

FOR IMMEDIATE RELEASE

BlackBerry Reports Record Software and Services Revenue for Q1 Fiscal 2017

Company delivers positive non-GAAP operating income and breakeven non-GAAP EPS

Waterloo, ON – BlackBerry Limited (NASDAQ: BBRY; TSX: BB), a global leader in secure mobile communications, today reported financial results for the three months ended May 31, 2016 (all figures in U.S. dollars and U.S. GAAP, except where otherwise indicated).

Q1 Highlights

- Company begins reporting multiple business segments: Software and Services, Service Access Fees (SAF) and Mobility Solutions. Mobility Solutions includes BlackBerry smartphones and device software licensing
- Non-GAAP total revenue of \$424 million
- Non-GAAP software and services revenue of \$166 million
- Non-GAAP gross margin of 53%
- Tenth consecutive quarter of positive adjusted EBITDA
- Cash and investments balance of \$2.5 billion at the end of the first fiscal quarter
- Unveiled BlackBerry Radar, a new end-to-end asset tracking system based on the company's IoT platform, for trucking companies and private fleet operators
- BlackBerry named a "Leader" in the Forrester Wave for enterprise file sync and share for hybrid solutions
- After the quarter, BlackBerry named a "Leader" in the Gartner Magic Quadrant for Enterprise Mobility Management Suites
- New Enterprise Partner Program launched globally to stimulate growth and drive profit for partners
- Pentagon Force Protection Agency chooses AtHoc to protect Department of Defense leadership, staff, and visitors in times of crisis

Q1 Results

Non-GAAP revenue for the first quarter of fiscal 2017 was \$424 million with GAAP revenue of \$400 million. The non-GAAP revenue breakdown for the quarter was approximately 39% for software and services, 25% for service access fees (SAF), and 36% for mobility solutions.

BlackBerry had approximately 3,300 enterprise customer wins in the quarter. Approximately 74% of the first quarter software revenue was recurring.

Non-GAAP operating income was \$14 million, and non-GAAP net income was \$0.00 per share for the first quarter. GAAP net loss for the quarter was \$670 million, or \$(1.28) per basic share. Basic GAAP net loss reflects a non-cash, long lived asset impairment charge of \$501 million, a \$57 million goodwill impairment charge, inventory write-down of \$41 million, \$28 million in amortization of acquired intangibles, stock compensation expense of \$12 million, purchase accounting deferred revenue write-down of \$24 million, \$23 million in restructuring charges, \$7 million related to acquisition costs, and a non-cash credit of \$24 million for our convertible debt. The impact of these adjustments on GAAP net income and earnings per share is summarized in a table below.

Total cash, cash equivalents, short-term and long-term investments was \$2.5 billion as of May 31, 2016. This reflects a use of free cash of \$65 million, which includes negative \$61 million of cash flow from operations. Cash

flow from operations before working capital adjustments was negatively impacted by the inventory impairment and excluding the charges, would have been positive. Excluding \$1.25 billion in the face value of our debt, the net cash balance at the end of the quarter was \$1.3 billion. Purchase orders with contract manufacturers totaled approximately \$150 million at the end of the first quarter, compared to \$162 million at the end of the fourth quarter and down from \$238 million in the year ago quarter.

“BlackBerry is differentiated by cross-platform market leadership in software, an end-to-end secure mobility platform and a strong financial foundation. Our Q1 results highlight these attributes. Excluding IP licensing, we have more than doubled our software revenue on a year-over-year basis for the second consecutive quarter, driven by our EMM, secure messaging and QNX embedded software businesses. In our Mobility Solutions business, our objective is to achieve operating profitability in the short term,” said John Chen, Executive Chairman and CEO, BlackBerry.

“Our current plan calls for continued investments to expand our addressable markets and drive sustainable profitability and revenue growth. For the full fiscal year, we are on track to deliver 30 percent revenue growth in software and services. Based on a more efficient operating model, we expect a non-GAAP EPS loss of around 15 cents, compared to the current consensus of a 33 cent loss. We also expect to generate positive free cash flow for the full year.”

Outlook

The Company anticipates maintaining a strong cash position and further reallocating additional resources to go-to-market and product development areas as it continues to execute on its strategy of positive adjusted EBITDA for the full 2017 fiscal year.

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

Reconciliation of the Company's segment results to the consolidated results:

For the Three Months Ended May 31, 2016
(in millions)

	Software & Services	Mobility Solutions	SAF	Segment totals	Corporate unallocated	Subtotal	Non-GAAP adjustments	Consolidated U.S. GAAP
Revenue	\$ 166	\$ 152	\$ 106	\$ 424	\$ —	\$ 424	(\$24)	\$ 400
Cost of goods sold	32	140	26	198	—	198	48	246
Gross margin	134	12	80	226	—	226	(72)	154
Operating expenses	97	33	2	132	80	212	597	809
Operating income (loss)	\$ 37	\$ (21)	\$ 78	\$ 94	\$ (80)	\$ 14	\$ (669)	\$ (655)

Reconciliation of GAAP gross margin, gross margin percentage, loss before income taxes, net loss and loss per share to Non-GAAP gross margin, gross margin percentage, loss before income taxes, net loss and loss per share:

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

Q1 Fiscal 2017 Non-GAAP Adjustments

For the Three Months Ended May 31, 2016
(in millions)

	Income statement location	Revenue	Gross margin (before taxes) ⁽¹⁾	Gross margin % (before taxes) ⁽¹⁾	Loss before income taxes	Net Loss	Basic loss per share
As reported		\$ 400	154	38.5%	\$ (670)	\$ (670)	\$ (1.28)
LLA Impairment Charge ⁽²⁾	Impairment of long-lived assets	—	—	—%	501	501	
Goodwill Impairment Charge ⁽³⁾	Impairment of goodwill	—	—	—%	57	57	
Inventory write-down ⁽⁴⁾	Cost of sales	—	41	10.3%	41	41	
Debentures fair value adjustment ⁽⁵⁾	Debentures fair value adjustment	—	—	—%	(24)	(24)	
RAP charges ⁽⁶⁾	Cost of sales	—	7	1.7%	7	7	
RAP charges ⁽⁶⁾	Research and development	—	—	—%	2	2	
RAP charges ⁽⁶⁾	Selling, marketing and administration	—	—	—%	16	16	
CORE program recovery ⁽⁷⁾	Selling, marketing and administration	—	—	—%	(2)	(2)	
Software deferred revenue acquired ⁽⁸⁾	Revenue	24	24	2.8%	24	24	
Stock compensation expense ⁽⁹⁾	Research and development	—	—	—%	4	4	
Stock compensation expense ⁽⁹⁾	Selling, marketing and administration	—	—	—%	8	8	
Acquired intangibles amortization ⁽¹⁰⁾	Amortization	—	—	—%	28	28	
Business acquisition and integration costs ⁽¹¹⁾	Selling, marketing and administration	—	—	—%	7	7	
Adjusted		\$ 424	226	53.3%	\$ (1)	\$ (1)	\$ 0.00

Note: Non-GAAP gross margin, non-GAAP gross margin percentage, non-GAAP loss before income taxes, non-GAAP net loss and non-GAAP loss per share do not have a standardized meaning prescribed by GAAP and thus are not comparable to similarly titled measures presented by other issuers. The Company believes that the presentation of these non-GAAP measures enables the Company and its shareholders to better assess the Company's operating results relative to its operating results in prior periods and improves the comparability of the information presented. Investors should consider these non-GAAP measures in the context of the Company's GAAP results.

- (1) During the first quarter of fiscal 2017, the Company reported GAAP gross margin of \$154 million or 38.5% of revenue. Excluding the impact of the inventory write-down and resource alignment program (“RAP”) charges included in cost of sales and software deferred revenue acquired included in revenue, the non-GAAP gross margin was \$226 million, or 53.3% of revenue.
- (2) During the first quarter of fiscal 2017, the Company recorded long-lived asset impairment charge of \$501 million. This adjustment was presented on a separate line in the Consolidated Statements of Operations.
- (3) During the first quarter of fiscal 2017, the Company recorded goodwill impairment charge of \$57 million. This adjustment was presented on a separate line in the Consolidated Statements of Operations.
- (4) During the first quarter of fiscal 2017, the Company recorded inventory write-down charges of \$41 million, which were included in cost of sales.
- (5) During the first quarter of fiscal 2017, the Company recorded the Q1 Fiscal 2017 Debentures Fair Value Adjustment of \$24 million. This adjustment was presented on a separate line in the Consolidated Statements of Operations.
- (6) During the first quarter of fiscal 2017, the Company incurred charges related to the RAP of approximately \$25 million, of which \$7 million were included in cost of sales, \$2 million were included in research and development and \$16 million were included in selling, marketing and administration expense.
- (7) During the first quarter of fiscal 2017, the Company incurred recoveries related to the CORE program of \$2 million, which were included in selling, marketing, and administration expenses.
- (8) During the first quarter of fiscal 2017, the Company recorded software deferred revenue acquired but not recognized due to business combination accounting rules of \$24 million, which were included in revenue.
- (9) During the first quarter of fiscal 2017, the Company recorded stock compensation expense of \$12 million, of which \$4 million were included in research and development, and \$8 million were included in selling, marketing and administration expenses.
- (10) During the first quarter of fiscal 2017, the Company recorded amortization of intangible assets acquired through business combinations of \$28 million, which were included in amortization expense.
- (11) During the first quarter of fiscal 2017, the Company recorded business acquisition and integration costs incurred through business combinations of \$7 million, which were included in selling, marketing and administration expenses.

Supplementary Geographic Revenue Breakdown

BlackBerry Limited
(United States dollars, in millions)
Revenue by Region

	For the quarters ended									
	May 31, 2016		February 29, 2016		November 28, 2015		August 29, 2015		May 30, 2015	
North America	\$ 195	48.8%	\$ 216	46.5%	\$ 275	50.2%	\$ 176	36.0%	\$ 285	43.3%
Europe, Middle East and Africa	155	38.7%	175	37.7%	194	35.4%	202	41.2%	245	37.2%
Latin America	10	2.5%	18	3.9%	24	4.4%	33	6.7%	42	6.4%
Asia Pacific	40	10.0%	55	11.9%	55	10.0%	79	16.1%	86	13.1%
Total	\$ 400	100.0%	\$ 464	100.0%	\$ 548	100.0%	\$ 490	100.0%	\$ 658	100.0%

Conference Call and Webcast

A conference call and live webcast will be held beginning at 8 am ET, which can be accessed by dialing 1-844-309-0607 or by logging on at <http://ca.blackberry.com/company/investors/events.html>.

A replay of the conference call will also be available at approximately 11 am ET by dialing 1-855-859-2056 or 1-404-537-3406 and entering Conference ID # 15218824 or by clicking the link above.

About BlackBerry

BlackBerry is securing a connected world, delivering innovative solutions across the entire mobile ecosystem and beyond. We secure the world's most sensitive data across all end points – from cars to smartphones – making the mobile-first enterprise vision a reality. Founded in 1984 and based in Waterloo, Ontario, BlackBerry operates offices in North America, Europe, Middle East and Africa, Asia Pacific and Latin America. The Company trades under the ticker symbols “BB” on the Toronto Stock Exchange and “BBRY” on the NASDAQ. For more information, visit www.BlackBerry.com.

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This news release contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Canadian securities laws, including statements regarding: BlackBerry's expectations regarding its cash flow and adjusted EBITDA; BlackBerry's plans, strategies and objectives; BlackBerry's expectations regarding anticipated demand for and the timing of product and service offerings, including BES12, the Good Secure EMM Suites, BlackBerry smartphones and the BlackBerry IoT Platform; BlackBerry's expectations regarding the generation of revenue from its software, services and other technologies, its expectations regarding the growth of and recurring nature of certain of its software and services revenue, and the ability of such revenue to offset the decline in service access fees revenue; BlackBerry's objectives regarding profitability in its mobility solutions business in the third quarter of fiscal 2017; BlackBerry's anticipated level of decline in service revenue for the next quarter; BlackBerry's expectations for gross margin for the next quarter; BlackBerry's expectations for earnings per share for fiscal 2017; BlackBerry's expectations with respect to the sufficiency of its financial resources and maintaining its strong cash position; and BlackBerry's estimates of purchase obligations and other contractual commitments.

The terms and phrases “expect”, “anticipate”, “estimate”, “may”, “will”, “should”, “intend”, “believe”, “target”, “plan” and similar expressions are intended to identify these forward-looking statements. Forward-looking statements are based on estimates and assumptions made by BlackBerry in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that BlackBerry believes are relevant. Many factors could cause BlackBerry's actual results or performance to differ materially from those expressed or implied by the forward-looking statements, including the following risks: BlackBerry's ability to attract new enterprise customers and maintain its existing relationships with its enterprise customers, or transition them to the Company's latest enterprise software platforms and deploy smartphones; BlackBerry's ability to develop, market and distribute an integrated software and services offering, or otherwise monetize its technologies, to grow revenue, or to offset the decline in BlackBerry's service access fees; BlackBerry's ability to enhance its current products and services, or develop new products and services, in a timely manner, at competitive prices, or to meet customer requirements, or accurately predict emerging technological trends; BlackBerry's ability to

successfully market and distribute new devices, including the PRIV; intense competition; the occurrence or perception of a breach of BlackBerry's security measures or an inappropriate disclosure of confidential or personal information; risks related to BlackBerry's products and services being dependent upon the interoperability with rapidly changing systems provided by third parties; BlackBerry's ability to attract new personnel and retain key personnel; BlackBerry's dependence on its relationships with network carriers and distributors; risks related to acquisitions and other business initiatives; the risk that network disruptions or other business interruptions could have a material adverse effect on BlackBerry's business and harm its reputation; the risk that failure to protect BlackBerry's intellectual property could harm its ability to compete effectively or impact its ability to earn revenues it expects from intellectual property rights; BlackBerry's reliance on its suppliers for functional components and risks relating to its supply chain; risks related to sales to customers in highly regulated industries and governmental entities; BlackBerry's reliance on third parties to manufacture and repair its products; BlackBerry's ability to obtain rights to use software or components supplied by third parties; BlackBerry's ability to address inventory and asset risk and the potential for charges related to its inventory and long-lived assets; BlackBerry's ability to maintain or increase its liquidity; risks related to BlackBerry's significant indebtedness; risks related to intellectual property rights; risks related to litigation, including litigation claims arising from BlackBerry's disclosure practices; risks related to government regulations applicable to BlackBerry's products and services, including products containing encryption technology; risks related to the use and disclosure of user and personal information; risks related to foreign operations, including fluctuations in foreign currencies; risks related to potential defects and vulnerabilities in BlackBerry's products; risks as a result of actions of activist shareholders; BlackBerry's ability to supplement and manage its catalogue of third-party applications; risks related to the failure of BlackBerry's suppliers and other parties it does business with to use acceptable ethical business practices or to comply with applicable laws; risks related to health and safety and hazardous materials usage regulations and network certification risks; costs and other burdens associated with regulations regarding conflict minerals; risks related to BlackBerry possibly losing its foreign private issuer status under U.S. federal securities laws; the potential impact of copyright levies in numerous countries; risks related to tax liabilities; risks related to the volatility of the market price of BlackBerry's common shares; risks related to economic and geopolitical conditions; market and credit risk related to BlackBerry's cash and investments; and risks relating to the fluctuation of BlackBerry's quarterly revenue and operating results. These risk factors and others relating to BlackBerry are discussed in greater detail in BlackBerry's Annual Information Form, which is included in its Annual Report on Form 40-F and the "Cautionary Note Regarding Forward-Looking Statements" section of BlackBerry's MD&A (copies of which filings may be obtained at www.sedar.com or www.sec.gov). Readers should not place undue reliance on BlackBerry's forward-looking statements. BlackBerry 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 law.

BlackBerry®, BBM™, QNX®, Good® and related trademarks, names and logos are the property of BlackBerry Limited and are registered and/or used in the United States and countries around the world. All other trademarks are the property of their respective owners.

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BlackBerry Limited
Incorporated under the Laws of Ontario
(United States dollars, in millions except share and per share amounts) (unaudited)

Consolidated Statements of Operations

	For the three months ended		
	May 31, 2016	February 29, 2016	May 30, 2015
Revenue	\$ 400	\$ 464	\$ 658
Cost of sales	246	254	348
Gross margin	154	210	310
Gross margin %	38.5%	45.3%	47.1%
Operating expenses			
Research and development	89	108	139
Selling, marketing and administration	129	179	173
Amortization	54	77	65
Impairment of goodwill	57	—	—
Impairment of long-lived assets	501	—	—
Abandonment of long-lived assets	3	127	1
Debentures fair value adjustment	(24)	(40)	(157)
	809	451	221
Operating income (loss)	(655)	(241)	89
Investment loss, net	(15)	(15)	(16)
Income (loss) before income taxes	(670)	(256)	73
Provision for (recovery of) income taxes	—	(18)	5
Net income (loss)	\$ (670)	\$ (238)	\$ 68
Earnings (loss) per share			
Basic	\$ (1.28)	\$ (0.45)	\$ 0.13
Diluted	\$ (1.28)	\$ (0.45)	\$ (0.10)
Weighted-average number of common shares outstanding (000's)			
Basic	521,905	524,627	529,235
Diluted	521,905	524,627	670,539
Total common shares outstanding (000's)	522,517	521,172	529,485

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Consolidated Balance Sheets

As at	May 31, 2016	February 29, 2016
Assets		
Current		
Cash and cash equivalents	\$ 1,225	\$ 957
Short-term investments	1,008	1,420
Accounts receivable, net	265	338
Other receivables	55	51
Inventories	127	143
Income taxes receivable	25	—
Other current assets	94	102
	<u>2,799</u>	<u>3,011</u>
Long-term investments	246	197
Restricted cash	53	50
Property, plant and equipment, net	391	412
Goodwill	562	618
Intangible assets, net	674	1,213
Deferred income tax asset	—	33
	<u>\$ 4,725</u>	<u>\$ 5,534</u>
Liabilities		
Current		
Accounts payable	\$ 278	\$ 270
Accrued liabilities	305	368
Income taxes payable	—	9
Deferred revenue	326	392
	<u>909</u>	<u>1,039</u>
Long term debt	1,253	1,277
Deferred income tax liability	9	10
	<u>2,171</u>	<u>2,326</u>
Shareholders' Equity		
Capital stock and additional paid-in capital	2,463	2,448
Retained earnings	98	768
Accumulated other comprehensive loss	(7)	(8)
	<u>2,554</u>	<u>3,208</u>
	<u>\$ 4,725</u>	<u>\$ 5,534</u>

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

Consolidated Statements of Cash Flows

	Three Months Ended	
	May 31, 2016	May 30, 2015
Cash flows from operating activities		
Net income (loss)	\$ (670)	\$ 68
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization	72	164
Deferred income taxes	32	2
Stock-based compensation	12	14
Loss on disposal of property, plant and equipment	1	12
Debentures fair value adjustment	(24)	(157)
Impairment of goodwill	57	—
Impairment of long-lived assets	501	—
Other-than-temporary impairment on cost-based investments	7	—
Other	3	16
Net changes in working capital items:		
Accounts receivable, net	73	35
Other receivables	(4)	4
Inventories	16	(11)
Income tax receivable, net	(25)	153
Other current assets	8	124
Accounts payable	8	(86)
Accrued liabilities	(53)	(191)
Income taxes payable	(9)	—
Deferred revenue	(66)	(13)
Net cash provided by (used in) operating activities	(61)	134
Cash flows from investing activities		
Acquisition of long-term investments	(163)	(77)
Proceeds on sale or maturity of long-term investments	32	1
Acquisition of property, plant and equipment	(4)	(11)
Acquisition of intangible assets	(9)	(11)
Business acquisitions, net of cash acquired	—	(53)
Acquisition of short-term investments	(389)	(574)
Proceeds on sale or maturity of short-term investments	875	532
Net cash provided by (used in) investing activities	342	(193)
Cash flows from financing activities		
Issuance of common shares	3	1
Payment of contingent consideration from business acquisitions	(15)	—
Effect of foreign exchange gain on restricted cash	(3)	(1)
Transfer to restricted cash	—	1
Net cash provided by (used in) financing activities	(15)	1
Effect of foreign exchange gain (loss) on cash and cash equivalents	2	(10)
Net increase (decrease) in cash and cash equivalents during the period	268	(68)
Cash and cash equivalents, beginning of period	957	1,233
Cash and cash equivalents, end of period	\$ 1,225	\$ 1,165
As at	May 31, 2016	February 29, 2016
Cash and cash equivalents	\$ 1,225	\$ 957
Short-term investments	1,008	1,420
Long-term investments	246	197
Restricted cash	53	50
	\$ 2,532	\$ 2,624

BLACKBERRY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MAY 31, 2016

June 23, 2016

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read together with the unaudited interim consolidated financial statements and the accompanying notes (the "Consolidated Financial Statements") of BlackBerry Limited (the "Company" or "BlackBerry") for the three months ended May 31, 2016, as well as the Company's audited consolidated financial statements and accompanying notes, and MD&A, for the fiscal year ended February 29, 2016 (the "Annual MD&A"). The Consolidated Financial Statements are presented in U.S. dollars and have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). All financial information in this MD&A is presented in U.S. dollars, unless otherwise indicated.

The Company has prepared this MD&A with reference to *National Instrument 51-102* "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which are different from those of the United States. This MD&A provides information for the three months ended May 31, 2016 and up to and including June 23, 2016.

Additional information about the Company, including the Company's Annual Information Form for the fiscal year ended February 29, 2016 (the "AIF"), which is included in the Company's Annual Report on Form 40-F for the fiscal year ended February 29, 2016 (the "Annual Report"), can be found on SEDAR at www.sedar.com and on the U.S. Securities and Exchange Commission's website at www.sec.gov.

Cautionary Note Regarding Forward-Looking Statements

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

- the Company's plans, strategies and objectives;
- the Company's expectations regarding anticipated demand for, and the timing of, product and service offerings, including BlackBerry Enterprise Service ("BES") 12, the Good® Secure EMM Suites (the "Good Suites"), BlackBerry smartphones and the cloud-based BlackBerry Internet of Things ("IoT") platform;
- the Company's expectations regarding its cash flow and adjusted EBITDA;
- the Company's expectations regarding the generation of revenue from its Software & Services business, its expectations regarding the growth of and recurring nature of certain of its Software & Services revenue, and its expectations regarding the ability of such revenue to offset the decline in service access fees revenue;
- the Company's anticipated level of decline in service access fees revenue in the second quarter of fiscal 2017;
- the Company's expectations for gross margin in the second quarter of fiscal 2017;
- the Company's expectations regarding operating loss in its Mobility Solutions business in the second quarter of fiscal 2017 and the Company's objective regarding operating profitability in its Mobility Solutions business in the third quarter of fiscal 2017;
- the Company's expectations for operating expenses in the second quarter of fiscal 2017;
- the Company's expectations for earnings per share for fiscal 2017;
- the Company's expected benefits from its plans to reallocate resources through its resource alignment program (the "RAP");
- the Company's expectations with respect to the sufficiency of its financial resources and maintaining its strong cash position; and
- the Company's estimates of purchase obligations and other contractual commitments.

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, Products and Services", "First Quarter Fiscal 2017 Summary Results of Operations – Financial

Highlights – Free Cash Flow”, “Results of Operations – Three months ended May 31, 2016 compared to three months ended May 30, 2015 – Revenue – Revenue by Segment – Software & Services”, “Results of Operations – Three months ended May 31, 2016 compared to three months ended May 30, 2015 – Revenue – Revenue by Segment – SAF”, “Results of Operations – Three months ended May 31, 2016 compared to three months ended May 30, 2015 – Gross Margin”, “Results of Operations – Three months ended May 31, 2016 compared to three months ended May 30, 2015 – Gross Margin – Mobility Solutions”, “Results of Operations – Three months ended May 31, 2016 compared to three months ended May 30, 2015 – Operating Expenses”, “Results of Operations – Three months ended May 31, 2016 compared to three months ended May 30, 2015 – Net Income (Loss)”, and “Financial Condition – Debenture Financing and Other Funding Sources”. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience 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, including its ability to implement meaningful changes to address its business challenges, the launch of new products and services, general economic conditions, product pricing levels and competitive intensity, supply constraints, and the Company's expectations regarding the cash flow generation of its business and the sufficiency of its financial resources. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the factors discussed in the “Risk Factors” section of the AIF, which is included in the Annual Report, and the following:

- the Company's ability to attract new enterprise customers and maintain its existing relationships with its enterprise customers or transition them to the Company's latest enterprise software platforms and deploy smartphones;
- the Company's ability to develop, market and distribute an integrated software and services offering, or otherwise monetize its technologies, to grow revenue, achieve sustained profitability, or to offset the decline in the Company's service access fees;
- the Company's ability to enhance its current products and services, or develop new products and services, in a timely manner or at competitive prices, or to meet customer requirements, or accurately predict emerging technological trends;
- the Company's ability to successfully market and distribute new devices, including the PRIV;
- the intense competition faced by the Company;
- the occurrence or perception of a breach of the Company's security measures, or an inappropriate disclosure of confidential or personal information; and
- risks related to the Company's products and services being dependent upon the interoperability with rapidly changing systems provided by third parties.

All of these factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. Any statements that are forward-looking statements are intended to enable the Company's shareholders to view the anticipated performance and prospects of the Company from management's perspective at the time such statements are made, and they are subject to the risks that are inherent in all forward-looking statements, as described above, as well as difficulties in forecasting the Company's financial results and performance for future periods, particularly over longer periods, given the ongoing transition in the Company's business strategy and the rapid technological changes, evolving industry standards, intense competition and short product life cycles that characterize the wireless communications industry. See “Business Overview - Strategy, Products and Services” in this MD&A, as well as that section in the AIF, which is included in 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 is securing a connected world, delivering innovative solutions across the entire mobile ecosystem and beyond. The Company secures the world's most sensitive data across all endpoints – from cars to smartphones – making the mobile-first enterprise vision a reality. Founded in 1984 and based in Waterloo, Ontario, the Company operates offices in North America, Europe, Middle East and Africa, Asia Pacific and Latin America. The Company's common shares are listed on the NASDAQ Global Select Market (NASDAQ: BBRY) and the Toronto Stock Exchange (TSX: BB) and its unsecured convertible debentures due 2020 (the “Debentures”) are listed on the Toronto Stock Exchange (TSX: BB.DB.U).

As a result of an internal reporting reorganization in the first quarter of fiscal 2017, the Company is now organized and managed as three operating segments: Software & Services, Mobility Solutions, and Service Access Fees (“SAF”). See Note 14 to the Consolidated Financial Statements for further information.

The Software & Services segment includes all operations relating to the Company's software and service offerings and products, including:

- Enterprise solutions and services, which provides mobile security, management, productivity and collaboration solutions through BES12 and the Good Suites, as well as value added products such as the WatchDox secure enterprise file sync and share ("EFSS") solution and the Movirtu virtual SIM split billing solution;
- Business Technology Solutions, which includes QNX, Certicom, Paratek, the BlackBerry IoT Platform and Intellectual Property and Patent Licensing (the Company's technology licensing businesses);
- AtHoc, which provides secure, networked crisis communications solutions;
- SecuSmart, which provides secure voice and text messaging solutions with advanced encryption and anti-eavesdropping capabilities;
- consumer BlackBerry Messenger service (BBM); and
- Professional Cybersecurity Services, which offers cybersecurity consulting services and tools.

The Mobility Solutions segment includes the development, manufacturing and sale of BlackBerry handheld devices, including accessories and non-warranty repairs, and the development of a device software licensing program.

The SAF segment includes service access fees charged to subscribers using the Company's legacy BlackBerry 7 and prior BlackBerry operating systems, and an allocation of revenue associated with the sale of BlackBerry 10 devices relating to service obligations and unspecified future software upgrades.

Across all businesses, BlackBerry products and services are widely recognized in the market for productivity and security, and the Company believes that it delivers the most secure end-to-end mobile enterprise solutions in the market. With these core strengths, the Company's broad portfolio of products and services is focused on serving enterprise customers, particularly in regulated industries and select vertical markets, including government, financial services, legal and healthcare.

The Company has experienced a significant decline in revenue due to intense competition and other factors, as discussed below under "Results of Operations – Three months ended May 31, 2016 compared to three months ended May 30, 2015 – Revenue".

Strategy, Products and Services

The Company has been executing a strategy to leverage its strengths in mobility management and security to refocus its business in the enterprise solutions and services space, while maintaining a presence in the highly competitive smartphone and mobility solutions market. This strategy includes increasing the Company's product and service offerings through strategic acquisitions and targeted growth in internal investments. The Company's goal is to maintain its market leadership in the enterprise mobility segment by continuing to extend the functionality of its enterprise software infrastructure beyond enterprise mobility management ("EMM"), to offer the most comprehensive and secure mobile platform and deliver vertical solutions and endpoint management in the IoT.

BlackBerry has aligned its businesses and operations to drive greater efficiency and speed in bringing new offerings to market, while optimizing assets and capabilities in support of the Company's overall strategy and financial objectives. Also see the "Narrative Description of the Business - Strategy" and "Narrative Description of the Business - Products and Services" sections in the AIF, which is included in the Annual Report.

The Company's core software and services offering is the Good Suites, which integrates the BES12 and Good Technology platforms, and supports BlackBerry 10 and legacy BlackBerry devices, iOS, Android and Windows Phone® devices, SecuSUITE, and the WatchDox EFSS solution. During fiscal 2017, the Company plans to expand its BlackBerry secure Android device portfolio. The Company's latest device is the PRIV, running the Android operating system. Its latest BlackBerry 10 smartphone models are the Passport Silver Edition, Leap, and Classic. As at the end of the first quarter of fiscal 2017, the Company had a smartphone user base of approximately 20 million.

The Company has continued to introduce new products and services in conjunction with its strategy in fiscal 2017, including:

- WatchDox by BlackBerry Email Protector for Salesforce to enhance content security and data loss protection;
- the new Enterprise Partner Program to stimulate growth and drive profit for partners; and
- BlackBerry Radar, a new end-to-end asset tracking system for trucking companies and private fleet operators to optimize asset utilization, reduce theft, and cut operational costs.

The Company continues to enhance its BlackBerry 10 software offerings with new value-added services, including advanced security tools and additional enterprise services, new services for the Company's strong BBM base, the creation of cross-platform offerings and services that leverage BlackBerry's social media community.

Segment Reporting

As noted above, the Company is now organized and operated as three separate business segments: Software & Services, Mobility Solutions, and SAF. This change was made to focus the operational management on the Company's core areas of business and support strategic growth initiatives.

Goodwill Impairment Charge

As a result of the internal reporting reorganization, the Company now also consists of multiple reporting units within the three operating segments. This change in reporting unit structure necessitated an impairment assessment. The Company conducted this impairment assessment and determined that the carrying value of goodwill in certain reporting units was impaired. Consequently, the Company recorded total goodwill impairment charges of \$5 million and \$52 million in the Mobility Solutions and SAF segments, respectively, for a total of \$57 million (the "Goodwill Impairment Charge"). For additional information, see Note 1 to the Consolidated Financial Statements.

Long-lived Asset Impairment Charge

As a result of the goodwill impairment assessment, the Company determined that indicators of potential impairment in certain long-lived assets ("LLA") associated with the affected reporting units existed. Consequently, the Company performed an LLA impairment analysis on the asset groups associated with the affected reporting units, using the procedure as described in Note 1 to the Consolidated Financial Statements. The Company concluded that the carrying value of certain asset groups was impaired and the Company recorded a non-cash, pre-tax and after-tax charge against its LLA of approximately \$501 million (the "LLA Impairment Charge"), which was applicable to the intellectual property within the Mobility Solutions segment.

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, 2016, the Company announced financial results for the first quarter of fiscal 2017, which included certain non-GAAP financial measures, including non-GAAP revenue, adjusted gross margin, adjusted gross margin percentage, adjusted loss before income taxes, adjusted net loss and adjusted loss per share.

For the three months ended May 31, 2016, these measures were adjusted for the following (collectively, the "Q1 Fiscal 2017 Non-GAAP Adjustments"):

- the LLA Impairment Charge of \$501 million;
- the Goodwill Impairment Charge of \$57 million;
- the write-down of inventory in the amount of \$41 million relating to certain BlackBerry 10 hardware;
- the Q1 Fiscal 2017 Debentures Fair Value Adjustment (as defined below under "First Quarter Fiscal 2017 Summary Results of Operations – Financial Highlights – Debentures Fair Value Adjustment") of approximately \$24 million (pre-tax and after tax);
- RAP charges, consisting of amounts associated with employee termination benefits, facilities, and certain other costs of approximately \$25 million (pre-tax and after tax);
- Cost Optimization and Resource Efficiency ("CORE") program recoveries of approximately \$2 million (pre-tax and after tax);
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately \$24 million (pre-tax and after tax);
- stock compensation expense of approximately \$12 million (pre-tax and after tax);
- amortization of intangible assets acquired through business combinations of approximately \$28 million (pre-tax and after tax); and
- business acquisition and integration costs incurred through business combinations of approximately \$7 million (pre-tax and after tax).

The Company believes that presenting non-GAAP financial measures that exclude the impact of those items enables it and its shareholders to better assess the Company's operating performance relative to its consolidated financial results in prior and future periods and improves the comparability of the information presented. Readers are cautioned that adjusted revenue, adjusted gross margin, adjusted gross margin percentage, adjusted loss before income taxes, adjusted net loss, adjusted loss per share 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. A reconciliation of these non-GAAP financial measures for the three months ended May 31, 2016 to the most directly comparable U.S. GAAP measures was included in the Company's press release, dated June 23, 2016, and is reflected in the table below.

Q1 Fiscal 2017 Non-GAAP Adjustments		For the Three Months Ended May 31, 2016 (in millions, except for per share amounts)					
	Income statement location	Revenue	Gross margin (before taxes)	Gross margin % (before taxes)	Loss before income taxes	Net loss	Basic loss per share
As reported		\$ 400	\$ 154	38.5%	\$ (670)	\$ (670)	\$ (1.28)
LLA Impairment Charge ⁽¹⁾	Impairment of long-lived assets	—	—	—%	501	501	
Goodwill Impairment Charge ⁽²⁾	Impairment of goodwill	—	—	—%	57	57	
Inventory write-down	Cost of sales ⁽³⁾	—	41	10.3%	41	41	
Debentures fair value adjustment ⁽⁴⁾	Debentures fair value adjustment	—	—	—%	(24)	(24)	
RAP charges ⁽⁵⁾	Cost of sales	—	7	1.7%	7	7	
RAP charges ⁽⁵⁾	Research and development	—	—	—%	2	2	
RAP charges ⁽⁵⁾	Selling, marketing and administration	—	—	—%	16	16	
CORE program recovery	Selling, marketing and administration	—	—	—%	(2)	(2)	
Software deferred revenue acquired	Revenue ⁽⁶⁾	24	24	2.8%	24	24	
Stock compensation expense	Research and development	—	—	—%	4	4	
Stock compensation expense	Selling, marketing and administration	—	—	—%	8	8	
Acquired intangibles amortization	Amortization	—	—	—%	28	28	
Business acquisition and integration costs	Selling, marketing and administration	—	—	—%	7	7	
Adjusted		\$ 424	\$ 226	53.3%	\$ (1)	\$ (1)	\$ 0.00

⁽¹⁾ See "Business Overview - Long-lived Asset Impairment Charge".

⁽²⁾ See "Business Overview - Goodwill Impairment Charge".

⁽³⁾ Included within Mobility Solutions gross margin.

⁽⁴⁾ See "First Quarter Fiscal 2017 Summary Results of Operations – Financial Highlights - Debentures Fair Value Adjustment".

⁽⁵⁾ See "First Quarter Fiscal 2017 Summary Results of Operations – Financial Highlights - RAP".

⁽⁶⁾ Included within Software & Services revenue.

Similarly, on June 23, 2015, the Company announced financial results for the first quarter of fiscal 2016, which included certain non-GAAP financial measures, including adjusted gross margin, adjusted gross margin percentage, adjusted income before income taxes, adjusted net loss and adjusted loss per share.

For the three months ended May 30, 2015, these measures were adjusted for the following (collectively, the "Q1 Fiscal 2016 Non-GAAP Adjustments"):

- the Debentures fair value adjustment of approximately \$157 million (pre-tax and after tax);
- RAP charges of approximately \$52 million (pre-tax and after tax);
- CORE program charges of approximately \$9 million (pre-tax and after tax);

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

- stock compensation expense of approximately \$14 million (pre-tax and after tax);
- amortization of intangible assets acquired through business combinations of approximately \$9 million (pre-tax and after tax); and
- business acquisition and integration costs incurred through business combinations of approximately \$1 million (pre-tax and after tax).

A reconciliation of these non-GAAP financial measures for the three months ended May 30, 2015 to the most directly comparable U.S. GAAP measures was included in the Company's press release, dated June 23, 2015, and is reflected in the table below:

Q1 Fiscal 2016 Non-GAAP Adjustments		For the Three Months Ended May 30, 2015 (in millions, except for per share amounts)				
	Income statement location	Gross margin (before taxes)	Gross margin % (before taxes)	Income before income taxes	Net income (loss)	Basic earnings (loss) per share
As reported		\$ 310	47.1%	\$ 73	\$ 68	\$ 0.13
	Debentures fair value adjustment					
Debentures fair value adjustment		—	—%	(157)	(157)	
RAP charges	Cost of sales	21	3.2%	21	21	
RAP charges	Research and development	—	—%	13	13	
RAP charges	Selling, marketing and administration	—	—%	18	18	
CORE program charges	Research and development	—	—%	2	2	
CORE program charges	Selling, marketing and administration	—	—%	7	7	
Stock compensation expense	Research and development	—	—%	4	4	
Stock compensation expense	Selling, marketing and administration	—	—%	10	10	
Acquired intangibles amortization	Amortization	—	—%	9	9	
Business acquisition and integration costs	Selling, marketing and administration	—	—%	1	1	
Adjusted		<u>\$ 331</u>	<u>50.3%</u>	<u>\$ 1</u>	<u>\$ (4)</u>	<u>\$ (0.01)</u>

The Company also reported adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") for the three months ended May 31, 2016 and the three months ended May 30, 2015 of \$58 million and \$172 million, respectively, as shown in the table below.

	For the Three Months Ended (in millions)	
	May 31, 2016	May 30, 2015
Operating income (loss)	\$ (655)	\$ 89
Non-GAAP adjustments to operating income		
LLA Impairment Charge	501	—
Goodwill Impairment Charge	57	—
Inventory write-down	41	—
Debentures fair value adjustment	(24)	(157)
RAP charges	25	52
CORE program charges (recoveries)	(2)	9
Software deferred revenue acquired	24	—
Stock compensation expense	12	14
Acquired intangibles amortization	28	9
Business acquisition and integration costs	7	1
Total non-GAAP adjustments to operating income (loss)	669	(72)
Non-GAAP operating income	14	17
Amortization	72	164
Acquired intangibles amortization	(28)	(9)
Adjusted EBITDA	<u>\$ 58</u>	<u>\$ 172</u>

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.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new accounting standard on the topic of revenue contracts, which replaces the existing revenue recognition standard. The new standard amends the number of requirements that an entity must consider in recognizing revenue and requires improved disclosures to help readers of financial statements better understand the nature, amount, timing and uncertainty of revenue recognized. For public entities, the new standard is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted for annual reporting periods and interim periods therein beginning after December 15, 2016. The Company will adopt this guidance in the first quarter of fiscal 2019 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In March 2016, the FASB issued a new accounting standard on the topic of revenue from contracts with customers. The amendments in this update clarify the implementation guidance on principal versus agent considerations. When another party, along with the reporting entity, is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide that good or service to the customer (as a principal) or to arrange for the good or service to be provided to the customer by the other party (as an agent). The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company will adopt this guidance in the first quarter of fiscal 2019 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In March 2016, the FASB issued a new accounting standard on the topic of stock compensation. The amendments in this update simplify several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statements of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2016. Early adoption is permitted. The Company will adopt this guidance in the first quarter of fiscal 2018 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In April 2016, the FASB issued an update that clarifies the implementation guidance on identifying promised goods or services and on determining whether an entity's promise to grant a license with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company will adopt this guidance in the first quarter of fiscal 2019 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In May 2016, the FASB issued an update that rescinds various standards codified as part of Topic 605, *Revenue Recognition* in relation to the future adoption of Topic 606, *Revenue from Contracts with Customers*. These rescissions include changes to topics pertaining to revenue and expense recognition for freight services in process, accounting for shipping and handling fees and costs, and accounting for consideration given by a vendor to a customer. The Company is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In May 2016, the FASB issued a new accounting standard on the topic of revenue contracts, that aims to reduce the risk of diversity in practice, including collectibility, non-cash consideration, presentation of sales tax, and transition. The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company will adopt this guidance in the first quarter of fiscal 2019 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In June 2016, the FASB issued a new accounting standard on the topic of financial instruments, that replaces the "incurred loss" impairment methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance is effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted for annual reporting periods and interim periods therein beginning after December 15, 2018. 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.

First Quarter Fiscal 2017 Summary Results of Operations

The following table sets forth certain consolidated statements of operations data as at May 31, 2016 and May 30, 2015:

	For the Three Months Ended					
	(in millions, except for share and per share amounts)					
	May 31, 2016		May 30, 2015		Change	
Revenue ⁽¹⁾	\$	400	100%	\$	658	100%
					\$	(258)
Gross margin ⁽¹⁾⁽²⁾		154	39%		310	47%
						(156)
Operating expenses ⁽¹⁾⁽²⁾		809	202%		221	34%
						588
Income (loss) before income taxes		(670)	(168%)		73	11%
						(743)
Provision for income taxes		—	—%		5	1%
						(5)
Net income (loss)	\$	(670)	(168%)	\$	68	10%
						(738)
Earnings (loss) per share - reported						
Basic	\$	(1.28)		\$	0.13	
						\$ (1.41)
Diluted ⁽³⁾	\$	(1.28)		\$	(0.10)	
						\$ (1.18)
Weighted-average number of shares outstanding (000's)						
Basic		521,905			529,235	
Diluted ⁽³⁾		521,905			670,539	

(1) See "Non-GAAP Financial Measures" for the impact of the Q1 Fiscal 2017 Non-GAAP Adjustments on revenue, gross margin and operating expenses in the first quarter of fiscal 2017.

(2) See "Non-GAAP Financial Measures" for the impact of the Q1 Fiscal 2016 Non-GAAP Adjustments on gross margin and operating expenses in the first quarter of fiscal 2016.

(3) Diluted loss per share on a GAAP basis for the first quarter of fiscal 2016 includes the dilutive effect of the Debentures using the if-converted method, assuming conversion at the beginning of the fiscal quarter. See Note 11 to the Consolidated Financial Statements for the Company's calculation of diluted loss per share.

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

The following table shows information by operating segment for the three months ended May 31, 2016 and May 30, 2015:

For the Three Months Ended (in millions)												
	Software & Services			Mobility Solutions			SAF			Segment totals		
	May 31, 2016	May 30, 2015	Change	May 31, 2016	May 30, 2015	Change	May 31, 2016	May 30, 2015	Change	May 31, 2016	May 30, 2015	Change
Revenue	\$ 166	\$ 137	\$ 29	\$ 152	\$ 269	\$ (117)	\$ 106	\$ 252	\$ (146)	\$ 424	\$ 658	\$ (234)
Cost of goods sold	32	30	2	140	267	(127)	26	30	(4)	198	327	(129)
Gross margin	134	\$ 107	\$ 27	12	\$ 2	\$ 10	80	\$ 222	\$ (142)	226	\$ 331	\$ (105)
Operating expenses	97			33			2			132		
Operating income (loss)	\$ 37			\$ (21)			\$ 78			\$ 94		

The Company has not presented comparative information for operating income (loss) by segment, as it cannot practically allocate past operating expenses for the comparative periods to the current segments due to a fundamental reorganization of the internal reporting structure of the Company. Prior to the reorganization into the current structure, operations for each segment were integrated and centralized, and the Company does not have a reasonable basis with which to determine how operating expenses under the current structure may have compared to the previous structure. The Company may present comparative information in future filings.

The following table reconciles the Company's segment results for the three months ended May 31, 2016 to consolidated results:

For the Three Months Ended May 31, 2016 (in millions)								
	Software & Services	Mobility Solutions	SAF	Segment totals	Corporate unallocated	Subtotal	Non-GAAP adjustments ⁽¹⁾	Consolidated U.S. GAAP
Revenue	\$ 166	\$ 152	\$ 106	\$ 424	\$ —	\$ 424	(\$24)	\$ 400
Cost of goods sold	32	140	26	198	—	198	48	246
Gross margin	134	12	80	226	—	226	(72)	154
Operating expenses	97	33	2	132	80	212	597	809
Operating income (loss)	\$ 37	\$ (21)	\$ 78	\$ 94	\$ (80)	\$ 14	\$ (669)	\$ (655)

⁽¹⁾ See "Non-GAAP Financial Measures" for the Q1 Fiscal 2017 Non-GAAP Adjustments impacting revenue, gross margin and operating expenses in the first quarter of fiscal 2017.

Certain corporate overhead expenses are not allocated to segment operations. These generally relate to costs associated with the Company's corporate operations, including administration and shared services functions, information technology related costs, legal operations, and amortization of property, plant and equipment and intangible assets. Approximately 30% of corporate unallocated expenses is amortization.

The following table reconciles the Company's segment results for the three months ended May 30, 2015 to consolidated results:

For the Three Months Ended May 30, 2015 (in millions)								
	Software & Services	Mobility Solutions	SAF	Segment totals	Corporate unallocated	Subtotal	Non-GAAP adjustments ⁽¹⁾	Consolidated U.S. GAAP
Revenue	\$ 137	\$ 269	\$ 252	\$ 658	\$ —	\$ 658	\$ —	\$ 658
Cost of goods sold	30	267	30	327	—	327	21	348
Gross margin	\$ 107	\$ 2	\$ 222	\$ 331	—	331	(21)	310
Operating expenses					314	314	(93)	221
Operating income (loss)					\$ (314)	\$ 17	\$ 72	\$ 89

⁽¹⁾ See "Non-GAAP Financial Measures" for the Q1 Fiscal 2016 Non-GAAP Adjustments impacting gross margin and operating expenses in the first quarter of fiscal 2016.

Financial Highlights

The Company had approximately \$2.5 billion in cash, cash equivalents and investments as of May 31, 2016. In the first quarter of fiscal 2017, the Company recognized revenues of \$400 million and incurred a net loss of \$670 million, or \$1.28 basic and diluted loss per share on a GAAP basis. As discussed above, net loss reflects non-cash charges of \$501 million associated with the LLA Impairment Charge, the Goodwill Impairment Charge of \$57 million, the write-down of inventory in the amount of \$41 million, the change in the fair value of the Debentures of \$24 million, restructuring charges of \$25 million related to the RAP, restructuring recoveries of \$2 million related to the CORE program, software deferred revenue acquired of \$24 million, stock compensation expense of \$12 million, acquired intangibles amortization of \$28 million, and business acquisition and integration costs of \$7 million recorded in the first quarter of fiscal 2017. See also "Non-GAAP Financial Measures" and "Financial Condition - Debenture Financing and Other Funding Sources" in this MD&A.

Free Cash Flow

Free cash flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. For the three months ended May 31, 2016, the Company reported free cash flow of (\$65) million, which consisted of net cash used in operating activities of \$61 million, plus capital expenditures of \$4 million. However, the Company anticipates generating positive free cash flow and positive adjusted EBITDA for the 2017 fiscal year.

Debentures Fair Value Adjustment

As previously disclosed, the Company elected the fair value option to account for the Debentures; therefore, periodic revaluation is required under U.S. GAAP. The valuation is influenced by a number of embedded features within the Debentures, including the Company's put option on the debt and the investors' conversion option, among others. The primary factors that influence the fair value adjustment are the Company's share price, as well as associated volatility in the share price, and the Company's implied credit rating. The fair value adjustment does not impact the key terms of the Debentures such as the face value, the redemption features or the conversion price. In the first quarter of fiscal 2017, the Company recorded non-cash income associated with the change in the fair value of the Debentures of approximately \$24 million (pre-tax and after tax) (the "Q1 Fiscal 2017 Debentures Fair Value Adjustment").

RAP

During the first quarter of fiscal 2016, the Company commenced the RAP for its device software, hardware and applications business with the objectives of reallocating Company resources to capitalize on growth opportunities, providing the operational ability to better leverage contract research and development services relating to its handheld devices, and reaching sustainable profitability. Other charges and cash costs may occur as programs are implemented or changes are completed. During the three months ended May 31, 2016, the Company incurred approximately \$25 million in total pre-tax charges related to this program for employee termination benefits, patent abandonment, and facilities costs.

Results of Operations - Three months ended May 31, 2016 compared to three months ended May 30, 2015

Revenue

Revenue by Segment

For the Three Months Ended (in millions)												
	Software & Services			Mobility Solutions			SAF			Segment totals		
	May 31, 2016	May 30, 2015	Change	May 31, 2016	May 30, 2015	Change	May 31, 2016	May 30, 2015	Change	May 31, 2016	May 30, 2015	Change
Revenue	\$ 166	\$ 137	\$ 29	\$ 152	\$ 269	(\$117)	\$ 106	\$ 252	(\$146)	\$ 424	\$ 658	(\$234)

Software & Services

Software & Services revenue, which includes fees from licensed enterprise software, client access licenses, maintenance and upgrades, software licensing revenues, technology licensing revenues, and technical support revenues, increased by \$29 million, or 21.2%, to \$166 million, or 39.2% of revenue, in the first quarter of fiscal 2017, compared to \$137 million, or 20.8% of revenue, in the first quarter of fiscal 2016. Excluding intellectual property licensing, Software & Services revenue grew 131% year-over-year in the first quarter of fiscal 2017.

Excluding the relevant Q1 Fiscal 2017 Non-GAAP Adjustments and Q1 Fiscal 2016 Non-GAAP Adjustments, Software & Services revenue increased by \$5 million, or 3.6%, to \$142 million, or 35.5% of revenue, compared to \$137 million, or 20.8% of revenue, in the first quarter of fiscal 2016.

The \$5 million increase in Software & Services revenue was primarily attributable to an increase in software licensing, as well as revenue from technical support and advertising, which was offset by a decrease in revenue from intellectual property licensing due to the Company recognizing revenues relating to a significant licensing agreement in the first quarter of fiscal 2016.

The Company expects the growth of Software & Services revenue to continue and to offset the decline in SAF revenue in fiscal 2017, and to exceed the growth rate of the mobility software market. The Company expects total Software & Services revenue to grow at around 30% on a year-over-year basis and expects continued gains in market share at that level.

The Company's Software & Services revenue was approximately 74% recurring (subscription based) in the first quarter of fiscal 2017, excluding technology licensing and consumer messaging revenue.

Mobility Solutions

Mobility Solutions revenue, which includes revenue from the sale of BlackBerry handheld devices, related accessories and non-warranty repairs, was \$152 million, or 35.8% of revenue, in the first quarter of fiscal 2017 compared to \$269 million, or 40.9% of revenue, in the first quarter of fiscal 2016, representing a decrease of \$117 million, or 43.5%.

The \$117 million decrease in Mobility Solutions revenue was primarily attributable to decreased demand and the Company's aging product portfolio, which was partially offset by an increase in the average selling price from \$243 to \$290 with the introduction of the PRIV.

The Company recognized revenue related to approximately 0.5 million BlackBerry handheld devices in the first quarter of fiscal 2017, compared to approximately 1.1 million BlackBerry handheld devices in the first quarter of fiscal 2016.

During the first quarter of fiscal 2017, approximately 0.6 million BlackBerry smartphones were sold through to end customers, which included shipments made and recognized prior to the first quarter of fiscal 2017 and reduced the Company's inventory in the channel. The number of BlackBerry smartphones that were sold through to end customers was 1.3 million in the first quarter of fiscal 2016.

SAF

SAF revenue decreased by \$146 million, or 57.9%, to \$106 million, or 25.0% of revenue, in the first quarter of fiscal 2017, compared to \$252 million, or 38.3% of revenue, in the first quarter of fiscal 2016.

The decrease in SAF revenue, which is generated from users of BlackBerry 7 and prior BlackBerry operating systems, is primarily attributable to a lower number of BlackBerry 7 users and lower revenue from those users (particularly as those users upgrade to BlackBerry devices that do not generate service access fees or to a competitor's device) and a continued shift in the mix of the Company's customers from higher-tiered unlimited plans to prepaid and lower-tiered plans, compared to the first quarter of fiscal 2016.

In the fourth quarter of fiscal 2016, the Company stated its expectations that SAF revenue would decline by approximately 18% in the first quarter of fiscal 2017. SAF revenue for the first quarter of fiscal 2017 decreased by approximately 26% compared to the fourth quarter of fiscal 2016. The decrease was higher than expected due to the recognition of a benefit in the prior quarter that did not recur in the first quarter of fiscal 2017, the negative impact of foreign exchange, and a change in the timing of recognition of revenue for certain customers. The Company expects SAF revenue to decline by approximately 20% in the second quarter of fiscal 2017.

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, 2016		May 30, 2015		Change	
Revenue by Geography						
North America	\$ 195	48.8%	\$ 285	43.3%	\$ (90)	(31.6)%
Europe, Middle East and Africa	155	38.7%	245	37.2%	(90)	(36.7)%
Latin America	10	2.5%	42	6.4%	(32)	(76.2)%
Asia Pacific	40	10.0%	86	13.1%	(46)	(53.5)%
	<u>\$ 400</u>	<u>100.0%</u>	<u>\$ 658</u>	<u>100.0%</u>	<u>\$ (258)</u>	<u>(39.2)%</u>

North America Revenue

Revenue in North America was \$195 million, or 48.8% of revenue, in the first quarter of fiscal 2017, reflecting a decrease of \$90 million compared to \$285 million, or 43.3% of revenue, in the first quarter of fiscal 2016. Sales in the United States represented approximately 38.8% of total revenue in the first quarter of fiscal 2017, compared to 32.8% of total revenue in the first quarter of fiscal 2016, and sales in Canada represented approximately 10.0% of revenue in the first quarter of fiscal 2017, compared to 10.5% of revenue in the first quarter of fiscal 2016.

Revenue in North America decreased compared to the first quarter of fiscal 2016 due to the Company's aging product portfolio, decreased hardware demand and the continued erosion of revenue from service access fees, partially offset by sales of the PRIV device.

Europe, Middle East and Africa Revenue

Revenue in Europe, Middle East and Africa was \$155 million, or 38.7% of revenue, in the first quarter of fiscal 2017, reflecting a decrease of \$90 million compared to \$245 million, or 37.2% of revenue, in the first quarter of fiscal 2016. The decrease in revenue is due to the continued erosion of service access fees and decreased hardware demand, partially offset by enterprise software and services revenue, and sale of the PRIV and Leap devices.

Some of the larger markets comprising this region include the United Kingdom, Germany and South Africa.

Latin America Revenue

Revenue in Latin America was \$10 million, or 2.5% of revenue, in the first quarter of fiscal 2017, reflecting a decrease of \$32 million compared to \$42 million, or 6.4% of revenue, in the first quarter of fiscal 2016. The decrease in revenue is due to a reduction in service access fees revenue, as well as decreased hardware demand.

Some of the larger markets comprising this region include Argentina, Brazil and Mexico.

Asia Pacific Revenue

Revenue in Asia Pacific was \$40 million, or 10.0% of revenue, in the first quarter of fiscal 2017, reflecting a decrease of \$46 million compared to \$86 million, or 13.1% of revenue, in the first quarter of fiscal 2016. The decrease in revenue is due to the reduction in service access fees revenue and decreased hardware demand, partially offset by increased revenue from PRIV sales.

Some of the larger markets comprising this region include Indonesia, Hong Kong and Australia.

Gross Margin

Gross Margin by Segment

	For the Three Months Ended (in millions)											
	Software & Services			Mobility Solutions			SAF			Segment totals		
	May 31, 2016	May 30, 2015	Change	May 31, 2016	May 30, 2015	Change	May 31, 2016	May 30, 2015	Change	May 31, 2016	May 30, 2015	Change
Gross Margin	\$ 134	\$ 107	\$ 27	\$ 12	\$ 2	\$ 10	\$ 80	\$ 222	\$ (142)	\$ 226	\$ 331	\$ (105)

Gross margin decreased by \$105 million to \$226 million, or 53.3% of revenue, in the first quarter of fiscal 2017, compared to \$331 million, or 50.3% of revenue, in the first quarter of fiscal 2016.

In the fourth quarter of fiscal 2016, the Company stated that it expected non-GAAP gross margin in the first quarter of fiscal 2017 of approximately 45% to 50%. The non-GAAP gross margin in the first quarter of fiscal 2017 was approximately 53%, which was higher than expected due to the composition of revenue mix. The Company expects the gross margin for the second quarter of fiscal 2017 to be approximately 50%.

Software & Services

Software & Services gross margin increased by \$27 million to \$134 million, or 80.7% of Software & Services revenue, in the first quarter of fiscal 2017, compared to \$107 million, or 78.1% of Software & Services revenue, in the first quarter of fiscal 2016. The increase was primarily attributable to increase in revenue as a result of the acquisitions of Good Technology and AtHoc, Inc. in the third quarter of fiscal 2016, partially offset by lower technology licensing revenue.

Excluding the relevant Q1 Fiscal 2017 Non-GAAP Adjustments, Software & Services gross margin increased by \$3 million to \$110 million, or 77.5% of Software & Services revenue, in the first quarter of fiscal 2017, compared to \$107 million, or 78.1% of Software & Services revenue, in the first quarter of fiscal 2016.

Mobility Solutions

Mobility Solutions gross margin increased by \$10 million to \$12 million, or 7.9% of Mobility Solutions revenue, in the first quarter of fiscal 2017, compared to \$2 million, or 0.7% of Mobility Solutions revenue, in the first quarter of fiscal 2016. The \$10 million increase in Mobility Solutions gross margin was primarily attributable to a decrease in royalty costs and an increase in average selling price of hardware, as noted above, partially offset by an increase in warranty provision expense.

Excluding the relevant Q1 Fiscal 2017 Non-GAAP Adjustments, Mobility Solutions gross margin decreased by \$31 million to (\$29) million, or (19.1%) of revenue, compared to \$2 million, or 0.7% of revenue, in the first quarter of fiscal 2016. The decrease is due to the the write-down of inventory in the amount of \$46 million relating to certain BlackBerry 10 hardware.

The Company expects that the operating loss in the second quarter of fiscal 2017 in its Mobility Solutions business will be less than half the operating loss in the first quarter of fiscal 2017. The Company's objective is to achieve operating profitability in its Mobility Solutions business in the third quarter of fiscal 2017.

SAF

SAF gross margin decreased by \$142 million to \$80 million, or 75.5% of SAF revenue, in the first quarter of fiscal 2017, compared to \$222 million, or 88.1% of service access fees revenue, in the first quarter of fiscal 2016.

The \$142 million decrease in SAF gross margin was primarily attributable to a lower number of BlackBerry 7 users and lower revenue from those users (particularly as those users upgrade to BlackBerry devices that do not generate service access fees or to a competitor's device) and a continued shift in the mix of the Company's customers from higher-tiered unlimited plans to prepaid and lower-tiered plans.

Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expense for the quarter ended May 31, 2016, compared to the quarter ended February 29, 2016 and the quarter ended May 30, 2015. The Company believes it is meaningful to also provide a comparison between the first quarter of fiscal 2017 and the fourth quarter of fiscal 2016 given that the Company's quarterly operating results vary substantially.

	For the Three Months Ended (in millions)					
	May 31, 2016		February 29, 2016		May 30, 2015	
		% of Revenue		% of Revenue		% of Revenue
Revenue	\$ 400		\$ 464		\$ 658	
Operating expenses						
Research and development ⁽¹⁾⁽²⁾⁽³⁾	\$ 89	22.3 %	\$ 108	23.3 %	\$ 139	21.1 %
Selling, marketing and administration ⁽¹⁾⁽²⁾⁽³⁾	129	32.3 %	179	38.6 %	173	26.3 %
Amortization ⁽¹⁾⁽²⁾⁽³⁾	54	13.5 %	77	16.6 %	65	9.9 %
Impairment of goodwill ⁽¹⁾	57	14.2 %	—	— %	—	— %
Impairment of long-lived assets ⁽¹⁾	501	125.2 %	—	— %	—	— %
Abandonment of long-lived assets ⁽¹⁾⁽²⁾⁽³⁾	3	0.8 %	127	27.4 %	1	0.2 %
Debentures fair value adjustment ⁽¹⁾⁽²⁾⁽³⁾	(24)	(6.0)%	(40)	(8.6)%	(157)	(23.9)%
Total	\$ 809	202.3 %	\$ 451	97.2 %	\$ 221	33.6 %

- (1) See "Non-GAAP Financial Measures" for the impact of the Q1 Fiscal 2017 Non-GAAP Adjustments on operating expenses in the first quarter of fiscal 2017.
- (2) See "Non-GAAP Financial Measures" for the impact of the Q1 Fiscal 2016 Non-GAAP Adjustments on operating expenses in the first quarter of fiscal 2016.
- (3) In the fourth quarter of fiscal 2016, the Company recorded a Debentures fair value adjustment of approximately \$40 million, the abandonment of long-lived assets of approximately \$127 million, RAP charges of approximately \$18 million and \$31 million in research and development and selling, marketing and administration expenses, respectively, CORE program charges of approximately \$2 million in selling, marketing and administration expenses, stock compensation expense of approximately \$5 million and \$12 million in research and development and selling, marketing and administration expense, respectively, amortization of intangible assets acquired through business combinations of approximately \$28 million in amortization expense, and business acquisition and integration costs incurred through business combinations of approximately \$10 million in selling, marketing and administration expense (collectively the "Q4 Fiscal 2016 Non-GAAP Adjustments").

Operating expenses increased by \$358 million, or 79.4%, to \$809 million, or 202.3% of revenue, in the first quarter of fiscal 2017, compared to \$451 million, or 97.2% of revenue, in the fourth quarter of fiscal 2016. Excluding the impact of the relevant Q1 Fiscal 2017 Non-GAAP Adjustments and Q4 Fiscal 2016 Non-GAAP Adjustments, operating expenses decreased by \$46 million. The decrease was primarily attributable to a decrease in amortization expense, reduced salaries and benefits, a decrease in facilities costs and decreases in marketing and advertising expense.

Operating expenses increased by \$588 million, or 266.1%, to \$809 million, or 202.3% of revenue, in the first quarter of fiscal 2017, compared to \$221 million, or 33.6% of revenue, in the first quarter of fiscal 2016. Excluding the impact of the relevant Q1 Fiscal 2017 Non-GAAP Adjustments and Q1 Fiscal 2016 Non-GAAP Adjustments, operating expenses decreased by \$102 million. This decrease was primarily attributable to reduced salaries and benefits, a decrease in amortization expense, a decrease in facilities costs and decreases in marketing and advertising expense.

The Company expects operating expenses to increase modestly in the second quarter of fiscal 2017.

Research and Development Expenses

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

Research and development expenses decreased by \$50 million, or 36.0%, to \$89 million, in the first quarter of fiscal 2017, compared to \$139 million, in the first quarter of fiscal 2016. Excluding the impact of the relevant Q1 Fiscal 2017 Non-GAAP

Adjustments and Q1 Fiscal 2016 Non-GAAP Adjustments, research and development expenses decreased by \$37 million. The decrease was primarily attributable to reduced salaries and benefits costs, as well as reductions in outsourcing costs and facilities and maintenance costs.

Selling, Marketing and Administration Expenses

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

Selling, marketing and administration expenses decreased by \$44 million, or 25.4%, to \$129 million, in the first quarter of fiscal 2017 compared to \$173 million, in the first quarter of fiscal 2016. Excluding the impact of the relevant Q1 Fiscal 2017 Non-GAAP Adjustments and Q1 Fiscal 2016 Non-GAAP Adjustments, selling, marketing and administration expenses decreased by \$37 million. The decrease was primarily attributable to reduced marketing and advertising costs, a decrease in facilities costs and reduced salaries and benefits costs.

Amortization Expense

The table below presents a comparison of amortization expense relating to property, plant and equipment and intangible assets recorded as amortization or cost of sales for the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016.

Intangible assets are comprised of patents, licenses and acquired technology.

	For the Three Months Ended (in millions)					
	Included in Amortization			Included in Cost of Sales		
	May 31, 2016	May 30, 2015	Change	May 31, 2016	May 30, 2015	Change
Property, plant and equipment	\$ 12	\$ 20	\$ (8)	\$ 12	\$ 16	\$ (4)
Intangible assets	42	45	(3)	6	83	(77)
Total	\$ 54	\$ 65	\$ (11)	\$ 18	\$ 99	\$ (81)

Amortization

Amortization expense relating to certain property, plant and equipment and intangible assets decreased by \$11 million to \$54 million for the first quarter of fiscal 2017, compared to \$65 million for the first quarter of fiscal 2016. The decrease in amortization expense reflects the lower cost base of assets as a result of the RAP and the LLA Impairment Charge.

Cost of sales

Amortization expense relating to certain property, plant and equipment and intangible assets employed in the Company's manufacturing operations and BlackBerry service operations decreased by \$81 million to \$18 million for the first quarter of fiscal 2017, compared to \$99 million for the first quarter of fiscal 2016. This decrease primarily reflects the lower cost base of assets as a result of the LLA Impairment Charge and patent abandonments during fiscal 2016.

Investment Loss

Investment loss decreased by \$1 million to a loss of \$15 million in the first quarter of fiscal 2017 from a loss of \$16 million in the first quarter of fiscal 2016. The decrease is primarily attributable to distributions received from a former equity-based investment and a recovery associated with previously impaired debt securities, partially offset by the recognition of other-than-temporary impairment on cost-based investments and a lower average cash and investments balance. See "Financial Condition - Liquidity and Capital Resources" below.

Income Taxes

For the first quarter of fiscal 2017, the Company's net effective income tax expense rate was approximately 0%, compared to a net effective income tax expense rate of approximately 7% for the same period in the prior fiscal year. The Company's net effective income tax rate reflects the fact that the Company has a significant valuation allowance against its deferred tax assets, and in particular, the impairment charges and the gain from the change in fair value of the Debentures, amongst other items, was offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

Net Income (Loss)

The Company's net loss for the first quarter of fiscal 2017 was \$670 million, reflecting a decrease of \$738 million, compared to net income of \$68 million in the first quarter of fiscal 2016. Excluding the impact of the relevant Q1 Fiscal 2017 Non-GAAP Adjustments and Q1 Fiscal 2016 Non-GAAP Adjustments, the Company's net loss for the first quarter of fiscal 2017 was \$1 million, compared to a net loss of \$4 million in the first quarter of fiscal 2016, reflecting a decrease in net loss of \$3 million primarily due to a reduction in operating expenditures, partially offset by a reduction in the Company's gross margin.

For the first quarter of fiscal 2017, basic and diluted loss per share was \$1.28, compared to basic earnings per share of \$0.13 and diluted loss per share of \$0.10 for the same period in the prior fiscal year. The Company expects a non-GAAP loss per share of approximately \$0.15 in fiscal 2017.

Common Shares Outstanding

On June 20, 2016, there were 523 million common shares, options to purchase 1 million common shares, 26 million restricted share units and 0.4 million deferred share units outstanding. In addition, 125 million common shares are issuable upon conversion in full of the Debentures.

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

Selected Quarterly Financial Data

The following table sets forth the Company's unaudited quarterly consolidated results of operations data for each of the eight most recent quarters, including the quarter ended May 31, 2016. The information in the table below has been derived from the Company's unaudited interim consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements of the Company and include all adjustments necessary for a fair presentation of information when read in conjunction with the audited consolidated financial statements of the Company. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

<i>(in millions, except per share data)</i>								
	Fiscal Year 2017	Fiscal Year 2016				Fiscal Year 2015		
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter
Revenue	\$ 400	\$ 464	\$ 548	\$ 490	\$ 658	\$ 660	\$ 793	\$ 916
Gross margin	154	210	236	185	310	318	410	425
Operating expenses	809	451	340	152	221	424	549	623
Income (loss) before income taxes	(670)	(256)	(120)	21	73	(1)	(160)	(218)
Provision for (recovery of) income taxes	—	(18)	(31)	(30)	5	(29)	(12)	(11)
Net income (loss)	<u>\$ (670)</u>	<u>\$ (238)</u>	<u>\$ (89)</u>	<u>\$ 51</u>	<u>\$ 68</u>	<u>\$ 28</u>	<u>\$ (148)</u>	<u>\$ (207)</u>
Earnings (loss) per share								
Basic earnings (loss) per share	<u>\$ (1.28)</u>	<u>\$ (0.45)</u>	<u>\$ (0.17)</u>	<u>\$ 0.10</u>	<u>\$ 0.13</u>	<u>\$ 0.05</u>	<u>\$ (0.28)</u>	<u>\$ (0.39)</u>
Diluted earnings (loss) per share	<u>\$ (1.28)</u>	<u>\$ (0.45)</u>	<u>\$ (0.17)</u>	<u>\$ (0.24)</u>	<u>\$ (0.10)</u>	<u>\$ 0.05</u>	<u>\$ (0.28)</u>	<u>\$ (0.39)</u>

Financial Condition

Liquidity and Capital Resources

Cash, cash equivalents, and investments decreased by \$92 million to \$2.53 billion as at May 31, 2016 from \$2.62 billion as at February 29, 2016, primarily as a result of net changes in working capital, which were partially offset by cash provided by investing activities. The majority of the Company's cash, cash equivalents, and investments are denominated in U.S. dollars as at May 31, 2016.

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

	As at (in millions)		
	May 31, 2016	February 29, 2016	Change
Cash and cash equivalents	\$ 1,225	\$ 957	\$ 268
Restricted cash	53	50	3
Short-term investments	1,008	1,420	(412)
Long-term investments	246	197	49
Cash, cash equivalents, and investments	<u>\$ 2,532</u>	<u>\$ 2,624</u>	<u>\$ (92)</u>

The table below summarizes the current assets, current liabilities, and working capital of the Company as at May 31, 2016 and February 29, 2016:

	As at (in millions)		
	May 31, 2016	February 29, 2016	Change
Current assets	\$ 2,799	\$ 3,011	\$ (212)
Current liabilities	909	1,039	(130)
Working capital	<u>\$ 1,890</u>	<u>\$ 1,972</u>	<u>\$ (82)</u>

Current Assets

The decrease in current assets of \$212 million at the end of the first quarter of fiscal 2017 from the end of the fourth quarter of fiscal 2016 was primarily due to decreases in short-term investments of \$412 million and accounts receivable of \$73 million, partially offset by increases in cash and cash equivalents of \$268 million and income tax receivable of \$25 million.

At May 31, 2016, accounts receivable was \$265 million, a decrease of \$73 million from February 29, 2016. The decrease reflects the lower revenues recognized, as well as a decrease in days sales outstanding to 60 days in the first quarter of fiscal 2017 from 68 days at the end of the fourth quarter of fiscal 2016.

At May 31, 2016, income tax receivable was \$25 million, an increase of \$25 million from February 29, 2016. The increase in income tax receivable was due to changes in tax liabilities previously recorded.

At May 31, 2016, inventories was \$127 million, a decrease of \$16 million from February 29, 2016. The decrease in inventories was primarily due to the write-down of BlackBerry 10 raw materials and finished goods, partially offset by an increase in work in process from mobile device production.

At May 31, 2016, other current assets was \$94 million, a decrease of \$8 million from February 29, 2016. The decrease in other current assets is due to the recognition of previously deferred cost of goods sold, upon recognition of the related deferred revenue.

Current Liabilities

The decrease in current liabilities of \$130 million at the end of the first quarter of fiscal 2017 from the end of the fourth quarter of fiscal 2016 was primarily due to decreases in deferred revenue and accrued liabilities. As at May 31, 2016, deferred revenue was \$326 million, reflecting a decrease of \$66 million from February 29, 2016, which was primarily attributable to the recognition of devices sold through to end users. Accrued liabilities were \$305 million, reflecting a decrease of \$63 million from February 29, 2016, which was primarily attributable to decreases in manufacturing, restructuring and variable incentive accruals compared to the fourth quarter of fiscal 2016.

Cash flows for the three months ended May 31, 2016 compared to the three months ended May 30, 2015 were as follows:

	For the Three Months Ended (in millions)		
	May 31, 2016	May 30, 2015	Change
Net cash flows provided by (used in):			
Operating activities	\$ (61)	\$ 134	\$ (195)
Investing activities	342	(193)	535
Financing activities	(15)	1	(16)
Effect of foreign exchange gain (loss) on cash and cash equivalents	2	(10)	12
Net increase (decrease) in cash and cash equivalents	<u>\$ 268</u>	<u>\$ (68)</u>	<u>\$ 336</u>

Operating Activities

The decrease of \$195 million in net cash flows provided by operating activities primarily reflects the lower amount of net income after adjustments for non-cash items and net changes in working capital.

Investing Activities

During the three months ended May 31, 2016, cash flows provided by investing activities were \$342 million and included cash flows provided by transactions involving the acquisitions of short-term and long-term investments, net of the proceeds on sale or maturity in the amount of \$355 million, offset by intangible asset additions of \$9 million, and acquisitions of property, plant and equipment of \$4 million. For the same period in the prior fiscal year, cash flows used in investing activities were \$193 million and included cash flows used in transactions involving the acquisitions of short-term and long-term investments, net of the proceeds on sale or maturity in the amount of \$118 million, business acquisitions of \$53 million, intangible asset additions of \$11 million and property, plant and equipment additions of \$11 million.

Financing Activities

The increase in cash flows used in financing activities was \$16 million for the first three months of fiscal 2017 and was primarily attributable to the payment of contingent consideration from business acquisitions.

Aggregate Contractual Obligations

Purchase obligations and commitments amounted to approximately \$885 million as at May 31, 2016, including purchase orders with contract manufacturers in the amount of \$150 million, operating lease obligations of \$155 million, and interest payments of \$334 million on the Debentures. The Company also has commitments on account of capital expenditures of approximately \$2 million included in this total, primarily for manufacturing and information technology, including service operations. The remaining balance consists of purchase orders or contracts with suppliers of raw materials, as well as other goods and services utilized in the operations of the Company, including payments on account of licensing agreements. Total purchase obligations and commitments as at May 31, 2016 increased by \$25 million as compared to the February 29, 2016 balance of \$860 million, which was primarily attributable to an increase in operating lease obligations.

Debenture Financing and Other Funding Sources

See Note 9 to the Consolidated Financial Statements for a description of the Debentures.

The Company has \$44 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 \$2.5 billion as at May 31, 2016. The Company's management remains focused on maintaining appropriate cash balances, efficiently managing working capital balances and managing the liquidity needs of the business. In addition, the Company continues to pursue opportunities to reallocate resources through the RAP and to attain further cost savings in fiscal 2017. Based on its current financial projections, the Company believes its financial resources, together with expected future operating cash generating and operating expense reduction activities and access to other potential financing arrangements, should be sufficient to meet funding requirements for current financial commitments and future operating expenditures not yet committed, and should provide the necessary financial capacity for the foreseeable future. The Company expects to maintain its strong cash position.

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

Legal Proceedings

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

As of May 31, 2016, there are no claims outstanding for which the Company has assessed the potential loss as both probable to result and reasonably estimable, therefore no accrual has been made. See Note 13 to the Consolidated Financial Statements for a further discussion of the Company's legal matters.

Market Risk of Financial Instruments

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

Foreign Exchange

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the U.S. dollar. The majority of the Company's revenues in the first quarter of fiscal 2017 were transacted in U.S. dollars. Portions of the revenues were denominated in Canadian dollars, Euros and British pounds. Purchases of raw materials were primarily transacted in U.S. dollars. Other expenses, consisting mainly of salaries, certain operating costs and manufacturing overhead, are incurred primarily in Canadian dollars but were also incurred in U.S. dollars, Euros and British pounds. At May 31, 2016, approximately 6% of cash and cash equivalents, 36% of accounts receivables and 19% of accounts payable were denominated in foreign currencies (February 29, 2016 – 10%, 30% and 16%, respectively). These foreign currencies primarily include the Canadian dollar, Euro and British pound. As part of its risk management strategy, the Company maintains net monetary asset and/or liability balances in foreign currencies and engages in foreign currency hedging activities using derivative financial instruments, including currency forward contracts and currency options. The Company does not use derivative instruments for speculative purposes. See Note 4 to the Consolidated Financial Statements for information concerning the Company's foreign currency hedging activities.

Interest Rate

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

Credit and Customer Concentration

The Company has historically been dependent on a number of significant telecommunication carriers and distribution partners and on larger more complex contracts with respect to sales of the majority of its products and services. The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. The Company establishes an allowance for doubtful accounts ("AFDA") that corresponds to the specific credit risk of its customers, historical trends and economic circumstances. The AFDA as at May 31, 2016 was \$10 million (February 29, 2016 - \$10 million). The Company also purchases insurance coverage for a portion of its accounts receivable balances. There was no customer that comprised more than 10% of accounts receivable as at May 31, 2016 or February 29, 2016. Additionally, there was no customer that comprised 10% of the Company's first quarter of fiscal 2017 revenue or first quarter of fiscal 2016 revenue. During the first quarter of fiscal 2017, the percentage of the Company's receivable balance that was past due increased by 3.9% compared to the fourth quarter of fiscal 2016. 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 from its carrier and distributor partners of receivables exists. The occurrence of such delays or challenges in obtaining timely payments could negatively impact the Company's liquidity.

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

condition, the near-term prospects of the individual investment and the Company's ability and intent to hold the investments to maturity. During the three months ended May 31, 2016, the Company recorded \$7 million in other-than-temporary impairment charges related to certain cost-based investments (three months ended May 30, 2015 - nil)

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

Changes in Internal Control Over Financial Reporting

During the three months ended May 31, 2016, no changes were made to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Consolidated Balance Sheets

	As at	
	May 31, 2016	February 29, 2016
Assets		
Current		
Cash and cash equivalents	\$ 1,225	\$ 957
Short-term investments	1,008	1,420
Accounts receivable, net	265	338
Other receivables	55	51
Inventories	127	143
Income taxes receivable	25	—
Other current assets	94	102
	<u>2,799</u>	<u>3,011</u>
Long-term investments	246	197
Restricted cash	53	50
Property, plant and equipment, net	391	412
Goodwill	562	618
Intangible assets, net	674	1,213
Deferred income tax asset	—	33
	<u>\$ 4,725</u>	<u>\$ 5,534</u>
Liabilities		
Current		
Accounts payable	\$ 278	\$ 270
Accrued liabilities	305	368
Income taxes payable	—	9
Deferred revenue	326	392
	<u>909</u>	<u>1,039</u>
Long-term debt	1,253	1,277
Deferred income tax liability	9	10
	<u>2,171</u>	<u>2,326</u>
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 - 522,516,638 voting common shares (February 29, 2016 - 521,172,271)	2,463	2,448
Retained earnings	98	768
Accumulated other comprehensive loss	(7)	(8)
	<u>2,554</u>	<u>3,208</u>
	<u>\$ 4,725</u>	<u>\$ 5,534</u>

See notes to consolidated financial statements.

On behalf of the Board:

John S. Chen
Director

Barbara Stymiest
Director

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

Consolidated Statements of Shareholders' Equity

	Capital Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as at February 29, 2016	\$ 2,448	\$ 768	\$ (8)	\$ 3,208
Net loss	—	(670)	—	(670)
Other comprehensive income	—	—	1	1
Shares issued:				
Stock-based compensation	12	—	—	12
Exercise of stock options	1	—	—	1
Employee share purchase plan	2	—	—	2
Balance as at May 31, 2016	\$ 2,463	\$ 98	\$ (7)	\$ 2,554

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	
	May 31, 2016	May 30, 2015
Revenue	\$ 400	\$ 658
Cost of sales		
Cost of sales	200	327
Inventory write-down	46	21
	<u>246</u>	<u>348</u>
Gross margin	<u>154</u>	<u>310</u>
Operating expenses		
Research and development	89	139
Selling, marketing and administration	132	174
Amortization	54	65
Impairment of goodwill	57	—
Impairment of long-lived assets	501	—
Debentures fair value adjustment	(24)	(157)
	<u>809</u>	<u>221</u>
Operating income (loss)	<u>(655)</u>	<u>89</u>
Investment loss, net	(15)	(16)
Income (loss) before income taxes	<u>(670)</u>	<u>73</u>
Provision for income taxes	<u>—</u>	<u>5</u>
Net income (loss)	<u>\$ (670)</u>	<u>\$ 68</u>
Earnings (loss) per share		
Basic	<u>\$ (1.28)</u>	<u>\$ 0.13</u>
Diluted	<u>\$ (1.28)</u>	<u>\$ (0.10)</u>

See notes to consolidated financial statements.

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

Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended	
	May 31, 2016	May 30, 2015
Net income (loss)	\$ (670)	\$ 68
Other comprehensive income (loss)		
Net change in unrealized gains on available-for-sale investments	(1)	(1)
Net change in fair value of derivatives designated as cash flow hedges during the period, net of income tax recovery of nil (May 30, 2015 - income tax recovery of \$3 million)	2	5
Amounts reclassified to net income during the period for derivatives designated as cash flow hedges during the period, net of income tax recovery of nil (May 30, 2015 - income tax recovery of \$3 million)	(1)	7
Foreign currency translation adjustment	1	(12)
Other comprehensive income (loss)	<u>1</u>	<u>(1)</u>
Comprehensive income (loss)	<u>\$ (669)</u>	<u>\$ 67</u>

See notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

	Three Months Ended	
	May 31, 2016	May 30, 2015
Cash flows from operating activities		
Net income (loss)	\$ (670)	\$ 68
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization	72	164
Deferred income taxes	32	2
Stock-based compensation	12	14
Loss on disposal of property, plant and equipment	1	12
Impairment of goodwill	57	—
Impairment of long-lived assets	501	—
Other-than-temporary impairment on cost-based investments	7	—
Debentures fair value adjustment	(24)	(157)
Other	3	16
Net changes in working capital items:		
Accounts receivable, net	73	35
Other receivables	(4)	4
Inventories	16	(11)
Income tax receivable, net	(25)	153
Other current assets	8	124
Accounts payable	8	(86)
Income taxes payable	(9)	—
Accrued liabilities	(53)	(191)
Deferred revenue	(66)	(13)
Net cash provided by (used in) operating activities	(61)	134
Cash flows from investing activities		
Acquisition of long-term investments	(163)	(77)
Proceeds on sale or maturity of long-term investments	32	1
Acquisition of property, plant and equipment	(4)	(11)
Acquisition of intangible assets	(9)	(11)
Business acquisitions, net of cash acquired	—	(53)
Acquisition of short-term investments	(389)	(574)
Proceeds on sale or maturity of short-term investments	875	532
Net cash provided by (used in) investing activities	342	(193)
Cash flows from financing activities		
Issuance of common shares	3	1
Payment of contingent consideration from business acquisitions	(15)	—
Effect of foreign exchange gain on restricted cash	(3)	(1)
Transfer to restricted cash	—	1
Net cash provided by (used in) financing activities	(15)	1
Effect of foreign exchange gain (loss) on cash and cash equivalents	2	(10)
Net increase (decrease) in cash and cash equivalents during the period	268	(68)
Cash and cash equivalents, beginning of period	957	1,233
Cash and cash equivalents, end of period	\$ 1,225	\$ 1,165

See notes to consolidated financial statements.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Basis of Presentation and Preparation

These interim consolidated financial statements have been prepared by management in accordance with United States generally accepted accounting principles (“U.S. GAAP”). They do not include all of the disclosures required by U.S. GAAP for annual financial statements and should be read in conjunction with the audited consolidated financial statements of BlackBerry Limited (the “Company”) for the year ended February 29, 2016 (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 months ended May 31, 2016 are not necessarily indicative of the results that may be expected for the full year ending February 28, 2017.

Effective in the fourth quarter of fiscal 2016, the Company changed its fiscal year from a 52 or 53 week year ending the last Saturday in February or the first Saturday in March to a calendar basis ending the last day of February. The operating results for the three months ended May 31, 2016 therefore comprise 92 days, which is one day longer than the comparative three months ended May 30, 2015, which was 91 days.

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

In the first quarter of fiscal 2017, the Company internally reorganized into multiple reporting units and, as a result, the Chief Operating Decision Maker (“CODM”), who is the Chief Executive Officer of the Company, began making decisions and assessing the performance of the Company using three operating segments comprised of these reporting units. The Company was previously organized as a single operating segment. As a result of the internal reporting reorganization, the Company is organized and managed as three reportable operating segments: Software & Services, Mobility Solutions, and Service Access Fees (“SAF”), as further discussed in Note 14.

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.

Goodwill Impairment

Goodwill represents the excess of the acquisition price over the fair value of identifiable net assets acquired. Goodwill is allocated at the date of the business combination. Goodwill is not amortized, but is tested for impairment annually, during the fourth quarter, or more frequently if events or changes in circumstances indicate the asset may be impaired. These events and circumstances may include a significant change in legal factors or in the business climate, a significant decline in the Company’s share price, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant disposal activity and the testing of recoverability for a significant asset group.

As a result of the internal reporting reorganization and the Company’s transition to segmented reporting, the Company now consists of multiple reporting units within these operating segments. This change in reporting unit structure necessitated a goodwill impairment assessment preceding and following the reorganization of reporting units. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. The estimated fair value is determined utilizing multiple approaches that are in accordance with U.S. GAAP based on the reporting units valued. In its analysis, the Company utilized multiple valuation techniques, including the income approach, discounted future cash flows, the market-based approach, and the asset value approach which is based on the sum of the values of each of the assets and liabilities within the entity. Following the reorganization, goodwill was assigned to the reporting units based upon the relative fair value allocation approach. The fair value of the Company’s reporting units was reconciled to the Company’s market capitalization based on the quoted market price of the Company’s stock in an active market, adjusted by an appropriate control premium. The carrying amount of the Company’s assets was assigned to reporting units using reasonable methodologies based on the asset type. When the carrying amount of a reporting unit exceeds its fair value, goodwill of the reporting unit is considered to be impaired and the second step is necessary.

The completion of step one of the goodwill impairment test following the internal reporting reorganization provided indications of impairment in certain reporting units, necessitating step two.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

In the second step, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The second step involves significant judgment in the selection of assumptions necessary to arrive at an implied fair value of goodwill.

Using the impaired reporting units' fair value determined in step one as the acquisition prices in hypothetical acquisitions of the reporting units, the implied fair values of goodwill were calculated as the residual amount of the acquisition price after allocations made to the fair values of net assets, including working capital, property, plant and equipment and both recognized and unrecognized intangible assets. Based on the results of step two of the goodwill impairment test, it was concluded that the carrying value of goodwill was impaired. Consequently, the Company recorded total goodwill impairment charges of \$5 million and \$52 million in the Mobility Solutions and SAF operating segments, respectively (the "Goodwill Impairment Charge"). The results of step one of the goodwill impairment test also indicated impairment in the asset groups associated with those reporting units resulting in the long-lived asset impairment test as discussed below.

Long-lived Asset Impairment

The Company reviews long-lived assets ("LLA") such as property, plant and equipment and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable. These events and circumstances may include significant decreases in the market price of an asset or asset group, significant changes in the extent or manner in which an asset or asset group is being used by the Company or in its physical condition, a significant change in legal factors or in the business climate, a history or forecast of future operating or cash flow losses, significant disposal activity, a significant decline in the Company's share price, or a significant decline in revenue or adverse changes in the economic environment.

The LLA impairment test prescribed by U.S. GAAP requires the Company to identify its asset groups and test impairment of each asset group separately. To conduct the LLA impairment test, the asset group is tested for recoverability using undiscounted cash flows over the remaining useful life of the primary asset. If forecasted net cash flows are less than the carrying amount of the asset group, an impairment charge is measured by comparing the fair value of the asset group to its carrying value. Determining the Company's asset groups and related primary assets requires significant judgment by management. Different judgments could yield different results.

When indicators of impairment exist, LLA impairment is tested using a two-step process. The Company performs a cash flow recoverability test as the first step, which involves comparing the asset group's estimated undiscounted future cash flows to the carrying amount of its net assets. If the net cash flows of the asset group exceeds the carrying amount of its net assets, LLA are not considered to be impaired. If the carrying amount exceeds the net cash flows, there is an indication of potential impairment and the second step of the LLA impairment test is performed to measure the impairment amount. The second step involves determining the fair value of the asset group. Fair values are determined using valuation techniques that are in accordance with U.S. GAAP, including the market approach, income approach and cost approach. If the carrying amount of the asset group's net assets exceeds the fair value, then the excess represents the maximum amount of potential impairment that will be allocated to the asset group, with the limitation that the carrying value of each asset cannot be reduced to a value lower than its fair value. The total impairment amount allocated is recognized as a non-cash impairment loss.

The Company reviews any changes in events and circumstances that have occurred on a quarterly basis to determine if indicators of LLA impairment exist. As a result of step one of the goodwill impairment assessment, the Company performed an LLA impairment analysis on the asset groups associated with the impaired reporting units using the procedure described above. Accordingly, a cash flow recoverability test was performed during the quarter. The estimated undiscounted net cash flows of the asset groups showing indicators of impairment were determined utilizing the Company's internal forecasts. The Company concluded that the carrying value of certain asset groups exceeded the undiscounted net cash flows. Consequently, step two of the LLA impairment test was performed whereby the fair values of certain of the Company's assets were compared to their carrying values.

As a result of such LLA impairment test, for the first quarter of fiscal 2017, the Company recorded a non-cash, pre-tax and after-tax charge against its LLA of approximately \$501 million (\$0.96 per share) (the "LLA Impairment Charge"), which was applicable to the intellectual property within the asset group associated with the Mobility Solutions segment.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new accounting standard on the topic of revenue contracts, which replaces the existing revenue recognition standard. The new standard amends the number of requirements that an entity must consider in recognizing revenue and requires improved disclosures to help readers of

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

financial statements better understand the nature, amount, timing and uncertainty of revenue recognized. For public entities, the new standard is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted for annual reporting periods and interim periods therein beginning after December 15, 2016. The Company will adopt this guidance in the first quarter of fiscal 2019 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In March 2016, the FASB issued a new accounting standard on the topic of revenue from contracts with customers. The amendments in this update clarify the implementation guidance on principal versus agent considerations. When another party, along with the reporting entity, is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide that good or service to the customer (as a principal) or to arrange for the good or service to be provided to the customer by the other party (as an agent). The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company will adopt this guidance in the first quarter of fiscal 2019 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In March 2016, the FASB issued a new accounting standard on the topic of stock compensation. The amendments in this update simplify several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statements of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2016. Early adoption is permitted. The Company will adopt this guidance in the first quarter of fiscal 2018 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In April 2016, the FASB issued an update that clarifies the implementation guidance on identifying promised goods or services and on determining whether an entity's promise to grant a license with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company will adopt this guidance in the first quarter of fiscal 2019 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In May 2016, the FASB issued an update that rescinds various standards codified as part of Topic 605, *Revenue Recognition* in relation to the future adoption of Topic 606, *Revenue from Contracts with Customers*. These rescissions include changes to topics pertaining to revenue and expense recognition for freight services in process, accounting for shipping and handling fees and costs, and accounting for consideration given by a vendor to a customer. The Company is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In May 2016, the FASB issued a new accounting standard on the topic of revenue contracts, that aims to reduce the risk of diversity in practice, including collectibility, non-cash consideration, presentation of sales tax, and transition. The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company will adopt this guidance in the first quarter of fiscal 2019 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In June 2016, the FASB issued a new accounting standard on the topic of financial instruments, that replaces the "incurred loss" impairment methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance is effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted for annual reporting periods and interim periods therein beginning after December 15, 2018. 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.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

- Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

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

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

The components of cash, cash equivalents and investments by fair value level as at May 31, 2016 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
Bank balances	\$ 631	\$ —	\$ —	\$ —	\$ 631	\$ 628	\$ —	\$ —	\$ 3
Other investments	46	—	—	—	46	—	—	46	—
	<u>677</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>677</u>	<u>628</u>	<u>—</u>	<u>46</u>	<u>3</u>
Level 2:									
Term deposits, certificates of deposits, and GICs	150	—	—	—	150	—	100	—	50
Bankers' acceptances	190	—	—	—	190	190	—	—	—
Commercial paper	507	—	—	—	507	251	256	—	—
Non-U.S. promissory notes	191	—	—	—	191	76	115	—	—
Non-U.S. government sponsored enterprise notes	147	—	—	—	147	—	147	—	—
Non-U.S. treasury bills/notes	234	—	—	—	234	80	154	—	—
U.S. treasury bills/notes	415	—	—	—	415	—	236	179	—
	<u>1,834</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,834</u>	<u>597</u>	<u>1,008</u>	<u>179</u>	<u>50</u>
Level 3:									
Corporate bonds	2	—	—	—	2	—	—	2	—
Auction rate securities	21	2	—	(4)	19	—	—	19	—
	<u>23</u>	<u>2</u>	<u>—</u>	<u>(4)</u>	<u>21</u>	<u>—</u>	<u>—</u>	<u>21</u>	<u>—</u>
	<u>\$ 2,534</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ (4)</u>	<u>\$ 2,532</u>	<u>\$ 1,225</u>	<u>\$ 1,008</u>	<u>\$ 246</u>	<u>\$ 53</u>

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

The components of cash, cash equivalents and investments by fair value level as at February 29, 2016 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
Bank balances	\$ 603	\$ —	\$ —	\$ —	\$ 603	\$ 600	\$ —	\$ —	\$ 3
Other investments	52	—	—	—	52	—	—	52	—
	655	—	—	—	655	600	—	52	3
Level 1:									
Auction rate securities	10	1	—	(1)	10	—	10	—	—
Level 2:									
Term deposits, certificates of deposits, and GICs	122	—	—	—	122	—	75	—	47
Bankers' acceptances	73	—	—	—	73	73	—	—	—
Commercial paper	402	—	—	—	402	104	298	—	—
Non-U.S. promissory notes	175	—	—	—	175	65	110	—	—
U.S. government sponsored enterprise notes	104	—	—	—	104	—	104	—	—
Non-U.S. government sponsored enterprise notes	232	—	—	—	232	—	232	—	—
Non-U.S. treasury bills/notes	395	—	—	—	395	115	280	—	—
U.S. treasury bills/notes	435	—	—	—	435	—	311	124	—
	1,938	—	—	—	1,938	357	1,410	124	47
Level 3:									
Corporate bonds	2	—	—	—	2	—	—	2	—
Auction rate securities	21	2	—	(4)	19	—	—	19	—
	23	2	—	(4)	21	—	—	21	—
	<u>\$ 2,626</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ (5)</u>	<u>\$ 2,624</u>	<u>\$ 957</u>	<u>\$ 1,420</u>	<u>\$ 197</u>	<u>\$ 50</u>

As at May 31, 2016, the Company's other investments consisted of cost method investments of \$46 million (February 29, 2016 - \$52 million). During the three months ended May 31, 2016, the Company recorded an other-than-temporary impairment charge of approximately \$7 million relating to certain of its cost method investments.

There were no realized gains or losses on available-for-sale securities for the three months ended May 31, 2016 or the three months ended May 30, 2015.

The Company has restricted cash, consisting of cash and securities pledged as collateral to major banking partners in support of the Company's requirements for letters of credit. These letters of credit support certain leasing arrangements entered into in the ordinary course of business, for terms ranging from one month to nine years. The Company is legally 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.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

The contractual maturities of available-for-sale investments as at May 31, 2016 were as follows:

	As at			
	May 31, 2016		February 29, 2016	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Due in one year or less	\$ 1,654	\$ 1,654	\$ 1,822	\$ 1,823
Due in one to five years	182	182	127	127
Due after five years	17	19	17	19
	<u>\$ 1,853</u>	<u>\$ 1,855</u>	<u>\$ 1,966</u>	<u>\$ 1,969</u>

As at May 31, 2016 and February 29, 2016, the Company had no investments with continuous unrealized losses.

In valuing the auction rate securities, the Company used a multi-year investment horizon and considered the underlying risk of the securities and the current market interest rate environment. The Company has the ability and intent to hold these securities until such time that market liquidity returns to normal levels and does not consider the principal or interest amounts on these securities to be materially at risk. As there is uncertainty as to when market liquidity for auction rate securities will return to normal, the Company has classified the auction rate securities as long-term investments on the consolidated balance sheets as at May 31, 2016 and February 29, 2016.

3. FAIR VALUE MEASUREMENTS

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

Recurring Fair Value Measurements

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

In determining the fair value of investments held (other than those classified as Level 3), the Company primarily relies on an independent third party valuator for the fair valuation of securities. Pricing inputs used by the independent third party valuator are generally received from two primary vendors and are reviewed for completeness and accuracy by the independent third party valuator within a set tolerance level and on a daily basis. The Company also reviews and understands 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 differ by greater than 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 the 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, and the United States Department of the Treasury, and are all investment grade.

There were no changes in the fair value of the Company's Level 3 assets for the three months ended May 31, 2016 and May 30, 2015. The Company recognizes transfers in and out of levels within the fair value hierarchy at the end of the reporting period in which the actual event or change in circumstance occurred. There were no significant transfers in or out of Level 3 assets during the three months ended May 31, 2016 and May 30, 2015.

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

The auction rate securities are valued using a discounted cash flow method incorporating both observable and unobservable inputs. The unobservable inputs utilized in the valuation are the estimated weighted-average life of each security based on its contractual details and expected paydown schedule based upon the underlying collateral, the value of the underlying collateral which would be realized in the event of a waterfall event, an estimate of the likelihood of a waterfall event and an estimate of the likelihood of a permanent auction suspension. Significant changes in these unobservable inputs would result in significantly different fair value measurements. Generally, a change in the assumption used for the probability of a waterfall event is accompanied by a directionally opposite change in the assumption used for the probability of a permanent auction suspension. A waterfall event occurs if the funded reserves of the securities become insufficient to make the interest payments, resulting in the disbursement of the securities' underlying collateral to the security holders.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

The corporate notes/bonds are valued using a discounted cash flow method incorporating both observable and unobservable inputs. The unobservable inputs utilized in the valuation are the anticipated future monthly principal and interest payments, an estimated rate of decrease of those payments, the value of the underlying collateral, the number of securities currently in technical default as grouped by the underlying collateral, an estimated average recovery rate of those securities, and assumptions surrounding additional defaults. Significant changes in these unobservable inputs would result in significantly different fair value measurements. Generally, a change in the assumption used for the anticipated monthly payments is accompanied by a directionally similar change in the average recovery rate and a directionally opposite change in the yearly decrease in payments and additional defaults assumptions.

The following table presents the significant unobservable inputs used in the fair value measurement of the auction rate securities, as well as the impact on the fair value measurement resulting from a significant increase or decrease in each input in isolation:

As at May 31, 2016	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)	Effect of Significant Increase/(Decrease) in Input on Fair Value
Auction rate securities	\$ 19	Discounted cash flow	Weighted-average life	17 years	(Decrease)/increase
			Collateral value (as a % of fair value)	139%	Increase/(decrease)
			Probability of waterfall event	10%	Increase/(decrease)
			Probability of permanent suspension of auction	5%	(Decrease)/increase
			Probability of being called at par	25%	Increase/(decrease)

4. DERIVATIVE FINANCIAL INSTRUMENTS

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

As at May 31, 2016					
	Balance Sheet Location	Fair Value of Derivatives Designated as Cash Flow Hedges	Fair Value of Derivatives Not Subject to Hedge Accounting	Total Estimated Fair Value	Notional Amount
Derivative Assets⁽¹⁾:					
Currency forward contracts	Other current assets	\$ —	\$ 3	\$ 3	\$ 144
Currency option contracts	Other current assets	1	—	1	14
Total		<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 158</u>
Derivative Liabilities⁽¹⁾:					
Currency forward contracts	Accrued liabilities	\$ —	\$ (2)	\$ (2)	\$ 135

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

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

As at February 29, 2016					
	Balance Sheet Location	Fair Value of Derivatives Designated as Cash Flow Hedges	Fair Value of Derivatives Not Subject to Hedge Accounting	Total Estimated Fair Value	Notional Amount
Derivative Assets⁽¹⁾:					
Currency forward contracts	Other current assets	\$ —	\$ 2	\$ 2	\$ 118
Currency option contracts	Other current assets	1	—	1	43
Total		<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ 161</u>
Derivative Liabilities⁽¹⁾:					
Currency forward contracts	Accrued liabilities	\$ —	\$ (2)	\$ (2)	\$ 166
Currency option contracts	Accrued liabilities	—	—	—	23
Total		<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ (2)</u>	<u>\$ 189</u>
Currency option contracts - premium	Accumulated other comprehensive loss	\$ (2)	\$ —	\$ (2)	\$ —

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

Foreign Exchange

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

The Company enters into forward and option contracts to hedge exposures relating to anticipated foreign currency transactions. These contracts have been designated as cash flow hedges, with the effective portion of the change in fair value initially recorded in accumulated other comprehensive income ("AOCI") and subsequently reclassified to income in the period in which the cash flows from the associated hedged transactions affect income. Any ineffective portion of the change in fair value of the cash flow hedge is recognized in current period income. For each of the three months ended May 31, 2016 and May 30, 2015, there were no realized losses on forward and option contracts which were ineffective upon maturity. As at May 31, 2016 and May 30, 2015, the outstanding derivatives designated as cash flow hedges were considered to be fully effective. The maturity dates of these instruments range from June 2016 to July 2016. As at May 31, 2016, the net unrealized gain on these forward and option contracts (including option premiums paid) was \$1 million (February 29, 2016 - net unrealized loss of \$1 million). Unrealized gains associated with these contracts were recorded in other current assets and AOCI. Unrealized losses were recorded in accrued liabilities and AOCI. Option premiums were recorded in AOCI. As at May 31, 2016, the Company estimates that approximately \$1 million of net unrealized losses, including option premiums on these forward and option contracts, will be reclassified into income within the next twelve 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 months ended May 31, 2016:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative Instruments (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Currency forward contracts	\$ —	Selling, marketing and administration	\$ (1)
Currency option contracts	1	Selling, marketing and administration	2
Total	<u>\$ 1</u>		<u>\$ 1</u>

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

The following table shows the impact of derivative instruments designated as cash flow hedges on the consolidated statement of operations and the consolidated statement of comprehensive income (loss) for the three months ended May 30, 2015:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative Instruments (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Currency forward contracts	\$ (2)	Cost of sales	\$ —
Currency option contracts	(1)	Cost of sales	—
Currency forward contracts	(2)	Selling, marketing and administration	(4)
Currency option contracts	(1)	Selling, marketing and administration	(6)
Currency forward contracts	(5)	Research and development	—
Currency option contracts	(3)	Research and development	—
Total	\$ (14)		\$ (10)

As part of its currency risk management strategy, the Company may maintain net monetary asset and/or liability balances in foreign currencies. The Company enters into foreign exchange forward contracts to hedge certain monetary assets and liabilities that are exposed to foreign currency risk. The principal currencies hedged include the Canadian dollar, Euro, and British pound. These contracts are not subject to hedge accounting, and any realized and unrealized gains or losses are recognized in income each period, offsetting the change in the U.S. dollar value of the asset or liability. The maturity dates of these instruments range from June 2016 to August 2016. As at May 31, 2016, there were unrealized gains (net of premium paid) of \$1 million recorded in respect of these instruments (February 29, 2016 - 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 statement of operations for the three months ended May 31, 2016 and May 30, 2015:

	Location of Gain (Loss) Recognized in Income on Derivative Instruments	Three Months Ended	
		May 31, 2016	May 30, 2015
		Amount of Gain (Loss) in Income on Derivative Instruments	
Currency forward contracts	Selling, marketing and administration	\$ 8	\$ 8
Currency option contracts	Selling, marketing and administration	—	(4)
Total		\$ 8	\$ 4

Selling, marketing and administration expense for the three months ended May 31, 2016 included \$2 million in losses with respect to foreign exchange net of balance sheet revaluation (three months ended May 30, 2015 - losses of \$4 million).

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 May 31, 2016, 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 29, 2016 - 82%). As at May 31, 2016, the Company had a total credit risk exposure across all counterparties with outstanding or unsettled foreign exchange derivative instruments of \$3 million on a notional value of \$186 million (February 29, 2016 - \$1 million total risk exposure on a notional value of \$291 million).

The Company maintains Credit Support Annexes ("CSAs") with several of its counterparties. These CSAs require the outstanding net position of all contracts to be made whole by the paying or receiving of collateral to or from the

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

counterparties on a daily basis, subject to exposure and transfer thresholds. As at May 31, 2016, the Company had posted \$1 million of collateral to counterparties (February 29, 2016 - \$2 million), which approximated the fair value of those contracts. As with the derivatives recorded in an unrealized loss position, this amount is recorded in other accrued 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 May 31, 2016, the maximum exposure to a single entity was approximately 16% of the total cash, cash equivalents and investments (February 29, 2016 - maximum exposure of approximately 17%), and that entity was the United States Department of the Treasury.

Interest Rate Risk

Cash and cash equivalents and investments are invested in certain instruments of varying maturities. Consequently, the Company is exposed to interest rate risk as a result of holding investments of varying maturities. The fair value of investments, as well as the investment income derived from the investment portfolio, will fluctuate with changes in prevailing interest rates. The Company has also issued unsecured convertible debentures due in 2020 (the “Debentures”) with a fixed 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 of the Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio.

5. CONSOLIDATED BALANCE SHEETS DETAILS

Accounts receivable, net

The allowance for doubtful accounts as at May 31, 2016 was \$10 million (February 29, 2016 - \$10 million).

There was no customer that comprised more than 10% of accounts receivable as at May 31, 2016 (February 29, 2016 - no customer that comprised more than 10%).

Inventories

Inventories comprised the following:

	As at	
	May 31, 2016	February 29, 2016
Raw materials	\$ 17	\$ 46
Work in process	68	32
Finished goods	42	65
	<u>\$ 127</u>	<u>\$ 143</u>

For the three months ended May 31, 2016, the Company recorded non-cash, pre-tax charges of \$46 million relating to the write down of certain inventories (three months ended May 30, 2015 - \$21 million).

Other current assets

As at May 31, 2016, other current assets include items such as deferred cost of sales and prepaid expenses, among other items, none of which were greater than 5% of the current assets balance in all periods presented.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Property, plant and equipment, net

Property, plant and equipment comprised the following:

	As at	
	May 31, 2016	February 29, 2016
Cost		
Land	\$ 26	\$ 26
Buildings, leasehold improvements and other	398	397
BlackBerry operations and other information technology	1,130	1,183
Manufacturing equipment, research and development equipment and tooling	110	120
Furniture and fixtures	18	18
	<u>1,682</u>	<u>1,744</u>
Accumulated amortization	1,291	1,332
Net book value	<u>\$ 391</u>	<u>\$ 412</u>

Intangible assets, net

Intangible assets comprised the following:

	As at May 31, 2016		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	\$ 677	\$ 387	\$ 290
Intellectual property	394	172	222
Other acquired intangibles	197	35	162
	<u>\$ 1,268</u>	<u>\$ 594</u>	<u>\$ 674</u>

	As at February 29, 2016		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	\$ 677	\$ 367	\$ 310
Intellectual property	1,437	704	733
Other acquired intangibles	197	27	170
	<u>\$ 2,311</u>	<u>\$ 1,098</u>	<u>\$ 1,213</u>

Other acquired intangibles include items such as customer relationships and brand.

During the first quarter of fiscal 2017, amortization expense related to intangible assets amounted to \$48 million (three months ended May 30, 2015 - \$128 million). During the first quarter of fiscal 2017, the additions to intangible assets primarily consisted of payments for intellectual property relating to amended or renewed licensing agreements and patent registration and maintenance fees. The Company recorded the LLA Impairment Charge of \$501 million during the first quarter of fiscal 2017. For a discussion of the LLA Impairment Charge, see Note 1.

Based on the carrying value of the identified intangible assets as at May 31, 2016 and assuming no subsequent impairment of the underlying assets, the annual amortization expense for the remainder of fiscal 2017 and each of the four succeeding years is expected to be as follows: 2017 - \$79 million; 2018 - \$143 million; 2019 - \$123 million; 2020 - \$111 million; and 2021 - \$98 million.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

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

	As at	
	May 31, 2016	February 29, 2016
Acquired technology	4.1 years	4.4 years
Intellectual property	8.4 years	7.7 years
Other acquired intangibles	5.8 years	6.0 years

Goodwill

Changes to the carrying amount of goodwill were as follows:

	Mobility Solutions	Software & Services	SAF	Corporate	Total
Carrying Amount as at February 28, 2015	\$ —	\$ —	\$ —	\$ 85	\$ 85
Effect of foreign exchange on non-U.S. dollar denominated goodwill	—	—	—	(7)	(7)
Goodwill acquired through business combinations during the year	—	—	—	540	540
Carrying Amount as at February 29, 2016	—	—	—	618	618
Allocation of goodwill to segments based on relative fair value of reporting units	5	561	52	(618)	—
Goodwill Impairment Charge	(5)	—	(52)	—	(57)
Effect of foreign exchange on non-U.S. dollar denominated goodwill	—	1	—	—	1
Carrying Amount as at May 31, 2016	<u>\$ —</u>	<u>\$ 562</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 562</u>

The Company recorded the Goodwill Impairment Charge of \$57 million during the first quarter of fiscal 2017. For information concerning the Goodwill Impairment Charge, see Note 1.

Accrued liabilities

Accrued liabilities consist of accrued warranty obligations, vendor inventory liabilities, royalties, carrier liabilities, accrued salaries and payroll withholding taxes, among other items, none of which were greater than 5% of the current liabilities balance as at May 31, 2016 and February 29, 2016.

Product warranty

The changes in the Company's warranty expense and actual warranty experience for the three months ended May 31, 2016, as well as the accrued warranty obligations as at May 31, 2016, are set forth in the following table:

Accrued warranty obligations as at February 29, 2016	\$ 33
Transfer of warranty contribution liability from other accrued liabilities	5
Warranty costs incurred for the three months ended May 31, 2016	(5)
Warranty provision for the three months ended May 31, 2016	4
Adjustments for changes in estimate for the three months ended May 31, 2016	(4)
Accrued warranty obligations as at May 31, 2016	<u>\$ 33</u>

6. BUSINESS ACQUISITIONS

There were no business acquisitions during the first quarter of fiscal 2017.

On May 7, 2015, the Company acquired all of the issued and outstanding shares of WatchDox Ltd. ("WatchDox"), a data security company offering secure enterprise file-sync-and-share solutions, for \$59 million in cash. The acquisition enhances the Company's commitment to allow organizations to securely connect employees and corporate information across all

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

mobile and desktop platforms. WatchDox's technology is being offered independently and as a value-added service through BES12 that complements the Company's enterprise mobility management portfolio.

7. RESTRUCTURING PROGRAMS

Resource Alignment Program ("RAP")

In fiscal 2016, the Company commenced the RAP for its device software, hardware and applications business with the objectives of reallocating Company resources to capitalize on growth opportunities, providing the operational ability to better leverage contract research and development services relating to its handheld devices, and reaching sustainable profitability. During the three months ended May 31, 2016, the Company incurred approximately \$25 million in total pre-tax charges related to this program for employee termination benefits and facilities costs. Other charges and cash costs may occur as programs are implemented or changes are completed.

The following table sets forth the activity in the Company's RAP liability for the three months ended May 31, 2016:

	Employee Termination Benefits	Facilities Costs	Other Charges ⁽¹⁾	Total
Balance as at February 29, 2016	\$ 12	\$ 26	\$ —	\$ 38
Charges incurred	—	4	8	12
Cash payments made	(9)	(4)	(8)	(21)
Balance as at May 31, 2016	\$ 3	\$ 26	\$ —	\$ 29

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

The RAP charges, including non-cash charges incurred in the three months ended May 31, 2016, were as follows:

	Three Months Ended	
	May 31, 2016	May 30, 2015
Cost of sales	\$ 7	\$ 21
Research and development	2	13
Selling, marketing and administration	16	18
Total RAP charges	\$ 25	\$ 52

Cost Optimization and Resource Efficiency ("CORE") Program

In fiscal 2013, the Company commenced the CORE program with the objective of improving the Company's operations and increasing efficiency. The Company incurred approximately \$9 million in pre-tax charges during the three months ended May 30, 2015 and \$11 million in total pre-tax charges related to the CORE Program in fiscal 2016. All of the pre-tax charges were related to facilities costs. During the three months ended May 31, 2016, the Company made no cash payments related to the CORE program, as shown in the table below.

The following table sets forth the activity in the Company's CORE program liability for the three months ended May 31, 2016:

	Facilities Costs and Total
Balance as at February 29, 2016	\$ 16
Charges recovered	(2)
Cash payments made	—
Balance as at May 31, 2016	\$ 14

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

The CORE program charges (recovery), including non-cash charges incurred in the three months ended May 31, 2016 and May 30, 2015, were as follows:

	Three Months Ended	
	May 31, 2016	May 30, 2015
Research and development	\$ —	\$ 2
Selling, marketing and administration	(2)	7
Total CORE program charges (recoveries)	\$ (2)	\$ 9

For the three months ended May 31, 2016, the \$2 million of CORE program charges recovered relate to reconciliation of estimated accruals to actual costs incurred and do not represent charges for any activities during the quarter.

8. INCOME TAXES

For the three months ended May 31, 2016, the Company's net effective income tax expense rate was approximately 0% compared to a net effective income tax recovery rate of 7% for the three months ended May 30, 2015. The Company's income tax rate reflects the fact that the Company has a significant valuation allowance against its deferred tax assets and, in particular, the impairment charges and gain from the change in fair value of the Debentures, amongst other items, was offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

The Company's total unrecognized income tax benefits as at May 31, 2016 was \$37 million (February 29, 2016 - \$37 million). The unrecognized income tax benefits have been netted against current and deferred income tax assets 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.

9. LONG-TERM DEBT

Convertible Debentures

In fiscal 2014, Fairfax Financial Holdings Limited ("Fairfax") and other institutional investors invested in the Company through a \$1.25 billion private placement of the Debentures.

Interest on the Debentures is payable quarterly in arrears at a rate of 6% per annum. The Debentures have a term of seven years and each \$1,000 of Debentures are convertible at any time into 100 common shares of the Company for a total of 125 million common shares at a price of \$10.00 per share for all Debentures, subject to adjustments.

The Company has the option to redeem the Debentures after November 13, 2016 at specified redemption prices in specified periods. Covenants associated with the Debentures include limitations on the Company's total indebtedness.

Under specified events of default, the outstanding principal and any accrued interest on the Debentures become immediately due and payable upon request of holders holding not less than 25% of the principal amount of the Debentures then outstanding. During an event of default the interest rate rises to 10% 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.

Due to the possible volatility in the Company's consolidated statements of operations resulting from fluctuation in the fair value of the embedded conversion option, as well as a number of other embedded derivatives within the Debentures, the Company has elected to record the Debentures, including the debt itself and all embedded derivatives, at fair value and present the Debentures as a hybrid financial instrument. No portion of the fair value of the Debentures has been recorded as equity, nor would be if each component was freestanding. As of May 31, 2016, the fair value of the Company's

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Debentures amounted to \$1.25 billion. The difference between the fair value of the Debentures and the unpaid principal balance of \$1.25 billion is \$3 million. The fair value of the Debentures is measured using Level 2 fair value inputs.

The Company recorded non-cash income associated with the change in the fair value of the Debentures of \$24 million in the first quarter of fiscal 2017 (the “Q1 Fiscal 2017 Debentures Fair Value Adjustment”) (first quarter of fiscal 2016 - non-cash income of \$157 million (the “Q1 Fiscal 2016 Debentures Fair Value Adjustment”). These adjustments are presented on a separate line in the Company’s consolidated statements of operations. The fair value adjustments do not impact the key terms of the Debentures such as the face value, the redemption features or the conversion price.

During the first quarter of fiscal 2017, the Company recorded interest expense related to the Debentures of \$19 million, which has been included in investment loss on the Company’s consolidated statements of operations (first quarter of fiscal 2016 - \$19 million). The Company is required to make quarterly interest-only payments of approximately \$19 million during the seven years the Debentures are outstanding.

10. CAPITAL STOCK

The following details the changes in issued and outstanding common shares for the three months ended May 31, 2016:

	Capital Stock and Additional Paid-In Capital	
	Stock Outstanding (000's)	Amount
Common shares outstanding as at February 29, 2016	521,172	\$ 2,448
Stock-based compensation	—	12
Exercise of stock options	17	1
Common shares issued for RSU settlements	1,090	—
Common shares issued for employee share purchase plan	238	2
Common shares outstanding as at May 31, 2016	522,517	\$ 2,463

The Company had 523 million common shares, 1 million options to purchase common shares, 26 million RSUs and 0.4 million deferred share units outstanding as at June 20, 2016. In addition, 125 million common shares are issuable upon conversion in full of the Debentures.

BlackBerry Limited

Notes to the Consolidated Financial Statements

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

11. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended	
	May 31, 2016	May 30, 2015
Net income (loss) for basic earnings per share available to common shareholders	\$ (670)	\$ 68
Less: Debentures fair value adjustment	—	(157)
Add: Interest expense on Debentures	—	19
Net loss for diluted loss per share available to common shareholders	<u>\$ (670)</u>	<u>\$ (70)</u>
Weighted-average number of shares outstanding (000's) - basic	521,905	529,235
Effect of dilutive securities (000's)		
Stock-based compensation ⁽¹⁾⁽²⁾	—	16,304
Conversion of Debentures ⁽¹⁾⁽³⁾	—	125,000
Weighted-average number of shares and assumed conversions (000's) - diluted	<u>521,905</u>	<u>670,539</u>
Earnings (loss) per share - reported		
Basic	<u>\$ (1.28)</u>	<u>\$ 0.13</u>
Diluted	<u>\$ (1.28)</u>	<u>\$ (0.10)</u>

⁽¹⁾ The Company has not presented the effect of the Debentures, in-the-money options, or RSUs for the three months ended May 31, 2016, as to do so would be anti-dilutive.

⁽²⁾ The Company has presented the dilutive effect of in-the-money options and RSUs that will be settled upon vesting by the issuance of new common shares in the calculation of loss per share for the three months ended May 30, 2015. As at May 30, 2015, there were 750,544 options and 23,324,646 RSUs outstanding that were in-the-money and may have a dilutive effect on earnings (loss) per share in future periods.

⁽³⁾ The Company has presented the dilutive effect of the Debentures using the if-converted method, assuming conversion at the beginning of the first quarter of fiscal 2016. Accordingly, to calculate diluted loss per share, the Company adjusted net income by eliminating the Q1 Fiscal 2016 Debentures Fair Value Adjustment and interest expense incurred on the Debentures in the first quarter of fiscal 2016 and added the number of shares that would have been issued upon conversion to the diluted weighted average number of shares outstanding. See Note 9 for details on the Debentures.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in AOCI by component, net of tax, for the three months ended May 31, 2016 were as follows:

	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains on Available-for- Sale Securities	Total
AOCI as at February 29, 2016	\$ (10)	\$ (1)	\$ 3	\$ (8)
Other comprehensive income before reclassifications	1	2	(1)	2
Amounts reclassified from AOCI into income	—	(1)	—	(1)
Other comprehensive income for the period	1	1	(1)	1
AOCI as at May 31, 2016	<u>\$ (9)</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ (7)</u>

The effects on net income of amounts reclassified from AOCI into income by component for the three months ended May 31, 2016 were as follows:

Location of loss reclassified from AOCI into income	Gains and Losses on Cash Flow Hedges	Gains and Losses on Available-for-Sale Securities	Total
Selling, marketing and administration	\$ 1	\$ —	\$ 1

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

13. COMMITMENTS AND CONTINGENCIES

(a) Credit facility and letters of credit

The Company has \$44 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business. 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 29, 2016, 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 May 31, 2016, there are no claims outstanding for which the Company has assessed the potential loss as both probable to result and reasonably estimable, therefore no accrual has been made. Further, there are claims outstanding for which the Company has assessed the potential loss as reasonably possible to result, however an estimate of the amount of loss cannot reasonably be made. There are many reasons that the Company cannot make these assessments, including, among others, one or more of the following: the early stages of a proceeding does not require the claimant to specifically identify the patent that has allegedly been infringed; damages sought are unspecified, unsupportable, 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 alleging that during the period from September 27, 2012 through September 20, 2013, 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. In respect of the putative U.S. class actions, four motions for the appointment of lead plaintiff were filed. On March 14, 2014, the Judge consolidated the proceedings in the U.S. District Court for the Southern District of New York. On May 27, 2014, the Consolidated Amended Class Action Complaint was filed. The Company filed a motion to dismiss the complaint. On March 13, 2015, the court issued an order granting the Company's motion to dismiss. The plaintiffs filed a motion for reconsideration and for leave to file an amended complaint, which was denied by the court on November 13,

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

2015. The plaintiffs filed a notice of appeal on December 11, 2015 and filed their opening brief on February 24, 2016. The Company filed its opposition brief on March 30, 2016. The plaintiffs filed their reply brief on April 13, 2016. In respect of the putative Ontario class action, the plaintiffs 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. Proceedings are ongoing.

On October 12, 2015, a group of Good Technology Corporation's ("Good") institutional investors filed a putative class action lawsuit on behalf of Good's common shareholders against members of Good's former board of directors (the "GTC Directors") related to the Company's acquisition of Good (the "GTC Lawsuit"). The plaintiffs allege that the GTC Directors breached their fiduciary duty by engaging in a self-interested transaction that benefited the preferred shareholders at the expense of the common shareholders. The plaintiffs are seeking monetary damages, as well as rescission of the merger agreement between Good and the Company. While neither Good nor the Company are parties to the GTC Lawsuit, Good has certain obligations to indemnify the defendants and is providing a defense. On October 29, 2015, Good filed a complaint alleging that the plaintiffs breached their contractual obligations under a voting agreement providing that, in the event of a sale transaction that was approved by both the GTC Directors and a majority of the Good preferred shareholders, the plaintiffs were required to vote their shares in favour of the transaction and refrain from exercising any appraisal or dissenter rights. Good alleges that the filing of the GTC Lawsuit was a breach of the voting agreement. On December 31, 2015, several Good shareholders filed a petition seeking appraisal against Good. Proceedings are ongoing.

On April 20, 2016, the Company and Qualcomm entered into an agreement to arbitrate a dispute over the application of a royalty cap agreement related to a license agreement between the parties. The Company filed its Demand for Arbitration and Statement of Claim on May 2, 2016. Qualcomm filed its response on May 16, 2016. Proceedings are ongoing.

On April 28, 2016, one of the Company's licensors filed a Request for Arbitration with the International Chamber of Commerce International Court of Arbitration. The dispute relates to whether certain payments allegedly due under a patent agreement between the parties are in fact owed under the terms of the agreement. The Company's response is due July 5, 2016. Proceedings are ongoing.

(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 significant supply, availability and pricing risks. Many components are at times subject to industry-wide shortages and significant commodity pricing fluctuations including those that are available from multiple sources. In addition, the Company has entered into various agreements for the supply of components, the manufacturing of its products and agreements that allow the Company to use intellectual property owned by other companies; however, there can be no guarantee that the Company will be able to extend or renew these agreements on similar terms, or at all. Therefore, the Company remains subject to significant risks of supply shortages and intellectual property litigation risk, as well as potential price increases that can materially adversely affect its financial condition and operating results.

The Company also uses some custom components that are not common to the rest of the industry, and new products introduced by the Company often utilize custom components available from only one source for a period of time. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. If the Company's supply of components for a new or existing product were delayed or constrained, the Company's financial condition and operating results could be materially adversely affected. Further, if the Company was not able to find an alternative source for the necessary quantities, the Company's business and financial performance could also be materially adversely affected. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers concentrate on the production of common components instead of components customized to meet the Company's requirements.

Substantially all of the Company's hardware products are manufactured by outsourcing partners that are located primarily in Asia and Mexico. A significant concentration of this manufacturing is currently performed by a small number of outsourcing partners. Although the Company works closely with its outsourcing partners on manufacturing schedules, the Company's operating results could be adversely affected if its outsourcing partners were unable to meet their production commitments.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

(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 which could arise by reason of their status as directors or officers. The Company maintains liability insurance coverage for the benefit of its current and former directors and executive officers to reduce its exposure to such obligations. The Company has not encountered material costs as a result of such indemnifications in the current year. See the Company's Management Information Circular for fiscal 2016 for additional information regarding the Company's indemnification agreements with its directors and current and former executive officers.

14. SEGMENT DISCLOSURES

The Company reports segment information based on the "management" approach. The management approach designates the internal reporting used by the CODM for making decisions and assessing performance as a source of the Company's reportable operating segments. In the first quarter of fiscal 2017, the Company internally reorganized into multiple reporting units and, as a result, the CODM, who is the Chief Executive Officer of the Company, began making decisions and assessing the performance of the Company using three operating segments comprised of these reporting units, whereas the Company was previously a single operating segment.

The CODM does not evaluate operating segments using discrete asset information. The Company does not specifically allocate assets to operating segments for internal reporting purposes. The operating segment results do not present or include amortization or depreciation expenses associated with the Company's property, plant and equipment or the majority of intangible assets as these assets are utilized across segments.

The Company is now organized and managed as three operating segments: Software & Services, Mobility Solutions, and SAF.

The following table shows information by operating segment for the three months ended May 31, 2016:

	Software & Services	Mobility Solutions	SAF	Segment totals
Revenue ⁽¹⁾	\$ 166	\$ 152	\$ 106	\$ 424
Gross Margin	134	12	80	226
Operating income (loss) ⁽¹⁾	37	(21)	78	94

⁽¹⁾ A reconciliation of segment revenue and segment operating income (loss) to consolidated revenue is set forth below.

The Software & Services segment includes all operations relating to the Company's software and service offerings and products, including:

- Enterprise solutions and services, which provides mobile security, management, productivity and collaboration solutions through BES12 and the Good Secure EMM Suites, as well as value added products such as the WatchDox secure electronic file sync and share solution and the Movirtu virtual SIM split billing solution;
- Business Technology Solutions, which includes QNX, Certicom, Paratek, the BlackBerry IoT Platform and Intellectual Property and Patent Licensing (the Company's technology licensing businesses);
- AtHoc, which provides secure, networked crisis communications solutions;
- SecuSmart, which provides secure voice and text messaging solutions with advanced encryption and anti-eavesdropping capabilities;
- consumer BlackBerry Messenger service (BBM); and
- Professional Cybersecurity Services, which offers cybersecurity consulting services and tools.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

The Mobility Solutions segment includes the development, manufacturing and sale of BlackBerry handheld devices, including accessories and non-warranty repairs.

The SAF segment includes service access fees charged to subscribers using the Company's legacy BlackBerry 7 and prior BlackBerry operating systems, and an allocation of revenue associated with the sale of BlackBerry 10 devices relating to service obligations and unspecified future software upgrades.

The following table reconciles segment revenues and operating income for the three months ended May 31, 2016 to the Company's consolidated totals:

Revenues	
Revenue for segments	\$ 424
Adjustments	(24)
Consolidated revenues	\$ 400
Operating income (loss)	
Operating income for segments	\$ 94
Unallocated amounts:	
Operating expenses	(80)
Adjustments	
Revenue	(24)
Cost of goods sold	(48)
Operating expenses	(63)
Impairment of goodwill	(57)
Impairment of long-lived assets	(501)
Debentures fair value adjustment	24
Consolidated operating loss	\$ (655)

The CODM reviews segment information on an adjusted basis, which excludes certain amounts as described below:

Revenue

Software deferred revenue acquired - the Company has acquired businesses whose net assets include deferred revenue. In accordance with U.S. GAAP reporting requirements, the Company recorded write-downs of deferred revenue under arrangements pre-dating the acquisition to fair value, which resulted in lower recognized revenue than the original selling price until the related service obligations under such arrangements are fulfilled. Therefore, U.S. GAAP revenues after the acquisitions will not reflect the full amount of revenue that would have been reported if the acquired deferred revenue was not written down to fair value. The adjustment described reverses the acquisition-related deferred revenue write-downs so that the full amount of revenue booked by the acquired companies is included, which the CODM believes provides a more useful representation of revenue in a given period and, therefore, will provide more meaningful comparative results in future periods.

Cost of goods sold

Restructuring charges - relating to employee termination benefits, facilities, and manufacturing network simplification costs pursuant to RAP and CORE. The CODM believes that restructuring costs do not reflect expected future operating expenses, are not indicative of the Company's core operating performance, and are not meaningful in comparison to the Company's past operating performance.

Stock compensation expenses - equity compensation is excluded as it is non-cash in nature. The CODM believes that excluding this expense allows for improved comparability of results.

Inventory write-down - the write-down of inventory relating to certain BlackBerry 10 hardware as a result of the Company's policy of recording inventory at the lower of cost or market. The CODM believes that excluding this expense will provide improved comparability of results.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Operating expenses

Restructuring charges - relating to employee termination benefits, facilities, and manufacturing network simplification costs pursuant to RAP and CORE. The CODM believes that restructuring costs do not reflect expected future operating expenses, are not indicative of the Company's core operating performance, and are not meaningful in comparison to the Company's past operating performance.

Stock compensation expenses - equity compensation is excluded as it is non-cash in nature. The CODM believes that excluding this expense allows for improved comparability of results.

Amortization of acquired intangible assets - relating to costs associated with the depreciation and amortization of intangible assets acquired through business combinations. The CODM believes that excluding this expense allows for improved comparability of results.

Business acquisition and integration costs - relating to costs associated with the acquisitions of businesses and include legal costs, audit and accounting fees, and other costs incurred related to acquiring and integrating the businesses acquired. These expenditures do not relate to the ongoing operation of the business, and they tend to vary significantly based on the timing of transactions. The CODM believes that excluding this expense allows for improved comparability of results.

Certain corporate overhead expenses are not allocated to segment operations. These generally relate to costs associated with the Company's corporate operations, including administration and shared services functions, information technology related costs, and legal operations. Amortization of property, plant and equipment and intangible assets within operating expenses is excluded as well, as noted above. For segment reporting purposes, the LLA Impairment Charge and Goodwill Impairment Charge are not allocated to any particular segment. The fluctuation in the fair value of the Debentures as described in Note 9, is not allocated to segments.

The following table shows information by operating segment for the three months ended May 30, 2015:

	Software & Services	Mobility Solutions	SAF	Segment totals
Revenue	\$ 137	\$ 269	\$ 252	\$ 658
Gross Margin	107	2	222	331

The Company has not presented comparative information for operating income (loss) by segment, as it cannot practically allocate past operating expenses for the comparative periods to the current segments due to a fundamental reorganization of the internal reporting structure of the Company. Prior to the reorganization into the current structure, operations for each segment were integrated and centralized, and the Company does not have a reasonable basis with which to determine how operating expenses under the current structure may have compared to the previous structure. The Company may present comparative information in future filings.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Total segment revenue for the three months ended May 30, 2015 was equal to consolidated revenue. The following table reconciles gross margin for the three months ended May 30, 2015 to the Company's consolidated totals:

Gross Margin	
Gross margin for reportable segments	\$ 331
Adjustments to cost of goods sold	(21)
Consolidated gross margin	\$ 310

Revenue, classified by major geographic segments in which the Company's customers are located, was as follows:

	Three Months Ended			
	May 31, 2016		May 30, 2015	
North America				
Canada	\$ 40	10.0%	\$ 69	10.5%
United States	155	38.8%	216	32.8%
	195	48.8%	285	43.3%
Europe, Middle East and Africa	155	38.7%	245	37.2%
Latin America	10	2.5%	42	6.4%
Asia Pacific	40	10.0%	86	13.1%
Total	<u>\$ 400</u>	<u>100.0%</u>	<u>\$ 658</u>	<u>100.0%</u>

Unadjusted revenues by segment consisted of the following:

	Three Months Ended	
	May 31, 2016	May 30, 2015
Software & Services	\$ 142	\$ 137
Mobility Solutions	152	269
SAF	106	252
	<u>\$ 400</u>	<u>\$ 658</u>

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

	As at			
	May 31, 2016		February 29, 2016	
	Property, plant and equipment and intangible assets	Total assets	Property, plant and equipment and intangible assets	Total assets
Canada	\$ 475	\$ 1,020	\$ 1,002	\$ 1,467
United States	1,029	3,355	1,024	3,429
United Kingdom	24	188	39	220
Other	99	162	178	418
	<u>\$ 1,627</u>	<u>\$ 4,725</u>	<u>\$ 2,243</u>	<u>\$ 5,534</u>