

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 for the three months ended May 31, 2022, included in Part I, Item 1 of this Quarterly Report on Form 10-Q, as well as the Company's audited consolidated financial statements and accompanying notes and MD&A for the fiscal year ended February 28, 2022 (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.

Additional information about the Company, which is included in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2022 (the "Annual Report"), can be found on SEDAR at www.sedar.com and on the SEC'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 its intentions to increase and enhance its product and service offerings, to patent new innovations, and to increase staffing in its Cybersecurity and IoT businesses;
- the Company's expectations with respect to the impact of the COVID-19 pandemic and global semiconductor shortage on its results of operations and financial condition;
- the Company's expectations with respect to its revenue and billings in fiscal 2023 and with respect to installations of the BlackBerry IVY™ platform;
- the Company's estimates of purchase obligations and other contractual commitments, including the timing of a litigation settlement payment; 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 - Strategy", "Business Overview - Products and Services", "Business Overview - COVID-19 and Macroeconomic Factors", "Non-GAAP Financial Measures - Key Metrics", "Results of Operations - Three months ended May 31, 2022 compared to the three months ended May 31, 2021 - Revenue - Revenue by Segment" and "Financial Condition - Contractual and Other Obligations". Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances, including but not limited to, the Company's expectations regarding its business, strategy, opportunities and prospects, the launch of new products and services, general economic conditions, the ongoing COVID-19 pandemic, competition, and the Company's expectations regarding its financial performance. 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 risk factors discussed in Part I, Item 1A "Risk Factors" in the Annual Report.

All of these factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. Any statements that are forward-looking statements are intended to enable the Company's shareholders to view the anticipated performance and prospects of the Company from management's perspective at the time such statements are made, and they are subject to the risks that are inherent in all forward-looking statements, as described above, as well as difficulties in forecasting the Company's financial results and performance for future periods, particularly over longer periods, given changes in technology and the Company's business strategy, evolving industry standards, intense competition and short product life cycles that characterize the industries in which the Company operates. See the "Strategy" subsection in Part I, Item 1 "Business" of the Annual Report.

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

Business Overview

The Company provides intelligent security software and services to enterprises and governments around the world. The Company secures more than 500 million endpoints including more than 215 million vehicles. Based in Waterloo, Ontario, the Company leverages artificial intelligence (“AI”) and machine learning to deliver innovative solutions in the areas of cybersecurity, safety and data privacy, and is a leader in the areas of endpoint security, endpoint management, encryption, and embedded systems.

Strategy

The Company is widely recognized for its intelligent security software and services and believes that it delivers the broadest set of security capabilities in the market to connect, protect and manage endpoints in the Internet of Things (“IoT”). The Company leverages its extensive technology portfolio to offer best-in-class cybersecurity, safety and reliability to enterprise customers primarily in government and regulated industries, as well as to original equipment manufacturers in automotive, medical, industrial and other core verticals.

The Company’s goal is to offer smarter security solutions that are more effective, require fewer resources to support and produce a better return on investment for customers than competing offerings. To achieve this vision, the Company continues to extend the functionality of its AI-focused BlackBerry Spark® software platform and safety-certified QNX® Neutrino® real time operating system and is commercializing its new BlackBerry IVY™ intelligent vehicle data platform.

The Company’s go-to-market strategy focuses principally on generating revenue from enterprise software and services as well as from embedded software designs with leading original equipment manufacturers (“OEMs”) and Tier 1 suppliers. The Company intends to drive revenue growth and to achieve margins that are consistent with those of other enterprise software companies.

Products and Services

The Company has multiple products and services from which it derives revenue, which are structured in three segments: Cybersecurity, IoT (collectively with Cybersecurity, “Software & Services”) and Licensing and Other.

Cybersecurity

The Cybersecurity business consists of BlackBerry Spark, BlackBerry® AtHoc®, BlackBerry® SecuSUITE® and BlackBerry Messenger (BBM®) Enterprise.

The Company’s core secure software and services offering is its BlackBerry Spark software platform, which integrates a unified endpoint security (“UES”) layer with BlackBerry unified endpoint management (“UEM”) to enable secure endpoint communications in a zero-trust environment. BlackBerry UES is a set of complementary cybersecurity products offering endpoint protection platform (“EPP”), endpoint detection and response (“EDR”), mobile threat defense (“MTD”), zero-trust network access (“ZTNA”) and user and entity behavior analytics (“UEBA”) capabilities. The BlackBerry Spark platform is informed by the Company’s AI and machine learning capabilities, continuous innovations, professional cybersecurity services and threat research, industry partnerships and academic collaborations. The Company is currently executing on a robust schedule of product launches for BlackBerry Spark to deliver on the Company’s extended detection and response (“XDR”) strategy, which aims to use security telemetry data from the platform’s full range of natively-integrated products and partner solutions to provide deep contextual insights for more powerful and integrated threat detection and response. This comprehensive security strategy for BlackBerry Spark is designed to operate on a single agent across all endpoints, to be administered from a single console, to leverage a single crowd-sourced threat data lake and to be managed in one cloud environment. BlackBerry Spark solutions are available through the BlackBerry Spark® Unified Endpoint Security Suite and the BlackBerry Spark® Unified Endpoint Management Suite, which are also marketed together as the BlackBerry Spark® Suite, offering the Company’s most comprehensive range of tailored cybersecurity and endpoint management options.

The BlackBerry UES Suite offers leading Cylance® AI and machine learning-based cybersecurity solutions, including: CylancePROTECT®, an EPP and available MTD solution that uses an automated, prevention-first approach to protect against the execution of malicious code on an endpoint; CylanceOPTICS®, an EDR solution that provides both visibility into and prevention of malicious activity on an endpoint; CylanceGUARD®, a managed detection and response solution that provides 24/7 threat hunting and monitoring; CylanceGATEWAY®, an AI-empowered ZTNA solution, and CylancePERSONA®, a UEBA solution that provides continuous authentication by validating user identity in real time. The combined platform features industry-leading threat prevention modules to help organizations cope with the significant growth of cyberattacks. The Company also offers incident response, compromise assessment and containment services to assist clients with forensic analysis, state of existing systems and remediation of attacks. The BlackBerry UES Suite natively integrates with BlackBerry® UEM and also works with UEM solutions from other vendors.

The BlackBerry Spark UEM Suite includes the Company’s BlackBerry UEM, BlackBerry® Dynamics™ and BlackBerry® Workspaces solutions. BlackBerry UEM is a central software component of the Company’s secure communications platform,

offering a “single pane of glass”, or unified console view, for managing and securing devices, applications, identity, content and 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 and BlackBerry Alert are secure, networked critical event management solutions that enable people, devices and organizations to exchange critical information in real time during business continuity and life safety operations. The platforms securely connect with a diverse set of endpoints to distribute emergency mass notifications, improve personnel accountability and facilitate the bidirectional collection and sharing of data within and between organizations. BlackBerry AtHoc serves the requirements of the public sector market while BlackBerry Alert targets the commercial sector.

SecuSUITE is a certified, multi-OS voice and text messaging solution with advanced encryption, anti-eavesdropping and continuous authentication capabilities, providing a maximum level of security on conventional mobile devices for government and businesses.

The Company also offers BBM Enterprise, an enterprise-grade secure instant messaging solution for messaging, voice and video.

IoT

The IoT business consists of BlackBerry Technology Solutions (“BTS”) and BlackBerry IVY.

The principal component of BTS is BlackBerry QNX, a global provider of real-time operating systems, hypervisors, middleware, development tools, and professional services for connected embedded systems in the automotive, medical, industrial automation and other markets. A recognized leader in automotive software, BlackBerry QNX offers a growing portfolio of safety-certified, secure and reliable platform solutions and is focused on achieving design wins with automotive OEMs, Tier 1 vendors and automotive semiconductor suppliers. These solutions include the Neutrino® operating system and the BlackBerry QNX® CAR platform, the most advanced embedded software platform for the autonomous vehicle market, as well as other products designed to alleviate the challenges of compliance with ISO 26262, the automotive industry’s functional safety standard. Additionally, the Company’s secure automotive over-the-air software update management service allows OEMs to manage the life cycle of the software and security in their vehicles.

BlackBerry QNX is also a preferred supplier of embedded systems for companies building medical devices, train-control systems, industrial robots, hardware security modules, building automation systems, green energy solutions, and other mission-critical applications.

In addition to BlackBerry QNX, BTS includes BlackBerry Certicom® cryptography and key management products, and the BlackBerry Radar® asset monitoring solution.

BlackBerry Certicom leverages patented elliptic curve cryptography to provide device security, anti-counterfeiting and product authentication solutions. BlackBerry Certicom’s offerings include its managed public key infrastructure (“PKI”) platform, key management and provisioning technology that helps customers to protect the integrity of their silicon chips and devices from the point of manufacturing through the device life cycle. BlackBerry Certicom’s secure key provisioning, code signing and security credential management system services protect next-generation connected cars, critical infrastructure and IoT deployments from product counterfeiting, re-manufacturing and unauthorized network access.

BlackBerry Radar is a family of asset monitoring and telematics solutions for the transportation and logistics industry. The BlackBerry Radar solution includes devices and secure cloud-based dashboards for tracking containers, trailers, chassis, flatbeds and heavy machinery, for reporting locations and sensor data, and for enabling custom alerts and fleet management analytics.

The Company has partnered with Amazon Web Services, Inc. (“AWS”) to develop and market BlackBerry IVY, an intelligent vehicle data platform leveraging BlackBerry QNX’s automotive capabilities. BlackBerry IVY will allow automakers to safely access a vehicle’s sensor data, normalize it, and apply machine learning at the edge to generate and share predictive insights and inferences. Automakers and developers will be able to use this information to create responsive in-vehicle services that enhance driver and passenger experiences. BlackBerry IVY will support multiple vehicle operating systems and hardware, as well as multi-cloud deployments in order to ensure compatibility across vehicle models and brands. In February 2022, the Company released a version of BlackBerry IVY for proof-of-concept testing and the Company expects installations of BlackBerry IVY in vehicles to begin during the 2024 or 2025 model year.

The BlackBerry Cybersecurity and IoT groups are complemented by the enterprise and cybersecurity consulting services offered by the Company’s BlackBerry® Professional Services business. BlackBerry Professional Services provides platform-agnostic strategies to address mobility-based challenges, providing expert deployment support, end-to-end delivery (from system design to user training), application consulting, and experienced project management. The Company’s cybersecurity consulting services and tools, combined with its other security solutions, help customers identify the latest cybersecurity threats,

test for vulnerabilities, develop risk-appropriate mitigations, maintain IT security standards and techniques, and defend against the risk of future attacks.

Licensing and Other

Licensing and Other consists primarily of the Company's patent licensing business and legacy service access fees ("SAF").

The Company's Licensing business is responsible for the management and monetization of the Company's global patent portfolio. The patent portfolio continues to provide a competitive advantage in the Company's core product areas as well as providing leverage in the development of future technologies and licensing programs in both core and adjacent vertical markets. The Company owns rights to an array of patented and patent pending technologies which include, but are not limited to, operating systems, networking infrastructure, acoustics, messaging, enterprise software, automotive subsystems, cybersecurity, cryptography and wireless communications.

In the fourth quarter of fiscal 2022, the Company announced its entry into a patent sale agreement with Catapult IP Innovations ("Catapult") for the sale of substantially all of the Company's non-core patent assets for total consideration of \$600 million (the "Patent Sale Transaction"). Patents that are essential to the Company's current core business operations are excluded from the Patent Sale Transaction. Pursuant to the terms of the Patent Sale Transaction, at closing, the Company will receive a license back to the patents being sold, which relate primarily to mobile devices, messaging and wireless networking. The Patent Sale Transaction will not impact customers' use of any of the Company's products, solutions or services. Completion of the Patent Sale Transaction is subject to the satisfaction of financing and other closing conditions. Catapult continues to work on securing financing; however, the Company is no longer under exclusivity with Catapult and is able to explore alternative options in parallel.

The Company's Other business generates revenue from SAF charged to subscribers using the Company's legacy BlackBerry 7 and prior BlackBerry operating systems, which is no longer supported or maintained as of January 4, 2022.

Recent Developments

The Company continued to execute on its strategy in fiscal 2023 and announced the following achievements:

Products and Innovation:

- Strengthened QNX® Advanced Virtualization Framework for Android Automotive OS to simplify and accelerate building IVI systems on the QNX® Hypervisor;
- Released QNX® Hypervisor 2.2 for Safety, the latest edition of the Company's safety-certified, real-time embedded hypervisor product, certified to the highest level of functional safety for both automotive and medical device software;
- Achieved the certification of QNX® OS for Safety 2.2 to the highest integrity level of the functional safety standard for the railway industry;
- Received the Frost & Sullivan 2022 Enabling Technology Leadership Award for BlackBerry IVY;
- Launched CylanceGATEWAY, BlackBerry's Zero Trust Network Access (ZTNA) service offering;
- Named as a 'Leader' for a third consecutive year in the IDC MarketScape: Worldwide UEM Software 2022 Vendor Assessment;
- Together with Google, launched Chrome Enterprise Management with BlackBerry UEM to support devices running Google Chrome OS and Chrome browser; and
- Enhanced the BlackBerry Managed Security Service Provider (MSSP) channel program, including an expansion of the range of products available, increased partner support and more comprehensive training.

Customers and Partners:

- Announced that BlackBerry QNX software is embedded in over 215 million vehicles;
- Selected by BDStar Intelligent & Connected Vehicle Technology Co., Ltd. (BICV) to power an intelligent digital cockpit, featuring augmented reality, artificial intelligence, and hologram functions for the new Renault Jiangling all-electric sedan;
- Jointly developed a digital LCD instrument cluster with BiTECH for Changan's next-generation high-end UNI-V Coupe;
- Entered into a multi-year agreement with Magna International Inc. to collaborate on next-generation Advanced Driver Assistance System (ADAS) solutions for global automakers;
- Partnered with Midis Group to expand go-to-market activities in Eastern Europe, the Middle East, and Africa; and
- Joined forces with NXP to help companies prepare for, and prevent, Y2Q post-quantum cyberattacks.

Environmental, Sustainability and Corporate Governance:

- Released the Company's 2022 Environmental, Social, and Governance (ESG) report.

Pearlstein Settlement

On April 7, 2022, the Company announced that it had reached an agreement in principle to settle the consolidated securities class action lawsuit captioned *Pearlstein v. Blackberry Limited, et al.*, Case No. 13 Civ. 7060 (CM) (KHP) pending against the Company and certain of its former officers in the U.S. District Court for the Southern District of New York. A formal settlement agreement was signed on June 9, 2022 and contemplates an aggregate cash payment by the Company of \$165 million to settle the claims brought on behalf of all persons who purchased or otherwise acquired BlackBerry shares on the NASDAQ between March 28, 2013 and September 20, 2013. While the Company believes that the allegations in the case were without merit, it also believes that eliminating the distraction, expense and risk of continued litigation is in the best interests of the Company and its shareholders. In the first quarter of fiscal 2023, the Company accrued \$165 million associated with this settlement within the line *Litigation settlement* on the consolidated statement of operations. Final settlement including payment is expected to occur before the end of fiscal 2023.

COVID-19 and Macroeconomic Factors

The COVID-19 pandemic has prompted extraordinary actions by governmental authorities throughout the world and continues to have a significant impact on global markets, businesses and economies.

The Company continues to focus on protecting the health and safety of its employees, customers and partners, while also providing technology to help them do their best while operating remotely. During the first quarter of fiscal 2023, the Company maintained its remote working model, limiting employee travel and hosting certain public events as virtual-only experiences. The Company has more recently shifted to a hybrid model for most of its global offices with employees returning to work in person on a part-time basis, subject to local rules and regulations.

Although the Company experienced higher Software & Services revenue in the first quarter of fiscal 2023 compared to the first quarter of fiscal 2022, the COVID-19 pandemic and ensuing global semiconductor shortage have had and may continue to have a material adverse impact on production-based royalties for the Company's QNX automotive software business. This chip supply disruption and its impact on the Company's business, results of operations and financial condition may be exacerbated by the invasion of Ukraine by Russia and resulting global sanctions against Russia.

The ultimate impact of the COVID-19 pandemic on the Company's operational and financial performance will also depend on, among other things, the pandemic's duration and severity, including resurgences in some geographic areas as a result of new strains and variants, the governmental restrictions that may be sustained or imposed in response to the pandemic, and the effectiveness of actions taken to contain or mitigate the pandemic (including the distribution, efficacy and acceptance of vaccines, particularly against emergent viral variants). The long-term impact of the COVID-19 pandemic on the Company's business cannot be reasonably estimated at this time and may not be fully reflected until future periods. Refer to Part II, Item 1A "Risk Factors" in the Annual Report for a discussion of these factors and other risks.

First Quarter Fiscal 2023 Summary Results of Operations

The following table sets forth certain unaudited consolidated statements of operations data for the quarter ended May 31, 2022 compared to the quarter ended May 31, 2021 under U.S. GAAP:

	For the Three Months Ended (in millions, except for share and per share amounts)		
	May 31, 2022	May 31, 2021	Change
Revenue	\$ 168	\$ 174	\$ (6)
Gross margin	104	114	(10)
Operating expenses	281	172	109
Investment loss, net	(1)	(2)	1
Loss before income taxes	(178)	(60)	(118)
Provision for income taxes	3	2	1
Net loss	<u>\$ (181)</u>	<u>\$ (62)</u>	<u>\$ (119)</u>
Loss per share - reported			
Basic	<u>\$ (0.31)</u>	<u>\$ (0.11)</u>	
Diluted	<u>\$ (0.35)</u>	<u>\$ (0.11)</u>	
Weighted-average number of shares outstanding (000's)			
Basic ⁽¹⁾	576,877	567,358	
Diluted ⁽²⁾	637,710	567,358	

⁽¹⁾ Basic loss per share on a U.S. GAAP basis for the three months ended May 31, 2021 includes 1,421,945 common shares that were subsequently issued on the third anniversary date of the Cylance acquisition completed on February 21, 2019 in consideration for the acquisition.

⁽²⁾ Diluted loss per share on a U.S. GAAP basis for the three months ended May 31, 2021 does not include the dilutive effect of the 1.75% Debentures (defined below), as to do so would be anti-dilutive. Diluted loss per share on a U.S. GAAP basis for the three months ended May 31, 2022 and May 31, 2021 does not include the dilutive effect of stock-based compensation as to do so would be anti-dilutive. See Note 7 to the Consolidated Financial Statements for the Company's calculation of the diluted weighted average number of shares outstanding.

The following table shows information by operating segment for the three months ended May 31, 2022 and May 31, 2021. The Company reports segment information in accordance with U.S. GAAP Accounting Standards Codification Section 280 based on the "management" approach. The management approach designates the internal reporting used by the CODM for making decisions and assessing performance of the Company's reportable operating segments. See Note 10 to the Consolidated Financial Statements for a description of the Company's operating segments.

	For the Three Months Ended (in millions)									Segment Totals		
	Cybersecurity			IoT			Licensing and Other					
	May 31, 2022	May 31, 2021	Change	May 31, 2022	May 31, 2021	Change	May 31, 2022	May 31, 2021	Change	May 31, 2022	May 31, 2021	Change
Segment revenue	\$ 113	\$ 107	\$ 6	\$ 51	\$ 43	\$ 8	\$ 4	\$ 24	\$ (20)	\$ 168	\$ 174	\$ (6)
Segment cost of sales	53	46	7	8	7	1	2	6	(4)	63	59	4
Segment gross margin	<u>\$ 60</u>	<u>\$ 61</u>	<u>\$ (1)</u>	<u>\$ 43</u>	<u>\$ 36</u>	<u>\$ 7</u>	<u>\$ 2</u>	<u>\$ 18</u>	<u>\$ (16)</u>	<u>\$ 105</u>	<u>\$ 115</u>	<u>\$ (10)</u>

The following table reconciles the Company’s segment results for the three months ended May 31, 2022 to consolidated U.S. GAAP results:

For the Three Months Ended May 31, 2022						
<i>(in millions)</i>						
	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 113	\$ 51	\$ 4	\$ 168	\$ —	\$ 168
Cost of sales	53	8	2	63	1	64
Gross margin ⁽¹⁾	\$ 60	\$ 43	\$ 2	\$ 105	\$ (1)	\$ 104
Operating expenses					281	281
Investment loss, net					1	1
Loss before income taxes						\$ (178)

⁽¹⁾ See “Non-GAAP Financial Measures” for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three months ended May 31, 2022.

The following table reconciles the Company’s segment results for the three months ended May 31, 2021 to consolidated U.S. GAAP results:

For the Three Months Ended May 31, 2021						
<i>(in millions)</i>						
	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 107	\$ 43	\$ 24	\$ 174	\$ —	\$ 174
Cost of sales	46	7	6	59	1	60
Gross margin ⁽¹⁾	\$ 61	\$ 36	\$ 18	\$ 115	\$ (1)	\$ 114
Operating expenses					172	172
Investment loss, net					2	2
Loss before income taxes						\$ (60)

⁽¹⁾ See “Non-GAAP Financial Measures” for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three months ended May 31, 2021.

Financial Highlights

The Company had approximately \$721 million in cash, cash equivalents and investments as of May 31, 2022 (February 28, 2022 - \$770 million).

In the first quarter of fiscal 2023, the Company recognized revenue of \$168 million and a net loss of \$181 million, or \$0.31 basic loss per share and \$0.35 diluted loss per share on a U.S. GAAP basis (first quarter of fiscal 2022 - revenue of \$174 million and net loss of \$62 million, or \$0.11 basic and diluted loss per share). The net loss was primarily due to a litigation settlement, as discussed above in “Business Overview - Pearlstein Settlement”.

The Company recognized an adjusted net loss of \$31 million, and an adjusted loss of \$0.05 per share, on a non-GAAP basis in the first quarter of fiscal 2023 (first quarter of fiscal 2022 - adjusted net loss of \$27 million, and adjusted loss of \$0.05 per share). See “Non-GAAP Financial Measures” below.

Debentures Fair Value Adjustment

As previously disclosed, the Company elected the fair value option to account for its outstanding 1.75% unsecured convertible debentures (the “1.75% Debentures”); therefore, periodic revaluation has been and continues to be required under U.S. GAAP. The fair value adjustment does not impact the terms of the 1.75% Debentures such as the face value, the redemption features or the conversion price.

As at May 31, 2022, the fair value of the 1.75% Debentures was approximately \$459 million, a decrease of approximately \$48 million during the first quarter of fiscal 2023. For the three months ended May 31, 2022, the Company recorded non-cash income relating to changes in fair value from non-credit components of \$46 million (pre-tax and after tax) (the “Q1 Fiscal 2023 Debentures Fair Value Adjustment”) in the Company’s consolidated statements of operations and a non-cash income relating to

changes in fair value from instrument specific credit risk of \$2 million in Other Comprehensive Loss (“OCL”) relating to the 1.75% Debentures. See Note 5 to the Consolidated Financial Statements for further details on the 1.75% Debentures.

Non-GAAP Financial Measures

The Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, and information contained in this MD&A is presented on that basis. On June 23, 2022, the Company announced financial results for the three months ended May 31, 2022, which included certain non-GAAP financial measures and non-GAAP ratios, including adjusted gross margin, adjusted gross margin percentage, adjusted operating expense, adjusted net loss, adjusted loss per share, adjusted research and development expense, adjusted selling, marketing and administrative expense, adjusted amortization expense, adjusted operating loss, adjusted EBITDA, adjusted operating loss margin percentage, adjusted EBITDA margin percentage and free cash usage.

In the Company’s internal reports, management evaluates the performance of the Company’s business on a non-GAAP basis by excluding the impact of certain items below from the Company’s U.S. GAAP financial results. The Company believes that these non-GAAP financial measures and non-GAAP ratios provide management, as well as readers of the Company’s financial statements with a consistent basis for comparison across accounting periods and is useful in helping management and readers understand the Company’s operating results and underlying operational trends. Non-GAAP financial measures and non-GAAP ratios exclude certain amounts as described below:

- *Debentures fair value adjustment.* The Company has elected to measure its outstanding 1.75% Debentures at fair value in accordance with the fair value option under U.S. GAAP. Each period, the fair value of the 1.75% Debentures is recalculated and resulting non-cash income and charges from the change in fair value from non-credit components of the 1.75% Debentures are recognized in income. The amount can vary each period depending on changes to the Company’s share price, share price volatility and credit indices. This is not indicative of the Company’s core operating performance, and may not be meaningful when comparing the Company’s operating performance against that of prior periods.
- *Restructuring charges.* The Company believes that restructuring costs relating to employee termination benefits, facilities and other pursuant to the Cost Optimization Program to reduce its annual expenses amongst R&D, infrastructure and other functions do not reflect expected future operating expenses, are not indicative of the Company’s core operating performance, and may not be meaningful when comparing the Company’s operating performance against that of prior periods.
- *Stock compensation expenses.* Equity compensation is a non-cash expense and does not impact the ongoing operating decisions taken by the Company’s management.
- *Amortization of acquired intangible assets.* When the Company acquires intangible assets through business combinations, the assets are recorded as part of purchase accounting and contribute to revenue generation. Such acquired intangible assets depreciate over time and the related amortization will recur in future periods until the assets have been fully amortized. This is not indicative of the Company’s core operating performance, and may not be meaningful when comparing the Company’s operating performance against that of prior periods.
- *Litigation settlement.* The Company believes that litigation settlements do not reflect expected future operating expenses, are not indicative of the Company’s core operating performance, and may not be meaningful when comparing the Company’s operating performance against that of prior periods.

On a U.S. GAAP basis, the impacts of these items are reflected in the Company’s income statement. However, the Company believes that the provision of supplemental non-GAAP measures allows investors to evaluate the financial performance of the Company’s business using the same evaluation measures that management uses, and is therefore a useful indication of the Company’s performance or expected performance of future operations and facilitates period-to-period comparison of operating performance. As a result, the Company considers it appropriate and reasonable to provide, in addition to U.S. GAAP measures, supplementary non-GAAP financial measures that exclude certain items from the presentation of its financial results.

Reconciliation of non-GAAP based measures with most directly comparable U.S. GAAP based measures for the three months ended May 31, 2022 and May 31, 2021

Readers are cautioned that adjusted gross margin, adjusted gross margin percentage, adjusted operating expense, adjusted net loss, adjusted loss per share, adjusted research and development expense, adjusted selling, marketing and administrative expense, adjusted amortization expense, adjusted operating loss, adjusted EBITDA, adjusted operating loss margin percentage, adjusted EBITDA margin percentage and free cash usage and similar measures do not have any standardized meaning prescribed by U.S. GAAP and are therefore unlikely to be comparable to similarly titled measures reported by other companies. These non-GAAP financial measures should be considered in the context of the U.S. GAAP results, which are described in this MD&A and presented in the Consolidated Financial Statements.

A reconciliation of the most directly comparable U.S. GAAP financial measures for the three months ended May 31, 2022 and May 31, 2021 to adjusted financial measures is reflected in the table below:

For the Three Months Ended (in millions)	May 31, 2022	May 31, 2021
Gross margin	\$ 104	\$ 114
Stock compensation expense	1	1
Adjusted gross margin	<u>\$ 105</u>	<u>\$ 115</u>
Gross margin %	61.9 %	65.5 %
Stock compensation expense	0.6 %	0.6 %
Adjusted gross margin %	<u>62.5 %</u>	<u>66.1 %</u>

Reconciliation of U.S. GAAP operating expense for the three months ended May 31, 2022, February 28, 2022 and May 31, 2021 to adjusted operating expense is reflected in the table below:

For the Three Months Ended (in millions)	May 31, 2022	February 28, 2022	May 31, 2021
Operating expense	\$ 281	\$ (22)	\$ 172
Restructuring charges	1	—	—
Stock compensation expense	6	4	6
Debentures fair value adjustment ⁽¹⁾	(46)	(165)	(4)
Acquired intangibles amortization	23	22	32
Litigation settlement	165	—	—
Adjusted operating expense	<u>\$ 132</u>	<u>\$ 117</u>	<u>\$ 138</u>

⁽¹⁾ See “First Quarter Fiscal 2023 Summary Results of Operations - Financial Highlights - Debentures Fair Value Adjustment”

Reconciliation of U.S. GAAP net loss and U.S. GAAP basic loss per share for the three months ended May 31, 2022 and May 31, 2021 to adjusted net loss and adjusted basic loss per share is reflected in the table below:

For the Three Months Ended (in millions, except per share amounts)	May 31, 2022		May 31, 2021	
		Basic loss per share		Basic loss per share
Net loss	\$ (181)	\$(0.31)	\$ (62)	\$(0.11)
Restructuring charges	1		—	
Stock compensation expense	7		7	
Debentures fair value adjustment	(46)		(4)	
Acquired intangibles amortization	23		32	
Litigation settlement	165		—	
Adjusted net loss	<u>\$ (31)</u>	<u>\$(0.05)</u>	<u>\$ (27)</u>	<u>\$(0.05)</u>

Reconciliation of U.S. GAAP research and development, selling, marketing and administration, and amortization expense for the three months ended May 31, 2022 and May 31, 2021 to adjusted research and development, selling, marketing and administration, and amortization expense is reflected in the table below:

For the Three Months Ended (in millions)	May 31, 2022	May 31, 2021
Research and development	\$ 53	\$ 57
Stock compensation expense	2	2
Adjusted research and development	\$ 51	\$ 55
Selling, marketing and administration	\$ 82	\$ 73
Restructuring charges	1	—
Stock compensation expense	4	4
Adjusted selling, marketing and administration	\$ 77	\$ 69
Amortization	\$ 27	\$ 46
Acquired intangibles amortization	23	32
Adjusted amortization	\$ 4	\$ 14

Adjusted operating loss, adjusted EBITDA, adjusted operating loss margin percentage and adjusted EBITDA margin percentage for the three months ended May 31, 2022 and May 31, 2021 are reflected in the table below.

For the Three Months Ended (in millions)	May 31, 2022	May 31, 2021
Operating loss	\$ (177)	\$ (58)
Non-GAAP adjustments to operating loss		
Restructuring charges	1	—
Stock compensation expense	7	7
Debentures fair value adjustment	(46)	(4)
Acquired intangibles amortization	23	32
Litigation settlement	165	—
Total non-GAAP adjustments to operating loss	150	35
Adjusted operating loss	(27)	(23)
Amortization	29	49
Acquired intangibles amortization	(23)	(32)
Adjusted EBITDA	\$ (21)	\$ (6)
Revenue	\$ 168	\$ 174
Adjusted operating loss margin % ⁽¹⁾	(16%)	(13%)
Adjusted EBITDA margin % ⁽²⁾	(13%)	(3%)

⁽¹⁾ Adjusted operating loss margin % is calculated by dividing adjusted operating loss by revenue

⁽²⁾ Adjusted EBITDA margin % is calculated by dividing adjusted EBITDA by revenue

The Company uses free cash flow (usage) when assessing its sources of liquidity, capital resources, and quality of earnings. The Company believes that free cash flow (usage) is helpful in understanding the Company's capital requirements and provides an additional means to reflect the cash flow trends in the Company's business. Reconciliation of U.S. GAAP net cash used in operating activities for the three months ended May 31, 2022 and May 31, 2021 to free cash usage is reflected in the table below:

For the Three Months Ended (in millions)	May 31, 2022	May 31, 2021
Net cash used in operating activities	\$ (42)	\$ (33)
Acquisition of property, plant and equipment	(1)	(2)
Free cash usage	<u>\$ (43)</u>	<u>\$ (35)</u>

Key Metrics

The Company regularly monitors a number of financial and operating metrics, including the following key metrics, in order to measure the Company's current performance and estimated future performance. Readers are cautioned that annual recurring revenue ("ARR"), dollar-based net retention rate ("DBNRR"), QNX royalty revenue backlog, Cybersecurity total contract value ("TCV") billings, and recurring revenue percentage do not have any standardized meaning and are unlikely to be comparable to similarly titled measures reported by other companies.

Comparative breakdowns of certain key metrics for the three months ended May 31, 2022 and May 31, 2021 are set forth below.

For the Three Months Ended (in millions)	May 31, 2022	May 31, 2021	Change
Annual Recurring Revenue			
Cybersecurity	\$ 334	\$ 364	\$ (30)
IoT	\$ 94	\$ 86	\$ 8
Dollar-Based Net Retention Rate			
Cybersecurity	88 %	94 %	(6%)
QNX Royalty Revenue Backlog	\$ 560	\$ 490	\$ 70
Cybersecurity Total Contract Value Billings	\$ 89	\$ 77	\$ 12
Recurring Software Product Revenue	~ 80%	~ 90%	10%

Annual Recurring Revenue

The Company defines ARR as the annualized value of all subscription, term, maintenance, services, and royalty contracts that generate recurring revenue as of the end of the reporting period. The Company uses ARR as an indicator of business momentum for software and services.

Cybersecurity ARR was approximately \$334 million in the first quarter of fiscal 2023 and decreased compared to \$347 million in the fourth quarter of fiscal 2022 and compared to \$364 million in the first quarter of fiscal 2022.

IoT ARR was approximately \$94 million in the first quarter of fiscal 2023 and increased compared to \$93 million in the fourth quarter of fiscal 2022 and compared to \$86 million in the first quarter of fiscal 2022.

Dollar-Based Net Retention Rate

The Company calculates the DBNRR as of period end by first calculating the ARR from the customer base as at 12 months prior to the current period end ("Prior Period ARR"). The Company then calculates the ARR for the same cohort of customers as at the current period end ("Current Period ARR"). The Company then divides the Current Period ARR by the Prior Period ARR to calculate the DBNRR.

Cybersecurity DBNRR was 88% in the first quarter of fiscal 2023 and decreased compared to 91% in the fourth quarter of fiscal 2022 and compared to 94% in the first quarter of fiscal 2022.

QNX Royalty Revenue Backlog

The Company defines the royalty revenue backlog of its QNX business as estimated future revenue from variable forecasted royalties related to the QNX business. The estimation of forecasted royalties is based on QNX's royalty rates and on projections of anticipated volumes that are based on historical shipping experience and current customer projections that management believes are reasonable over the lifetime of a design. The QNX royalty revenue backlog is calculated annually based on current

projections of volumes and may not be indicative of actual future revenue. The revenue that the Company will recognize is subject to several factors, including actual volumes and potential terminations or modifications to customer contracts.

The Company's QNX royalty revenue backlog was approximately \$560 million at the end of the first quarter of fiscal 2023 and increased compared to approximately \$490 million at the end of the first quarter of fiscal 2022.

Total Contract Value Billings

The Company defines TCV billings as amounts invoiced less credits issued. The Company considers TCV billings to be a useful metric because billings drive deferred revenue, which is an important indicator of the health and visibility of the business, and represents a significant percentage of future revenue.

Cybersecurity TCV billings was \$89 million in the first quarter of fiscal 2023, an increase of \$12 million compared to \$77 in the first quarter of fiscal 2022.

Recurring Software Product Revenue

The Company defines recurring software product revenue percentage as recurring software product revenue divided by total software and services revenue. Recurring software product revenue is comprised of subscription and term licenses, maintenance arrangements, royalty arrangements and perpetual licenses recognized ratably under ASC 606. Total software and services revenue is comprised of recurring product revenue, non-recurring product revenue and professional services. The Company uses recurring software product revenue percentage to provide visibility into the revenue expected to be recognized in the current and future periods.

Total Software and Services product revenue, excluding professional services, was approximately 80% recurring in the first quarter of fiscal 2023, consistent with the fourth quarter of fiscal 2022, and decreased compared to approximately 90% recurring in the first quarter of fiscal 2022 due to product mix.

Results of Operations - Three months ended May 31, 2022 compared to the three months ended May 31, 2021

Revenue

Revenue by Segment

Comparative breakdowns of revenue by segment are set forth below.

	For the Three Months Ended (in millions)		
	May 31, 2022	May 31, 2021	Change
Revenue by Segment			
Cybersecurity	\$ 113	\$ 107	\$ 6
IoT	51	43	8
Licensing and Other	4	24	(20)
	<u>\$ 168</u>	<u>\$ 174</u>	<u>\$ (6)</u>
% Revenue by Segment			
Cybersecurity	67.3 %	61.5 %	
IoT	30.4 %	24.7 %	
Licensing and Other	2.3 %	13.8 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

Cybersecurity

The increase in Cybersecurity revenue of \$6 million was primarily due to an increase of \$16 million related to the sale of Secusmart solutions, partially offset by a decrease of \$6 million relating to product revenue in BlackBerry Spark and a decrease of \$2 million relating to professional services.

IoT

The increase in IoT revenue of \$8 million was primarily due to an increase of \$6 million in BlackBerry QNX development seat revenue and an increase of \$3 million relating to professional services.

Licensing and Other

The decrease in Licensing and Other revenue of \$20 million was primarily due to a decrease of \$18 million in revenue from the Company's intellectual property licensing arrangements due to the pending Patent Sale Transaction in the first quarter of 2023 and associated restrictions on monetization activity and a decrease of \$2 million in SAF revenue.

Revenue by Geography

Comparative breakdowns of the geographic regions are set forth in the following table:

	For the Three Months Ended (in millions)		
	May 31, 2022	May 31, 2021	Change
Revenue by Geography			
North America	\$ 89	\$ 111	\$ (22)
Europe, Middle East and Africa	60	45	15
Other regions	19	18	1
	<u>\$ 168</u>	<u>\$ 174</u>	<u>\$ (6)</u>
% Revenue by Geography			
North America	53.0 %	63.8 %	
Europe, Middle East and Africa	35.7 %	25.9 %	
Other regions	11.3 %	10.3 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

North America Revenue

The decrease in North America revenue of \$22 million was primarily due to a decrease of \$18 million in Licensing and Other revenue due to the reasons discussed above in "Revenue by Segment" and a decrease of \$3 million in product revenue in BlackBerry Spark, partially offset by an increase of \$2 million in BlackBerry QNX royalty revenue.

Europe, Middle East and Africa Revenue

The increase in Europe, Middle East and Africa revenue of \$15 million was primarily due to an increase of \$16 million related to the sale of Secusmart solutions and an increase of \$4 million in BlackBerry QNX development seat revenue, partially offset by a decrease of \$3 million in product revenue in BlackBerry Spark.

Other Regions Revenue

The increase in Other regions revenue of \$1 million was primarily due to an increase of \$1 million in BlackBerry QNX development seat revenue.

Gross Margin

Consolidated Gross Margin

Consolidated gross margin decreased by \$10 million to approximately \$104 million in the first quarter of fiscal 2023 (first quarter of fiscal 2022 - \$114 million). The decrease was primarily due to a decrease in revenue from Licensing and Other and BlackBerry Spark, partially offset by an increase in revenue from BlackBerry QNX and Secusmart due to the reasons discussed above in "Revenue by Segment", as the Company's cost of sales does not significantly fluctuate based on business volume.

Consolidated Gross Margin Percentage

Consolidated gross margin percentage decreased by 3.6% to approximately 61.9% of consolidated revenue in the first quarter of fiscal 2023 (first quarter of fiscal 2022 - 65.5%). The decrease was primarily due to a lower gross margin contribution from Licensing and Other and BlackBerry Spark due to the reasons discussed above in "Revenue by Segment", partially offset by a

higher gross margin contribution from BlackBerry QNX and Secusmart due to the reasons discussed above in “Revenue by Segment”.

Gross Margin by Segment

See “First Quarter Fiscal 2023 Summary Results of Operations” for information about the Company’s operating segments and the basis of operating segment results.

	For the Three Months Ended (in millions)											
	Cybersecurity			IoT			Licensing and Other			Segment Totals		
	May 31, 2022	2021	Change	May 31, 2022	2021	Change	May 31, 2022	2021	Change	May 31, 2022	2021	Change
Segment revenue	\$ 113	\$ 107	\$ 6	\$ 51	\$ 43	\$ 8	\$ 4	\$ 24	\$(20)	\$ 168	\$ 174	\$ (6)
Segment cost of sales	53	46	7	8	7	1	2	6	(4)	63	59	4
Segment gross margin	<u>\$ 60</u>	<u>\$ 61</u>	<u>\$ (1)</u>	<u>\$ 43</u>	<u>\$ 36</u>	<u>\$ 7</u>	<u>\$ 2</u>	<u>\$ 18</u>	<u>\$(16)</u>	<u>\$ 105</u>	<u>\$ 115</u>	<u>\$(10)</u>
Segment gross margin %	<u>53 %</u>	<u>57 %</u>	<u>(4%)</u>	<u>84 %</u>	<u>84 %</u>	<u>— %</u>	<u>50 %</u>	<u>75 %</u>	<u>(25%)</u>	<u>63 %</u>	<u>66 %</u>	<u>(3%)</u>

Cybersecurity

The decrease in Cybersecurity gross margin of \$1 million was primarily due to the reasons discussed above in “Revenue by Segment”, as the cost of sales for most Cybersecurity products does not significantly fluctuate based on business volume.

The decrease in Cybersecurity gross margin percentage of 4% was primarily due to an increase in revenue from the sale of Secusmart solutions, which has a lower relative gross margin percentage.

IoT

The increase in IoT gross margin of \$7 million was primarily due to the reasons discussed above in “Revenue by Segment”, partially offset by an increase in salaries expense.

IoT gross margin percentage was consistent with the first quarter of fiscal 2022.

Licensing and Other

The decrease in Licensing and Other gross margin of \$16 million was primarily due to the reasons discussed above in “Revenue by Segment”.

The decrease in Licensing and Other gross margin percentage of 25% was primarily due to the reasons discussed above in “Revenue by Segment”.

Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expenses for the quarter ended May 31, 2022, compared to the quarter ended February 28, 2022 and the quarter ended May 31, 2021. The Company believes it is meaningful to provide a sequential comparison between the first quarter of fiscal 2023 and the fourth quarter of fiscal 2022.

	For the Three Months Ended (in millions)		
	May 31, 2022	February 28, 2022	May 31, 2021
Revenue	\$ 168	\$ 185	\$ 174
Operating expenses			
Research and development	53	47	57
Selling, marketing and administration	82	64	73
Amortization	27	32	46
Debentures fair value adjustment	(46)	(165)	(4)
Litigation settlement	165	—	—
Total	<u>\$ 281</u>	<u>\$ (22)</u>	<u>\$ 172</u>
Operating Expenses as % of Revenue			
Research and development	31.5%	25.4%	32.8%
Selling, marketing and administration	48.8%	34.6%	42.0%
Amortization	16.1%	17.3%	26.4%
Debentures fair value adjustment	(27.4%)	(89.2%)	(2.3%)
Litigation settlement	98.2 %	— %	— %
Total	<u>167.3 %</u>	<u>(11.9)%</u>	<u>98.9 %</u>

See “Non-GAAP Financial Measures” for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three months ended May 31, 2022, February 28, 2022 and May 31, 2021.

U.S. GAAP Operating Expenses

Operating expenses increased by \$303 million, or 1,377.3% in the first quarter of fiscal 2023, compared to the fourth quarter of fiscal 2022 primarily attributable to a \$165 million litigation settlement, the difference between the Q1 Fiscal 2023 Debentures Fair Value Adjustment and the fair value adjustment related to the 1.75% Debentures incurred in the fourth quarter of fiscal 2022 of \$119 million, a decrease in benefits of \$10 million in government subsidies resulting from claims filed for the Canada Emergency Wage Subsidy and Hardest-Hit Business Recovery Program programs (“COVID-19 subsidies”) to support the business through the COVID-19 pandemic and an increase of \$9 million in variable incentive plan costs.

Operating expenses increased by \$109 million, or 63.4%, compared to the first quarter of fiscal 2022 primarily attributable to a \$165 million litigation settlement and a decrease in benefits of \$11 million in COVID-19 subsidies, partially offset by the difference between the Q1 Fiscal 2023 Debentures Fair Value Adjustment and the fair value adjustment related to the 1.75% Debentures incurred in the first quarter of fiscal 2022 of \$42 million, a decrease of \$19 million in amortization expense and a decrease of \$5 million in salaries and benefits expenses.

Adjusted Operating Expenses

Adjusted operating expenses increased by \$15 million, or 12.8%, to \$132 million in the first quarter of fiscal 2023 compared to \$117 million in the fourth quarter of fiscal 2022. The increase was primarily attributable to a decrease in benefits of \$10 million in COVID-19 subsidies, an increase of \$9 million in variable incentive plan costs and an increase of \$3 million in legal expenses, partially offset by a decrease of \$6 million in amortization expense and a decrease of \$3 million in commission expenses.

Adjusted operating expenses decreased by \$6 million, or 4.3%, to \$132 million in the first quarter of fiscal 2023 compared to \$138 million in the first quarter of fiscal 2022. The decrease was primarily attributable to a decrease of \$10 million in amortization expense, a decrease of \$5 million in salaries and benefits expenses and a decrease of \$2 million in marketing and advertising expenses, partially offset by a decrease in benefits of \$11 million in COVID-19 subsidies.

Research and Development Expenses

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

Research and development expenses decreased by \$4 million, or 7.0%, in the first quarter of fiscal 2023 compared to the first quarter of fiscal 2022 primarily due to a decrease of \$2 million in salaries and benefits expenses and a decrease of \$2 million in consulting fees, partially offset by a decrease in benefits of \$1 million in claims filed with the Ministry of Innovation, Science and Economic Development Canada relating to its Strategic Innovation Fund program's investment in BlackBerry QNX.

Adjusted research and development expenses decreased by \$4 million, or 7.3%, to \$51 million in the first quarter of fiscal 2023 (first quarter of fiscal 2022 - \$55 million). The decrease was primarily due to the same reasons described above on a U.S. GAAP basis.

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 increased by \$9 million, or 12.3%, in the first quarter of fiscal 2023 compared to the first quarter of fiscal 2022 primarily due to a decrease in benefits of \$11 million in COVID-19 subsidies, partially offset by a decrease of \$3 million in salaries and benefits expenses.

Adjusted selling, marketing and administration expenses increased by \$8 million, or 11.6%, to \$77 million in the first quarter of fiscal 2023 (first quarter of fiscal 2022 - \$69 million). This increase was primarily due to the same reasons described above on a U.S. GAAP basis.

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 quarter ended May 31, 2022 compared to the quarter ended May 31, 2021. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Three Months Ended (in millions)		
	Included in Operating Expense		
	May 31, 2022	May 31, 2021	Change
Property, plant and equipment	\$ 4	\$ 3	\$ 1
Intangible assets	23	43	(20)
Total	\$ 27	\$ 46	\$ (19)
Included in Cost of Sales			
	May 31, 2022	May 31, 2021	Change
Property, plant and equipment	\$ —	\$ 1	\$ (1)
Intangible assets	2	2	—
Total	\$ 2	\$ 3	\$ (1)

Amortization included in Operating Expense

The decrease in amortization expense included in operating expense of \$19 million was due to the lower cost base of assets and a decrease in intellectual property held and used related to the Patent Sale Transaction.

Adjusted amortization expense decreased by \$10 million to \$4 million in the first quarter of fiscal 2023 (first quarter of fiscal 2022 - \$14 million) due to the reasons described above on a U.S. GAAP basis.

Amortization included in Cost of Sales

The decrease in amortization expense relating to certain property, plant and equipment and certain intangible assets employed in the Company's service operations of \$1 million was due to the lower cost base of assets.

Investment Loss, Net

Investment loss, net, which includes the interest expense from the 1.75% Debentures, decreased by \$1 million to investment loss, net of \$1 million in the first quarter of fiscal 2023 (first quarter of fiscal 2022 - investment loss, net of \$2 million). The decrease in investment loss, net is primarily due to a decrease in unrealized losses on public equity securities and a higher yield on cash and investments.

Income Taxes

For the first quarter of fiscal 2023, the Company's net effective income tax expense rate was approximately 2% (first quarter of fiscal 2022 - net effective income tax expense rate of approximately 3%). The Company's net effective income tax rate reflects the change in unrecognized income tax benefits, if any, 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 1.75% 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 Loss

The Company's net loss for the first quarter of fiscal 2023 was \$181 million, or \$0.31 basic loss per share and \$0.35 diluted loss per share on a U.S. GAAP basis (first quarter of fiscal 2022 - net loss of \$62 million, or \$0.11 basic and diluted loss per share). The increase in net loss of \$119 million was primarily due to an increase in operating expenses, as described above in "Operating Expenses", a decrease in revenue, as described above in "Revenue by Segment" and a decrease in gross margin percentage, as described above in "Consolidated Gross Margin Percentage".

Adjusted net loss was \$31 million in the first quarter of fiscal 2023 (first quarter of fiscal 2022 - adjusted net loss of \$27 million). The increase in adjusted net loss of \$4 million was primarily due to a decrease in revenue as described above in "Revenue by Segment", a decrease in gross margin percentage, as described above in "Consolidated Gross Margin Percentage", partially offset by a decrease in operating expenses as described above in "Operating Expenses".

The weighted average number of shares outstanding was 577 million common shares for basic loss per share and 638 million common shares for diluted loss per share for the first quarter of fiscal 2023 (first quarter of fiscal 2022 - 567 million common shares for basic and diluted loss per share).

Financial Condition

Liquidity and Capital Resources

Cash, cash equivalents, and investments decreased by \$49 million to \$721 million as at May 31, 2022 from \$770 million as at February 28, 2022, primarily as a result of changes in working capital. The majority of the Company's cash, cash equivalents, and investments were denominated in U.S. dollars as at May 31, 2022.

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

	As at (in millions)		
	May 31, 2022	February 28, 2022	Change
Cash and cash equivalents	\$ 391	\$ 378	\$ 13
Restricted cash and cash equivalents	28	28	—
Short-term investments	272	334	(62)
Long-term investments	30	30	—
Cash, cash equivalents, and investments	<u>\$ 721</u>	<u>\$ 770</u>	<u>\$ (49)</u>

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

	As at (in millions)		
	May 31, 2022	February 28, 2022	Change
Current assets	\$ 964	\$ 1,043	\$ (79)
Current liabilities	521	397	124
Working capital	\$ 443	\$ 646	\$ (203)

Current Assets

The decrease in current assets of \$79 million at the end of the first quarter of fiscal 2023 from the end of the fourth quarter of fiscal 2022 was primarily due to a decrease in short term investments of \$62 million, a decrease in accounts receivable, net of allowance of \$36 million and a decrease in other receivables of \$4 million, partially offset by an increase in cash and cash equivalents of \$13 million and an increase of \$10 million in other current assets.

At May 31, 2022, accounts receivable was \$102 million, a decrease of \$36 million from February 28, 2022. The decrease was primarily due to lower revenue recognized over the three months ended May 31, 2022 compared to the three months ended February 28, 2022, and a decrease in days sales outstanding to 66 days at the end of the first quarter of fiscal 2023 from 67 days at the end of the fourth quarter of fiscal 2022.

At May 31, 2022, other receivables was \$21 million, a decrease of \$4 million from February 28, 2022. The decrease was primarily due to a decrease of \$5 million relating to COVID-19 subsidies.

At May 31, 2022, other current assets was \$169 million, an increase of \$10 million from February 28, 2022. The increase was primarily due to an increase of \$7 million in prepaid software and an increase of \$3 million in inventory.

Current Liabilities

The increase in current liabilities of \$124 million at the end of the first quarter of 2023 from the end of the fourth quarter of fiscal 2022 was primarily due an increase in accruals of \$147 million and an increase in income taxes payable of \$2 million, partially offset by a decrease in deferred revenue, current of \$17 million and a decrease in accounts payable of \$8 million.

Accrued liabilities were \$304 million, reflecting an increase of \$147 million compared to February 28, 2022. The increase was primarily due to a \$165 million legal settlement accrual, partially offset by a decrease of \$12 million in variable incentive plan costs and a decrease of \$4 million in payroll accruals.

Income taxes payable were \$13 million, reflecting an increase of \$2 million compared to February 28, 2022, which was primarily due to income earned in taxable jurisdictions.

Deferred revenue, current was \$190 million, reflecting a decrease of \$17 million compared to February 28, 2022 that was attributable to a \$13 million decrease in deferred revenue, current related to BlackBerry Spark and \$3 million related to BlackBerry AtHoc.

Accounts payable were \$14 million, reflecting a decrease of \$8 million from February 28, 2022, which was primarily due to timing of payments.

Cash flows for the three months ended May 31, 2022 compared to the three months ended May 31, 2021 were as follows:

	For the Three Months Ended		
	<i>(in millions)</i>		
	May 31, 2022	May 31, 2021	Change
Net cash flows provided by (used in):			
Operating activities	\$ (42)	\$ (33)	\$ (9)
Investing activities	53	176	(123)
Financing activities	3	4	(1)
Effect of foreign exchange gain (loss) on cash and cash equivalents	(1)	3	(4)
Net increase in cash and cash equivalents	<u>\$ 13</u>	<u>\$ 150</u>	<u>\$ (137)</u>

Operating Activities

The increase in net cash flows used in operating activities of \$9 million primarily reflects the net changes in working capital.

Investing Activities

During the three months ended May 31, 2022, cash flows provided by investing activities were \$53 million and included cash provided by transactions involving the acquisitions of short-term investments, net of the proceeds on sale or maturity in the amount of \$62 million, offset by cash used in the acquisition of intangible assets of \$8 million, and the acquisition of property, plant and equipment of \$1 million. For the same period in the prior fiscal year, cash flows provided by investing activities were \$176 million and included cash provided by transactions involving the acquisitions of short-term investments, net of the proceeds on sale or maturity in the amount of \$184 million, offset by cash used in the acquisition intangible assets of \$6 million, and the acquisitions of property, plant and equipment of \$2 million.

Financing Activities

The decrease in cash flows provided by financing activities of \$1 million for the first three months of fiscal 2023 was primarily due to a decrease in common shares issued upon the exercise of stock options.

Debenture Financing and Other Funding Sources

See Note 5 to the Consolidated Financial Statements for a description of the 1.75% Debentures.

The Company has \$26 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business. See Note 2 to the Consolidated Financial Statements for further information concerning the Company's restricted cash.

Cash, cash equivalents, and investments were approximately \$721 million as at May 31, 2022. 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.

Contractual and Other Obligations

The following table sets out aggregate information about the Company's contractual and other obligations and the periods in which payments are due as at May 31, 2022:

	<i>(in millions)</i>		
	Total	Short-term (next 12 months)	Long-term (>12 months)
Operating lease obligations	\$ 94	\$ 30	\$ 64
Purchase obligations and commitments	129	107	22
Litigation settlement	165	165	—
Debt interest and principal payments	376	6	370
Total	<u>\$ 764</u>	<u>\$ 308</u>	<u>\$ 456</u>

Total contractual and other obligations as at May 31, 2022 increased by approximately \$161 million as compared to the February 28, 2022 balance of approximately \$603 million, which was attributable to a litigation settlement and an increase in purchase obligations and commitments, partially offset by a decrease in operation lease obligations.

The Company does not have any material off-balance sheet arrangements.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Exchange

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the U.S. dollar. The majority of the Company's revenue in the first quarter of fiscal 2023 was transacted in U.S. dollars. Portions of the revenue were denominated in Canadian dollars, euros and British pounds. Expenses, consisting mainly of salaries and certain other operating costs, were incurred primarily in Canadian dollars, but were also incurred in U.S. dollars, euros and British pounds. At May 31, 2022, approximately 21% of cash and cash equivalents, 7% of accounts receivables and 40% of accounts payable were denominated in foreign currencies (February 28, 2022 – 37%, 23% and 30%, 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. If overall foreign currency exchange rates to the U.S. dollar uniformly weakened or strengthened by 10% related to the Company's net monetary asset or liability balances in foreign currencies at May 31, 2022 (after hedging activities), the impact to the Company would be immaterial.

The Company regularly reviews its currency forward and option positions, both on a stand-alone basis and in conjunction with its underlying foreign currency exposures. Given the effective horizons of the Company's risk management activities and the anticipatory nature of the exposures, there can be no assurance these positions will offset more than a portion of the financial impact resulting from movements in currency exchange rates. Further, the recognition of the gains and losses related to these instruments may not coincide with the timing of gains and losses related to the underlying economic exposures and, therefore, may adversely affect the Company's financial condition and operating results.

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 1.75% Debentures with a fixed interest rate, as described in Note 5 to the Consolidated Financial Statements. The fair value of the 1.75% Debentures will fluctuate with changes in prevailing interest rates. Consequently, the Company is exposed to interest rate risk as a result of the 1.75% Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio or changes in the market value of the 1.75% 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 credit losses ("ACL") that corresponds to the specific credit risk of its customers, historical trends and economic circumstances. The ACL as at May 31, 2022 was \$4 million (February 28, 2022 - \$4 million). There was no customer that comprised more than 10% of accounts receivable as at May 31, 2022 (February 28, 2022 - no customer that comprised more than 10%). During the first quarter of fiscal 2023, the percentage of the Company's receivable balance that was past due increased by 6.2% compared to the fourth quarter of fiscal 2022. 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 from resellers and other distribution partners 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 15% of the Company's revenue in the three months ended May 31, 2022 (three months ended May 31, 2021 - no customer comprised more than 10% of the Company's revenue.)

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