification.

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. Before that motion was heard, the parties agreed to limit the class to purchasers who reside in Canada or purchased on the Toronto Stock Exchange. On November 15, 2018, the Court denied the Company's motion for leave to appeal the order granting the plaintiffs leave to file a statutory claim for misrepresentation. On February 5, 2019, the Court entered an order certifying a class comprised of persons (a) who purchased BlackBerry common shares between March 28, 2013, and September 20, 2013, and still held at least some of those shares as of September 20, 2013, and (b) who acquired those shares on a Canadian stock exchange or acquired those shares on any other stock exchange and were a resident of Canada when the shares were acquired. Notice of class certification was published on March 6, 2019. The Company filed its Statement of Defence on April 1, 2019, and discovery is proceeding.

On February 15, 2017, a putative employment class action was filed against the Company in the Ontario Superior Court of Justice. The Statement of Claim alleges that actions the Company took when certain if its employees decided to accept offers of employment from Ford Motor Company of Canada amounted to a wrongful termination of the employees' employment with the Company. The claim seeks (i) an unspecified quantum of statutory, contractual, or common law termination entitlements; (ii) punitive or breach of duty of good faith damages of CAD\$20,000,000, or such other amount as the Court finds appropriate, (iii) pre and post judgment interest, (iv) attorneys' fees and costs, and (v) such other relief as the Court deems just. The Court granted the plaintiffs' motion to certify the class action on May 27, 2019. The Company commenced a motion for leave to appeal the certification order on June 11, 2019. The court denied the motion for leave to appeal on September 17, 2019.

On February 4, 2019, a putative employment class action and California Private Attorney General Act claim was filed against the Company in the San Joaquin County Superior Court alleging the Company (i) failed to provide itemized wage statements in violation of California Labor Code Section 226(a); and (ii) failed to pay all wages due at termination in violation of California Labor Code Section 201. The complaint seeks statutory penalties, injunctive relief, interest, costs, and attorneys' fees. The Company filed its answer denying the allegations in the complaint on March 18, 2019, and discovery is proceeding. On August 22, 2019, the Company filed a Motion for Summary Adjudication of the named plaintiff's wage statement claims.

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. As at August 31, 2019, the liability recorded in association with this award is approximately \$1 million.

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In the second quarter of fiscal 2020, the Company received funds from claims filed with the Ministry of Innovation, Science and Economic Development Canada relating to its Strategic Innovation Fund program's investment in BlackBerry QNX. A portion of this amount may be repayable in the future under certain circumstances if certain terms and conditions are not met by the Company, which is not probable at this time.

(c) 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 supply, availability and pricing risks. The Company has also entered into various agreements for the supply of components and the manufacturing of its products; 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.

(d) 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.

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 2019 for additional information regarding the Company's indemnification agreements with its current and former directors and executive officers.

12. LEASES

The Company has operating and finance leases primarily for corporate offices, research and development facilities, data centers and certain equipment. The Company's leases have remaining lease terms of between 1 year and 9 years, some of which may include options to extend the lease for up to 10 years, and some of which may include options to terminate the lease within one month.

The components of lease expense were as follows:

	Three Months Ended	Six Months Ended
	August 31, 2019	August 31, 2019
Operating lease cost, included in selling, marketing & administration	\$ 9	\$ 18
Finance lease cost		
Amortization of ROU assets, included in amortization	\$ 1	\$ 1
Interest on lease liabilities, included in investment income, net	—	—
Total finance lease cost	\$ 1	\$ 1

Supplemental cash flow information related to leases was as follows:

	Three Months Ended	Six Months Ended
	August 31, 2019	August 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Cash used in operating activities related to operating lease payments	\$ 12	\$ 23

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During the three and six months ended August 31, 2019, the Company did not obtain any significant ROU assets in exchange for lease obligations. During the six months ended August 31, 2019, the Company incurred losses of \$2 million on the write-down of ROU assets (cost of \$5 million, accumulated amortization of \$3 million, and a net book value of approximately \$2 million).

Supplemental balance sheet information related to leases was as follows:

	As at	
	August 31, 2019	March 1, 2019 (adoption)
Operating leases		
Operating lease assets		
Operating lease ROU assets	\$ 145	\$ 161
Operating lease liabilities		
Accrued liabilities	33	36
Operating lease liabilities	135	153
Total operating lease liabilities	\$ 168	\$ 189
Finance leases		
Finance lease assets		
Property, plant and equipment	\$ 7	\$ 8
Accumulated depreciation	(5)	(5)
Property, plant and equipment, net	\$ 2	\$ 3
Finance lease liabilities		
Accrued liabilities	\$ 1	\$ 2
Other long-term liabilities	1	1
Total finance lease liabilities	\$ 2	\$ 3

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	As at August 31, 2019
Weighted Average Remaining Lease Term	
Operating leases	5.8 years
Finance leases	1.5 years
Weighted Average Discount Rate	
Operating leases	3.5%
Finance leases	5.8%

Maturities of undiscounted lease liabilities were as follows:

	As at August 31, 2019	
	Operating Leases	Finance Leases
Fiscal year 2020 (excluding the six months ended August 31, 2019)	\$ 20	\$ 1
Fiscal year 2021	34	1
Fiscal year 2022	32	—
Fiscal year 2023	28	—
Fiscal year 2024	25	—
Thereafter	47	—
Total future minimum lease payments	186	2
Less:		
Imputed interest	(18)	—
Total	\$ 168	\$ 2

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. 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, 2019	August 31, 2018	August 31, 2019	August 31, 2018
North America ⁽¹⁾	\$ 179	\$ 133	\$ 339	\$ 272
Europe, Middle East and Africa	47	53	108	105
Other regions	18	24	44	46
Total	\$ 244	\$ 210	\$ 491	\$ 423
North America ⁽¹⁾	73.4%	63.3%	69.0%	64.3%
Europe, Middle East and Africa	19.3%	25.3%	22.0%	24.8%
Other regions	7.3%	11.4%	9.0%	10.9%
Total	100.0%	100.0%	100.0%	100.0%

(1) 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.

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

	Three Months Ended		Six Months Ended	
	August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018
IoT	\$ 133	\$ 137	\$ 269	\$ 263
BlackBerry Cylance	35	—	67	—
Licensing	71	56	143	119
Other	5	17	12	41
Total	\$ 244	\$ 210	\$ 491	\$ 423

Internet of Things (“IoT”) includes revenue from the Company’s suite of security software products and services designed to secure endpoint communications for the IoT, including BlackBerry UEM, BlackBerry Dynamics, BlackBerry AtHoc, SecuSUITE and the technologies offered by BlackBerry QNX. IoT revenue is generated predominantly through software licenses, commonly bundled with support, maintenance and professional services.

BlackBerry Cylance includes revenue from the Company’s artificial intelligence and machine learning-based platform consisting of CylancePROTECT, CylanceOPTICS, professional services and other cybersecurity applications.

Licensing includes revenue from the Company’s intellectual property licensing arrangements, BBM Consumer licensing arrangement, and mobility licensing software arrangements, which include revenue from licensed hardware sales.

Other 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 and legacy handheld revenue associated with the release of previously accrued amounts when the Company determines it has no further performance obligations.

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

	Three Months Ended		Six Months Ended	
	August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018
Products and services transferred over time	\$ 117	\$ 120	\$ 269	\$ 245
Products and services transferred at a point in time	127	90	222	178
Total	\$ 244	\$ 210	\$ 491	\$ 423

Revenue contract balances

The following table sets forth the activity in the Company’s revenue contract balances (both current and non-current) for the six months ended August 31, 2019:

	Accounts Receivable	Deferred Revenue	Deferred Commissions
Opening balance as at March 1, 2019	\$ 212	\$ 350	\$ 23
Increases due to invoicing of new or existing contracts, associated contract acquisition costs, or other	157	241	22
Decreases due to payment, fulfillment of performance obligations, or other	(152)	(235)	(18)
Increase, net	5	6	4
Closing balance as at August 31, 2019	\$ 217	\$ 356	\$ 27

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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, 2019 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, 2019			
	Less than 12 Months	12 to 24 Months	Thereafter	Total
Remaining performance obligations	\$ 304	\$ 102	\$ 62	\$ 468

Revenue recognized for performance obligations satisfied in prior periods

For the three and six months ended August 31, 2019, no revenue was recognized relating to performance obligations satisfied in a prior period (three and six months ended August 31, 2018 - \$5 million and \$11 million, respectively, in revenue recognized relating to the legacy handheld devices business).

Segment Disclosures

The Company reports segment information based on the “management” approach. The management approach designates the internal reporting used by the Chief Operating Decision Maker (“CODM”) 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.

Geographical distribution of assets

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

	As at			
	August 31, 2019		February 28, 2019	
	Property, Plant and Equipment, Intangible Assets, Operating Lease ROU assets and Goodwill	Total Assets	Property, Plant and Equipment, Intangible Assets and Goodwill	Total Assets
Canada	\$ 418	\$ 674	\$ 396	\$ 654
United States	2,208	3,092	2,178	3,089
Other	52	167	42	186
	\$ 2,678	\$ 3,933	\$ 2,616	\$ 3,929

Information about major customers

There were two customers and one customer that comprised more than 10% of revenue during the three and six months ended August 31, 2019, respectively (three and six months ended August 31, 2018 - one customer comprised more than 10% of revenue).