

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended August 31, 2022**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from    to**

Commission file number 001-38232

**BlackBerry Limited**

(Exact name of registrant as specified in its charter)

**Canada**

(State or other jurisdiction of incorporation or organization)

**98-0164408**

(I.R.S. Employer Identification No.)

**2200 University Ave East**

**Waterloo    Ontario    Canada**  
(Address of Principal Executive Offices)

**N2K 0A7**

(Zip Code)

**(519) 888-7465**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares	BB	New York Stock Exchange
Common Shares	BB	Toronto Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The registrant had 577,416,687 common shares issued and outstanding as of September 23, 2022.

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# BLACKBERRY LIMITED

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*Unless the context otherwise requires, all references to the “Company” and “BlackBerry” include BlackBerry Limited and its subsidiaries.*

## **PART I - FINANCIAL INFORMATION**

### **ITEM 1. FINANCIAL STATEMENTS**

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

**Consolidated Balance Sheets**

	As at	
	August 31, 2022	February 28, 2022
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents (note 2)	\$ 431	\$ 378
Short-term investments (note 2)	212	334
Accounts receivable, net of allowance of \$4 and \$4, respectively (note 3)	100	138
Other receivables (note 3)	15	25
Income taxes receivable	9	9
Other current assets (note 3)	173	159
	940	1,043
<b>Restricted cash and cash equivalents (note 2)</b>	27	28
<b>Long-term investments (note 2)</b>	29	30
<b>Other long-term assets (note 3)</b>	8	9
<b>Operating lease right-of-use assets, net</b>	40	50
<b>Property, plant and equipment, net (note 3)</b>	27	41
<b>Goodwill (note 3)</b>	837	844
<b>Intangible assets, net (note 3)</b>	473	522
	\$ 2,381	\$ 2,567
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable	\$ 20	\$ 22
Accrued liabilities (note 3 and note 9)	300	157
Income taxes payable (note 4)	17	11
Deferred revenue, current (note 10)	179	207
	516	397
<b>Deferred revenue, non-current (note 10)</b>	30	37
<b>Operating lease liabilities</b>	54	66
<b>Other long-term liabilities</b>	2	4
<b>Long-term debentures (note 5)</b>	449	507
	1,051	1,011
<b>Commitments and contingencies (note 9)</b>		
<b>Shareholders' equity</b>		
<b>Capital stock and additional paid-in capital</b>		
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 - 577,415,891 voting common shares (February 28, 2022 - 576,227,898)	2,887	2,869
<b>Deficit</b>	(1,529)	(1,294)
<b>Accumulated other comprehensive loss (note 8)</b>	(28)	(19)
	1,330	1,556
	\$ 2,381	\$ 2,567

See notes to consolidated financial statements.

On behalf of the  
Board:

John S. Chen  
Director

Lisa Disbrow  
Director

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

**Consolidated Statements of Shareholders' Equity**

	Three Months Ended August 31, 2022			
	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at May 31, 2022	\$ 2,880	\$ (1,475)	\$ (20)	\$ 1,385
Net loss	—	(54)	—	(54)
Other comprehensive loss	—	—	(8)	(8)
Stock-based compensation	7	—	—	7
<b>Balance as at August 31, 2022</b>	<b>\$ 2,887</b>	<b>\$ (1,529)</b>	<b>\$ (28)</b>	<b>\$ 1,330</b>

	Three Months Ended August 31, 2021			
	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at May 31, 2021	\$ 2,834	\$ (1,368)	\$ (10)	\$ 1,456
Net loss	—	(144)	—	(144)
Other comprehensive loss	—	—	(5)	(5)
Stock-based compensation	10	—	—	10
Shares issued:				
Exercise of stock options	1	—	—	1
<b>Balance as at August 31, 2021</b>	<b>\$ 2,845</b>	<b>\$ (1,512)</b>	<b>\$ (15)</b>	<b>\$ 1,318</b>

*See notes to consolidated financial statements.*

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

**Consolidated Statements of Shareholders' Equity**

	Six Months Ended August 31, 2022			
	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at February 28, 2022	\$ 2,869	\$ (1,294)	\$ (19)	\$ 1,556
Net loss	—	(235)	—	(235)
Other comprehensive loss	—	—	(9)	(9)
Stock-based compensation (note 6)	15	—	—	15
Shares issued:				
Employee share purchase plan (note 6)	3	—	—	3
<b>Balance as at August 31, 2022</b>	<b>\$ 2,887</b>	<b>\$ (1,529)</b>	<b>\$ (28)</b>	<b>\$ 1,330</b>

	Six Months Ended August 31, 2021			
	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at February 28, 2021	\$ 2,823	\$ (1,306)	\$ (13)	\$ 1,504
Net loss	—	(206)	—	(206)
Other comprehensive loss	—	—	(2)	(2)
Stock-based compensation	17	—	—	17
Shares issued:				
Exercise of stock options	2	—	—	2
Employee share purchase plan	3	—	—	3
<b>Balance as at August 31, 2021</b>	<b>\$ 2,845</b>	<b>\$ (1,512)</b>	<b>\$ (15)</b>	<b>\$ 1,318</b>

See notes to consolidated financial statements.

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

**Consolidated Statements of Operations**

	Three Months Ended		Six Months Ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
<b>Revenue (note 10)</b>	\$ 168	\$ 175	\$ 336	\$ 349
<b>Cost of sales</b>	62	63	126	123
<b>Gross margin</b>	106	112	210	226
<b>Operating expenses</b>				
Research and development	54	58	107	115
Selling, marketing and administration	86	83	168	156
Amortization	25	45	52	91
Impairment of long-lived assets (note 2)	4	—	4	—
Gain on sale of property, plant and equipment, net (note 3)	(6)	—	(6)	—
Debentures fair value adjustment (note 5)	(10)	67	(56)	63
Litigation settlement (note 9)	—	—	165	—
	153	253	434	425
<b>Operating loss</b>	(47)	(141)	(224)	(199)
Investment loss, net	(2)	(1)	(3)	(3)
<b>Loss before income taxes</b>	(49)	(142)	(227)	(202)
<b>Provision for income taxes (note 4)</b>	5	2	8	4
<b>Net loss</b>	\$ (54)	\$ (144)	\$ (235)	\$ (206)
<b>Loss per share (note 7)</b>				
Basic	\$ (0.09)	\$ (0.25)	\$ (0.41)	\$ (0.36)
Diluted	\$ (0.10)	\$ (0.25)	\$ (0.45)	\$ (0.36)

See notes to consolidated financial statements.



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

**Consolidated Statements of Comprehensive Loss**

	Three Months Ended		Six Months Ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
<b>Net loss</b>	\$ (54)	\$ (144)	\$ (235)	\$ (206)
<b>Other comprehensive loss</b>				
Net change in fair value and amounts reclassified to net loss from derivatives designated as cash flow hedges during the period, net of income taxes of nil for the three and six months ended August 31, 2022 and August 31, 2021 (note 8)	(2)	(2)	(1)	(1)
Foreign currency translation adjustment	(6)	(3)	(10)	(2)
Net change in fair value from instrument-specific credit risk on the 1.75% Debentures, net of income taxes of nil for the three and six months ended August 31, 2022 and August 31, 2021 (note 5)	—	—	2	1
<b>Other comprehensive loss</b>	<b>(8)</b>	<b>(5)</b>	<b>(9)</b>	<b>(2)</b>
<b>Comprehensive loss</b>	<b>\$ (62)</b>	<b>\$ (149)</b>	<b>\$ (244)</b>	<b>\$ (208)</b>

*See notes to consolidated financial statements.*

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

**Consolidated Statements of Cash Flows**

	Six Months Ended	
	August 31, 2022	August 31, 2021
<b>Cash flows from operating activities</b>		
Net loss	\$ (235)	\$ (206)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization	57	97
Stock-based compensation	15	17
Impairment of long-lived assets (note 2)	4	—
Gain on sale of property, plant and equipment, net (note 3)	(6)	—
Debentures fair value adjustment (note 5)	(56)	63
Operating leases	(9)	(8)
Other	3	(2)
Net changes in working capital items		
Accounts receivable, net of allowance	38	61
Other receivables	10	2
Income taxes receivable	—	1
Other assets	(1)	4
Accounts payable	(2)	2
Accrued liabilities	145	(2)
Income taxes payable	6	3
Deferred revenue	(35)	(50)
<b>Net cash used in operating activities</b>	<u>(66)</u>	<u>(18)</u>
<b>Cash flows from investing activities</b>		
Acquisition of long-term investments	(2)	(1)
Acquisition of property, plant and equipment	(4)	(4)
Proceeds on sale of property, plant and equipment (note 3)	17	—
Acquisition of intangible assets	(16)	(14)
Acquisition of short-term investments	(273)	(429)
Proceeds on sale or maturity of restricted short-term investments	—	24
Proceeds on sale or maturity of short-term investments	395	537
<b>Net cash provided by investing activities</b>	<u>117</u>	<u>113</u>
<b>Cash flows from financing activities</b>		
Issuance of common shares	3	5
<b>Net cash provided by financing activities</b>	<u>3</u>	<u>5</u>
<b>Effect of foreign exchange loss on cash, cash equivalents, restricted cash, and restricted cash equivalents</b>	<u>(2)</u>	<u>—</u>
<b>Net increase in cash, cash equivalents, restricted cash, and restricted cash equivalents during the period</b>	52	100
<b>Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period</b>	406	218
<b>Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period</b>	<u>\$ 458</u>	<u>\$ 318</u>

See notes to consolidated financial statements.

**BlackBerry Limited**  
**Notes to the Consolidated Financial Statements**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

**Basis of Presentation and Preparation**

These interim consolidated financial statements have been prepared by management in accordance with United States generally accepted accounting principles (“U.S. GAAP”). They do not include all of the disclosures required by U.S. GAAP for annual financial statements and should be read in conjunction with the audited consolidated financial statements of BlackBerry Limited (the “Company”) for the year ended February 28, 2022 (the “Annual Financial Statements”), which have been prepared in accordance with U.S. GAAP. In the opinion of management, all normal recurring adjustments considered necessary for fair presentation have been included in these interim consolidated financial statements. Operating results for the three and six months ended August 31, 2022 are not necessarily indicative of the results that may be expected for the full year ending February 28, 2023. The consolidated balance sheet at February 28, 2022 was derived from the audited Annual Financial Statements but does not contain all of the footnote disclosures from the Annual Financial Statements.

The preparation of the consolidated financial statements requires management to make estimates and assumptions with respect to the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates and any such differences may be material to the Company’s consolidated financial statements.

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

The Company is organized and managed as three reportable operating segments: Cybersecurity, IoT (collectively, “Software & Services”), and Licensing and Other, as further discussed in Note 10.

**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.

**Accounting Standards Adopted During Fiscal 2023**

***ASU 2020-06, Debt with Conversion and Other Options***

In August 2020, the Financial Standards Accounting Board (“FASB”) issued a new accounting standard on the topic of debt with conversion and other options, accounting standards update (“ASU”) 2020-06. The amendment in this update simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments and convertible preferred stock. This update also amends the guidance for the derivatives scope exception for contracts in an entity’s own equity to reduce form-over-substance-based accounting conclusions and requires the application of the if-converted method for calculating diluted earnings per share. The update also requires entities to provide expanded disclosures about the terms and features of convertible instruments, how the instruments have been reported in the entity’s financial statements, and information about events, conditions, and circumstances that can affect how to assess the amount or timing of an entity’s future cash flows related to those instruments. The guidance is effective for interim and annual periods beginning after December 15, 2021. The Company adopted this guidance in the first quarter of fiscal 2023 and it did not have a material impact on its results of operations, financial position and disclosures as the fair value option accounting model used by the Company is not impacted by this ASU and the Company already utilizes the if-converted method in its calculation of diluted earnings per share relating to the 1.75% Debentures (as defined in Note 5).

***ASU 2021-08, Business Combinations***

In October 2021, the FASB issued a new accounting standard on the topic of business combinations, accounting for contract assets and contract liabilities from contracts with customers, ASU 2021-08. The amendment in this update improves the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency. This update requires entities to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606, Revenue from Contracts with Customers. The guidance is effective for interim and annual periods beginning after December 15, 2022 and requires entities to prospectively apply business combinations occurring on or after the effective date of the amendments. The Company early adopted this guidance in the first quarter of fiscal 2023, and will apply it prospectively to any business acquisitions subsequent to the date of adoption.

**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)

***ASU 2021-10, Government Assistance***

In November 2021, the FASB issued a new accounting standard on the topic of government assistance, ASU 2021-10. The standard requires additional disclosures for transactions with a government accounted for by applying a grant or contribution accounting model by analogy, including: (i) information about the nature of the transactions and related accounting policy used to account for the transactions; (ii) the line items on the balance sheet and income statement affected by these transactions including amounts applicable to each line; and (iii) significant terms and conditions of the transactions, including commitments and contingencies. The update also requires entities that omit any of the information because it is legally prohibited from being disclosed to include a statement to that effect. The guidance is effective for annual periods beginning after December 15, 2021. The Company adopted this guidance in the first quarter of fiscal 2023 and does not expect the adoption to have a material impact on its annual disclosures.

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

**Fair Value**

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

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

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

**Recurring Fair Value Measurements**

The Company's cash and cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities are measured at an amount that approximates their fair values (Level 2 measurement) due to their short maturities.

In determining the fair value of investments held, the Company primarily relies on an independent third-party valuator for the fair valuation of securities. The Company also reviews the inputs used in the valuation process and assesses the pricing of the securities for reasonableness after conducting its own internal collection of quoted prices from brokers. Fair values for all investment categories provided by the independent third-party valuator that are in excess of 0.5% from the fair values determined by the Company are communicated to the independent third-party valuator for consideration of reasonableness. The independent third-party valuator considers the information provided by the Company before determining whether a change in their original pricing is warranted.

The Company's investments largely consist of debt securities issued by major corporate and banking organizations, the provincial and federal governments of Canada, international government banking organizations and the United States Department of the Treasury and are all investment grade. The Company also holds certain public equity securities obtained through an initial public offering by the issuer of a previously held non-marketable equity investment.

For a description of how the fair value of the 1.75% Debentures (as defined in Note 5) was determined, see the "Convertible debentures" accounting policies in Note 1 to the Annual Financial Statements. The 1.75% Debentures are classified as Level 3.

**Non-Recurring Fair Value Measurements**

Upon the occurrence of certain events, the Company re-measures the fair value of non-marketable equity investments for which it utilizes the measurement alternative, and long-lived assets, including property, plant and equipment, operating lease ROU assets, intangible assets and goodwill if an impairment or observable price adjustment is recognized in the current period.

**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)

***Impairment of Long-Lived Assets***

During the second quarter of fiscal 2023, the Company decided to exit and seek subleases for certain leased facilities. The Company recorded a non-cash, pre-tax and after-tax impairment charge of \$4 million related to the operating lease right-of-use (“ROU”) assets for those facilities. The impairment was determined by comparing the fair value of the impacted ROU asset to the carrying value of the asset as of the impairment measurement date, as required under ASC Topic 360, Property, Plant, and Equipment, using Level 2 inputs. The fair value of the ROU asset was based on the estimated sublease income for certain facilities taking into consideration the time period it will take to obtain a sublessor, the applicable discount rate and the sublease rate. The Company conducts an evaluation of the related liabilities and expenses and revises its assumptions and estimates as appropriate as new or updated information becomes available.

***Non-Marketable Equity Investments Measured Using the Measurement Alternative***

Non-marketable equity investments measured using the measurement alternative include investments in privately held companies without readily determinable fair values in which the Company does not own a controlling interest or have significant influence. The estimation of fair value used in the fair value measurements required the use of significant unobservable inputs, and as a result, the fair value measurements were classified as Level 3.

**Cash, Cash Equivalents and Investments**

The components of cash, cash equivalents and investments by fair value level as at August 31, 2022 were as follows:

	Cost Basis <sup>(1)</sup>	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments	Restricted Cash and Cash Equivalents
Bank balances	\$ 114	\$ —	\$ —	\$ 114	\$ 112	\$ —	\$ —	\$ 2
Other investments	27	2	—	29	—	—	29	—
	141	2	—	143	112	—	29	2
<b>Level 1:</b>								
Equity securities	10	—	(10)	—	—	—	—	—
<b>Level 2:</b>								
Term deposits and certificates of deposits	35	—	—	35	10	—	—	25
Bearer deposit notes	126	—	—	126	126	—	—	—
Commercial paper	198	—	—	198	83	115	—	—
Non-U.S. promissory notes	79	—	—	79	44	35	—	—
Non-U.S. treasury bills/notes	25	—	—	25	25	—	—	—
Non-U.S. government sponsored enterprise notes	75	—	—	75	13	62	—	—
U.S. treasury bills/notes	18	—	—	18	18	—	—	—
	556	—	—	556	319	212	—	25
	\$ 707	\$ 2	\$ (10)	\$ 699	\$ 431	\$ 212	\$ 29	\$ 27

<sup>(1)</sup> Cost basis for other investments includes the effect of returns of capital and impairment.

**BlackBerry Limited**  
**Notes to the Consolidated Financial Statements**

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

The components of cash, cash equivalents and investments by fair value level as at February 28, 2022 were as follows:

	Cost Basis <sup>(1)</sup>	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments	Restricted Cash and Cash Equivalents
Bank balances	\$ 105	\$ —	\$ —	\$ 105	\$ 104	\$ —	\$ —	\$ 1
Other investments	8	—	—	8	—	—	8	—
	113	—	—	113	104	—	8	1
<b>Level 1:</b>								
Equity securities	10	—	(9)	1	—	1	—	—
<b>Level 2:</b>								
Term deposits, certificates of deposits, and GICs	157	—	—	157	65	65	—	27
Bankers' acceptances/bearer deposit notes	58	—	—	58	58	—	—	—
Commercial paper	247	—	—	247	62	185	—	—
Non-U.S. promissory notes	71	—	—	71	46	25	—	—
Non-U.S. government sponsored enterprise notes	58	—	—	58	—	58	—	—
Non-U.S. treasury bills/notes	43	—	—	43	43	—	—	—
	634	—	—	634	274	333	—	27
<b>Level 3:</b>								
Other investments	17	5	—	22	—	—	22	—
	\$ 774	\$ 5	\$ (9)	\$ 770	\$ 378	\$ 334	\$ 30	\$ 28

<sup>(1)</sup> Cost basis for other investments includes the effect of returns of capital and impairment.

As at August 31, 2022, the Company had private non-marketable equity investments without readily determinable fair value of \$29 million (February 28, 2022 - \$30 million). As of August 31, 2022, the Company has recorded a cumulative impairment of \$3 million to the carrying value of certain other non-marketable equity investments without readily determinable fair value (February 28, 2022 - \$3 million).

There were no realized gains or losses on available-for-sale securities for the three and six months ended August 31, 2022 and August 31, 2021.

The Company has restricted cash and cash equivalents, 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. The letters of credit are for terms ranging from one month to three 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.

The following table provides a reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents as at August 31, 2022 and February 28, 2022 from the consolidated balance sheets to the consolidated statements of cash flows:

	As at	
	August 31, 2022	February 28, 2022
Cash and cash equivalents	\$ 431	\$ 378
Restricted cash and cash equivalents	27	28
Total cash, cash equivalents, restricted cash, and restricted cash equivalents presented in the consolidated statements of cash flows	<u>\$ 458</u>	<u>\$ 406</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 contractual maturities of available-for-sale investments as at August 31, 2022 and February 28, 2022 were as follows:

	As at			
	August 31, 2022		February 28, 2022	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Due in one year or less	\$ 556	\$ 556	\$ 634	\$ 634
No fixed maturity	10	—	10	1
	<u>\$ 566</u>	<u>\$ 556</u>	<u>\$ 644</u>	<u>\$ 635</u>

As at August 31, 2022 and February 28, 2022, the Company had no available-for-sale debt securities with continuous unrealized losses.

**3. CONSOLIDATED BALANCE SHEET DETAILS**

**Accounts Receivable, Net of Allowance**

The allowance for credit losses as at August 31, 2022 was \$4 million (February 28, 2022 - \$4 million).

The Company recognizes current estimated credit losses (“CECL”) for accounts receivable. The CECL for accounts receivable are estimated based on days past due and region for each customer in relation to a representative pool of assets consisting of a large number of customers with similar risk characteristics that operate under similar economic environments. The Company determined the CECL by estimating historical credit loss experience based on the past due status and region of the customers, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. When specific customers are identified as no longer sharing the same risk profile as their current pool, they are removed from the pool and evaluated separately. The Company also has long-term accounts receivable included in Other Long-term Assets. The CECL for long-term accounts receivable is estimated using the probability of default method and the default exposure due to limited historical information. The exposure of default is represented by the assets’ amortized carrying amount at the reporting date.

The following table sets forth the activity in the Company’s allowance for credit losses:

	As at
	August 31, 2022
Beginning balance as of February 28, 2021	\$ 10
Prior period recovery for expected credit losses	(2)
Write-offs charged against the allowance	(4)
Ending balance of the allowance for credit loss as at February 28, 2022	4
Current period recovery for expected credit losses	—
Ending balance of the allowance for credit loss as at August 31, 2022	<u>\$ 4</u>

The allowance for credit losses as at August 31, 2022 consists of \$1 million (February 28, 2022 - \$2 million) relating to CECL estimated based on days past due and region and \$3 million (February 28, 2022 - \$2 million) relating to specific customers that were evaluated separately.

There was no customer that comprised more than 10% of accounts receivable as at August 31, 2022 (February 28, 2022 - no customer comprised more than 10%).

**Other Receivables**

As at August 31, 2022, other receivables included items such as an intellectual property licensing receivable, among other items, none of which were greater than 5% of the current assets balance.

As at February 28, 2022, other receivables included items such as receivables from the Government of Canada’s Hardest-Hit Business Recovery Program (“HHBRP”) and an intellectual property licensing receivable, among other items, none of which were greater than 5% of the current assets balance.

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**Other Current Assets**

Other current assets comprised the following:

	As at	
	August 31, 2022	February 28, 2022
Intellectual property	\$ 132	\$ 118
Other	41	41
	<u>\$ 173</u>	<u>\$ 159</u>

On January 29, 2022, the Company entered into a patent sale agreement with Catapult IP Innovations, Inc. (“Catapult”), pursuant to which the Company agreed to sell substantially all of its non-core patent assets to Catapult for a total transaction price of \$600 million. Patents that are essential to the Company’s current core business operations are excluded from the transaction. Pursuant to the patent sale agreement, the Company would receive a license back to the patents being sold, which relate primarily to mobile devices, messaging and wireless networking. Completion of the revenue transaction is subject to the satisfaction of closing conditions. Catapult continues to work on securing its required financing; however, the Company is no longer under exclusivity with Catapult and is continuing to explore alternative options in parallel. For the year ended February 28, 2022, the Company had classified \$118 million of intellectual property that would be sold under the patent sale agreement with Catapult as other current assets on the Company’s consolidated balance sheets relating to the patent sale agreement. As at August 31, 2022, the Company continues to classify \$132 million of intellectual property, which includes the initial \$118 million of intellectual property that would be sold under the patent sale agreement with Catapult with additions related to patent maintenance, as other current assets on the Company’s consolidated balance sheets.

Other current assets also included items such as the current portion of deferred commissions and prepaid expenses, among other items, none of which were greater than 5% of the current assets balance in any of the periods presented.

**Property, Plant and Equipment, Net**

Property, plant and equipment comprised the following:

	As at	
	August 31, 2022	February 28, 2022
Cost		
BlackBerry operations and other information technology	\$ 94	\$ 92
Leasehold improvements and other	18	53
Furniture and fixtures	10	10
Manufacturing, repair and research and development equipment	2	1
	<u>124</u>	<u>156</u>
Accumulated amortization	97	115
Net book value	<u>\$ 27</u>	<u>\$ 41</u>

***Sale of Property, Plant and Equipment, Net***

During the second quarter of fiscal 2023, the Company completed the sale of its corporate aircraft. As a result, the Company recorded proceeds of approximately \$17 million and incurred a gain on disposal of approximately \$6 million (cost of \$29 million, accumulated amortization of \$18 million, and a net book value of approximately \$11 million).



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**Intangible Assets, Net**

Intangible assets comprised the following:

	As at August 31, 2022		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	\$ 1,023	\$ 802	\$ 221
Other acquired intangibles	494	302	192
Intellectual property	120	60	60
	<u>\$ 1,637</u>	<u>\$ 1,164</u>	<u>\$ 473</u>
	As at February 28, 2022		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	\$ 1,023	\$ 776	\$ 247
Other acquired intangibles	494	283	211
Intellectual property	117	53	64
	<u>\$ 1,634</u>	<u>\$ 1,112</u>	<u>\$ 522</u>

For the six months ended August 31, 2022, amortization expense related to intangible assets amounted to \$50 million (six months ended August 31, 2021 - \$89 million).

Total additions to intangible assets for the six months ended August 31, 2022 amounted to \$16 million (six months ended August 31, 2021 - \$14 million). During the six months ended August 31, 2022, additions to intangible assets primarily consisted of payments for intellectual property relating to patent maintenance, registration and license fees.

Based on the carrying value of the identified intangible assets as at August 31, 2022, and assuming no subsequent impairment of the underlying assets, the annual amortization expense for the remainder of fiscal 2023 and each of the five succeeding years is expected to be as follows: fiscal 2023 - \$50 million; fiscal 2024 - \$95 million; fiscal 2025 - \$90 million; fiscal 2026 - \$86 million; fiscal 2027 - \$79 million and fiscal 2028 - \$44 million.

**Goodwill**

Changes to the carrying amount of goodwill during the six months ended August 31, 2022 were as follows:

	Carrying Amount
Carrying amount as at February 28, 2021	\$ 849
Effect of foreign exchange on non-U.S. dollar denominated goodwill	(5)
Carrying amount as at February 28, 2022	844
Effect of foreign exchange on non-U.S. dollar denominated goodwill	(7)
Carrying amount as at August 31, 2022	<u>\$ 837</u>

In the fourth quarter of fiscal 2022, the Company announced that it had agreed to the sale of a significant amount of patent assets to Catapult subject to the satisfaction of closing conditions. The completion of the sale would accelerate the timing of estimated cash flows for the Intellectual Property reporting unit and, based upon changes in the estimates to future cash flows following the contemplated sale, could potentially result in impacts that would be material to the consolidated financial statements in relation to the recoverability of the carrying value of that reporting unit.

**Other Long-term Assets**

As at August 31, 2022 and February 28, 2022, other long-term assets included long-term portion of deferred commission and long-term receivables, among other items, none of which were greater than 5% of total assets in any of the periods presented.

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**Accrued Liabilities**

Accrued liabilities comprised the following:

	As at	
	August 31, 2022	February 28, 2022
Accrued settlement (note 9)	\$ 164	\$ —
Accrued royalties	20	20
Operating lease liabilities, current	25	28
Other	91	109
	<u>\$ 300</u>	<u>\$ 157</u>

Other accrued liabilities include accrued director fees, accrued vendor liabilities, accrued carrier liabilities, variable incentive accrual and payroll withholding taxes, among other items, none of which were greater than 5% of the current liabilities balance in any of the periods presented.

**4. INCOME TAXES**

For the six months ended August 31, 2022, the Company's net effective income tax expense rate was approximately 4% compared to a net effective income tax expense rate of 2% for the six months ended August 31, 2021. The Company's income tax rate reflects the change in unrecognized income tax benefit, if any, and the fact that the Company has a significant valuation allowance against its deferred income tax assets, and in particular, the change in fair value of the 1.75% Debentures (as defined in Note 5), amongst other items, is offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

The Company's total unrecognized income tax benefits as at August 31, 2022 were \$20 million (February 28, 2022 - \$20 million). As at August 31, 2022, \$20 million of the unrecognized income tax benefits have been netted against deferred income tax assets and nil has been recorded within income taxes payable on the Company's consolidated balance sheets.

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

**5. DEBENTURES**

On September 1, 2020, Hamblin Watsa Investment Counsel Ltd., in its capacity as investment manager of Fairfax Financial Holdings Limited ("Fairfax"), and another institutional investor invested in the Company through a \$365 million private placement of new debentures (the "1.75% Debentures"), which replaced \$605 million of debentures issued in a private placement on September 7, 2016 (the "3.75% Debentures").

Due to the conversion option and other embedded derivatives within the 1.75% Debentures, the Company has elected to record the 1.75% Debentures, including the debt itself and all embedded derivatives, at fair value and present the 1.75% Debentures as a single hybrid financial instrument. No portion of the fair value of the 1.75% Debentures has been recorded as equity, nor would be if the embedded derivatives were bifurcated from the host debt contract.

Each period, the fair value of the 1.75% Debentures is recalculated and resulting gains and losses from the change in fair value of the 1.75% Debentures associated with non-credit components are recognized in income, while the change in fair value associated with credit components is recognized in accumulated other comprehensive loss ("AOCL"). The fair value of the 1.75% Debentures has been determined using the significant Level 2 inputs interest rate curves, the market price and volatility of the Company's listed common shares, and the significant Level 3 inputs related to credit spread and the implied discount of the 1.75% Debentures at issuance.

The Company originally determined its credit spread by calibrating to observable trades of the 3.75% Debentures and trending the calibrated spread to valuation dates utilizing an appropriate credit index. The Company's credit spread was determined to be 7.90% as of the issuance date of the 1.75% Debentures and 7.19% as of August 31, 2022. An increase in credit spread will result in a decrease in the fair value of 1.75% Debentures and vice versa. The fair value of the 1.75% Debentures on September 1, 2020 was determined to be approximately \$456 million and the implied discount approximately \$91 million. The Company determined the implied discount on the 1.75% Debentures by calculating the

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fair value of the 1.75% Debentures on September 1, 2020 utilizing the above credit spread and other inputs described above.

The following table summarizes the change in fair value of the 1.75% Debentures for the six months ended August 31, 2022, which also represents the total changes through earnings of items classified as Level 3 in the fair value hierarchy:

	As at August 31, 2022
Balance as at February 28, 2022	\$ 507
Change in fair value of the 1.75% Debentures	(58)
Balance as at August 31, 2022	<u>\$ 449</u>

The difference between the fair value of the 1.75% Debentures and the unpaid principal balance of \$365 million is \$84 million.

The following table shows the impact of the changes in fair value of the 1.75% Debentures for the three and six months ended August 31, 2022 and August 31, 2021:

	Three Months Ended		Six Months Ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
Income (charge) associated with the change in fair value from non-credit components recorded in the consolidated statements of operations	\$ 10	\$ (67)	\$ 56	\$ (63)
Income associated with the change in fair value from instrument-specific credit components recorded in AOCL	—	—	2	1
Total decrease (increase) in the fair value of the 1.75% Debentures	<u>\$ 10</u>	<u>\$ (67)</u>	<u>\$ 58</u>	<u>\$ (62)</u>

For the three and six months ended August 31, 2022, the Company recorded interest expense related to the 1.75% Debentures of \$2 million, and \$3 million which has been included in investment loss, net on the Company's consolidated statements of operations (three and six months ended August 31, 2021 - \$2 million and \$3 million).

Fairfax, a related party under U.S. GAAP due to its beneficial ownership of common shares in the Company after taking into account potential conversion of the 1.75% Debentures, owns \$330 million principal amount of the 1.75% Debentures. As such, the payment of interest on the 1.75% Debentures to Fairfax represents a related party transaction. Fairfax receives interest at the same rate as other holders of the 1.75% Debentures.

## 6. CAPITAL STOCK

The following details the changes in issued and outstanding common shares for the six months ended August 31, 2022:

	Capital Stock and Additional Paid-in Capital	
	Stock Outstanding (000s)	Amount
Common shares outstanding as at February 28, 2022	576,228	\$ 2,869
Exercise of stock options	57	—
Common shares issued for restricted share unit settlements	673	—
Stock-based compensation	—	15
Common shares issued for employee share purchase plan	458	3
Common shares outstanding as at August 31, 2022	<u>577,416</u>	<u>\$ 2,887</u>

The Company had 577 million voting common shares outstanding, 1 million options to purchase voting common shares, 15 million RSUs and 1 million DSUs outstanding as at September 23, 2022. In addition, 60.8 million common shares are issuable upon conversion in full of the 1.75% Debentures as described in Note 5.

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**7. LOSS PER SHARE**

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

	Three Months Ended		Six Months Ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
Net loss for basic loss per share available to common shareholders	\$ (54)	\$ (144)	\$ (235)	\$ (206)
Less: 1.75% Debentures fair value adjustment <sup>(1)(2)</sup>	(10)	—	(56)	—
Add: interest expense on 1.75% Debentures <sup>(1)(2)</sup>	2	—	3	—
Net loss for diluted loss per share available to common shareholders	<u>\$ (62)</u>	<u>\$ (144)</u>	<u>\$ (288)</u>	<u>\$ (206)</u>
Weighted average number of shares outstanding (000's) - basic <sup>(3)(4)</sup>	577,314	568,082	577,097	567,724
Effect of dilutive securities (000's)				
Conversion of 1.75% Debentures <sup>(1)(2)</sup>	60,833	—	60,833	—
Weighted average number of shares and assumed conversions (000's) diluted	<u>638,147</u>	<u>568,082</u>	<u>637,930</u>	<u>567,724</u>
Loss per share - reported				
Basic	<u>\$ (0.09)</u>	<u>\$ (0.25)</u>	<u>\$ (0.41)</u>	<u>\$ (0.36)</u>
Diluted	<u>\$ (0.10)</u>	<u>\$ (0.25)</u>	<u>\$ (0.45)</u>	<u>\$ (0.36)</u>

<sup>(1)</sup> The Company has presented the dilutive effect of the 1.75% Debentures using the if-converted method, assuming conversion at the beginning of the quarter for the three and six months ended August 31, 2022. Accordingly, to calculate diluted loss per share, the Company adjusted net loss by eliminating the fair value adjustment made to the 1.75% Debentures and interest expense incurred on the 1.75% Debentures for the three and six months ended August 31, 2022, and added the number of shares that would have been issued upon conversion to the diluted weighted average number of shares outstanding. See Note 5 for details on the 1.75% Debentures.

<sup>(2)</sup> The Company has not presented the dilutive effect of the 1.75% Debentures using the if-converted method in the calculation of diluted loss per share for the three and six months ended August 31, 2021, as to do so would be antidilutive. See Note 5 for details on the 1.75% Debentures.

<sup>(3)</sup> The three and six months ended August 31, 2021, includes approximately 1,421,945 common shares (Exchange Shares) remaining that were subsequently issued on the third anniversary date of the Cylance acquisition completed on February 21, 2019 in consideration for the acquisition.

<sup>(4)</sup> The Company has not presented the dilutive effect of in-the-money options and RSUs that will be settled upon vesting by the issuance of new common shares in the calculation of diluted loss per share for the three and six months ended August 31, 2022 and August 31, 2021, as to do so would be antidilutive.

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**8. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The changes in AOCL by component net of tax, for the three and six months ended August 31, 2022 and August 31, 2021 were as follows:

	Three Months Ended		Six Months Ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
<b>Cash Flow Hedges</b>				
Balance, beginning of period	\$ 1	\$ 2	\$ —	\$ 1
Other comprehensive loss before reclassification	(2)	(2)	(1)	—
Amounts reclassified from AOCL into net loss	—	—	—	(1)
Accumulated net unrealized gains on derivative instruments designated as cash flow hedges	\$ (1)	\$ —	\$ (1)	\$ —
<b>Foreign Currency Cumulative Translation Adjustment</b>				
Balance, beginning of period	\$ (14)	\$ (3)	\$ (10)	\$ (4)
Other comprehensive loss	(6)	(3)	(10)	(2)
Foreign currency cumulative translation adjustment	\$ (20)	\$ (6)	\$ (20)	\$ (6)
<b>Change in Fair Value From Instrument-Specific Credit Risk On 1.75% Debentures</b>				
Balance, beginning of period	\$ (6)	\$ (8)	\$ (8)	\$ (9)
Other comprehensive income before reclassification	—	—	2	1
Change in fair value from instruments-specific credit risk on 1.75% Debentures	\$ (6)	\$ (8)	\$ (6)	\$ (8)
<b>Other Post-Employment Benefit Obligations</b>				
Actuarial losses associated with other post-employment benefit obligations	\$ (1)	\$ (1)	\$ (1)	\$ (1)
<b>Accumulated Other Comprehensive Loss, End of Period</b>	<b>\$ (28)</b>	<b>\$ (15)</b>	<b>\$ (28)</b>	<b>\$ (15)</b>

**9. COMMITMENTS AND CONTINGENCIES**

**(a) Letters of Credit**

The Company had \$26 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business as of August 31, 2022. 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 and subject the Company to significant liabilities.

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

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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 probable or claims for which the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

As of August 31, 2022, with the exception of the U.S. class actions settlement discussed in "Litigation Settlement" below in this Note 9, there are no other material 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 claims that have allegedly been infringed or the products that are alleged to infringe; 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; 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.

The Company has included the following summaries of certain of its legal proceedings though they do not meet the test for accrual described above.

Between October and December 2013, several purported class action lawsuits and one individual lawsuit were filed against the Company and certain of its former officers in various jurisdictions in the U.S. and Canada alleging that the Company and certain of its officers made materially false and misleading statements regarding the Company's financial condition and business prospects and that certain of the Company's financial statements contain material misstatements. The individual lawsuit was voluntarily dismissed and the consolidated U.S. class actions reached an agreement in principle to settle; see "Litigation Settlement" below in this Note 9.

On July 23, 2014, the plaintiff in the putative Ontario class action filed a motion for class certification and for leave to pursue statutory misrepresentation claims. On November 17, 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 November 15, 2018, the Court denied the Company's motion for leave to appeal the order granting the plaintiffs leave to file a statutory claim for misrepresentation. On February 5, 2019, the Court entered an order certifying a class comprised persons (a) who purchased BlackBerry common shares between March 28, 2013, and September 20, 2013, and still held at least some of those shares as of September 20, 2013, and (b) who acquired those shares on a Canadian stock exchange or acquired those shares on any other stock exchange and were a resident of Canada when the shares were acquired. Notice of class certification was published on March 6, 2019. The Company filed its Statement of Defence on April 1, 2019. Discovery is proceeding and the Court has not set a trial date.

On March 17, 2017, a putative employment class action was filed against the Company in the Ontario Superior Court of Justice. The Statement of Claim alleges that actions the Company took when certain of its employees decided to accept offers of employment from Ford Motor Company of Canada amounted to a wrongful termination of the employees' employment with the Company. The claim seeks (i) an unspecified quantum of statutory, contractual, or common law termination entitlements; (ii) punitive or breach of duty of good faith damages of CAD\$20 million, or such other amount as the Court finds appropriate, (iii) pre- and post-judgment interest, (iv) attorneys' fees and costs, and (v) such other relief as the Court deems just. The Court granted the plaintiffs' motion to certify the class action on May 27, 2019. The Company commenced a motion for leave to appeal the certification order on June 11, 2019. The Court denied the motion for leave to appeal on September 17, 2019. The Company filed its Statement of Defence on December 19, 2019. Discovery is proceeding and the Court has not set a trial date.

***Other contingencies***

In the first quarter of fiscal 2019, the Board approved a compensation package for the Company's Executive Chair and CEO as an incentive to remain as Executive Chair until November 23, 2023. As part of the package, the Company's Executive Chair and CEO is entitled to receive a contingent performance-based cash award in the amount of \$90 million that will become earned and payable should the 10-day average closing price of the Company's common shares on the New York Stock Exchange reach \$30 before November 3, 2023. As the award is triggered by the Company's share price, it is considered stock-based compensation and accounted for as a share-based liability award. As at August 31, 2022, the liability recorded in association with this award is approximately \$1 million (February 28, 2022 - \$2 million).

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As at August 31, 2022, the Company has recognized \$17 million (February 28, 2022 - \$17 million) in funds from claims filed with the Ministry of Innovation, Science and Economic Development Canada relating to its Strategic Innovation Fund program's investment in BlackBerry QNX. A portion of this amount may be repayable in the future under certain circumstances if certain terms and conditions are not met by the Company, which is not probable at this time.

**(c) Litigation Settlement**

On March 14, 2014, the four putative U.S. class actions were consolidated in the U.S. District Court for the Southern District of New York, and on May 27, 2014, a consolidated amended class action complaint was filed. On March 13, 2015, the Court issued an order granting the Company's motion to dismiss. The Court denied the plaintiffs' motion for reconsideration and for leave to file an amended complaint on November 13, 2015. On August 24, 2016, the U.S. Court of Appeals for the Second Circuit affirmed the District Court order dismissing the complaint, but vacated the order denying leave to amend and remanded to the District Court for further proceedings in connection with the plaintiffs' request for leave to amend. The Court granted the plaintiffs' motion for leave to amend on September 13, 2017. On September 29, 2017, the plaintiffs filed a second consolidated amended class action complaint (the "Second Amended Complaint"), which added the Company's former Chief Legal Officer as a defendant. The Court denied the motion to dismiss the Second Amended Complaint on March 19, 2018. On August 2, 2019, the Magistrate Judge issued a Report and Recommendation that the Court grant the defendants' motion for judgment on the pleadings dismissing the claims of additional plaintiffs Cho and Ulug. On September 24, 2019, the District Court Judge accepted the Magistrate Judge's recommendation and dismissed the claims of Cho and Ulug against all defendants. On January 26, 2021, the District Court granted the plaintiffs' motion for class certification. The class includes "all persons who purchased or otherwise acquired the common stock of BlackBerry Limited on the NASDAQ during the period from March 28, 2013, through and including September 20, 2013". The class excludes (a) all persons and entities who purchased or otherwise acquired the Company's common stock between March 28, 2013, and April 10, 2013, and who sold all their Company common stock before April 11, 2013, and (b) the defendants, officers and directors of the Company, members of their immediate families and their legal representatives, heirs, successors, or assigns, and any entity in which any of the Defendants have or had a controlling interest. The Second Circuit Court of Appeals denied the defendants' petition for review of the class certification order on June 23, 2021. The Second Circuit Court of Appeals affirmed the District Court judgment dismissing Cho and Ulug's claims on March 11, 2021, and denied Cho and Ulug's petition for panel rehearing and rehearing en banc on April 28, 2021. On May 5, 2021, the parties participated in a mediation with the Hon. Layn Phillips (ret.), which did not result in an agreement. On September 10, 2021, the Court granted the plaintiffs' unopposed motion for approval of the class notice plan. Postcard notice was mailed on October 8, 2021; publication notice was issued starting on October 18, 2021. On January 3, 2022, the Court denied defendants' motion for summary judgment except with respect to seven statements the Court found were barred by the statute of repose. On April 6, 2022, the parties accepted a mediator's settlement proposal, and reached an agreement in principle to settle the U.S. consolidated actions for \$165 million. The Stipulation of Settlement was executed effective June 7, 2022. On June 14, 2022, the Court granted plaintiffs' motion for preliminary approval of the settlement and scheduled the final approval hearing for September 29, 2022. In the first quarter of fiscal 2023, the Company accrued \$165 million associated with this settlement within the line *Litigation settlement* on the consolidated statement of operations. On June 29, 2022, the Company paid \$1 million of the settlement amount. The remaining \$164 million was paid on September 6, 2022.

**(d) Indemnifications**

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

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

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**Notes to the Consolidated Financial Statements**

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

**10. REVENUE AND SEGMENT DISCLOSURES**

The Company reports segment information based on the “management” approach. The management approach designates the internal reporting used by the Chief Operating Decision Maker (“CODM”) for making decisions and assessing performance as a source of the Company’s reportable operating segments. The CODM, who is the Executive Chair and CEO of the Company, makes decisions and assesses the performance of the Company using three operating segments.

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.

**Segment Disclosures**

The Company is organized and managed as three operating segments: Cybersecurity, IoT, and Licensing and Other.

The following table shows information by operating segment for the three and six months ended August 31, 2022 and August 31, 2021:

	For the Three Months Ended							
	Cybersecurity		IoT		Licensing and Other		Segment Totals	
	August 31,		August 31,		August 31,		August 31,	
	2022	2021	2022	2021	2022	2021	2022	2021
Segment revenue	\$ 111	\$ 120	\$ 51	\$ 40	\$ 6	\$ 15	\$ 168	\$ 175
Segment cost of sales	50	49	9	7	2	6	61	62
Segment gross margin <sup>(1)</sup>	<u>\$ 61</u>	<u>\$ 71</u>	<u>\$ 42</u>	<u>\$ 33</u>	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$ 107</u>	<u>\$ 113</u>

  

	For the Six Months Ended							
	Cybersecurity		IoT		Licensing and Other		Segment Totals	
	August 31,		August 31,		August 31,		August 31,	
	2022	2021	2022	2021	2022	2021	2022	2021
Segment revenue	\$ 224	\$ 227	\$ 102	\$ 83	\$ 10	\$ 39	\$ 336	\$ 349
Segment cost of sales	103	95	17	14	4	12	124	121
Segment gross margin <sup>(1)</sup>	<u>\$ 121</u>	<u>\$ 132</u>	<u>\$ 85</u>	<u>\$ 69</u>	<u>\$ 6</u>	<u>\$ 27</u>	<u>\$ 212</u>	<u>\$ 228</u>

<sup>(1)</sup> A reconciliation of total segment gross margin to consolidated totals is set forth below.

*Cybersecurity* consists of the Company’s BlackBerry Spark® software platform, BlackBerry® AtHoc®, BlackBerry® Alert and BlackBerry® SecuSUITE®. The BlackBerry Spark platform is a comprehensive offering of security software products and services, including the BlackBerry® Cyber Suite and the BlackBerry Spark® Unified Endpoint Management Suite, which are also marketed together as the BlackBerry Spark® Suite, offering the Company’s broadest range of tailored cybersecurity and endpoint management options. The BlackBerry Spark UES Suite includes revenue from the Company’s Cylance® artificial intelligence and machine learning-based platform consisting of CylancePROTECT®, CylanceOPTICS®, CylancePERSONA™, CylanceGATEWAY™, CylanceGUARD® managed services, CylancePROTECT Mobile™ and other cybersecurity applications. The BlackBerry Spark UEM Suite includes the Company’s BlackBerry® UEM, BlackBerry® Dynamics™, and BlackBerry® Workspaces solutions. Cybersecurity revenue is generated predominantly through software licenses, commonly bundled with support, maintenance and professional services.

*IoT* consists of BlackBerry® QNX®, BlackBerry® Certicom®, BlackBerry Radar®, BlackBerry IVY™ and other IoT applications. IoT revenue is generated predominantly through software licenses, commonly bundled with support, maintenance and professional services.

*Licensing and Other* consists of the Company’s intellectual property arrangements and settlement awards. Other consists of the Company’s legacy service access fees (“SAF”) business, which ceased operations on January 4, 2022.



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The following table reconciles total segment gross margin for the three and six months ended August 31, 2022 and August 31, 2021 to the Company's consolidated totals:

	Three Months Ended		Six Months Ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
<b>Total segment gross margin</b>	\$ 107	\$ 113	212	\$ 228
<b>Adjustments <sup>(1)</sup>:</b>				
Less: Stock compensation	1	1	2	2
<b>Less:</b>				
Research & development	54	58	107	115
Selling, marketing and administration	86	83	168	156
Amortization	25	45	52	91
Impairment of long-lived assets	4	—	4	—
Gain on sale of property, plant and equipment, net	(6)	—	(6)	—
Debentures fair value adjustment	(10)	67	(56)	63
Litigation settlement	—	—	165	—
Investment loss, net	2	1	3	3
<b>Consolidated loss before income taxes</b>	<u>\$ (49)</u>	<u>\$ (142)</u>	<u>\$ (227)</u>	<u>\$ (202)</u>

<sup>(1)</sup> The CODM reviews segment information on an adjusted basis, which excludes certain amounts as described below:

*Stock compensation expenses* - Equity compensation is a non-cash expense and does not impact the ongoing operating decisions taken by the Company's management.

**Revenue**

The Company disaggregates revenue from contracts with customers based on geographical regions, timing of revenue recognition, and the major product and service types, as discussed above in "Segment Disclosures".

The Company's revenue, classified by major geographic region in which the Company's customers are located, was as follows:

	Three Months Ended		Six Months Ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
North America <sup>(1)</sup>	\$ 85	\$ 101	\$ 174	\$ 212
Europe, Middle East and Africa	61	57	121	102
Other regions	22	17	41	35
<b>Total</b>	<u>\$ 168</u>	<u>\$ 175</u>	<u>\$ 336</u>	<u>\$ 349</u>
North America <sup>(1)</sup>	50.6 %	57.7 %	51.8 %	60.8 %
Europe, Middle East and Africa	36.3 %	32.6 %	36.0 %	29.2 %
Other regions	13.1 %	9.7 %	12.2 %	10.0 %
<b>Total</b>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

<sup>(1)</sup> North America includes all revenue from the Company's intellectual property arrangements, due to the global applicability of the patent portfolio and licensing arrangements thereof.

**BlackBerry Limited**  
**Notes to the Consolidated Financial Statements**

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

	Three Months Ended		Six Months Ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
Products and services transferred over time	\$ 95	\$ 107	\$ 193	\$ 213
Products and services transferred at a point in time	73	68	143	136
<b>Total</b>	<b>\$ 168</b>	<b>\$ 175</b>	<b>\$ 336</b>	<b>\$ 349</b>

***Revenue contract balances***

The following table sets forth the activity in the Company's revenue contract balances for the six months ended August 31, 2022:

	Accounts Receivable	Deferred Revenue	Deferred Commissions
Opening balance as at February 28, 2022	\$ 138	\$ 244	\$ 16
Increases due to invoicing of new or existing contracts, associated contract acquisition costs, or other	326	283	11
Decrease due to payment, fulfillment of performance obligations, or other	(364)	(318)	(11)
Decrease, net	(38)	(35)	—
<b>Closing balance as at August 31, 2022</b>	<b>\$ 100</b>	<b>\$ 209</b>	<b>\$ 16</b>

***Transaction price allocated to the remaining performance obligations***

The table below discloses the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied as at August 31, 2022 and the time frame in which the Company expects to recognize this revenue. The disclosure includes estimates of variable consideration, except when the variable consideration is a sales-based or usage-based royalty promised in exchange for a license of intellectual property.

	As at August 31, 2022			
	Less than 12 Months	12 to 24 Months	Thereafter	Total
Remaining performance obligations	\$ 176	\$ 24	\$ 9	\$ 209

***Revenue recognized for performance obligations satisfied in prior periods***

For the three and six months ended August 31, 2022, \$1 million of revenue was recognized for performance obligations satisfied in a prior period (three and six months ended August 31, 2021 - no revenue was recognized relating to performance obligations satisfied in a prior period).

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

	As at			
	August 31, 2022		February 28, 2022	
	Property, Plant and Equipment, Intangible Assets, Operating Lease ROU Assets and Goodwill	Total Assets	Property, Plant and Equipment, Intangible Assets, Operating Lease ROU Assets and Goodwill	Total Assets
Canada	\$ 97	\$ 384	\$ 117	\$ 447
United States	1,253	1,898	1,313	1,989
Other	27	99	27	131
<b>Total</b>	<b>\$ 1,377</b>	<b>\$ 2,381</b>	<b>\$ 1,457</b>	<b>\$ 2,567</b>

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**Information About Major Customers**

There was one customer that comprised 16% and 15% of the Company’s revenue in the three and six months ended August 31, 2022, respectively (three and six months ended August 31, 2021 - one customer that comprised 12% and no customer that comprised more than 10% of the Company’s revenue, respectively).

**11. CASH FLOW AND ADDITIONAL INFORMATION**

- (a) Certain consolidated statements of cash flow information related to interest and income taxes paid is summarized as follows:

	Three Months Ended		Six Months Ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
Interest paid during the period	\$ 2	\$ 2	\$ 3	\$ 3
Income taxes paid during the period	1	3	1	4
Income tax refunds received during the period	—	3	—	5

- (b) **Additional Information**

***Foreign exchange***

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the U.S. dollar. The majority of the Company’s revenue in the second quarter of fiscal 2023 was transacted in U.S. dollars. Portions of the revenue were denominated in Canadian dollars, euros and British pounds. Other expenses, consisting mainly of salaries and certain other operating costs, were incurred primarily in Canadian dollars, but were also incurred in U.S. dollars, euros and British pounds. At August 31, 2022, approximately 11% of cash and cash equivalents, 19% of accounts receivable and 43% of accounts payable were denominated in foreign currencies (February 28, 2022 – 37%, 23% and 30%, respectively). These foreign currencies primarily include the Canadian dollar, euro and British pound. As part of its risk management strategy, the Company maintains net monetary asset and/or liability balances in foreign currencies and engages in foreign currency hedging activities using derivative financial instruments, including currency forward contracts and currency options. The Company does not use derivative instruments for speculative purposes.

***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 1.75% Debentures with a fixed interest rate, as described in Note 5. The fair value of the 1.75% Debentures will fluctuate with changes in prevailing interest rates. Consequently, the Company is exposed to interest rate risk as a result of the 1.75% Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio or changes in the market value of the 1.75% Debentures.

***Credit risk***

The Company is exposed to market and credit risk on its investment portfolio. The Company reduces this risk by investing in liquid, investment-grade securities and by limiting exposure to any one entity or group of related entities. As at August 31, 2022, no single issuer represented more than 22% of the total cash, cash equivalents and investments (February 28, 2022 - no single issuer represented more than 10% of the total cash, cash equivalents and investments), with the largest such issuer representing cash balances and bearer deposits with one of the Company’s banking counterparties.

***Liquidity risk***

Cash, cash equivalents, and investments were approximately \$699 million as at August 31, 2022. The Company’s management remains focused on efficiently managing working capital balances and managing the liquidity needs of the business. Based on its current financial projections, the Company believes its financial resources, together with expected future operating cash generating and operating expense reduction activities and access to other potential financing arrangements, should be sufficient to meet funding requirements for current financial commitments and future operating expenditures not yet committed, and should provide the necessary financial capacity for the foreseeable future.

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***Government subsidies***

During fiscal 2021, the Government of Canada announced the Canada Emergency Wage Subsidy (“CEWS”) and the Canada Emergency Rent Subsidy (“CERS”) for Canadian employers whose businesses were affected by the COVID-19 pandemic. The CEWS program initially ran for a thirty-six week period between March and November 2020 and the CERS program for a period between September 2020 and July 2021. The programs were subsequently extended to October 2021. The CEWS program provided a subsidy of up to 75% of eligible employees’ employment insurable remuneration, subject to certain criteria. The extension also included a gradual decrease to the subsidy rate. CEWS received after June 5, 2021 may be repayable in the future under certain circumstances if certain terms and conditions are not met by the Company, which is not probable at this time. The CERS program provided a subsidy of up to 65% of eligible fixed property expenses. The base subsidy was determined based on the percentage revenue decline experienced by businesses affected by the COVID-19 pandemic. The CERS program gradually reduced the amount and availability of subsidies in the months leading up to the program’s final claim period.

During the third quarter of fiscal 2022, the Government of Canada announced the HHBRP to continue supporting businesses affected by the COVID-19 pandemic. The HHBRP provides a subsidy of up to 50% of eligible employees’ employment insurable remuneration, subject to certain criteria, and rent and ran until May 7, 2022.

The Company applied for the CEWS, CERS and HHBRP to the extent it met the requirements to receive the subsidy and during the three and six months ended August 31, 2022, recorded nil and \$4 million, respectively, in government subsidies as a reduction to operating expenses in the consolidated statement of operations (August 31, 2021 - \$11 million and \$27 million, respectively). As at August 31, 2022, the Company has recorded nil in accrued government subsidies within other receivables on the consolidated balance sheet (February 28, 2022 - \$8 million).

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

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) should be read together with the unaudited interim consolidated financial statements and the accompanying notes (the “Consolidated Financial Statements”) of BlackBerry Limited for the three and six months ended August 31, 2022, included in Part I, Item 1 of this Quarterly Report on Form 10-Q, as well as the Company’s audited consolidated financial statements and accompanying notes and MD&A for the fiscal year ended February 28, 2022 (the “Annual MD&A”). The Consolidated Financial Statements are presented in U.S. dollars and have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”). All financial information in this MD&A is presented in U.S. dollars, unless otherwise indicated.

Additional information about the Company, which is included in the Company’s Annual Report on Form 10-K for the fiscal year ended February 28, 2022 (the “Annual Report”), can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the SEC’s website at [www.sec.gov](http://www.sec.gov).

### Cautionary Note Regarding Forward-Looking Statements

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

- the Company’s plans, strategies and objectives, including its intentions to increase and enhance its product and service offerings, to patent new innovations, and to increase staffing in its Cybersecurity and IoT businesses;
- the Company’s expectations with respect to the impact of the COVID-19 pandemic and global semiconductor shortage on its results of operations and financial condition;
- the Company’s expectations with respect to its revenue and billings in fiscal 2023, the annual recurring revenue of its Cybersecurity business in fiscal 2024, installations of the BlackBerry IVY™ platform and the sale of substantially all of its non-core patent assets;
- the Company’s estimates of purchase obligations and other contractual commitments; and
- the Company’s expectations with respect to the sufficiency of its financial resources.

The words “expect”, “anticipate”, “estimate”, “may”, “will”, “should”, “could”, “intend”, “believe”, “target”, “plan” and similar expressions are intended to identify forward-looking statements in this MD&A, including in the sections entitled “Business Overview - Strategy”, “Business Overview - Products and Services”, “Business Overview - COVID-19 and Macroeconomic Factors”, “Non-GAAP Financial Measures - Key Metrics”, “Results of Operations - Three months ended August 31, 2022 compared to the three months ended August 31, 2021 - Revenue - Revenue by Segment” and “Financial Condition - Contractual and Other Obligations”. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances, including but not limited to, the Company’s expectations regarding its business, strategy, opportunities and prospects, the launch of new products and services, general economic conditions, the ongoing COVID-19 pandemic, competition, and the Company’s expectations regarding its financial performance. Many factors could cause the Company’s actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the risk factors discussed in Part I, Item 1A “Risk Factors” in the Annual Report.

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

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

## **Business Overview**

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

### ***Strategy***

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

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

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

### ***Products and Services***

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

#### ***Cybersecurity***

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

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

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

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

offering a “single pane of glass”, or unified console view, for managing and securing devices, applications, identity, content and endpoints across all leading operating systems. BlackBerry Dynamics offers a best-in-class development platform and secure container for mobile applications, including the Company’s own enterprise applications such as BlackBerry® Work and BlackBerry® Connect for secure collaboration.

BlackBerry AtHoc and BlackBerry Alert are secure, networked critical event management solutions that enable people, devices and organizations to exchange critical information in real time during business continuity and life safety operations. The platforms securely connect with a diverse set of endpoints to distribute emergency mass notifications, improve personnel accountability and facilitate the bidirectional collection and sharing of data within and between organizations. BlackBerry AtHoc serves the requirements of the public sector market while BlackBerry Alert targets the commercial sector.

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

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

### *IoT*

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

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

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

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

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

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

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

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

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

#### *Licensing and Other*

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

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

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

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

#### **Recent Developments**

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

##### *Products and Innovation:*

- Strengthened QNX® Advanced Virtualization Framework for Android Automotive OS to simplify and accelerate building IVI systems on the QNX® Hypervisor;
- Released QNX® Hypervisor 2.2 for Safety, the latest edition of the Company's safety-certified, real-time embedded hypervisor product, certified to the highest level of functional safety for both automotive and medical device software;
- Achieved conformance for the QNX® Software Development Platform 7.1 with the "Future Airborne Capability Environment" (FACE) technical standard, extending BlackBerry QNX's support for the aerospace and defense market;
- Achieved the certification of QNX® OS for Safety 2.2 to the highest integrity level of the functional safety standard for the railway industry;
- Received the Frost & Sullivan 2022 Enabling Technology Leadership Award for BlackBerry IVY;
- Launched CylanceGATEWAY, BlackBerry's Zero Trust Network Access (ZTNA) service offering;
- Named as a 'Leader' for a third consecutive year in the IDC MarketScape: Worldwide UEM Software 2022 Vendor Assessment;
- Together with Google, launched Chrome Enterprise Management with BlackBerry UEM to support devices running Google Chrome OS and Chrome browser; and
- Enhanced the BlackBerry Managed Security Service Provider (MSSP) channel program, including an expansion of the range of products available, increased partner support and more comprehensive training.

##### *Customers and Partners:*

- Selected by Volkswagen Group's software company, Cariad, for its VW.OS, part of a unified software platform to be deployed across all Volkswagen Group brands;
- Announced that BlackBerry QNX software is embedded in over 215 million vehicles;
- Selected by PATEO, a leading Chinese Tier 1, for its intelligent cockpit, PATEO CONNECT+, to be mass produced in more than ten individual models across five automakers;
- Selected by NETA Auto (Hozon's EV brand) for the digital cockpit and ADAS sockets in the NETA S, a next generation EV Sedan aimed at the Chinese market;
- Selected by BDStar Intelligent & Connected Vehicle Technology Co., Ltd. (BICV) to power an intelligent digital cockpit, featuring augmented reality, artificial intelligence, and hologram functions for the new Renault Jiangling all-electric sedan;
- Jointly developed a digital LCD instrument cluster with BiTECH for Changan's next-generation high-end UNI-V Coupe;



- Entered into a multi-year agreement with Magna International Inc. to collaborate on next-generation Advanced Driver Assistance System (ADAS) solutions for global automakers;
- Launched the Software-Defined Vehicle Innovator Awards with MotorTrend;
- Joined with L-SPARK to announce four smart mobility start-ups for the BlackBerry IVY connected car accelerator program;
- Collaborated with LeapXpert to enable the BlackBerry Dynamics platform to provide secure communications through leading messaging applications such as iMessage, WhatsApp and SMS;
- Partnered with Midis Group to expand go-to-market activities in Eastern Europe, the Middle East, and Africa;
- Announced the availability of BlackBerry Radar on AWS Marketplace; and
- Joined forces with NXP to help companies prepare for, and prevent, Y2Q post-quantum cyberattacks.

*Environmental, Sustainability and Corporate Governance:*

- Appointed Phil Kurtz as Chief Legal Officer and Corporate Secretary; and
- Released the Company's 2022 Environmental, Social, and Governance (ESG) report.

***Pearlstein Settlement***

On April 7, 2022, the Company announced that it had reached an agreement in principle to settle the consolidated securities class action lawsuit captioned *Pearlstein v. Blackberry Limited, et al.*, Case No. 13 Civ. 7060 (CM) (KHP) pending against the Company and certain of its former officers in the U.S. District Court for the Southern District of New York. A formal settlement agreement was signed on June 9, 2022, and contemplated an aggregate cash payment by the Company of \$165 million to settle the claims brought on behalf of all persons who purchased or otherwise acquired BlackBerry shares on the NASDAQ between March 28, 2013 and September 20, 2013. The Stipulation of Settlement was executed effective June 7, 2022. On June 14, 2022, the Court granted plaintiffs' motion for preliminary approval of the settlement and scheduled the final approval hearing for September 29, 2022. While the Company believes that the allegations in the case were without merit, it also believes that eliminating the distraction, expense and risk of continued litigation is in the best interests of the Company and its shareholders. In the first quarter of fiscal 2023, the Company accrued \$165 million associated with this settlement within the line *Litigation settlement* on the consolidated statement of operations. On June 29, 2022, the Company paid \$1 million of the settlement amount. The remaining \$164 million was paid on September 6, 2022.

***COVID-19 and Macroeconomic Factors***

In response to the COVID-19 pandemic, the Company continues to focus on protecting the health and safety of its employees, customers and partners, while also providing technology to help them do their best wherever they operate. During the second quarter of fiscal 2023, the Company shifted from a remote working model to a hybrid model for most of its global offices with employees returning to work in person on a part-time basis, subject to local rules and regulations.

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

Economic weakness or inflation resulting directly or indirectly from the COVID-19 pandemic and the invasion of Ukraine, as well as higher interest rates implemented in response to inflation, may negatively impact consumer demand for automobiles and may contribute to reduced spending and longer sales cycles for cybersecurity solutions, which in turn may adversely affect the Company's business. The Company does not believe that inflation had a material effect on its business, results of operations and financial condition in the first six months of fiscal 2023.

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

## Second Quarter Fiscal 2023 Summary Results of Operations

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

	For the Three Months Ended (in millions, except for share and per share amounts)		
	August 31, 2022	August 31, 2021	Change
Revenue	\$ 168	\$ 175	\$ (7)
Gross margin	106	112	(6)
Operating expenses	153	253	(100)
Investment loss, net	(2)	(1)	(1)
Loss before income taxes	(49)	(142)	93
Provision for income taxes	5	2	3
Net loss	<u>\$ (54)</u>	<u>\$ (144)</u>	<u>\$ 90</u>
Loss per share - reported			
Basic	<u>\$ (0.09)</u>	<u>\$ (0.25)</u>	
Diluted	<u>\$ (0.10)</u>	<u>\$ (0.25)</u>	
Weighted-average number of shares outstanding (000's)			
Basic <sup>(1)</sup>	577,314	568,082	
Diluted <sup>(2)</sup>	638,147	568,082	

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

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

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

	For the Three Months Ended (in millions)									Segment Totals		
	Cybersecurity			IoT			Licensing and Other					
	August 31, 2022	August 31, 2021	Change	August 31, 2022	August 31, 2021	Change	August 31, 2022	August 31, 2021	Change	August 31, 2022	August 31, 2021	Change
Segment revenue	\$ 111	\$ 120	\$ (9)	\$ 51	\$ 40	\$ 11	\$ 6	\$ 15	\$ (9)	\$ 168	\$ 175	\$ (7)
Segment cost of sales	50	49	1	9	7	2	2	6	(4)	61	62	(1)
Segment gross margin	<u>\$ 61</u>	<u>\$ 71</u>	<u>\$ (10)</u>	<u>\$ 42</u>	<u>\$ 33</u>	<u>\$ 9</u>	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$ (5)</u>	<u>\$ 107</u>	<u>\$ 113</u>	<u>\$ (6)</u>

	For the Six Months Ended (in millions)									Segment Totals		
	Cybersecurity			IoT			Licensing and Other					
	August 31, 2022	August 31, 2021	Change	August 31, 2022	August 31, 2021	Change	August 31, 2022	August 31, 2021	Change	August 31, 2022	August 31, 2021	Change
Segment revenue	\$ 224	\$ 227	\$ (3)	\$ 102	\$ 83	\$ 19	\$ 10	\$ 39	\$(29)	\$ 336	\$ 349	\$(13)
Segment cost of sales	103	95	8	17	14	3	4	12	(8)	124	121	3
Segment gross margin	<u>\$ 121</u>	<u>\$ 132</u>	<u>\$(11)</u>	<u>\$ 85</u>	<u>\$ 69</u>	<u>\$ 16</u>	<u>\$ 6</u>	<u>\$ 27</u>	<u>\$(21)</u>	<u>\$ 212</u>	<u>\$ 228</u>	<u>\$(16)</u>

The following table reconciles the Company's segment results for the three and six months ended August 31, 2022 to consolidated U.S. GAAP results:

For the Three Months Ended August 31, 2022

(in millions)

	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 111	\$ 51	\$ 6	\$ 168	\$ —	\$ 168
Cost of sales	50	9	2	61	1	62
Gross margin <sup>(1)</sup>	\$ 61	\$ 42	\$ 4	\$ 107	\$ (1)	\$ 106
Operating expenses					153	153
Investment loss, net					2	2
Loss before income taxes						\$ (49)

For the Six Months Ended August 31, 2022

(in millions)

	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 224	\$ 102	\$ 10	\$ 336	\$ —	\$ 336
Cost of sales	103	17	4	124	2	126
Gross margin <sup>(1)</sup>	\$ 121	\$ 85	\$ 6	\$ 212	\$ (2)	\$ 210
Operating expenses					434	434
Investment loss, net					3	3
Loss before income taxes						\$ (227)

<sup>(1)</sup> See "Non-GAAP Financial Measures" for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three and six months ended August 31, 2022.

The following table reconciles the Company's segment results for the three and six months ended August 31, 2021 to consolidated U.S. GAAP results:

For the Three Months Ended August 31, 2021

(in millions)

	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 120	\$ 40	\$ 15	\$ 175	\$ —	\$ 175
Cost of sales	49	7	6	62	1	63
Gross margin <sup>(1)</sup>	\$ 71	\$ 33	\$ 9	\$ 113	\$ (1)	\$ 112
Operating expenses					253	253
Investment loss, net					1	1
Loss before income taxes						\$ (142)

For the Six Months Ended August 31, 2021  
(in millions)

	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 227	\$ 83	\$ 39	\$ 349	\$ —	\$ 349
Cost of sales	95	14	12	121	2	123
Gross margin <sup>(1)</sup>	\$ 132	\$ 69	\$ 27	\$ 228	\$ (2)	\$ 226
Operating expenses					425	425
Investment loss, net					3	3
Loss before income taxes						\$ (202)

<sup>(1)</sup> See “Non-GAAP Financial Measures” for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three and six months ended August 31, 2021.

### **Financial Highlights**

The Company had approximately \$699 million in cash, cash equivalents and investments as of August 31, 2022 (February 28, 2022 - \$770 million).

In the second quarter of fiscal 2023, the Company recognized revenue of \$168 million and a net loss of \$54 million, or \$0.09 basic loss per share and \$0.10 diluted loss per share on a U.S. GAAP basis (second quarter of fiscal 2022 - revenue of \$175 million and net loss of \$144 million, or \$0.25 basic and diluted loss per share).

The Company recognized an adjusted net loss of \$29 million, and an adjusted loss of \$0.05 per share, on a non-GAAP basis in the second quarter of fiscal 2023 (second quarter of fiscal 2022 - adjusted net loss of \$33 million, and adjusted loss of \$0.06 per share). See “Non-GAAP Financial Measures” below.

#### *Debentures Fair Value Adjustment*

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

As at August 31, 2022, the fair value of the 1.75% Debentures was approximately \$449 million, a decrease of approximately \$10 million during the second quarter of fiscal 2023. For the three months ended August 31, 2022, the Company recorded non-cash income relating to changes in fair value from non-credit components of \$10 million (pre-tax and after tax) (the “Q2 Fiscal 2023 Debentures Fair Value Adjustment”) in the Company’s consolidated statements of operations and a non-cash charge relating to changes in fair value from instrument specific credit risk of nil in Other Comprehensive Loss (“OCL”) relating to the 1.75% Debentures. For the six months ended August 31, 2022, the Company recorded non-cash income relating to changes in fair value from non-credit components of \$56 million (pre-tax and after tax) (the “Fiscal 2023 Debentures Fair Value Adjustment”) in the Company’s consolidated statements of operations and non-cash income relating to changes in fair value from instrument specific credit risk of \$2 million in OCL relating to the 1.75% Debentures. See Note 5 to the Consolidated Financial Statements for further details on the 1.75% Debentures.

### **Non-GAAP Financial Measures**

The Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, and information contained in this MD&A is presented on that basis. On September 27, 2022, the Company announced financial results for the three and six months ended August 31, 2022, which included certain non-GAAP financial measures and non-GAAP ratios, including adjusted gross margin, adjusted gross margin percentage, adjusted operating expense, adjusted net loss, adjusted loss per share, adjusted research and development expense, adjusted selling, marketing and administrative expense, adjusted amortization expense, adjusted operating loss, adjusted EBITDA, adjusted operating loss margin percentage, adjusted EBITDA margin percentage and free cash flow (usage).

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

understand the Company's operating results and underlying operational trends. Non-GAAP financial measures and non-GAAP ratios exclude certain amounts as described below:

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

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

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

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

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

For the Three Months Ended (in millions)	August 31, 2022	August 31, 2021
<b>Gross margin</b>	\$ 106	\$ 112
Stock compensation expense	1	1
<b>Adjusted gross margin</b>	\$ 107	\$ 113
<b>Gross margin %</b>	63.1 %	64.0 %
Stock compensation expense	0.6 %	0.6 %
<b>Adjusted gross margin %</b>	63.7 %	64.6 %

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

For the Three Months Ended (in millions)	August 31, 2022	May 31, 2022	August 31, 2021
<b>Operating expense</b>	\$ 153	\$ 281	\$ 253
Restructuring charges	3	1	—
Stock compensation expense	5	6	11
Debentures fair value adjustment <sup>(1)</sup>	(10)	(46)	67
Acquired intangibles amortization	22	23	32
LLA impairment charge	4	—	—
Litigation settlement	—	165	—
<b>Adjusted operating expense</b>	\$ 129	\$ 132	\$ 143

<sup>(1)</sup> See “Second Quarter Fiscal 2023 Summary Results of Operations - Financial Highlights - Debentures Fair Value Adjustment”

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

For the Three Months Ended (in millions, except per share amounts)	August 31, 2022		August 31, 2021	
		Basic loss per share		Basic loss per share
<b>Net loss</b>	\$ (54)	\$(0.09)	\$ (144)	\$(0.25)
Restructuring charges	3		—	
Stock compensation expense	6		12	
Debentures fair value adjustment	(10)		67	
Acquired intangibles amortization	22		32	
LLA impairment charge	4		—	
<b>Adjusted net loss</b>	\$ (29)	\$(0.05)	\$ (33)	\$(0.06)

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

For the Three Months Ended (in millions)	August 31, 2022	August 31, 2021
<b>Research and development</b>	\$ 54	\$ 58
Stock compensation expense	2	2
<b>Adjusted research and development</b>	\$ 52	\$ 56
<b>Selling, marketing and administration</b>	\$ 86	\$ 83
Restructuring charges	3	—
Stock compensation expense	3	9
<b>Adjusted selling, marketing and administration</b>	\$ 80	\$ 74
<b>Amortization</b>	\$ 25	\$ 45
Acquired intangibles amortization	22	32
<b>Adjusted amortization</b>	\$ 3	\$ 13

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

For the Three Months Ended (in millions)	August 31, 2022	August 31, 2021
<b>Operating loss</b>	\$ (47)	\$ (141)
Non-GAAP adjustments to operating loss		
Restructuring charges	3	—
Stock compensation expense	6	12
Debentures fair value adjustment	(10)	67
Acquired intangibles amortization	22	32
LLA impairment charge	4	—
Total non-GAAP adjustments to operating loss	25	111
<b>Adjusted operating loss</b>	(22)	(30)
Amortization	28	48
Acquired intangibles amortization	(22)	(32)
<b>Adjusted EBITDA</b>	\$ (16)	\$ (14)
<b>Revenue</b>	\$ 168	\$ 175
<b>Adjusted operating loss margin % <sup>(1)</sup></b>	(13%)	(17%)
<b>Adjusted EBITDA margin % <sup>(2)</sup></b>	(10%)	(8%)

<sup>(1)</sup> Adjusted operating loss margin % is calculated by dividing adjusted operating loss by revenue.

<sup>(2)</sup> Adjusted EBITDA margin % is calculated by dividing adjusted EBITDA by revenue.

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

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

For the Six Months Ended (in millions)	August 31, 2022	August 31, 2021
<b>Gross margin</b>	\$ 210	\$ 226
Stock compensation expense	2	2
<b>Adjusted gross margin</b>	<u>\$ 212</u>	<u>\$ 228</u>
<b>Gross margin %</b>	62.5 %	64.8 %
Stock compensation expense	0.6 %	0.5 %
<b>Adjusted gross margin %</b>	<u>63.1 %</u>	<u>65.3 %</u>

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

For the Six Months Ended (in millions)	August 31, 2022	August 31, 2021
<b>Operating expense</b>	\$ 434	\$ 425
Restructuring charges	4	—
Stock compensation expense	11	17
Debentures fair value adjustment <sup>(1)</sup>	(56)	63
Acquired intangibles amortization	45	64
LLA impairment charge	4	—
Litigation settlement	165	—
<b>Adjusted operating expense</b>	<u>\$ 261</u>	<u>\$ 281</u>

<sup>(1)</sup> See “Second Quarter Fiscal 2023 Summary Results of Operations - Financial Highlights - Debentures Fair Value Adjustment”

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

For the Six Months Ended (in millions, except per share amounts)	August 31, 2022		August 31, 2021	
		Basic loss per share		Basic loss per share
<b>Net loss</b>	\$ (235)	\$(0.41)	\$ (206)	\$(0.36)
Restructuring charges	4		—	
Stock compensation expense	13		19	
Debentures fair value adjustment	(56)		63	
Acquired intangibles amortization	45		64	
LLA impairment charge	4		—	
Litigation settlement	165		—	
<b>Adjusted net loss</b>	<u>\$ (60)</u>	<u>\$(0.10)</u>	<u>\$ (60)</u>	<u>\$(0.11)</u>



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

For the Six Months Ended (in millions)	August 31, 2022	August 31, 2021
<b>Research and development</b>	\$ 107	\$ 115
Stock compensation expense	4	4
<b>Adjusted research and development</b>	\$ 103	\$ 111
<b>Selling, marketing and administration</b>	\$ 168	\$ 156
Restructuring charges	4	—
Stock compensation expense	7	13
<b>Adjusted selling, marketing and administration</b>	\$ 157	\$ 143
<b>Amortization</b>	\$ 52	\$ 91
Acquired intangibles amortization	45	64
<b>Adjusted amortization</b>	\$ 7	\$ 27

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

For the Six Months Ended (in millions)	August 31, 2022	August 31, 2021
<b>Operating loss</b>	\$ (224)	\$ (199)
Non-GAAP adjustments to operating loss		
Restructuring charges	4	—
Stock compensation expense	13	19
Debentures fair value adjustment	(56)	63
Acquired intangibles amortization	45	64
LLA impairment charge	4	—
Litigation settlement	165	—
Total non-GAAP adjustments to operating loss	175	146
<b>Adjusted operating loss</b>	(49)	(53)
Amortization	57	97
Acquired intangibles amortization	(45)	(64)
<b>Adjusted EBITDA</b>	\$ (37)	\$ (20)
<b>Revenue</b>	\$ 336	\$ 349
<b>Adjusted operating loss margin % <sup>(1)</sup></b>	(15%)	(15%)
<b>Adjusted EBITDA margin % <sup>(2)</sup></b>	(11%)	(6%)

<sup>(1)</sup> Adjusted operating loss margin % is calculated by dividing adjusted operating loss by revenue.

<sup>(2)</sup> Adjusted EBITDA margin % is calculated by dividing adjusted EBITDA by revenue.

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

For the Three Months Ended (in millions)	August 31, 2022	August 31, 2021
<b>Net cash provided by (used in) operating activities</b>	\$ (23)	\$ 12
Acquisition of property, plant and equipment	(3)	(2)
<b>Free cash flow (usage)</b>	<u>\$ (26)</u>	<u>\$ 10</u>

### Key Metrics

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

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

For the Three Months Ended (in millions)	August 31, 2022	August 31, 2021	Change
Cybersecurity Annual Recurring Revenue	\$ 321	\$ 364	\$ (43)
Cybersecurity Dollar-Based Net Retention Rate	85 %	95 %	(10%)
Cybersecurity Total Contract Value Billings	\$ 102	\$ 104	\$ (2)
Recurring Software Product Revenue	~ 80%	~ 80%	—%

### Annual Recurring Revenue

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

Cybersecurity ARR was approximately \$321 million in the second quarter of fiscal 2023 and decreased compared to \$334 million in the first quarter of fiscal 2023 and compared to \$364 million in the second quarter of fiscal 2022.

The Company expects Cybersecurity ARR to return to growth in early fiscal 2024.

### Dollar-Based Net Retention Rate

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

Cybersecurity DBNRR was 85% in the second quarter of fiscal 2023 and decreased compared to 88% in the first quarter of fiscal 2023 and compared to 95% in the second quarter of fiscal 2022.

### Total Contract Value Billings

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

Cybersecurity TCV billings was \$102 million in the second quarter of fiscal 2023 and increased compared to \$89 million in the first quarter of fiscal 2023 and decreased compared to \$104 million in the second quarter of fiscal 2022.

Cybersecurity TCV billings for the first half of fiscal 2023 grew 6% year over year.

The Company previously stated that it expected quarterly year-over-year Cybersecurity billings growth throughout fiscal 2023 when compared to the same quarter in the prior year. In the second quarter of fiscal 2023, Cybersecurity TCV billings decreased compared to the second quarter of fiscal 2022 primarily due to customer churn in the BlackBerry Spark business. The

Company continues to expect quarterly year-over-year Cybersecurity billings growth in each of the third and fourth quarters of fiscal 2023.

### ***Recurring Software Product Revenue***

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

Total Software and Services product revenue, excluding professional services, was approximately 80% recurring in the second quarter of fiscal 2023, consistent with the first quarter of fiscal 2023 and the second quarter of fiscal 2022.

### **Results of Operations - Three months ended August 31, 2022 compared to the three months ended August 31, 2021**

#### ***Revenue***

#### *Revenue by Segment*

Comparative breakdowns of revenue by segment are set forth below.

	For the Three Months Ended <i>(in millions)</i>		
	August 31, 2022	August 31, 2021	Change
<b>Revenue by Segment</b>			
Cybersecurity	\$ 111	\$ 120	\$ (9)
IoT	51	40	11
Licensing and Other	6	15	(9)
	<u>\$ 168</u>	<u>\$ 175</u>	<u>\$ (7)</u>
<b>% Revenue by Segment</b>			
Cybersecurity	66.1 %	68.6 %	
IoT	30.4 %	22.9 %	
Licensing and Other	3.5 %	8.5 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

#### Cybersecurity

The decrease in Cybersecurity revenue of \$9 million was primarily due to a decrease of \$11 million relating to product revenue in BlackBerry Spark and a decrease of \$3 million relating to professional services, partially offset by an increase of \$5 million related to the sale of Secusmart solutions.

#### IoT

The increase in IoT revenue of \$11 million was primarily due to an increase of \$5 million in BlackBerry QNX development seat revenue, an increase of \$3 million in BlackBerry QNX royalty revenue and an increase of \$2 million relating to professional services.

## Licensing and Other

The decrease in Licensing and Other revenue of \$9 million was primarily due to a decrease of \$8 million in revenue from the Company's intellectual property licensing arrangements due to the pending Patent Sale Transaction in the second quarter of 2023 and associated restrictions on monetization activity and a decrease of \$1 million in SAF revenue.

## *Revenue by Geography*

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

	For the Three Months Ended (in millions)		
	August 31, 2022	August 31, 2021	Change
<b>Revenue by Geography</b>			
North America	\$ 85	\$ 101	\$ (16)
Europe, Middle East and Africa	61	57	4
Other regions	22	17	5
	<u>\$ 168</u>	<u>\$ 175</u>	<u>\$ (7)</u>
<b>% Revenue by Geography</b>			
North America	50.6 %	57.7 %	
Europe, Middle East and Africa	36.3 %	32.6 %	
Other regions	13.1 %	9.7 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

## North America Revenue

The decrease in North America revenue of \$16 million was primarily due to a decrease of \$8 million in Licensing and Other revenue due to the reasons discussed above in "Revenue by Segment", a decrease of \$7 million in product revenue in BlackBerry Spark and a decrease of \$4 million in professional services, partially offset by an increase of \$1 million in BlackBerry QNX development seat revenue and an increase of \$1 million in BlackBerry QNX royalty revenue.

## Europe, Middle East and Africa Revenue

The increase in Europe, Middle East and Africa revenue of \$4 million was primarily due to an increase of \$5 million related to the sale of Secusmart solutions, an increase of \$2 million in professional services and an increase of \$1 million in BlackBerry QNX development seat revenue, partially offset by a decrease of \$4 million in product revenue in BlackBerry Spark.

## Other Regions Revenue

The increase in Other regions revenue of \$5 million was primarily due to an increase of \$3 million in BlackBerry QNX development seat revenue and an increase of \$1 million in professional services.

## **Gross Margin**

### *Consolidated Gross Margin*

Consolidated gross margin decreased by \$6 million to approximately \$106 million in the second quarter of fiscal 2023 (second quarter of fiscal 2022 - \$112 million). The decrease was primarily due to a decrease in revenue from BlackBerry Spark and Licensing and Other, partially offset by an increase in revenue from BlackBerry QNX and Secusmart due to the reasons discussed above in "Revenue by Segment", as the Company's cost of sales does not significantly fluctuate based on business volume.

### *Consolidated Gross Margin Percentage*

Consolidated gross margin percentage decreased by 0.9% to approximately 63.1% of consolidated revenue in the second quarter of fiscal 2023 (second quarter of fiscal 2022 - 64.0%). The decrease was primarily due to a lower gross margin contribution from BlackBerry Spark and Licensing and Other due to the reasons discussed above in "Revenue by Segment",

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

### ***Gross Margin by Segment***

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

	For the Three Months Ended (in millions)											
	Cybersecurity			IoT			Licensing and Other			Segment Totals		
	August 31, 2022	2021	Change	August 31, 2022	2021	Change	August 31, 2022	2021	Change	August 31, 2022	2021	Change
Segment revenue	\$ 111	\$ 120	\$ (9)	\$ 51	\$ 40	\$ 11	\$ 6	\$ 15	\$ (9)	\$ 168	\$ 175	\$ (7)
Segment cost of sales	50	49	1	9	7	2	2	6	(4)	61	62	(1)
Segment gross margin	<u>\$ 61</u>	<u>\$ 71</u>	<u>\$ (10)</u>	<u>\$ 42</u>	<u>\$ 33</u>	<u>\$ 9</u>	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$ (5)</u>	<u>\$ 107</u>	<u>\$ 113</u>	<u>\$ (6)</u>
Segment gross margin %	<u>55 %</u>	<u>59 %</u>	<u>(4%)</u>	<u>82 %</u>	<u>83 %</u>	<u>(1)%</u>	<u>67 %</u>	<u>60 %</u>	<u>7%</u>	<u>64 %</u>	<u>65 %</u>	<u>(1%)</u>

#### Cybersecurity

The decrease in Cybersecurity gross margin of \$10 million was primarily due to the reasons discussed above in “Revenue by Segment”, as the cost of sales for most Cybersecurity products does not significantly fluctuate based on business volume.

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

#### IoT

The increase in IoT gross margin of \$9 million was primarily due to the reasons discussed above in “Revenue by Segment”, partially offset by an increase in salaries expense.

The decrease in IoT gross margin percentage of 1% was primarily due to an increase in professional service revenue, which has a lower relative gross margin percentage.

#### Licensing and Other

The decrease in Licensing and Other gross margin of \$5 million was primarily due to the reasons discussed above in “Revenue by Segment”, partially offset by a decrease in infrastructure costs due to the Company no longer supporting or maintaining legacy device operating systems.

The increase in Licensing and Other gross margin percentage of 7% was primarily due to a decrease in infrastructure costs due to the Company no longer supporting or maintaining legacy device operating systems.

## Operating Expenses

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

	For the Three Months Ended (in millions)		
	August 31, 2022	May 31, 2022	August 31, 2021
<b>Revenue</b>	\$ 168	\$ 168	\$ 175
<b>Operating expenses</b>			
Research and development	54	53	58
Selling, marketing and administration	86	82	83
Amortization	25	27	45
Impairment of long-lived assets	4	—	—
Gain on sale of property, plant and equipment, net	(6)	—	—
Debentures fair value adjustment	(10)	(46)	67
Litigation settlement	—	165	—
<b>Total</b>	<u>\$ 153</u>	<u>\$ 281</u>	<u>\$ 253</u>
<b>Operating Expenses as % of Revenue</b>			
Research and development	32.1%	31.5%	33.1%
Selling, marketing and administration	51.2%	48.8%	47.4%
Amortization	14.9%	16.1%	25.7%
Impairment of long-lived assets	2.4%	—%	—%
Gain on sale of property, plant and equipment, net	(3.6%)	—%	—%
Debentures fair value adjustment	(6.0%)	(27.4%)	38.3%
Litigation settlement	— %	98.2 %	— %
<b>Total</b>	<u>91.1 %</u>	<u>167.3 %</u>	<u>144.6 %</u>

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

### U.S. GAAP Operating Expenses

Operating expenses decreased by \$128 million, or 45.6% in the second quarter of fiscal 2023, compared to the first quarter of fiscal 2023 primarily due to a \$165 million litigation settlement in the first quarter of fiscal 2023 and a \$6 million gain on sale of property, plant and equipment, net, partially offset by the difference between the Q2 Fiscal 2023 Debentures Fair Value Adjustment and the fair value adjustment related to the 1.75% Debentures incurred in the first quarter of fiscal 2023 of \$36 million, a decrease in benefits of \$4 million in government subsidies resulting from claims filed for the Canada Emergency Wage Subsidy and Hardest-Hit Business Recovery Program programs (“COVID-19 subsidies”) to support the business through the COVID-19 pandemic and an increase of \$4 million in impairment of long-lived assets.

Operating expenses decreased by \$100 million, or 39.5%, compared to the second quarter of fiscal 2022 primarily due to the difference between the Q2 Fiscal 2023 Debentures Fair Value Adjustment and the fair value adjustment related to the 1.75% Debentures incurred in the second quarter of fiscal 2022 of \$77 million, a decrease of \$20 million in amortization expense and a decrease of \$7 million in stock compensation expenses, partially offset by a decrease in benefits of \$12 million in COVID-19 subsidies and an increase of \$4 million in impairment of long-lived assets.

### Adjusted Operating Expenses

Adjusted operating expenses decreased by \$3 million, or 2.3%, to \$129 million in the second quarter of fiscal 2023 compared to \$132 million in the first quarter of fiscal 2023. The decrease was primarily attributable to a \$6 million gain on sale of property, plant and equipment, net, a decrease of \$5 million in legal expenses and a decrease of \$4 million in salaries and benefits expenses, partially offset by a decrease in benefits of \$4 million in COVID-19 subsidies.

Adjusted operating expenses decreased by \$14 million, or 9.8%, to \$129 million in the second quarter of fiscal 2023 compared to \$143 million in the second quarter of fiscal 2022. The decrease was primarily attributable to a decrease of \$10 million in amortization expense, a decrease of \$7 million in salaries and benefits expense and a \$6 million gain on sale of property, plant and equipment, net, partially offset by a decrease in benefits of \$12 million in COVID-19 subsidies and an increase of \$4 million in impairment of long-lived assets.

### Research and Development Expenses

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

Research and development expenses decreased by \$4 million, or 6.9%, in the second quarter of fiscal 2023 compared to the second quarter of fiscal 2022 primarily due to a decrease of \$2 million in salaries and benefits expenses and a decrease of \$1 million in consulting fees, partially offset by a decrease in benefits of \$1 million in claims filed with the Ministry of Innovation, Science and Economic Development Canada relating to its Strategic Innovation Fund (“SIF”) program’s investment in BlackBerry QNX.

Adjusted research and development expenses decreased by \$4 million, or 7.1%, to \$52 million in the second quarter of fiscal 2023 (second quarter of fiscal 2022 - \$56 million). The decrease was primarily due to the same reasons described above on a U.S. GAAP basis.

### Selling, Marketing and Administration Expenses

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

Selling, marketing and administration expenses increased by \$3 million, or 3.6%, in the second quarter of fiscal 2023 compared to the second quarter of fiscal 2022 primarily due to a decrease in benefits of \$12 million in COVID-19 subsidies, partially offset by a decrease of \$6 million in stock compensation expenses and a decrease of \$4 million in salaries and benefits expenses.

Adjusted selling, marketing and administration expenses increased by \$6 million, or 8.1%, to \$80 million in the second quarter of fiscal 2023 (second quarter of fiscal 2022 - \$74 million). This increase was primarily due to a decrease in benefits of \$12 million in COVID-19 subsidies, partially offset by a decrease of \$4 million in salaries and benefits expenses and a decrease of \$3 million in sales incentive plan 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 quarter ended August 31, 2022 compared to the quarter ended August 31, 2021. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Three Months Ended (in millions)		
	Included in Operating Expense		
	August 31, 2022	August 31, 2021	Change
Property, plant and equipment	\$ 1	\$ 3	\$ (2)
Intangible assets	24	42	(18)
Total	<u>\$ 25</u>	<u>\$ 45</u>	<u>\$ (20)</u>
	Included in Cost of Sales		
	August 31, 2022	August 31, 2021	Change
Property, plant and equipment	\$ 2	\$ 1	\$ 1
Intangible assets	1	2	(1)
Total	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ —</u>

#### Amortization included in Operating Expense

The decrease in amortization expense included in operating expense of \$20 million was due to a decrease in intellectual property held and used related to the Patent Sale Transaction and due to the lower cost base of assets.

Adjusted amortization expense decreased by \$10 million to \$3 million in the second quarter of fiscal 2023 (second quarter of fiscal 2022 - \$13 million) due to the reasons described above on a U.S. GAAP basis.

#### Amortization included in Cost of Sales

Amortization expense relating to certain property, plant and equipment and certain intangible assets employed in the Company's service operations of \$3 million, was consistent with the second quarter of fiscal 2022.

#### ***Investment Loss, Net***

Investment loss, net, which includes the interest expense from the 1.75% Debentures, increased by \$1 million to investment loss, net of \$2 million in the second quarter of fiscal 2023 (second quarter of fiscal 2022 - investment loss, net of \$1 million). The increase in investment loss, net is primarily due to investment mix.

#### ***Income Taxes***

For the second quarter of fiscal 2023, the Company's net effective income tax expense rate was approximately 10% (second quarter of fiscal 2022 - net effective income tax expense rate of approximately 1%). The Company's net effective income tax rate reflects the change in unrecognized income tax benefits, if any, and the fact that the Company has a significant valuation allowance against its deferred tax assets, and in particular, the change in fair value of the 1.75% Debentures, amongst other items, was offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

#### ***Net Loss***

The Company's net loss for the second quarter of fiscal 2023 was \$54 million, or \$0.09 basic loss per share and \$0.10 diluted loss per share on a U.S. GAAP basis (second quarter of fiscal 2022 - net loss of \$144 million, or \$0.25 basic and diluted loss per share). The decrease in net loss of \$90 million was primarily due to a decrease in operating expenses, as described above in "Operating Expenses", partially offset by a decrease in revenue, as described above in "Revenue by Segment" and a decrease in gross margin percentage, as described above in "Consolidated Gross Margin Percentage".

Adjusted net loss was \$29 million in the second quarter of fiscal 2023 (second quarter of fiscal 2022 - adjusted net loss of \$33 million). The decrease in adjusted net loss of \$4 million was primarily due to a decrease in operating expenses as described above in "Operating Expenses", partially offset by a decrease in revenue as described above in "Revenue by Segment" and a decrease in gross margin percentage, as described above in "Consolidated Gross Margin Percentage".

The weighted average number of shares outstanding was 577 million common shares for basic loss per share and 638 million common shares for diluted loss per share for the second quarter of fiscal 2023 (second quarter of fiscal 2022 - 568 million common shares for basic and diluted loss per share).



## Results of Operations - Six months ended August 31, 2022 compared to the six months ended August 31, 2021

The following section sets forth certain consolidated statements of operations data, which is expressed in millions of dollars, except for share and per share amounts and as a percentage of revenue, for the six months ended August 31, 2022 and August 31, 2021:

	For the Six Months Ended		
	<i>(in millions, except for share and per share amounts)</i>		
	August 31, 2022	August 31, 2021	Change
Revenue	\$ 336	\$ 349	\$ (13)
Gross margin	210	226	(16)
Operating expenses	434	425	9
Investment loss, net	(3)	(3)	—
Loss before income taxes	(227)	(202)	(25)
Provision for income taxes	8	4	4
Net loss	<u>\$ (235)</u>	<u>\$ (206)</u>	<u>\$ (29)</u>
Loss per share - reported			
Basic	<u>\$ (0.41)</u>	<u>\$ (0.36)</u>	<u>\$ (0.05)</u>
Diluted	<u>\$ (0.45)</u>	<u>\$ (0.36)</u>	<u>\$ (0.09)</u>
Weighted-average number of shares outstanding (000's)			
Basic <sup>(1)</sup>	577,097	567,724	
Diluted <sup>(2)</sup>	637,930	567,724	

<sup>(1)</sup> Basic loss per share on a U.S. GAAP basis for the first six months of fiscal 2022 includes 1,421,945 common shares that were subsequently issued on the third anniversary dates of the Cylance acquisition completed on February 21, 2019 in consideration for the acquisition.

<sup>(2)</sup> Diluted loss per share on a U.S. GAAP basis for the first six months of fiscal 2022 does not include the dilutive effect of the 1.75% Debentures as to do so would be anti-dilutive. Diluted loss per share on a U.S. GAAP basis for the first six months of fiscal 2023 and fiscal 2022 do not include the dilutive effect of stock-based compensation as to do so would be anti-dilutive.

### Revenue

#### Revenue by Segment

Comparative breakdowns of revenue by segment are set forth below.

	For the Six Months Ended		
	<i>(in millions)</i>		
	August 31, 2022	August 31, 2021	Change
<b>Revenue by Segment</b>			
Cybersecurity	\$ 224	\$ 227	\$ (3)
IoT	102	83	19
Licensing and Other	10	39	(29)
	<u>\$ 336</u>	<u>\$ 349</u>	<u>\$ (13)</u>
<b>% Revenue by Segment</b>			
Cybersecurity	66.7 %	65.0 %	
IoT	30.4 %	23.8 %	
Licensing and Other	2.9 %	11.2 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

## Cybersecurity

The decrease in Cybersecurity revenue of \$3 million was primarily due to a decrease of \$17 million relating to product revenue in BlackBerry Spark, a decrease of \$3 million relating to professional services and a decrease of \$2 million relating to non-automotive OEM business, partially offset by an increase of \$20 million related to the sale of Secusmart solutions.

## IoT

The increase in IoT revenue of \$19 million was primarily due to an increase of \$11 million in BlackBerry QNX development seat revenue, an increase of \$5 million relating to professional services and an increase of \$4 million in BlackBerry QNX royalty revenue.

## Licensing and Other

The decrease in Licensing and Other revenue of \$29 million was primarily due to a decrease of \$26 million in revenue from the Company's intellectual property licensing arrangements due to the pending Patent Sale Transaction in the second quarter of fiscal 2023 and associated restrictions on monetization activity and a decrease of \$4 million in SAF revenue.

## *U.S. GAAP Revenue by Geography*

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

	For the Six Months Ended		
	<i>(in millions)</i>		
	August 31, 2022	August 31, 2021	Change
<b>Revenue by Geography</b>			
North America	\$ 174	\$ 212	\$ (38)
Europe, Middle East and Africa	121	102	19
Other regions	41	35	6
	<u>\$ 336</u>	<u>\$ 349</u>	<u>\$ (13)</u>
<b>% Revenue by Geography</b>			
North America	51.8 %	60.8 %	
Europe, Middle East and Africa	36.0 %	29.2 %	
Other regions	12.2 %	10.0 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

## North America Revenue

The decrease in North American revenue of \$38 million was primarily due to a decrease of \$26 million in Licensing and Other revenue due to the reasons discussed above in "Revenue by Segment", a decrease of \$10 million in product revenue in BlackBerry Spark and a decrease of \$2 million relating to professional services, partially offset by an increase of \$3 million in BlackBerry QNX royalty revenue.

## Europe, Middle East and Africa Revenue

The increase in Europe, Middle East and Africa revenue of \$19 million was primarily due to an increase of \$20 million related to the sale of Secusmart solutions and an increase of \$5 million in BlackBerry QNX development seat revenue, partially offset by a decrease of \$7 million in product revenue in BlackBerry Spark.

## Other Regions Revenue

The increase in Other regions revenue of \$6 million was primarily due to an increase of \$4 million in BlackBerry QNX development seat revenue and an increase of \$2 million related to professional services.

## **Gross Margin**

### *Consolidated Gross Margin*

Consolidated gross margin decreased by \$16 million to approximately \$210 million in the first six months of fiscal 2023 (first six months of fiscal 2022 - \$226 million). The decrease was primarily due to a decrease in revenue from Licensing and Other and BlackBerry Spark, partially offset by an increase in revenue from BlackBerry QNX and Secusmart due to the reasons discussed above in “Revenue by Segment”, as the Company’s cost of sales does not significantly fluctuate based on business volume.

### *Consolidated Gross Margin Percentage*

Consolidated gross margin percentage decreased by 2.3%, to approximately 62.5% of consolidated revenue in the first six months of fiscal 2023 (first six months of fiscal 2022 - 64.8%). The decrease was primarily due to a lower gross margin contribution from Licensing and Other and BlackBerry Spark due to the reasons discussed above in “Revenue by Segment”, partially offset by a higher gross margin contribution from BlackBerry QNX and Secusmart due to the reasons discussed above in “Revenue by Segment”.

## **Gross Margin by Segment**

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

	For the Six Months Ended											
	<i>(in millions)</i>											
	Cybersecurity			IoT			Licensing and Other			Segment Totals		
	August 31, 2022	2021	Change	August 31, 2022	2021	Change	August 31, 2022	2021	Change	August 31, 2022	2021	Change
Segment revenue	\$ 224	\$ 227	\$ (3)	\$ 102	\$ 83	\$ 19	\$ 10	\$ 39	\$(29)	\$ 336	\$ 349	\$(13)
Segment cost of sales	103	95	8	17	14	3	4	12	(8)	124	121	3
Segment gross margin	<u>\$ 121</u>	<u>\$ 132</u>	<u>\$(11)</u>	<u>\$ 85</u>	<u>\$ 69</u>	<u>\$ 16</u>	<u>\$ 6</u>	<u>\$ 27</u>	<u>\$(21)</u>	<u>\$ 212</u>	<u>\$ 228</u>	<u>\$(16)</u>
Segment gross margin %	<u>54%</u>	<u>58%</u>	<u>(4%)</u>	<u>83%</u>	<u>83%</u>	<u>—%</u>	<u>60%</u>	<u>69%</u>	<u>(9%)</u>	<u>63%</u>	<u>65%</u>	<u>(2%)</u>

## Cybersecurity

The decrease in Cybersecurity gross margin of \$11 million was primarily due to the reasons discussed above in “Revenue by Segment”, as the cost of sales for most Cybersecurity products does not significantly fluctuate based on business volume.

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

## IoT

The increase in IoT gross margin of \$16 million was primarily due to the reasons discussed above in “Revenue by Segment”, partially offset by an increase in salaries expense.

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

## Licensing and Other

The decrease in Licensing and Other gross margin of \$21 million was primarily due to the reasons discussed above in “Revenue by Segment”, partially offset by a decrease in infrastructure costs due to the Company no longer supporting or maintaining legacy device operating systems.

The decrease in Licensing and Other gross margin percentage of 9% was primarily due to the reasons discussed above in “Revenue by Segment”, partially offset by a decrease in infrastructure costs due to the Company no longer supporting or maintaining legacy device operating systems.

## Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expense for the six months ended August 31, 2022, compared to the six months ended August 31, 2021.

	For the Six Months Ended		
	<i>(in millions)</i>		
	August 31, 2022	August 31, 2021	Change
<b>Revenue</b>	\$ 336	\$ 349	\$ (13)
<b>Operating expenses</b>			
Research and development	107	115	(8)
Selling, marketing and administration	168	156	12
Amortization	52	91	(39)
Impairment of long-lived assets	4	—	4
Gain on sale of property, plant and equipment, net	(6)	—	(6)
Debentures fair value adjustment	(56)	63	(119)
Litigation settlement	165	—	165
<b>Total</b>	<u>\$ 434</u>	<u>\$ 425</u>	<u>\$ 9</u>
<b>Operating Expense as % of Revenue</b>			
Research and development	31.8 %	33.0 %	
Selling, marketing and administration	50.0 %	44.7 %	
Amortization	15.5 %	26.1 %	
Impairment of long-lived assets	1.2 %	— %	
Gain on sale of property, plant and equipment, net	(1.8)%	— %	
Debentures fair value adjustment	(16.7)%	18.1 %	
Litigation settlement	49.1 %	— %	
<b>Total</b>	<u>129.2 %</u>	<u>121.8 %</u>	

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

### U.S. GAAP Operating Expenses

Operating expenses increased by \$9 million, or 2.1% in the first six months of fiscal 2023, compared to the first six months of fiscal 2022 primarily due to a \$165 million litigation settlement, a decrease in benefits of \$25 million in COVID-19 subsidies and an increase of \$4 million in restructuring costs, partially offset by the difference between the Fiscal 2023 Debentures Fair Value Adjustment and the fair value adjustment of \$119 million related to the 1.75% Debentures incurred in the first six months of fiscal 2022, a decrease of \$39 million in amortization expense, a decrease of \$12 million in salaries and benefits expenses and a decrease of \$7 million in stock compensation expense.

### Adjusted Operating Expenses

Adjusted operating expenses decreased by \$20 million, or 7.1%, to \$261 million in the first six months of fiscal 2023, compared to \$281 million in the first six months of 2022. The decrease was primarily attributable to a decrease of \$20 million in amortization expense, a decrease of \$12 million in salaries and benefits expenses and a \$6 million gain on sale of property, plant and equipment, net, partially offset by a decrease in benefits of \$25 million in COVID-19 subsidies.

### 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 costs, infrastructure costs and other employee costs.

Research and development expenses decreased by \$8 million, or 7.0%, in the first six months of fiscal 2023, compared to the first six months of fiscal 2022 primarily due to a decrease of \$4 million in salaries and benefits expenses and a decrease of \$3 million in consulting costs, partially offset by a decrease in benefits of \$2 million in SIF claims.

Adjusted research and development expenses decreased by \$8 million, or 7.2% to \$103 million in the first six months of fiscal 2023 (first six months of fiscal 2022 - \$111 million). The decrease was primarily due to the same reasons described above on a U.S. GAAP basis.

#### *Selling, Marketing and Administration Expenses*

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

Selling, marketing and administration expenses increased by \$12 million, or 7.7%, in the first six months of fiscal 2023 compared to the first six months of fiscal 2022 primarily due to a decrease in benefits of \$25 million in COVID-19 subsidies and an increase of \$4 million in restructuring costs, partially offset by a decrease of \$8 million in salaries and benefits expenses, a decrease of \$6 million in stock compensation expense and a decrease of \$4 million in sales incentive plan costs.

Adjusted selling, marketing and administration expenses increased by \$14 million, or 9.8%, to \$157 million in the first six months of fiscal 2023 (first six months of fiscal 2022 - \$143 million). The increase was primarily due to a decrease in benefits of \$25 million in COVID-19 subsidies, partially offset by a decrease of \$8 million in salaries and benefits expenses and a decrease of \$4 million in sales incentive plan 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 six months ended August 31, 2022 compared to the six months ended August 31, 2021. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Six Months Ended		
	<i>(in millions)</i>		
	<b>Included in Operating Expense</b>		
	August 31, 2022	August 31, 2021	Change
Property, plant and equipment	\$ 5	\$ 6	\$ (1)
Intangible assets	47	85	(38)
<b>Total</b>	<b>\$ 52</b>	<b>\$ 91</b>	<b>\$ (39)</b>
	<b>Included in Cost of Sales</b>		
	August 31, 2022	August 31, 2021	Change
Property, plant and equipment	\$ 2	\$ 2	\$ —
Intangible assets	3	4	(1)
<b>Total</b>	<b>\$ 5</b>	<b>\$ 6</b>	<b>\$ (1)</b>

#### Amortization included in Operating Expense

The decrease in amortization expense included in operating expense of \$39 million was due to a decrease in intellectual property held and used related to the Patent Sale Transaction and due to the lower cost base of assets.

Adjusted amortization expense decreased by \$20 million in the first six months of fiscal 2023 to \$7 million (first six months of fiscal 2022 - \$27 million) due to the reasons described above on a U.S. GAAP basis.

#### Amortization included in Cost of Sales

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

#### ***Investment Loss, Net***

Investment loss, net, which includes the interest expense from the 1.75% Debentures was \$3 million in the first six months of fiscal 2023 and was consistent with the first six months of fiscal 2022.

## ***Income Taxes***

For the first six months of fiscal 2023, the Company's net effective income tax expense rate was approximately 4% (first six months of fiscal 2022 - net effective income tax expense rate of approximately 2%). The Company's net effective income tax rate reflects the change in unrecognized income tax benefits, if any, and the fact that the Company has a significant valuation allowance against its deferred tax assets, and in particular, the change in fair value of the 1.75% Debentures, amongst other items, was offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

## ***Net Loss***

The Company's net loss for the first six months of fiscal 2023 was \$235 million, or \$0.41 basic loss per share and \$0.45 diluted loss per share on a U.S. GAAP basis (first six months of fiscal 2022 - net loss of \$206 million, or \$0.36 basic and diluted loss per share). The increase in net loss of \$29 million was primarily due to a decrease in revenue as described above in "Revenue by Segment", an increase in operating expenses, as described above in "Operating Expenses" and a decrease in gross margin percentage, as described above in "Consolidated Gross Margin Percentage".

Adjusted net loss in the first six months of fiscal 2023 was \$60 million and was consistent with the first six months of fiscal 2022. The decrease in operating expenditures as described above in "Operating Expenses" was partially offset by a decrease in revenue as described above in "Revenue by Segment" and a decrease in gross margin percentage, as described above in "Consolidated Gross Margin Percentage".

The weighted average number of shares outstanding was 577 million for basic loss per share and 638 million for diluted loss per share for the first six months of August 31, 2022. The weighted average number of shares outstanding was 568 million for basic and diluted loss per share for the first six months of August 31, 2021.

## ***Common Shares Outstanding***

On September 23, 2022, there were 577 million voting common shares, options to purchase 1 million voting common shares, 15 million restricted share units and 1 million deferred share units outstanding. In addition, 60.8 million common shares are issuable upon conversion in full of the 1.75% Debentures as described in Note 5 to the Consolidated Financial Statements.

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

## **Financial Condition**

### ***Liquidity and Capital Resources***

Cash, cash equivalents, and investments decreased by \$71 million to \$699 million as at August 31, 2022 from \$770 million as at February 28, 2022, primarily as a result of changes in working capital. The majority of the Company's cash, cash equivalents, and investments were denominated in U.S. dollars as at August 31, 2022.

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

	As at (in millions)		
	August 31, 2022	February 28, 2022	Change
Cash and cash equivalents	\$ 431	\$ 378	\$ 53
Restricted cash and cash equivalents	27	28	(1)
Short-term investments	212	334	(122)
Long-term investments	29	30	(1)
Cash, cash equivalents, and investments	<u>\$ 699</u>	<u>\$ 770</u>	<u>\$ (71)</u>

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

	As at (in millions)		
	August 31, 2022	February 28, 2022	Change
Current assets	\$ 940	\$ 1,043	\$ (103)
Current liabilities	516	397	119
Working capital	<u>\$ 424</u>	<u>\$ 646</u>	<u>\$ (222)</u>

#### *Current Assets*

The decrease in current assets of \$103 million at the end of the second quarter of fiscal 2023 from the end of the fourth quarter of fiscal 2022 was primarily due to a decrease in short term investments of \$122 million, a decrease in accounts receivable, net of allowance of \$38 million and a decrease in other receivables of \$10 million, partially offset by an increase in cash and cash equivalents of \$53 million and an increase of \$14 million in other current assets.

At August 31, 2022, accounts receivable was \$100 million, a decrease of \$38 million from February 28, 2022. The decrease was primarily due to lower revenue recognized over the three months ended August 31, 2022 compared to the three months ended February 28, 2022, and a decrease in days sales outstanding to 56 days at the end of the second quarter of fiscal 2023 from 67 days at the end of the fourth quarter of fiscal 2022.

At August 31, 2022, other receivables was \$15 million, a decrease of \$10 million from February 28, 2022. The decrease was primarily due to a decrease of \$8 million relating to COVID-19 subsidies.

At August 31, 2022, other current assets was \$173 million, an increase of \$14 million from February 28, 2022. The increase was primarily due to an increase of \$13 million in intellectual property related to patent maintenance and an increase of \$4 million in prepaid software, partially offset by a decrease of \$4 million in prepaid rent.

#### *Current Liabilities*

The increase in current liabilities of \$119 million at the end of the second quarter of 2023 from the end of the fourth quarter of fiscal 2022 was primarily due an increase in accruals of \$143 million and an increase in income taxes payable of \$6 million, partially offset by a decrease in deferred revenue, current of \$28 million and a decrease in accounts payable of \$2 million.

Accrued liabilities were \$300 million, reflecting an increase of \$143 million compared to February 28, 2022. The increase was primarily due to a \$164 million legal settlement accrual, partially offset by a decrease of \$6 million in payroll accruals and a decrease of \$5 million in variable incentive plan costs.

Income taxes payable were \$17 million, reflecting an increase of \$6 million compared to February 28, 2022, which was primarily due to income earned in taxable jurisdictions.

Deferred revenue, current was \$179 million, reflecting a decrease of \$28 million compared to February 28, 2022 that was attributable to a \$20 million decrease in deferred revenue, current related to BlackBerry Spark and \$6 million related to BlackBerry AtHoc.

Accounts payable were \$20 million, reflecting a decrease of \$2 million from February 28, 2022, which was primarily due to timing of payments.

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

	For the Six Months Ended		
	<i>(in millions)</i>		
	August 31, 2022	August 31, 2021	Change
Net cash flows provided by (used in):			
Operating activities	\$ (66)	\$ (18)	\$ (48)
Investing activities	117	113	4
Financing activities	3	5	(2)
Effect of foreign exchange loss on cash and cash equivalents	(2)	—	(2)
Net increase in cash and cash equivalents	<u>\$ 52</u>	<u>\$ 100</u>	<u>\$ (48)</u>

#### *Operating Activities*

The increase in net cash flows used in operating activities of \$48 million primarily reflects the net changes in working capital.

#### *Investing Activities*

During the six months ended August 31, 2022, cash flows provided by investing activities were \$117 million and included cash provided by transactions involving the acquisitions of short-term investments, net of the proceeds on sale or maturity in the amount of \$120 million and proceeds on sale of property, plant and equipment of \$17 million, offset by cash used in the acquisition of intangible assets of \$16 million, and the acquisition of property, plant and equipment of \$4 million. For the same period in the prior fiscal year, cash flows provided by investing activities were \$113 million and included cash provided by transactions involving the acquisitions of short-term investments, net of the proceeds on sale or maturity in the amount of \$131 million, offset by cash used in the acquisition intangible assets of \$14 million, and the acquisitions of property, plant and equipment of \$4 million.

#### *Financing Activities*

The decrease in cash flows provided by financing activities of \$2 million for the first six months of fiscal 2023 was primarily due to a decrease in common shares issued upon the exercise of stock options.

#### ***Debenture Financing and Other Funding Sources***

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

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

Cash, cash equivalents, and investments were approximately \$699 million as at August 31, 2022. The Company's management remains focused on maintaining appropriate cash balances, efficiently managing working capital balances and managing the liquidity needs of the business. Based on its current financial projections, the Company believes its financial resources, together with expected future operating cash generating and operating expense reduction activities and access to other potential financing arrangements, should be sufficient to meet funding requirements for current financial commitments and future operating expenditures not yet committed, and should provide the necessary financial capacity for the foreseeable future.

#### ***Contractual and Other Obligations***

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

	<i>(in millions)</i>		
	Total	Short-term (next 12 months)	Long-term (>12 months)
Operating lease obligations	\$ 86	\$ 28	\$ 58
Purchase obligations and commitments	125	113	12
Litigation settlement	164	164	—
Debt interest and principal payments	374	6	368
Total	<u>\$ 749</u>	<u>\$ 311</u>	<u>\$ 438</u>



Total contractual and other obligations as at August 31, 2022 increased by approximately \$146 million as compared to the February 28, 2022 balance of approximately \$603 million, which was attributable to a litigation settlement, partially offset by a decrease in operation lease obligations.

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

### **Accounting Policies and Critical Accounting Estimates**

There have been no changes to the Company's accounting policies or critical accounting estimates from those described under "Accounting Policies and Critical Accounting Estimates" in the Annual MD&A.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

#### ***Foreign Exchange***

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the U.S. dollar. The majority of the Company's revenue in the second quarter of fiscal 2023 was transacted in U.S. dollars. Portions of the revenue were denominated in Canadian dollars, euros and British pounds. Expenses, consisting mainly of salaries and certain other operating costs, were incurred primarily in Canadian dollars, but were also incurred in U.S. dollars, euros and British pounds. At August 31, 2022, approximately 11% of cash and cash equivalents, 19% of accounts receivables and 43% of accounts payable were denominated in foreign currencies (February 28, 2022 – 37%, 23% and 30%, respectively). These foreign currencies primarily include the Canadian dollar, euro and British pound. As part of its risk management strategy, the Company maintains net monetary asset and/or liability balances in foreign currencies and engages in foreign currency hedging activities using derivative financial instruments, including currency forward contracts and currency options. The Company does not use derivative instruments for speculative purposes. If overall foreign currency exchange rates to the U.S. dollar uniformly weakened or strengthened by 10% related to the Company's net monetary asset or liability balances in foreign currencies at August 31, 2022 (after hedging activities), the impact to the Company would be immaterial.

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

#### ***Interest Rate***

Cash and cash equivalents and investments are invested in certain instruments of varying maturities. Consequently, the Company is exposed to interest rate risk as a result of holding investments of varying maturities. The fair value of investments, as well as the investment income derived from the investment portfolio, will fluctuate with changes in prevailing interest rates. The Company has also issued 1.75% Debentures with a fixed interest rate, as described in Note 5 to the Consolidated Financial Statements. The fair value of the 1.75% Debentures will fluctuate with changes in prevailing interest rates. Consequently, the Company is exposed to interest rate risk as a result of the 1.75% Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio or changes in the market value of the 1.75% Debentures.

#### ***Credit and Customer Concentration***

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. The Company establishes an allowance for credit losses ("ACL") that corresponds to the specific credit risk of its customers, historical trends and economic circumstances. The ACL as at August 31, 2022 was \$4 million (February 28, 2022 - \$4 million). There was no customer that comprised more than 10% of accounts receivable as at August 31, 2022 (February 28, 2022 - no customer that comprised more than 10%). During the second quarter of fiscal 2023, the percentage of the Company's receivable balance that was past due increased by 6.0% compared to the fourth quarter of fiscal 2022. Although the Company actively monitors and attempts to collect on its receivables as they become due, the risk of further delays or challenges in obtaining timely payments of receivables from resellers and other distribution partners exists. The occurrence of such delays or challenges in obtaining timely payments could negatively impact the Company's liquidity and financial condition. There was one customer that comprised 16% and 15% of the Company's revenue in the three and six months ended August 31, 2022 (three and six months ended August 31, 2021 - one customer that comprised 12% and no customer that comprised more than 10% of the Company's revenue, respectively).

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 debt securities to maturity.

#### ITEM 4. CONTROLS AND PROCEDURES

As of August 31, 2022, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of such date, the Company's disclosure controls and procedures were effective to give reasonable assurance that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

##### *Changes in Internal Control Over Financial Reporting*

During the three months ended August 31, 2022, 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.

### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

See Note 9 to the Consolidated Financial Statements for information regarding certain legal proceedings in which the Company is involved.

#### ITEM 6. EXHIBITS

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
31.1*	<a href="#">Certification of Chief Executive Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)</a>
31.2*	<a href="#">Certification of Chief Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)</a>
32.1†	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2†	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101*	XBRL Instance Document – the document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document
101*	Inline XBRL Taxonomy Extension Schema Document
101*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101*	Inline XBRL Taxonomy Extension Label Linkbase Document
101*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File – formatted as Inline XBRL and contained in Exhibit 101

\* Filed herewith

† Furnished (and not filed) herewith pursuant to Item 601(b)(32)(ii) of the SEC's Regulation S-K

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

### BLACKBERRY LIMITED

Date: September 28, 2022

By: /s/ John Chen

Name: John Chen

Title: Chief Executive Officer

By: /s/ Steve Rai

Name: Steve Rai

Title: Chief Financial Officer (Principal Financial and Accounting Officer)