

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

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) should be read together with the unaudited interim consolidated financial statements and the accompanying notes (the “Consolidated Financial Statements”) of BlackBerry Limited for the three months ended May 31, 2021, 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, 2021 (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, 2021 (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;
- the Company’s expectations with respect to its revenue in fiscal 2022 and with respect to the impact of the COVID-19 pandemic on the Company’s business, results of operations and financial condition on a consolidated basis, including its liquidity position;
- 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 - COVID-19”, “Non-GAAP Financial Measures - Key Metrics”, “Results of Operations - Three months ended May 31, 2021 compared to the three months ended May 31, 2020 - Revenue - Revenue by Segment” and “Financial Condition - Debenture Financing and Other Funding Sources”. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances, including but not limited to, the Company’s expectations regarding its business, strategy, opportunities and prospects, 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 195 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 IoT endpoints. The Company leverages its extensive technology portfolio to offer best-in-class cybersecurity, safety and reliability to enterprise customers in government, regulated and other core industries, as well as to original equipment manufacturers in automotive, medical, industrial and other 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 is focused on generating revenue from enterprise software, services and licensing as well as from embedded software designs with leading 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 groups: Cyber Security, IoT (collectively with Cyber Security, "Software & Services") and Licensing and Other.

### *Cyber Security*

The Cyber Security business consists of BlackBerry Spark, BlackBerry® AtHoc®, BlackBerry Alert and SecuSUITE.

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, 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 to provide deep contextual insights for more powerful threat detection and response. This comprehensive security strategy for BlackBerry Spark is designed to operate on a single agent across all endpoints, to be administered from a single console, to leverage a single crowd-sourced threat data lake and to be managed in one cloud environment. BlackBerry Spark solutions are available through the BlackBerry Spark® Unified Endpoint Security Suite and the BlackBerry Spark® Unified Endpoint Management Suite, which are also marketed together as the BlackBerry Spark® Suites, offering the Company's most comprehensive range of tailored cybersecurity and endpoint management options.

The BlackBerry Spark UES Suite offers leading Cylance® AI and machine learning-based cybersecurity solutions, including: BlackBerry® Protect, an EPP and available MTD solution that uses machine learning to prevent suspicious behavior and the execution of malicious code on an endpoint; BlackBerry® Optics, an EDR solution that provides both visibility into and prevention of malicious activity on an endpoint; BlackBerry® Guard, a managed detection and response solution that provides 24/7 threat hunting and monitoring; BlackBerry® Gateway, a cloud-native ZTNA solution that monitors suspicious network activity; and BlackBerry® Persona, 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, compromised assessment and containment services to assist clients with forensic analysis, state of existing systems and remediation of attacks.

In addition, the Company offers the BlackBerry Cyber Suite, a UEM-agnostic version of its BlackBerry Spark® UES Suite which organizations will be able to integrate with UEM software from other leading 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.

The Company also offers the BlackBerry® Spark SDK to promote the evolution of a platform ecosystem by enabling enterprise and independent software vendor ("ISV") developers to integrate the security features of BlackBerry Spark into their own mobile and web applications.

BlackBerry AtHoc and BlackBerry Alert are secure 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® for Government 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 public authorities and businesses.

### *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 original equipment manufacturers (“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.

The Company entered into an agreement 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 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 multi-cloud deployments in order to ensure compatibility across vehicle models and brands. The Company expects to release an early access version of BlackBerry IVY in October 2021, followed by a commercial release in February 2022 with installations of BlackBerry IVY to begin in 2023 model year 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, the BlackBerry Radar® asset monitoring solution, and BlackBerry Jarvis™.

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.

BlackBerry Jarvis is a cloud-based binary static application security testing platform that identifies vulnerabilities in deployed binary software used in automobiles and other embedded applications, and BlackBerry Messenger (BBM®) Enterprise is an enterprise-grade secure instant messaging solution for messaging, voice and video.

The BlackBerry Spark and IoT groups are both 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 addition, in recent years, the Company has licensed its device security software and service suite and related brand assets to outsourcing partners who design, manufacture, market and provide customer support for BlackBerry-branded handsets featuring the Company's secure Android™ software. The Company also entered into licensing arrangements with manufacturers of other devices with embedded BlackBerry cybersecurity technology.

In the fourth quarter of fiscal 2021, the Company entered into exclusive negotiations with a North American entity for the potential sale of a portion of the patent portfolio relating primarily to non-core or legacy mobile devices, messaging and wireless networking technologies. The Company expects to retain rights to use these patents if a transaction is completed and does not intend to sell patents associated with the Company's current Software and Services business. Negotiations are ongoing and there can be no assurance that the Company will reach a definitive agreement or that a transaction will be consummated.

The Company's Other business generates revenue from SAF charged to subscribers using the Company's legacy BlackBerry 7 and prior BlackBerry operating systems.

## ***Recent Developments***

The Company continued to execute on its strategy in fiscal 2022 and announced the following achievements:

### *Products and Innovation:*

- Launched BlackBerry Optics 3.0, the Company's next-generation cloud-based EDR solution and BlackBerry Gateway, the Company's first AI-empowered ZTNA product;
- Announced that Frost & Sullivan named BlackBerry IVY an industry-leading cloud software platform for automakers and smart cities;
- Announced that BlackBerry AtHoc won the Frost & Sullivan 2021 Technology Innovation Leadership Award for safe city solutions; and
- Announced that Frost & Sullivan named BlackBerry an innovator in its US Healthcare Cybersecurity Market report.

### *Customers and Partners:*

- Announced that BlackBerry QNX software is embedded in over 195 million vehicles;
- Announced that Volvo Group has selected BlackBerry QNX for its Dynamic Software Platform;
- Announced that WM Motor has chosen BlackBerry QNX technologies to power its W6 all-electric SUV;
- Announced that the QNX Neutrino operating system has been adopted in a new digital LCD cluster jointly developed with BiTech Automotive (Wuhu) Co., Ltd. for Changan Automobile's new SUV, the UNI-K;
- Launched the BlackBerry IVY Advisory Council to help shape and advise the BlackBerry IVY application development community and drive use case generation;
- Announced that the Government of Canada has selected BlackBerry for their secure productivity and secure communications needs;
- Announced that BlackBerry and IBM Canada have established a new partnership to bring BlackBerry's industry leading BlackBerry Spark platform to organizations across Canada;
- Announced BlackBerry QNX and Carleton University have joined forces in a \$21 million partnership to train next generation of software engineers; and
- Announced that BlackBerry and the University of Waterloo have expanded their partnership to create a new joint innovation program.

### *Environmental, Sustainability and Corporate Governance:*

- Promoted President Tom Eacobacci to BlackBerry President and Chief Operating Officer;
- Appointed Mattias Eriksson as President and General Manager of IoT; and
- Announced that the Company was named one of Canada's Greenest Employers for sixth year in a row.

## ***Segment Reporting***

As disclosed in Note 11 to the Consolidated Financial Statements, 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. In the first quarter of fiscal 2022, the Company internally reorganized and, as a result, the CODM, who is the Executive Chair and CEO of the Company, began making decisions and assessing the performance of the Company using three operating segments, whereas the Company was previously a single operating segment.

## ***COVID-19***

The novel coronavirus (“COVID-19”) pandemic has prompted extraordinary actions by international, federal, state, provincial and local governmental authorities to contain and combat the spread of COVID-19 in regions throughout the world. The COVID-19 pandemic and related public health measures, including orders to shelter-in-place, travel restrictions and mandated business closures, adversely affected workforces, organizations, consumers and economies, which led to an economic downturn and which may cause market volatility and uncertainty in future periods.

The pandemic has disrupted the normal operations of the Company and the businesses of many of the Company’s customers, suppliers and distribution partners. To protect the health and safety of the Company’s employees, contractors, customers and visitors, during the first quarter of fiscal 2022 and throughout most of fiscal 2021, the Company mandated remote working, utilizing virtual meetings and suspending employee travel, to protect the health and safety of its employees, contractors, customers and visitors. The Company also shifted customer, industry and other stakeholder events to virtual-only experiences, and may similarly alter, postpone or cancel other events in the future. The long-term impacts on the Company of substantially remote operations are uncertain.

In response to certain anticipated and ongoing impacts from the COVID-19 pandemic, the Company also implemented a series of temporary cost reduction measures to further preserve financial flexibility. In the first quarter of fiscal 2022, these actions included taking advantage of the broad-based employer relief provided by governments in Canada, the United States and other jurisdictions and the postponement of certain discretionary spending. The Company estimates that savings from temporary cost reduction measures and governmental assistance related to the COVID-19 pandemic will be lower in fiscal 2022 than fiscal 2021 and will primarily depend on the speed and extent of the easing of pandemic-related restrictions and the extent of ongoing government programs.

In fiscal 2022 and fiscal 2021, the economic downturn and uncertainty caused by the COVID-19 pandemic and the measures undertaken to contain its spread negatively affected in particular the Company’s QNX automotive software business, caused volatility in demand for many of the Company’s products and services, adversely affected the ability of the Company’s sales and professional services teams to meet with customers and provide service, negatively impacted expected spending from new customers and increased sales cycle times.

Although the Company experienced higher quarterly Software & Services revenue in the first quarter of fiscal 2022 compared to the first quarter of fiscal 2021, when the COVID-19 pandemic first materially negatively impacted the Company’s operations, and the Company observed a continued recovery in both automotive design activities and production volumes during the first quarter of fiscal 2022, the COVID-19 pandemic and related global chip shortage have had and, in fiscal 2022, may continue to have a material adverse impact on the Company’s QNX automotive software business in particular and on the Company’s business, results of operations and financial condition on a consolidated basis. The Company does not expect the COVID-19 pandemic and its related economic impact to materially adversely affect the Company’s liquidity position.

The ultimate 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, the governmental restrictions that may be sustained or imposed in response to the pandemic, the effectiveness of actions taken to contain or mitigate the pandemic (including the distribution and efficacy of vaccines, particularly against emergent viral variants), the impact of the global chip shortage and global economic conditions. The long-term impact of the COVID-19 pandemic on the Company’s business may not be fully reflected until future periods.

The Company continues to evaluate the current and potential impact of the pandemic on its business, results of operations and consolidated financial statements, including potential asset impairment. The Company also continues to actively monitor developments and business conditions that may cause it to take further actions that alter business operations as may be required by applicable authorities or that the Company determines are in the best interests of its employees, customers, suppliers and stockholders.

## First Quarter Fiscal 2022 Summary Results of Operations

The following table sets forth certain unaudited consolidated statements of operations data for the quarter ended May 31, 2021 compared to the quarter ended May 31, 2020 under U.S. GAAP:

	For the Three Months Ended (in millions, except for share and per share amounts)		
	May 31, 2021	May 31, 2020	Change
Revenue	\$ 174	\$ 206	\$ (32)
Gross margin	114	143	(29)
Operating expenses	172	788	(616)
Investment loss, net	(2)	—	(2)
Loss before income taxes	(60)	(645)	585
Provision for (recovery of) income taxes	2	(9)	11
Net loss	<u>\$ (62)</u>	<u>\$ (636)</u>	<u>\$ 574</u>
Loss per share - reported			
Basic	<u>\$ (0.11)</u>	<u>\$ (1.14)</u>	
Diluted	<u>\$ (0.11)</u>	<u>\$ (1.14)</u>	
Weighted-average number of shares outstanding (000's)			
Basic <sup>(1)</sup>	567,358	557,839	
Diluted <sup>(2)</sup>	567,358	557,839	

<sup>(1)</sup> Basic loss per share on a U.S. GAAP basis for the first quarter of fiscal 2022 and first quarter of fiscal 2021 includes 1,421,945 and 2,802,067 common shares, respectively, to be issued on the anniversary dates of the Cylance acquisition completed on February 21, 2019, in consideration for the acquisition. There are no service or other requirements associated with the issuance of these shares.

<sup>(2)</sup> Diluted loss per share on a U.S. GAAP basis for the first quarter of fiscal 2022 and 2021 does not include the dilutive effect of the Debentures (defined below) or stock-based compensation, as to do so would be anti-dilutive. See Note 8 to the Consolidated Financial Statements for the Company's calculation of the diluted weighted average number of shares outstanding.

The following table shows information by operating segment for the three months ended May 31, 2021 and May 31, 2020. 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 "Business Overview" for a description of the Company's operating segments, as well as Note 11 to the Consolidated Financial Statements.

	For the Three Months Ended (in millions)									Segment Totals		
	Cyber Security			IoT			Licensing and Other			May 31, 2021	May 31, 2020	Change
	May 31, 2021	May 31, 2020	Change	May 31, 2021	May 31, 2020	Change	May 31, 2021	May 31, 2020	Change			
Segment revenue	\$ 107	\$ 119	\$ (12)	\$ 43	\$ 29	\$ 14	\$ 24	\$ 58	\$ (34)	\$ 174	\$ 206	\$ (32)
Segment cost of sales	46	47	(1)	7	6	1	6	8	(2)	59	61	(2)
Segment gross margin	<u>\$ 61</u>	<u>\$ 72</u>	<u>\$ (11)</u>	<u>\$ 36</u>	<u>\$ 23</u>	<u>\$ 13</u>	<u>\$ 18</u>	<u>\$ 50</u>	<u>\$ (32)</u>	<u>\$ 115</u>	<u>\$ 145</u>	<u>\$ (30)</u>

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

For the Three Months Ended May 31, 2021

(in millions)

	Cyber Security	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 107	\$ 43	\$ 24	\$ 174	\$ —	\$ 174
Cost of sales <sup>(1)</sup>	46	7	6	59	1	60
Gross margin	\$ 61	\$ 36	\$ 18	\$ 115	\$ (1)	\$ 114
Operating expenses					172	172
Investment loss, net					2	2
Loss before income taxes						\$ (60)

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

The following table reconciles the Company's segment results for the three months ended May 31, 2020 to consolidated U.S. GAAP results:

For the Three Months Ended May 31, 2020

(in millions)

	Cyber Security	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 119	\$ 29	\$ 58	\$ 206	\$ —	\$ 206
Cost of sales <sup>(1)</sup>	47	6	8	61	2	63
Gross margin	\$ 72	\$ 23	\$ 50	\$ 145	\$ (2)	\$ 143
Operating expenses					788	788
Loss before income taxes						\$ (645)

<sup>(1)</sup> See "Non-GAAP Financial Measures" for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three months ended May 31, 2020.

### Financial Highlights

The Company had approximately \$769 million in cash, cash equivalents and investments as of May 31, 2021 and \$804 million in cash, cash equivalents and investments as of February 28, 2021.

In the first quarter of fiscal 2022, the Company recognized revenue of \$174 million and incurred a net loss of \$62 million, or \$0.11 basic and diluted loss per share on a U.S. GAAP basis. In the first quarter of fiscal 2021, the Company recognized revenue of \$206 million and incurred a net loss of \$636 million, or \$1.14 basic and diluted loss per share on a U.S. GAAP basis.

The Company recognized an adjusted net loss of \$27 million, and an adjusted loss of \$0.05 per share, in the first quarter of fiscal 2022. The Company recognized adjusted net income of \$7 million, and adjusted earnings of \$0.01 per share, in the first quarter of fiscal 2021. 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") and its previously outstanding 3.75% outstanding convertible debentures (the "3.75% Debentures" and collectively, the "Debentures"); therefore, periodic revaluation has been and continues to be required under U.S. GAAP. The fair value adjustment does not impact the terms of the Debentures such as the face value, the redemption features or the conversion price.

As at May 31, 2021, the fair value of the 1.75% Debentures was approximately \$715 million, a decrease of approximately \$5 million during the first quarter of fiscal 2022. For the three months ended May 31, 2021, the Company recorded non-cash income relating to changes in fair value from instrument specific credit risk of \$1 million in Other Comprehensive Income ("OCI") and non-cash income relating to changes in fair value from non-credit components of \$4 million (pre-tax and after tax)

(the “Q1 Fiscal 2022 Debentures Fair Value Adjustment”) in the Company’s consolidated statements of operations relating to the 1.75% Debentures. See Note 6 to the Consolidated Financial Statements for further details on the 1.75% Debentures.

### Non-GAAP Financial Measures

The Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, and information contained in this MD&A is presented on that basis. On June 24, 2021, the Company announced financial results for the three months ended May 31, 2021, which included certain non-GAAP financial measures, including adjusted gross margin, adjusted gross margin percentage, adjusted operating expense, adjusted operating loss, adjusted EBITDA, adjusted operating loss margin percentage, adjusted EBITDA margin percentage, adjusted net income (loss), adjusted income (loss) per share, adjusted research and development expense, adjusted selling, marketing and administrative expense and adjusted amortization expense.

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 measures 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. In the first quarter of fiscal 2022, the Company discontinued its use of software deferred revenue acquired and software deferred commission acquired adjustments in its non-GAAP financial measures due to the quantitative decline in the adjustments over time. For purposes of comparability, the Company’s non-GAAP financial measures for the three months ended May 31, 2020 have been updated to conform to the current year’s presentation.

- *Debentures fair value adjustment.* The Company has elected to measure its Debentures outstanding at fair value in accordance with the fair value option under U.S. GAAP. Each period, the fair value of the Debentures is recalculated and resulting non-cash income and charges from the change in fair value from non-credit components of the Debentures are recognized in income. The amount can vary each period depending on changes to the Company’s share price. This is not indicative of the Company’s core operating performance, and may not be meaningful in comparison to the Company’s past operating performance.
- *Restructuring charges.* The Company believes that restructuring costs relating to employee termination benefits and facilities pursuant to the Resource Allocation Program (“RAP”) entered into in order to transition the Company from a legacy hardware manufacturer to a licensing driven software business do not reflect expected future operating expenses, are not indicative of the Company’s core operating performance, and may not be meaningful in comparison to the Company’s past operating performance.
- *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 in comparison to the Company’s past operating performance.
- *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 in comparison to the Company’s past operating performance.
- *Goodwill impairment charge.* The Company believes that goodwill impairment charge does not reflect expected future operating expenses, is not indicative of the Company’s core operating performance, and may not be meaningful in comparison to the Company’s past operating performance.

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

## Reconciliation of non-GAAP based measures with most directly comparable U.S. GAAP based measures for the three months ended May 31, 2021 and May 31, 2020

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

A reconciliation of the most directly comparable U.S. GAAP financial measures for the three months ended May 31, 2021 and May 31, 2020 to adjusted financial measures is reflected in the tables below:

For the Three Months Ended (in millions)	May 31, 2021	May 31, 2020
<b>Gross margin</b>	\$ 114	\$ 143
Stock compensation expense	1	2
<b>Adjusted gross margin</b>	\$ 115	\$ 145
<b>Gross margin %</b>	65.5 %	69.4 %
Stock compensation expense	0.6 %	1.0 %
<b>Adjusted gross margin %</b>	66.1 %	70.4 %

Reconciliation of operating expense for the three months ended May 31, 2021, February 28, 2021 and May 31, 2020 to adjusted operating expense is reflected in the tables below:

For the Three Months Ended (in millions)	May 31, 2021	February 28, 2021	May 31, 2020
<b>Operating expense</b>	\$ 172	\$ 465	\$ 788
Restructuring charges	—	—	1
Stock compensation expense	6	16	12
Debenture fair value adjustment <sup>(1)</sup>	(4)	258	1
Acquired intangibles amortization	32	32	33
Goodwill impairment charge	—	—	594
LLA impairment charge	—	22	—
<b>Adjusted operating expense</b>	\$ 138	\$ 137	\$ 147

<sup>(1)</sup> See “First Quarter Fiscal 2022 Summary Results of Operations - Financial Highlights - Debentures Fair Value Adjustment”

Reconciliation of U.S. GAAP net loss and U.S. GAAP basic loss per share for the three months ended May 31, 2021 and May 31, 2020 to adjusted net income (loss) and adjusted basic earnings (loss) per share is reflected in the tables below:

For the Three Months Ended (in millions, except per share amounts)	May 31, 2021		May 31, 2020	
		Basic earnings (loss) per share		Basic earnings (loss) per share
<b>Net loss</b>	\$ (62)	\$(0.11)	\$ (636)	\$(1.14)
Restructuring charges	—		1	
Stock compensation expense	7		14	
Debenture fair value adjustment	(4)		1	
Acquired intangibles amortization	32		33	
Goodwill impairment charge	—		594	
<b>Adjusted net income (loss)</b>	\$ (27)	\$(0.05)	\$ 7	\$0.01

Reconciliation of U.S. GAAP research and development, selling, marketing and administration, and amortization expense for the three months ended May 31, 2021 and May 31, 2020 to adjusted research and development, selling, marketing and administration, and amortization expense is reflected in the tables below:

For the Three Months Ended (in millions)	May 31, 2021	May 31, 2020
<b>Research and development</b>	\$ 57	\$ 57
Stock compensation expense	2	3
<b>Adjusted research and development</b>	\$ 55	\$ 54
<b>Selling, marketing and administration</b>	\$ 73	\$ 90
Restructuring charges	—	1
Stock compensation expense	4	9
<b>Adjusted selling, marketing and administration</b>	\$ 69	\$ 80
<b>Amortization</b>	\$ 46	\$ 46
Acquired intangibles amortization	32	33
<b>Adjusted amortization</b>	\$ 14	\$ 13

Adjusted operating loss, adjusted EBITDA, adjusted operating loss margin percentage and adjusted EBITDA margin percentage for the three months ended May 31, 2021 and May 31, 2020 are reflected in the table below.

For the Three Months Ended (in millions)	May 31, 2021	May 31, 2020
<b>Operating loss</b>	\$ (58)	\$ (645)
Non-GAAP adjustments to operating loss		
Restructuring charges	—	1
Stock compensation expense	7	14
Debenture fair value adjustment	(4)	1
Acquired intangibles amortization	32	33
Goodwill impairment charge	—	594
Total non-GAAP adjustments to operating loss	35	643
<b>Adjusted operating loss</b>	(23)	(2)
Amortization	49	50
Acquired intangibles amortization	(32)	(33)
<b>Adjusted EBITDA</b>	\$ (6)	\$ 15
<b>Revenue</b>	\$ 174	\$ 206
<b>Adjusted operating loss margin % <sup>(1)</sup></b>	(13%)	(1%)
<b>Adjusted EBITDA margin % <sup>(2)</sup></b>	(3%)	7%

<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

### 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 estimate future performance. Readers are cautioned that annual recurring revenue ("ARR"), dollar-based net retention rate ("DBNRR"), QNX Royalty Revenue Backlog, billings, recurring revenue percentage, and free cash flow do not have any standardized meaning and are unlikely to be comparable to similarly titled measures reported by other companies. In the first quarter of fiscal 2022, the Company discontinued its use of software deferred revenue acquired in its key metrics as the Company no longer reports non-GAAP revenue. For purposes of comparability, the

Company's key metrics for the three months ended February 28, 2021 and May 31, 2020 have been updated to conform to the current year's presentation.

Comparative breakdowns of the key metrics for the three months ended May 31, 2021 and May 31, 2020 are set forth below.

For the Three Months Ended (in millions)	May 31, 2021		May 31, 2020		Change
<b>Annual Recurring Revenue</b>					
Cyber Security	\$	364	\$	370	\$ (6)
IoT	\$	86	\$	103	\$ (17)
<b>Dollar-Based Net Retention Rate</b>					
Cyber Security		94 %		101 %	(7%)
<b>QNX Royalty Revenue Backlog</b>	\$	490	\$	450	\$ 40
<b>Recurring Software Product Revenue</b>		~ 90%		> 90%	

### ***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.

Cyber Security ARR was approximately \$364 million in the first quarter of fiscal 2022 and decreased compared to \$370 million in the first quarter of fiscal 2021 and decreased compared to \$369 million in the fourth quarter of fiscal 2021.

IoT ARR was approximately \$86 million in the first quarter of fiscal 2022 and decreased compared to \$103 million the first quarter of fiscal 2021 and increased compared to \$84 million in the fourth quarter of fiscal 2021.

The Company previously stated that it expected to see the negative impact of COVID-19 on IoT ARR until early in fiscal 2022, as the Company returns to its normal revenue run rate. The Company now expects that IoT revenue will return to a normal run-rate by the end of fiscal 2022 due to the reasons discussed below in "Revenue by Segment" and expects to see a negative impact from the global chip shortage on IoT ARR until the end of fiscal 2022.

### ***Dollar-Based Net Retention Rate***

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

Cyber Security DBNRR was 94% in the first quarter of fiscal 2022 and decreased compared to 101% in first quarter of fiscal 2021 and decreased compared to 95% in the fourth quarter of fiscal 2021.

### ***QNX Royalty Revenue Backlog***

The Company defines the royalty revenue backlog of its QNX business as estimated future revenue from variable forecasted royalties related to the QNX business. The estimation of forecasted royalties is based on QNX's royalty rates and on customer projections of anticipated volumes over the lifetime of a design, in each case as of when the design win was awarded. The QNX royalty revenue backlog is calculated annually, is not based on current projections of volumes and may not be indicative of actual future revenue. The revenue that the Company will recognize is subject to several factors, including actual volumes and potential terminations or modifications to customer contracts.

The Company's QNX royalty revenue backlog was approximately \$490 million at the end of the first quarter of fiscal 2022 and increased compared \$450 million at the end of the first quarter of fiscal 2021.

### ***Billings***

The Company defines billings as amounts invoiced less credits issued. The Company considers 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.

Total Company billings decreased in the first quarter of fiscal 2022 compared to the first quarter of fiscal 2021 and compared to the fourth quarter of fiscal 2021.

### ***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 adjusted Software and Services product revenue, excluding professional services, was approximately 90% recurring in the first quarter of fiscal 2022 and decreased from greater than 90% recurring in the first quarter of fiscal 2021 due to product mix.

### ***Free Cash Flow***

Free cash flow is a measure of liquidity calculated as net operating cash flow minus capital expenditures. Free cash flow does not have any standardized meaning as prescribed by U.S. GAAP and therefore may not be comparable to similar measures presented by other companies. The Company uses free cash flow when assessing its sources of liquidity, capital resources, and quality of earnings. Free cash flow 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. For the three months ended May 31, 2021, the Company's net cash used in operating activities was \$33 million and capital expenditures were \$2 million, resulting in the Company reporting free cash usage of \$35 million compared to net cash used in operating activities of \$31 million, capital expenditures of \$1 million, and free cash usage of \$32 million for the three months ended May 31, 2020.

## Results of Operations - Three months ended May 31, 2021 compared to the three months ended May 31, 2020

### Revenue

#### Revenue by Segment

Comparative breakdowns of revenue by segment are set forth below.

	For the Three Months Ended (in millions)		
	May 31, 2021	May 31, 2020	Change
<b>Revenue by Segment</b>			
Cyber Security	\$ 107	\$ 119	\$ (12)
IoT	43	29	14
Licensing and Other	24	58	(34)
	<u>\$ 174</u>	<u>\$ 206</u>	<u>\$ (32)</u>

#### % Revenue by Segment

Cyber Security	61.5 %	57.8 %
IoT	24.7 %	14.0 %
Licensing and Other	13.8 %	28.2 %
	<u>100.0 %</u>	<u>100.0 %</u>

#### Cyber Security

Cyber Security revenue was \$107 million, or 61.5% of revenue, in the first quarter of fiscal 2022, a decrease of \$12 million compared to \$119 million, or 57.8% of revenue, in the first quarter of fiscal 2021. The decrease in Cyber Security revenue of \$12 million was primarily due to a decrease of \$9 million relating to product revenue in BlackBerry Spark and a decrease of \$3 million relating to professional services, partially offset by an increase of \$3 million related to the sale of Secusmart solutions.

The Company previously stated that it expected Cyber Security revenue to be between \$495 million and \$515 million in fiscal 2022. The Company now expects Cyber Security revenue to be towards the lower end of \$495 million and \$515 million in fiscal 2022 due to billings growth being more heavily weighted to the second half of the year.

#### IoT

IoT revenue was \$43 million, or 24.7% of revenue, in the first quarter of fiscal 2022, an increase of \$14 million compared to \$29 million, or 14.0% of revenue, in the first quarter of fiscal 2021. The increase in IoT revenue of \$14 million was primarily due to an increase of \$7 million in BlackBerry QNX royalty revenue due to the partial recovery of the automotive market from the slowdown related to the COVID-19 pandemic in first quarter of fiscal 2021, an increase of \$5 million in development seat revenue and an increase of \$1 million in BlackBerry Radar revenue.

The Company previously stated that, assuming that the global chip shortage has been alleviated by the middle of fiscal 2022, it expects that BTS revenue will return to a pre-pandemic run-rate of approximately \$50 million per quarter by that time and will be between \$180 million and \$200 million for fiscal 2022 as a whole. The Company now expects that IoT revenue will return to a run-rate of approximately \$50 million per quarter by the end of fiscal 2022, primarily due to the negative impact of the global chip shortage on BlackBerry QNX royalty revenue in the first half of fiscal 2022.

#### Licensing and Other

Licensing and Other revenue was \$24 million, or 13.8% of revenue, in the first quarter of fiscal 2022, a decrease of \$34 million compared to \$58 million, or 28.2% of revenue, in the first quarter of fiscal 2021. The decrease in Licensing and Other revenue of \$34 million was primarily due to a decrease in revenue from the Company's intellectual property licensing arrangements including its patent licensing agreement with Telety.

## Revenue by Geography

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

	For the Three Months Ended (in millions)		
	May 31, 2021	May 31, 2020	Change
<b>Revenue by Geography</b>			
North America	\$ 111	\$ 150	\$ (39)
Europe, Middle East and Africa	45	41	4
Other regions	18	15	3
	<u>\$ 174</u>	<u>\$ 206</u>	<u>\$ (32)</u>
<b>% Revenue by Geography</b>			
North America	63.8 %	72.8 %	
Europe, Middle East and Africa	25.9 %	19.9 %	
Other regions	10.3 %	7.3 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

### North America Revenue

Revenue in North America was \$111 million, or 63.8% of revenue, in the first quarter of fiscal 2022, reflecting a decrease of \$39 million compared to \$150 million, or 72.8% of revenue, in the first quarter of fiscal 2021. Revenue in North America decreased compared to the first quarter of fiscal 2021 primarily due to a decrease of \$34 million in Licensing and Other revenue due to the reasons discussed above in “Revenue by Segment”, a decrease of \$9 million in product revenue in BlackBerry Spark and a decrease of \$2 million relating to professional services, partially offset by an increase of \$5 million in BlackBerry QNX royalty revenue due to the reasons discussed above in “Revenue by Segment”.

### Europe, Middle East and Africa Revenue

Revenue in Europe, Middle East and Africa was \$45 million or 25.9% of revenue in the first quarter of fiscal 2022, reflecting an increase of \$4 million compared to \$41 million or 19.9% of revenue in the first quarter of fiscal 2021. The increase in revenue is primarily due to an increase of \$2 million related to the sale of Secusmart solutions, an increase of \$2 million in development seat revenue and an increase of \$1 million in BlackBerry QNX royalty revenue due to the reasons discussed above in “Revenue by Segment”.

### Other Regions Revenue

Revenue in other regions was \$18 million or 10.3% of revenue in the first quarter of fiscal 2022, reflecting an increase of \$3 million compared to \$15 million or 7.3% of revenue in the first quarter of fiscal 2021. The increase in revenue is primarily due to an increase of \$2 million in development seat revenue and an increase of \$1 million in product revenue in BlackBerry Spark.

## **Gross Margin**

### *Consolidated Gross Margin*

Consolidated gross margin decreased by \$29 million to approximately \$114 million in the first quarter of fiscal 2022 from \$143 million in the first quarter of fiscal 2021. The decrease was primarily due to a decrease in revenue from Licensing and Other and BlackBerry Spark, partially offset by an increase in revenue from BlackBerry QNX and Secusmart due to the reasons discussed above in “Revenue by Segment”, as the Company’s cost of sales does not significantly fluctuate based on business volume.

### *Consolidated Gross Margin Percentage*

Consolidated gross margin percentage decreased by 3.9% to approximately 65.5% of consolidated revenue in the first quarter of fiscal 2022 from 69.4% of consolidated revenue in the first quarter of fiscal 2021. The decrease was primarily due to a lower gross margin contribution from Licensing and Other due to the reasons discussed above in “Revenue by Segment”, partially offset by a higher gross margin contribution from BlackBerry QNX due to the reasons discussed above in “Revenue by Segment”.

## Gross Margin by Segment

See “Business Overview” and “First Quarter Fiscal 2022 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)											
	Cyber Security			IoT			Licensing and Other			Segment Totals		
	May 31, 2021	May 31, 2020	Change	May 31, 2021	May 31, 2020	Change	May 31, 2021	May 31, 2020	Change	May 31, 2021	May 31, 2020	Change
Segment revenue	\$107	\$119	\$(12)	\$43	\$29	\$14	\$24	\$58	\$(34)	\$174	\$206	\$(32)
Segment cost of sales	46	47	(1)	7	6	1	6	8	(2)	59	61	(2)
Segment gross margin	\$61	\$72	\$(11)	\$36	\$23	\$13	\$18	\$50	\$(32)	\$115	\$145	\$(30)
Segment gross margin %	57 %	61 %	(4%)	84 %	79 %	5 %	75 %	86 %	(11%)	66 %	70 %	(4%)

### Cyber Security

Cyber Security gross margin decreased by \$11 million to approximately \$61 million in the first quarter of fiscal 2022 from \$72 million in the first quarter of fiscal 2021. The decrease was primarily 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.

Cyber Security gross margin percentage decreased by 4% to approximately 57% of Cyber Security revenue in the first quarter of fiscal 2022 from 61% of Cyber Security revenue in the first quarter of fiscal 2021. The decrease was primarily due to the reasons discussed above in “Revenue by Segment”.

### IoT

IoT gross margin increased by \$13 million to approximately \$36 million in the first quarter of fiscal 2022 from \$23 million in the first quarter of fiscal 2021. The increase was primarily 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.

IoT gross margin percentage increased by 5% to approximately 84% of IoT revenue in the first quarter of fiscal 2022 from 79% of IoT revenue in the first quarter of fiscal 2021. The increase was primarily due an increase in BlackBerry QNX royalty revenue, which has a higher relative gross margin percentage, due to the reasons discussed above in “Revenue by Segment”.

### Licensing and Other

Licensing and Other gross margin decreased by \$32 million to approximately \$18 million in the first quarter of fiscal 2022 from \$50 million in the first quarter of fiscal 2021. The decrease was primarily 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.

Licensing and Other gross margin percentage decreased by 11% to approximately 75% of Licensing and Other revenue in the first quarter of fiscal 2022 from 86% of Licensing and Other revenue in the first quarter of fiscal 2021. The decrease was primarily due to the reasons discussed above in “Revenue by Segment”.

## Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expenses for the quarter ended May 31, 2021, compared to the quarter ended February 28, 2021 and the quarter ended May 31, 2020. The Company believes it is meaningful to provide a sequential comparison between the first quarter of fiscal 2022 and the fourth quarter of fiscal 2021.

	For the Three Months Ended (in millions)		
	May 31, 2021	February 28, 2021	May 31, 2020
<b>Revenue</b>	\$ 174	\$ 210	\$ 206
<b>Operating expenses</b>			
Research and development	57	48	57
Selling, marketing and administration	73	92	90
Amortization	46	45	46
Impairment of long-lived assets	—	22	—
Impairment of goodwill	—	—	594
Debentures fair value adjustment	(4)	258	1
<b>Total</b>	<b>\$ 172</b>	<b>\$ 465</b>	<b>\$ 788</b>
<b>Operating Expenses as % of Revenue</b>			
Research and development	32.8%	22.9%	27.7%
Selling, marketing and administration	42.0%	43.8%	43.7%
Amortization	26.4%	21.4%	22.3%
Impairment of long-lived assets	—%	10.5%	—%
Impairment of goodwill	—%	—%	288.3%
Debentures fair value adjustment	(2.3%)	122.9%	0.5%
<b>Total</b>	<b>98.9 %</b>	<b>221.4 %</b>	<b>382.5 %</b>

See “Non-GAAP Financial Measures” for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three months ended May 31, 2021, February 28, 2021 and May 31, 2020.

### U.S. GAAP Operating Expenses

Operating expenses decreased by \$293 million, or 63.0%, to \$172 million, or 98.9% of revenue, in the first quarter of fiscal 2022, compared to \$465 million, or 221.4% of revenue, in the fourth quarter of fiscal 2021. The decrease was primarily attributable to the difference between the Q1 Fiscal 2022 Debentures Fair Value Adjustment and the fair value adjustment related to the Debentures incurred in the fourth quarter of fiscal 2021 of \$262 million, a decrease of \$22 million in impairment of long-lived assets in the fourth quarter of fiscal 2021 which did not recur, a decrease of \$10 million in stock compensation expenses and a decrease of \$6 million in the Company’s deferred share unit costs, partially offset by an increase of \$11 million in variable incentive plan costs.

Operating expenses decreased by \$616 million, or 78.2%, to \$172 million, or 98.9% of revenue, in the first quarter of fiscal 2022, compared to \$788 million, or 382.5% of revenue, in the first quarter of fiscal 2021. The decrease was primarily attributable to goodwill impairment of \$594 million in the first quarter of fiscal 2021 which did not recur, a decrease of \$7 million in stock compensation expenses, an increase in benefits of \$6 million in government subsidies resulting from claims filed for the Canada Emergency Wage Subsidy (“CEWS”) program to support the business through the COVID-19 pandemic, and the difference between the Q1 Fiscal 2022 Debentures Fair Value Adjustment and the fair value adjustment related to the Debentures incurred in the first quarter of fiscal 2021 of \$5 million, partially offset by an increase of \$5 million in legal expenses.

### Adjusted Operating Expenses

Adjusted operating expenses increased by \$1 million, or 0.7%, to \$138 million in the first quarter of fiscal 2022 compared to \$137 million in the fourth quarter of fiscal 2021. The increase was primarily attributable to an increase of \$11 million in variable incentive plan costs and an increase of \$4 million in salaries and benefits expenses, partially offset by a decrease of \$6

million in the Company's deferred share unit costs, a decrease of \$5 million in professional service expenses, and a decrease of \$2 million in legal expenses.

Adjusted operating expenses decreased by \$9 million, or 6.1%, to \$138 million in the first quarter of fiscal 2022, compared to \$147 million in the first quarter of fiscal 2021. The decrease was primarily attributable to the increase in benefits of \$6 million in CEWS funding, a decrease of \$3 million in salaries and benefits expenses, favorable foreign currency translation of \$2 million and a decrease of \$2 million in operating lease costs, partially offset by an increase of \$5 million in legal expenses.

#### *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 were \$57 million in the first quarter of fiscal 2022, consistent with \$57 million in the first quarter of fiscal 2021. A decrease of \$1 million in stock compensation expense was offset by a decrease 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 increased by \$1 million, or 1.9%, to \$55 million in the first quarter of fiscal 2022 compared to \$54 million in the first quarter of fiscal 2021. The increase was primarily due to a decrease of \$1 million in SIF claims.

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

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

Selling, marketing and administration expenses decreased by \$17 million, or 18.9%, to \$73 million in the first quarter of fiscal 2022 compared to \$90 million in the first quarter of fiscal 2021. This decrease was primarily attributable to the increase in benefits of \$6 million in CEWS funding, a decrease of \$6 million in stock compensation expenses, a decrease of \$3 million in salaries and benefits expenses, favorable foreign currency translation of \$2 million and a decrease of \$2 million in operating lease costs, partially offset by an increase of \$5 million in legal expenses.

Adjusted selling, marketing and administration expenses decreased by \$11 million, or 13.8%, to \$69 million in the first quarter of fiscal 2022 compared to \$80 million in the first quarter of fiscal 2021. This decrease was primarily attributable to the benefit of \$6 million in CEWS funding, a decrease of \$3 million in salaries and benefits expenses, a favorable foreign currency translation of \$2 million and a decrease of \$2 million in operating lease costs, partially offset by an increase of \$5 million in legal expenses.

#### *Amortization Expense*

The table below presents a comparison of amortization expense relating to property, plant and equipment and intangible assets recorded as amortization or cost of sales for the quarter ended May 31, 2021 compared to the quarter ended May 31, 2020. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Three Months Ended (in millions)		
	<b>Included in Operating Expense</b>		
	May 31, 2021	May 31, 2020	Change
Property, plant and equipment	\$ 3	\$ 4	\$ (1)
Intangible assets	43	42	1
<b>Total</b>	<b>\$ 46</b>	<b>\$ 46</b>	<b>\$ —</b>
	<b>Included in Cost of Sales</b>		
	May 31, 2021	May 31, 2020	Change
	Property, plant and equipment	\$ 1	\$ 1
Intangible assets	2	3	(1)
<b>Total</b>	<b>\$ 3</b>	<b>\$ 4</b>	<b>\$ (1)</b>

### Amortization included in Operating Expense

Amortization expense relating to property, plant and equipment and certain intangible assets was \$46 million in the first quarter of fiscal 2022, consistent with \$46 million in the first quarter of fiscal 2021.

Adjusted amortization increased by \$1 million to \$14 million in the first quarter of fiscal 2022 compared to \$13 million in the first quarter of fiscal 2021 due to a decrease in the non-GAAP adjustment of acquired intangibles amortization to \$32 million in the first quarter of fiscal 2022 from \$33 million in the first quarter of fiscal 2021.

### 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 decreased by \$1 million to \$3 million in the first quarter of fiscal 2022 compared to \$4 million in the first quarter of fiscal 2021. The decrease in amortization expense 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, increased by \$2 million to an investment loss, net of \$2 million in the first quarter of fiscal 2022, compared to investment loss, net of nil in the first quarter of fiscal 2021. The increase in investment loss, net is primarily due to a lower yield on cash and investments and a lower cash and investments balance compared to the first quarter of fiscal 2021 as a result of the redemption of the 3.75% Debentures and issuance of the 1.75% Debentures, partially offset by a decrease in interest expense from the Debentures.

### ***Income Taxes***

For the first quarter of fiscal 2022, the Company's net effective income tax expense rate was approximately 3%, compared to an effective income tax recovery rate of approximately 1% for the same period in the prior fiscal year. 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 Debentures, amongst other items, was offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

### ***Net Loss***

The Company's net loss for the first quarter of fiscal 2022 was \$62 million, or \$0.11 basic and diluted loss per share on a U.S. GAAP basis, reflecting a decrease in net loss of \$574 million compared to a net loss of \$636 million, or \$1.14 basic and diluted loss per share, in the first quarter of fiscal 2021. The decrease in net loss of \$574 million was primarily due to a decrease in operating expenses due to the goodwill impairment in the first quarter of fiscal 2021 that did not recur, 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 \$27 million in the first quarter of fiscal 2022 compared to adjusted net income of \$7 million in the first quarter of fiscal 2021, reflecting a decrease in adjusted net income of \$34 million primarily due to 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", partially offset by a decrease in operating expenses as described above in "Operating Expenses".

The weighted average number of shares outstanding was 567 million common shares for basic and diluted loss per share for the first quarter of fiscal 2022. The weighted average number of shares outstanding was 558 million common shares for basic loss and diluted loss per share for the first quarter of fiscal 2021.

### **Financial Condition**

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

Cash, cash equivalents, and investments decreased by \$35 million to \$769 million as at May 31, 2021 from \$804 million as at February 28, 2021, primarily as a result of changes in working capital. The majority of the Company's cash, cash equivalents, and investments were denominated in U.S. dollars as at May 31, 2021.

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

	As at (in millions)		
	May 31, 2021	February 28, 2021	Change
Cash and cash equivalents	\$ 339	\$ 214	\$ 125
Restricted cash equivalents and restricted short-term investments	29	28	1
Short-term investments	364	525	(161)
Long-term investments	37	37	—
Cash, cash equivalents, and investments	<u>\$ 769</u>	<u>\$ 804</u>	<u>\$ (35)</u>

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

	As at (in millions)		
	May 31, 2021	February 28, 2021	Change
Current assets	\$ 953	\$ 1,006	\$ (53)
Current liabilities	402	429	(27)
Working capital	<u>\$ 551</u>	<u>\$ 577</u>	<u>\$ (26)</u>

#### *Current Assets*

The decrease in current assets of \$53 million at the end of the first quarter of fiscal 2022 from the end of fourth quarter of fiscal 2021 was primarily due to a decrease in short term investments of \$161 million, and accounts receivable, net of allowance of \$29 million, partially offset by an increase in cash and cash equivalents of \$125 million, an increase in other current assets of \$11 million, and an increase in other receivables of \$1 million.

At May 31, 2021, accounts receivable was \$153 million, a decrease of \$29 million from February 28, 2021. The decrease was primarily due to lower revenue recognized over the three months ended May 31, 2021 compared to the three months ended February 28, 2021, partially offset by an increase in days sales outstanding to 89 days at the end of the first quarter of fiscal 2022 from 85 days at the end of the fourth quarter of fiscal 2021.

At May 31, 2021, other current assets was \$61 million, an increase of \$11 million from February 28, 2021. The increase was primarily due to an increase in inventory of \$3 million, an increase of \$3 million in prepaid insurance, an increase of \$2 million in prepaid maintenance, and an increase of \$2 million in derivative assets.

At May 31, 2021, other receivables increased by \$1 million to \$26 million compared to \$25 million as at February 28, 2021. The increase was primarily due to an increase of \$1 million relating to the SIF claims, and an increase of \$1 million in GST and VAT receivables, partially offset by a decrease of \$1 million relating to the CEWS program.

#### *Current Liabilities*

The decrease in current liabilities of \$27 million at the end of the first quarter of 2022 from the end of the fourth quarter of fiscal 2021 was primarily due to a decrease in deferred revenue of \$17 million, and a decrease in accrued liabilities of \$14 million, partially offset by an increase in income taxes payable of \$2 million and an increase in accounts payable of \$2 million.

Deferred revenue, current was \$208 million, which reflects a decrease of \$17 million compared to February 28, 2021 that was attributable to a \$12 million decrease in deferred revenue, current related to BlackBerry Spark and \$4 million related to BlackBerry AtHoc, partially offset by an increase of \$1 million in deferred revenue, current related to BlackBerry QNX.

Accrued liabilities were \$164 million, reflecting a decrease of \$14 million compared to February 28, 2021, which was primarily attributable to a \$8 million decrease in variable incentive plan costs and a decrease of \$5 million in payroll accrual.

Income taxes payable were \$8 million, reflecting a decrease of \$2 million compared to February 28, 2021, which was primarily attributable to the reversal of uncertain tax positions.

Accounts payable were \$22 million, reflecting an increase of \$2 million from February 28, 2021, which was primarily due to timing of payments of accounts payable.

Cash flows for the three months ended May 31, 2021 compared to the three months ended May 31, 2020 were as follows:

	For the Three Months Ended		
	<i>(in millions)</i>		
	May 31, 2021	May 31, 2020	Change
Net cash flows provided by (used in):			
Operating activities	\$ (33)	\$ (31)	\$ (2)
Investing activities	176	(39)	215
Financing activities	4	4	—
Effect of foreign exchange gain on cash and cash equivalents	3	—	3
Net increase (decrease) in cash and cash equivalents	<u>\$ 150</u>	<u>\$ (66)</u>	<u>\$ 216</u>

#### *Operating Activities*

The increase in net cash flows used in operating activities of \$2 million primarily reflects the net changes in working capital.

#### *Investing Activities*

During the three months ended May 31, 2021, cash flows provided by investing activities were \$176 million and included cash provided by transactions involving the acquisitions of short-term and long-term investments, net of the proceeds on sale or maturity in the amount of \$184 million, offset by cash used in the acquisition of intangible assets of \$6 million, and the acquisition of property, plant and equipment of \$2 million. For the same period in the prior fiscal year, cash flows used in investing activities were \$39 million and included cash used in transactions involving the acquisitions of short-term and long-term investments, net of the proceeds on sale or maturity in the amount of \$30 million, intangible asset additions of \$8 million, and acquisitions of property, plant and equipment of \$1 million.

#### *Financing Activities*

The increase in cash flows provided by financing activities of \$4 million was consistent with the first three months of fiscal 2021 and included common shares issued for stock options exercised and under the employee share purchase plan.

#### **Aggregate Contractual Obligations**

The following table sets out aggregate information about the Company's contractual obligations and the periods in which payments are due as at May 31, 2021:

	<i>(in millions)</i>				
	Total	Less than One Year	One to Three Years	Four to Five Years	Greater than Five Years
Operating lease obligations	\$ 127	\$ 36	\$ 50	\$ 27	\$ 14
Purchase obligations and commitments	186	130	56	—	—
Debt interest and principal payments	382	6	376	—	—
Total	<u>\$ 695</u>	<u>\$ 172</u>	<u>\$ 482</u>	<u>\$ 27</u>	<u>\$ 14</u>

Purchase obligations and commitments amounted to approximately \$695 million as at May 31, 2021, including the principal amount of the 1.75% Debentures of \$365 million and operating lease obligations of \$127 million. The remaining balance consists of purchase orders for goods and services utilized in the operations of the Company. Total aggregate contractual obligations as at May 31, 2021 increased by approximately \$19 million as compared to the February 28, 2021 balance of approximately \$676 million, which was attributable to an increase in purchase obligations and commitments, partially offset by a decrease in operating lease obligations.

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

See Note 6 to the Consolidated Financial Statements for a description of the Debentures.

The Company has \$29 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business. See Note 3 to the Consolidated Financial Statements for further information concerning the Company's restricted cash.

Cash, cash equivalents, and investments were approximately \$769 million as at May 31, 2021. The Company's management remains focused on maintaining appropriate cash balances, efficiently managing working capital balances and managing the liquidity needs of the business. Based on its current financial projections, the Company believes its financial resources, together with expected future operating cash generating and operating expense reduction activities and access to other potential financing arrangements, should be sufficient to meet funding requirements for current financial commitments and future operating expenditures not yet committed, and should provide the necessary financial capacity for the foreseeable future.

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

### **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.

See Note 2 to the Consolidated Financial Statements for accounting pronouncements not yet adopted.

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

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

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

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the U.S. dollar. The majority of the Company's revenue in the first quarter of fiscal 2022 was transacted in U.S. dollars. Portions of the revenue were denominated in Canadian dollars, euros and British pounds. Expenses, consisting mainly of salaries and certain other operating costs, were incurred primarily in Canadian dollars, but were also incurred in U.S. dollars, euros and British pounds. At May 31, 2021, approximately 12% of cash and cash equivalents, 20% of accounts receivables and 52% of accounts payable were denominated in foreign currencies (February 28, 2021 – 20%, 25% and 34%, respectively). These foreign currencies primarily include the Canadian dollar, euro and British pound. As part of its risk management strategy, the Company maintains net monetary asset and/or liability balances in foreign currencies and engages in foreign currency hedging activities using derivative financial instruments, including currency forward contracts and currency options. The Company does not use derivative instruments for speculative purposes. If overall foreign currency exchange rates to the U.S. dollar uniformly weakened or strengthened by 10% related to the Company's net monetary asset or liability balances in foreign currencies at May 31, 2021 (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 Debentures with a fixed interest rate, as described in Note 6 to the Consolidated Financial Statements. The fair value of the Debentures will fluctuate with changes in prevailing interest rates. Consequently, the Company is exposed to interest rate risk as a result of the Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio or changes in the market value of the Debentures.

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

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. The Company establishes an allowance for credit losses ("ACL") that corresponds to the specific credit risk of its customers, historical trends and economic circumstances. The ACL as at May 31, 2021 was \$9 million (February 28, 2021 - \$10 million). There was one customer that comprised more than 10% of accounts receivable as at May 31, 2021 (February 28, 2021 - one customer that comprised more than 10%). During the first quarter of fiscal 2022, the percentage of the Company's receivable balance that was past due increased by 6.0% compared to the fourth quarter of fiscal 2021. 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