

following conditions are met concurrently: (a) 25% or more of the issued shares of any class of the capital stock of the Company were owned by or belonged to one or any combination of (i) the U.S. Resident Holder, (ii) persons with whom the U.S. Resident Holder did not deal at arm's length for purposes of the Tax Act, and (iii) partnerships in which the U.S. Resident Holder or a person described in (ii) holds a membership interest directly or indirectly through one or more partnerships; and (b) more than 50% of the fair market value of the common share was derived, directly or indirectly, from one or any combination of: (i) real or immovable property situated in Canada, (ii) "Canadian resource properties" (as defined in the Tax Act), (iii) "timber resource properties" (as defined in the Tax Act), and (iv) options in respect of, or interests in, or for civil law rights in, property described in any of (b)(i) to (iii), whether or not the property exists. A common share may also be deemed to be "taxable Canadian property" in certain circumstances as set out in the Tax Act. In the case of a U.S. Resident Holder to whom a common share of the Company represents "taxable Canadian property", under the Treaty, such a U.S. Resident Holder will generally not be subject to tax under the Tax Act on a capital gain realized on the disposition of such share unless the value of such share is derived principally from real property situated in Canada (within the meaning of the Treaty).

In the event that a common share is "taxable Canadian property," within the meaning of the Tax Act, to a U.S. Resident Holder at the time of disposition, such U.S. Resident Holder should consult its own tax advisor as to the Canadian federal income tax consequences of the disposition.

## **ITEM 6. SELECTED FINANCIAL DATA**

The Company has elected to early adopt the amendment to Item 301 of Regulation S-K and is no longer required to provide five years of selected financial data.

## **ITEM 7. 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 audited consolidated financial statements and the accompanying notes (the "Consolidated Financial Statements") of BlackBerry Limited, for the fiscal year ended February 28, 2021. The Consolidated Financial Statements are presented in U.S. dollars and have been prepared in accordance with U.S. GAAP. All financial information in this MD&A is presented in U.S. dollars, unless otherwise indicated.

Readers should carefully review Part I, Item 1A "Risk Factors" and other documents filed from time to time with the Securities and Exchange Commission ("SEC") and other securities regulators. A number of factors may materially affect our business, financial condition, operating results and prospects. These factors include but are not limited to those set forth in Part I, Item 1A "Risk Factors" and elsewhere in this Annual Report on Form 10-K. Any one of these factors, and other factors that we are unaware of, or currently deem immaterial, may cause our actual results to differ materially from recent results or from our anticipated future results. Please refer to our MD&A included in our Annual Report on 10-K for the fiscal year ended February 29, 2020 for a comparative discussion of our Fiscal 2020 financial results as compared to our Fiscal 2019, which is incorporated herein by reference. 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 and billings 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 - COVID-19", "Key Metrics - Billings", "Results of Operations - Fiscal year ended February 28, 2021 compared to fiscal year ended February 29, 2020 - Revenue - Revenue by Product and Service", "Financial Condition - Aggregate Contractual Obligations" 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 particularly in light of COVID-19, 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 on Form 10-K.

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 "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 175 million cars on the road today. Based in Waterloo, Ontario, the Company leverages artificial intelligence 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. The Company's common shares trade under the ticker symbol "BB" on the New York Stock Exchange and the Toronto Stock Exchange. The Company was incorporated under the Business Corporations Act (Ontario) ("OBCA") on March 7, 1984.

The Company continued to execute on its strategy in fiscal 2021 and announced the following achievements:

### *Products and Innovation:*

- Announced an agreement with AWS to develop and market the new BlackBerry IVY intelligent vehicle data platform;
- Launched BlackBerry Spark® Suites, offering enterprises a range of tailored cybersecurity and endpoint management options to help protect data, minimize risk, and reduce cost and complexity;
- Launched BlackBerry Cyber Suite, the industry's first comprehensive AI-powered UES solution;
- Announced that BlackBerry QNX software is embedded in more than 175 million cars on the road;
- Announced that BlackBerry® UES was validated by MITRE ATT&CK APT29, which examines the ability to detect sophisticated tactics and techniques used by APT29, a group that cybersecurity experts believe operates on behalf of the Russian government;
- Announced that an independent Frost & Sullivan study reported that the Company's solutions can secure all IoT endpoints against upwards of 96% of all cyberthreats;
- Launched BlackBerry Persona, the industry's first UEBA solution using AI technology for continuous authentication;
- Launched BlackBerry Protect® Mobile, an MTD solution to protect against mobile malware and phishing attacks;
- Launched Zoom™ for BlackBerry®, a secure, containerized version of the Zoom app enabled by BlackBerry Dynamics;
- Announced that BlackBerry UEM has achieved National Security Agency (NSA) Commercial Solutions for Classified Program (CSfC) approval;
- Announced that BlackBerry UEM achieved National Information Assurance Partnership (NIAP) and U.S. Department of Defense Information Network (DoDIN) approvals;
- Announced that the BlackBerry® Government Mobility Suite has achieved Federal Risk and Authorization Management Program (FedRAMP) authorization;
- Launched QNX® OS for Safety 2.2 and announced its certification by TÜV Rheinland to IEC 61508 SIL3 (industrial), ISO 26262 ASIL D (automotive), and IEC 62304 Class C (medical devices) functional safety standards;
- Launched BlackBerry QNX® Hypervisor 2.2, the latest edition of the Company's real-time embedded hypervisor;
- Launched QNX® Black Channel Communications Technology, a new software solution that OEMs and embedded software developers can use to ensure safe data communication exchanges within their safety-critical systems;
- Launched the BlackBerry® Alert next-generation critical event management solution for the commercial sector;
- Introduced AtHoc® Managed Service to enable organizations of any size to maintain crisis communications capability;

- Announced the launch of BlackBerry® AtHoc® Public Safety Edition to support local governments and universities with critical event management programs;
- Announced the integration of BlackBerry AtHoc with Microsoft Teams;
- Announced the integration of the BlackBerry AtHoc service with ServiceNow's Now platform for rapid crisis communications and IT service management;
- Announced a dedicated European Union market version of BlackBerry AtHoc to comply with data residency mandates;
- Announced enhancements to BlackBerry Radar® devices to help transportation businesses improve asset utilization and visibility;
- Announced that BlackBerry is making available PE Tree, a free open-source tool for cybersecurity professionals that significantly reduces the time and effort required to reverse engineer malware;
- Announced a collaboration with Intel to deliver a new release of BlackBerry Optics to stop cryptojacking malware;
- Released the 2021 BlackBerry Threat Report, detailing a sharp rise in cyberthreats facing organizations since the onset of the COVID-19 pandemic;
- Released proprietary research uncovering attacks by BAHAMUT, a massive hack-for-hire group targeting governments, businesses, human rights groups and influential individuals;
- Released new research that examines how five related Chinese Advanced Persistent Threat groups have compromised Linux servers, Windows systems and mobile Android devices for nearly a decade; and
- Announced feature updates to its SecuSUITE for Government and BlackBerry AtHoc solutions.

#### *Customers and Partners:*

- Launched the BlackBerry IVY Innovation Fund to drive innovation and new products using BlackBerry IVY;
- Announced that the U.S. Air Force chose BlackBerry Spark for secure productivity;
- Announced expanded partnership with Baidu to power high-definition map technology for autonomous driving;
- Announced that Scania AB chose BlackBerry QNX to provide the safety-critical operating system and hypervisor in its next generation of heavy goods vehicles;
- Announced the development of an autonomous driving domain controller for the Xpeng P7 intelligent electric sports sedan with Desay SV Automotive;
- Teamed up with Desay SV Automotive to launch a virtual smart cabin domain controller in Chery's Tiggo 8 Plus and Jetour X90 models;
- Announced that QNX Black Channel Communications Technology will be used in Motional's driverless vehicle platform;
- Announced that StradVision will utilize the QNX® Software Development Platform within a number of next generation advanced driver assistance systems (ADAS) and autonomous vehicles from South Korean automakers;
- Announced that the Neutrino operating system will power ADAS systems in Canoo's next generation electric vehicles;
- Announced that BlackBerry QNX technology will power the innovative digital cockpit in ARCFOX αT, a high-end, intelligent, electric SUV;
- Announced that Plus has selected BlackBerry QNX technology for the global commercial deployment of their automated driving system for Class 8 trucks;
- Announced expanded partnerships with Vodafone and TELUS to offer BlackBerry AtHoc as their secure critical event management and crisis communications solution;
- Partnered with Bell to become Bell's preferred MTD solution provider, delivering BlackBerry Protect to Canadian enterprise customers;
- Launched the BlackBerry Partner Program to unify the BlackBerry Enterprise Partner Program and BlackBerry Cylance Partner Programs into one comprehensive structure;
- Announced that the BlackBerry Enterprise Partner Program and the BlackBerry Cylance Partner Program both received a 5-Star rating from CRN for the fourth consecutive year;
- Expanded the leadership position of the BlackBerry AtHoc crisis communication system within the U.S. federal government;
- Announced that BlackBerry AtHoc introduced Derived Credentials and FedRAMP authorization on AWS GovCloud to better support U.S. Federal agencies;
- Announced that the German Development Agency chose BlackBerry AtHoc as its emergency mass notification system;
- Entered into a partnership with DEDrone, a market and technology leader in airspace security, to deliver advanced counter-drone technology to secure the world's most critical sites;
- Announced that Sliced Tech will host SecuSUITE for Government for Australian government and enterprise customers;
- Announced that BlackBerry Radar added more than 12 new channel partners including two within Mexico, expanding the company's asset monitoring solutions outside of the U.S. and Canada for the first time;

- Entered into a partnership with ZTR to offer railcar owners, operators and suppliers a powerful new digital monitoring solution;
- Announced that BlackBerry® Jarvis™ was named “Best In Breed” binary analysis tool for embedded software by an Internal Research & Development (IRAD) program study;
- Announced the success of a joint cybersecurity skills-based education program with Girl Guides of Canada; and
- Entered into a partnership with University of Windsor to develop and deliver a cybersecurity curriculum for the University’s Graduate Master’s Program in Applied Computing.

*Environmental, Sustainability and Corporate Governance:*

- Announced that the Company received eleven “Employer of Choice” and “Best Place to Work” Awards in 2020;
- Expanded the Company’s commitment to the United Nations Global Compact Sustainable Development Goals;
- Extended the Company’s partnership with the American Red Cross by donating BlackBerry AtHoc software to support community safety and resilience;
- Appointed Thomas Eacobacci as President; and
- Appointed Marjorie Dickman as Chief Government Affairs and Public Policy Officer.

***Debt Redemption and New Issuance***

On September 1, 2020, the Company redeemed its outstanding 3.75% unsecured convertible debentures (the “3.75% Debentures”) for a redemption amount of approximately \$615 million (the “Redemption Amount”), which settled all outstanding obligations of the Company in respect of the 3.75% Debentures.

On September 1, 2020, the Company issued an aggregate of \$365 million principal amount of new 1.75% unsecured convertible debentures maturing on November 13, 2023 (the “1.75% Debentures” and collectively with the 3.75% Debentures, the “Debentures”) to Hamblin Watsa Investment Counsel Ltd., in its capacity as investment manager of Fairfax Financial Holdings Limited (“Fairfax”) and another institutional investor on a private placement basis. Fairfax agreed to acquire \$330 million principal amount of the 1.75% Debentures and receives interest at the same rate as the other holder of the 1.75% Debentures. The 1.75% Debentures have terms that are substantially identical to those of the 3.75% Debentures except that the 1.75% Debentures are convertible into common shares at a price of \$6.00 per common share, bear a lower rate of interest at 1.75% per annum, are subject to a higher approval threshold for extraordinary resolutions and mature in 2023. Additionally, the 1.75% Debentures cannot be converted to the extent that, after giving effect to the conversion, the holder would beneficially own or exercise control or direction over more than 19.99% of the Company’s then issued and outstanding shares. Quarterly and annual interest expense on the 1.75% Debentures is and will be approximately \$2 million and \$6 million, respectively.

***COVID-19***

In March 2020, the World Health Organization characterized the novel coronavirus (“COVID-19”) as pandemic and extraordinary actions have been taken 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, have adversely affected workforces, organizations, consumers and economies leading to an economic downturn and increased market volatility.

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, 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 Company has a limited history with substantially remote operations and the long-term impacts of it are uncertain.

In response to certain anticipated and ongoing impacts from the COVID-19 pandemic, the Company has also implemented a series of temporary cost reduction measures to further preserve financial flexibility. These actions include the postponement of certain discretionary spending, taking advantage of the broad-based employer relief provided by governments in Canada, the United States and other jurisdictions, temporarily suspending certain company matching contributions to employee retirement savings plans and deferring increases in the base salaries of many employees and executives. These cost reduction measures and their estimated savings for the year ended February 28, 2021 included measures impacting employee salaries and benefits of approximately \$18 million, a reduction in travel spending of approximately \$18 million, and a reduction in discretionary selling and administrative expenses relating to marketing and facilities of \$14 million. In addition, the Company has recorded approximately \$53 million in offsets to salaries for amounts under the Canada Emergency Wage Subsidy (“CEWS”) and has deferred approximately \$6 million of payments related to payroll taxes in the United States under the U.S. CARES Act, which amounts have been accrued. The Company estimates that savings from temporary cost reduction measures and governmental

assistance related to COVID-19 will be lower in fiscal 2022 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 2021, the economic downturn and uncertainty caused by the COVID-19 pandemic and the measures undertaken to contain its spread negatively affected 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 fourth quarter of fiscal 2021 compared to the first quarter of fiscal 2021 when the COVID-19 pandemic first materially negatively impacted the Company's operations and observed a partial recovery in global automotive production volumes by the end of the fiscal year, 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 availability and distribution of vaccines), 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.

### Fiscal 2021 Summary Results of Operations

The following table sets forth certain consolidated statements of operations data, as well as certain consolidated balance sheet data, as at and for the fiscal years ended February 28, 2021, February 29, 2020, and February 28, 2019:

	As at and for the Fiscal Years Ended (in millions, except for share and per share amounts)				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
Revenue	\$ 893	\$ 1,040	\$ (147)	\$ 904	\$ 136
Gross margin	643	763	(120)	698	65
Operating expenses	1,750	912	838	638	274
Investment income (loss), net	(6)	1	(7)	17	(16)
Income (loss) before income taxes	(1,113)	(148)	(965)	77	(225)
Provision for (recovery of) income taxes	(9)	4	(13)	(16)	20
Net income (loss)	<u>\$ (1,104)</u>	<u>\$ (152)</u>	<u>\$ (952)</u>	<u>\$ 93</u>	<u>\$ (245)</u>
Earnings (loss) per share - reported					
Basic	<u>\$ (1.97)</u>	<u>\$ (0.27)</u>		<u>\$ 0.17</u>	
Diluted	<u>\$ (1.97)</u>	<u>\$ (0.32)</u>		<u>\$ 0.00</u>	
Weighted-average number of shares outstanding (000's)					
Basic	561,305	553,861		540,477	
Diluted <sup>(1)</sup>	561,305	614,361		616,467	
Total assets	\$ 2,818	\$ 3,888	\$ (1,070)	\$ 3,968	\$ (80)
Total long-term financial liabilities	\$ 720	\$ —	\$ 720	\$ 665	\$ (665)

<sup>(1)</sup> Diluted earnings (loss) per share on a U.S. GAAP basis for fiscal 2021 does not include the dilutive effect of the Debentures as to do so would be anti-dilutive. Diluted loss per share on a U.S. GAAP basis for fiscal 2021 and 2020 does not include the dilutive effect of stock-based compensation as to do so would be anti-dilutive. See Note 9 to the Consolidated Financial

Statements for the fiscal year ended February 28, 2021 for calculation of the diluted weighted average number of shares outstanding.

### **Financial Highlights**

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

In fiscal 2021, the Company recognized revenue of \$893 million and incurred a net loss of \$1.10 billion, or \$1.97 basic and diluted loss per share on a U.S. GAAP basis. In fiscal 2020, the Company recognized revenue of \$1.04 billion and incurred a net loss of \$152 million, or \$0.27 basic and \$0.32 diluted loss per share on a U.S. GAAP basis.

The Company recognized adjusted revenue of \$919 million and adjusted net income of \$101 million, or adjusted earnings of \$0.18 per share, on a non-GAAP basis in fiscal 2021. The Company recognized adjusted revenue of \$1.10 billion and adjusted net income of \$74 million, and adjusted earnings of \$0.13 per share, in fiscal 2020. See “Non-GAAP Financial Measures” below.

### **Debentures Fair Value Adjustment**

As previously disclosed, the Company elected the fair value option to account for 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 of February 28, 2021, the fair value of the 1.75% Debentures was approximately \$720 million versus the principal value of \$365 million. For the three months ended February 28, 2021, the Company recorded a non-cash charge relating to changes in fair value from instrument specific credit risk of \$4 million in Other Comprehensive Income (Loss) (“OCI”) and a non-cash charge relating to changes in fair value from non-credit components of \$258 million (pre-tax and after tax) (the “Q4 Fiscal 2021 Debentures Fair Value Adjustment”) in the Company’s consolidated statements of operations. In fiscal 2021, the Company recorded non-cash income relating to changes in fair value from instrument-specific credit risk of \$13 million in OCI and a non-cash charge relating to changes in fair value from non-credit components of \$372 million (pre-tax and after tax) (the “Fiscal 2021 Debentures Fair Value Adjustment”) in the Company’s consolidated statements of operations. See Note 7 to the Consolidated Financial Statements for further details on the Debentures.

The following table shows the impact of the changes in fair value of the Debentures for the three months and year ended February 28, 2021:

	<u>Three Months Ended</u> <u>February 28, 2021</u>	<u>For the Year Ended</u> <u>February 28, 2021</u>
Income associated with the change in fair value from instrument-specific credit components on the 3.75% Debentures recorded in accumulated other comprehensive loss (“AOCL”)	\$ —	\$ 15
Realized charges associated with the change in fair value from credit components released from AOCL on redemption of the 3.75% Debentures	—	6
Charge associated with the change in fair value from instrument-specific credit components on the 1.75% Debentures recorded in AOCL	(4)	(8)
Total non-cash income (charges) recorded in AOCL	<u>\$ (4)</u>	<u>\$ 13</u>
	<u>Three Months Ended</u> <u>February 28, 2021</u>	<u>For the Year Ended</u> <u>February 28, 2021</u>
Charge associated with the change in fair value from non-credit components on the 3.75% Debentures recorded in the consolidated statements of operations	\$ —	\$ (19)
Realized charges associated with the change in fair value from credit components recorded in the consolidated statements of operations on redemption of the 3.75% Debentures	—	(6)
Charge associated with the change in fair value from non-credit components on the 1.75% Debentures recorded in the consolidated statements of operations	(258)	(347)
Total non-cash charges recorded in the consolidated statements of operations	<u>\$ (258)</u>	<u>\$ (372)</u>

## 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 March 30, 2021, the Company announced financial results for the three months and fiscal year ended February 28, 2021, which included certain non-GAAP financial measures, including adjusted revenue, adjusted Software and Services revenue, adjusted gross margin, adjusted gross margin percentage, adjusted operating expense, adjusted operating income, adjusted EBITDA, adjusted operating income 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 readers of the Company's financial statements with a consistent basis for comparison across accounting periods and is useful in helping readers understand the Company's operating results and underlying operational trends.

- *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.
- *Software deferred revenue acquired.* The Company has acquired businesses whose net assets include deferred revenue. In accordance with U.S. GAAP reporting requirements, the Company recorded write-downs of deferred revenue under arrangements pre-dating each acquisition to fair value, which resulted in lower recognized revenue than the original transaction price until the related service obligations under such arrangements are fulfilled. Therefore, U.S. GAAP revenues after the acquisitions will not reflect the full amount of revenue that would have been reported if the acquired deferred revenue was not written down to fair value, prior to the renewal of these arrangements. The Company believes that reversing the acquisition-related deferred revenue write-downs (so that the full amount of revenue booked by the acquired businesses is included) provides a more appropriate representation of revenue in a given period and, therefore, provides readers of the Company's financial statements with a more consistent basis for comparison across accounting periods. The Company also believes that the adjustment is more useful in helping readers to understand the Company's operating results and underlying operational trends, especially in future periods when the contracts underlying the acquired deferred revenue are renewed at amounts more consistent with their transaction price. As the impacted contracts renew over time, the associated reversal of the acquisition write-downs will trend to zero. Given the extent of the quantitative decline in this adjustment over time through the end of fiscal 2021, the Company plans to discontinue its usage of this non-GAAP measure beginning in the first quarter of fiscal 2022.
- *Software deferred commission expense acquired.* The Company has acquired businesses whose net assets include deferred commissions. In accordance with U.S. GAAP reporting requirements, the Company recorded write-downs of deferred commissions under arrangements pre-dating each acquisition to fair value, which in most cases is nil. Therefore, U.S. GAAP commission expense after the acquisitions will not reflect commission expense that would have been reported if the acquired deferred commissions were not written down to fair value. The Company believes that reversing the acquisition-related deferred commission write-downs (so that the full amount of commission expense is included) provides a more appropriate representation of commission expense in a given period and, therefore, provides readers of the Company's financial statements with a more consistent basis for comparison across accounting periods. The Company also believes that the adjustment is more useful in helping readers to understand the Company's operating results and underlying operational trends, especially in future periods when the Company recognizes commissions on the renewals of the contracts underlying the acquired deferred commissions. As the impacted contracts renew over time, the associated reversal of the acquisition write-downs will trend to zero. Given the extent of the quantitative decline in this adjustment over time through the end of fiscal 2021, the Company plans to discontinue its usage of this non-GAAP measure beginning in the first quarter of fiscal 2022.
- *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.
- *Business acquisition and integration costs.* The Company incurs costs associated with business acquisitions, including legal costs, audit and accounting fees, and other acquisition and integration expenses. These expenditures do not relate to the ongoing operation of the business and they tend to vary significantly based on the circumstances of each transaction. 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.
- *Acquisition valuation allowance.* The Company records an income tax valuation allowance associated with business acquisitions. 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.
- *Settlements, net.* The Company believes that settlements, net is an unusual item related to legacy operations which is not reflective of the Company's ongoing operating expense or core operating performance and may not be meaningful in comparison to the Company's past and future 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 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.

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 February 28, 2021, February 29, 2020 and February 28, 2019**

Readers are cautioned that adjusted revenue, adjusted Software and Services revenue, adjusted gross margin, adjusted gross margin percentage, adjusted operating expense, adjusted operating income, adjusted EBITDA, adjusted operating income 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 February 28, 2021, February 29, 2020 and February 28, 2019 to adjusted financial measures is reflected in the tables below:

For the Three Months Ended (in millions)	February 28, 2021	February 29, 2020	February 28, 2019
<b>Revenue</b>	\$ 210	\$ 282	\$ 255
Software deferred revenue acquired <sup>(1)</sup>	5	9	2
<b>Adjusted revenue</b>	\$ 215	\$ 291	\$ 257
<b>Gross margin</b>	\$ 152	\$ 212	\$ 206
Software deferred revenue acquired <sup>(1)</sup>	5	9	2
Restructuring charges	—	—	1
Stock compensation expense	1	2	1
<b>Adjusted gross margin</b>	\$ 158	\$ 223	\$ 210
<b>Gross margin %</b>	72.4 %	75.2 %	80.8 %
Software deferred revenue acquired <sup>(1)</sup>	0.6 %	0.7 %	0.1 %
Restructuring charges	— %	— %	0.4 %
Stock compensation expense	0.5 %	0.7 %	0.4 %
<b>Adjusted gross margin %</b>	73.5 %	76.6 %	81.7 %

<sup>(1)</sup> See Reconciliation of U.S. GAAP Software and Services revenue to adjusted Software and Services revenue

Reconciliation of U.S. GAAP operating expense for the three months ended February 28, 2021, November 30, 2020, February 29, 2020 and February 28, 2019 to adjusted operating expense is reflected in the tables below:

For the Three Months Ended (in millions)	February 28, 2021	November 30, 2020	February 29, 2020	February 28, 2019
<b>Operating expense</b>	\$ 465	\$ 276	\$ 253	\$ 178
Restructuring charges	—	—	1	2
Stock compensation expense	16	11	15	13
Debenture fair value adjustment <sup>(1)</sup>	258	95	5	(6)
Software deferred commission expense acquired	(3)	(4)	(3)	—
Acquired intangibles amortization	32	32	35	18
Business acquisition and integration costs	—	—	1	8
Goodwill impairment charge	—	—	22	—
LLA impairment charge	22	—	5	—
Settlements, net	—	—	—	(9)
<b>Adjusted operating expense</b>	\$ 140	\$ 142	\$ 172	\$ 152

<sup>(1)</sup> See “Fiscal 2021 Summary Results of Operations - Financial Highlights - Debentures Fair Value Adjustment”

Reconciliation of U.S. GAAP net income (loss) and U.S. GAAP basic earnings (loss) per share for the three months ended February 28, 2021, February 29, 2020 and February 28, 2019 to adjusted net income and adjusted basic earnings per share is reflected in the tables below:

For the Three Months Ended (in millions, except per share amounts)	February 28, 2021		February 29, 2020		February 28, 2019				
		Basic earnings (loss) per share		Basic earnings (loss) per share		Basic earnings per share			
<b>Net income (loss)</b>	\$	(315)	\$(0.56)	\$	(41)	\$(0.07)	\$	51	\$0.09
Software deferred revenue acquired		5		9		2			
Restructuring charges		—		1		3			
Stock compensation expense		17		17		14			
Debenture fair value adjustment		258		5		(6)			
Software deferred commission expense acquired		(3)		(3)		—			
Acquired intangibles amortization		32		35		18			
Business acquisition and integration costs		—		1		8			
Goodwill impairment charge		—		22		—			
LLA impairment charge		22		5		—			
Settlements, net		—		—		(9)			
Acquisition valuation allowance		—		—		(21)			
<b>Adjusted net income</b>	<u>\$</u>	<u>16</u>	<u>\$0.03</u>	<u>\$</u>	<u>51</u>	<u>\$0.09</u>	<u>\$</u>	<u>60</u>	<u>\$0.11</u>

Reconciliation of U.S. GAAP Software and Services revenue for the three months ended February 28, 2021, February 29, 2020 and February 28, 2019 to adjusted Software and Services revenue is reflected in the tables below:

For the Three Months Ended (in millions)	February 28, 2021		February 29, 2020		February 28, 2019	
<b>Software and Services Revenue</b>	\$	160	\$	170	\$	147
Software deferred revenue acquired		5		9		2
<b>Adjusted Software and Services revenue</b>	<u>\$</u>	<u>165</u>	<u>\$</u>	<u>179</u>	<u>\$</u>	<u>149</u>

Reconciliation of U.S. GAAP research and development, selling, marketing and administration, and amortization expense for the three months ended February 28, 2021, February 29, 2020 and February 28, 2019 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)	February 28, 2021		February 29, 2020		February 28, 2019	
<b>Research and development</b>	\$	48	\$	60	\$	52
Stock compensation expense		3		3		3
<b>Adjusted research and development</b>	<u>\$</u>	<u>45</u>	<u>\$</u>	<u>57</u>	<u>\$</u>	<u>49</u>
<b>Selling, marketing and administration</b>	\$	92	\$	113	\$	110
Restructuring charges		—		1		2
Software deferred commission expense acquired		(3)		(3)		—
Stock compensation expense		13		12		10
Business acquisition and integration costs		—		1		8
<b>Adjusted selling, marketing and administration</b>	<u>\$</u>	<u>82</u>	<u>\$</u>	<u>102</u>	<u>\$</u>	<u>90</u>
<b>Amortization</b>	\$	45	\$	48	\$	31
Acquired intangibles amortization		32		35		18
<b>Adjusted amortization</b>	<u>\$</u>	<u>13</u>	<u>\$</u>	<u>13</u>	<u>\$</u>	<u>13</u>

**Reconciliation of selected non-GAAP based measures with most directly comparable U.S. GAAP measures for the years ended February 28, 2021, February 29, 2020 and February 28, 2019**

A reconciliation of the most directly comparable U.S. GAAP financial measures for the years ended February 28, 2021, February 29, 2020 and February 28, 2019 to adjusted financial measures is reflected in the tables below:

<b>For the Fiscal Years Ended (in millions)</b>	<b>February 28, 2021</b>	<b>February 29, 2020</b>	<b>February 28, 2019</b>
<b>Revenue</b>	\$ 893	\$ 1,040	\$ 904
Software deferred revenue acquired <sup>(1)</sup>	26	59	12
<b>Adjusted revenue</b>	<b>\$ 919</b>	<b>\$ 1,099</b>	<b>\$ 916</b>
<b>Gross margin</b>	\$ 643	\$ 763	\$ 698
Software deferred revenue acquired <sup>(1)</sup>	26	59	12
Restructuring charges	—	5	2
Stock compensation expense	5	5	4
<b>Adjusted gross margin</b>	<b>\$ 674</b>	<b>\$ 832</b>	<b>\$ 716</b>
<b>Gross margin %</b>	72.0 %	73.4 %	77.2 %
Software deferred revenue acquired <sup>(1)</sup>	0.8 %	1.4 %	0.3 %
Restructuring charges	— %	0.5 %	0.2 %
Stock compensation expense	0.5 %	0.4 %	0.5 %
<b>Adjusted gross margin %</b>	<b>73.3 %</b>	<b>75.7 %</b>	<b>78.2 %</b>
<b>Operating expense</b>	\$ 1,750	\$ 912	\$ 638
Restructuring charges	2	5	9
Stock compensation expense	47	58	64
Debenture fair value adjustment <sup>(2)</sup>	372	(66)	(117)
Software deferred commission expense acquired	(13)	(16)	—
Acquired intangibles amortization	129	141	82
Business acquisition and integration costs	—	4	12
Goodwill impairment charge	594	22	—
LLA impairment charge	43	10	—
Settlements, net	—	—	(9)
<b>Adjusted operating expense</b>	<b>\$ 576</b>	<b>\$ 754</b>	<b>\$ 597</b>

<sup>(1)</sup> See Reconciliation of U.S. GAAP Software and Services revenue to adjusted Software and Service revenue

<sup>(2)</sup> See “Fiscal 2021 Summary Results of Operations - Financial Highlights - Debentures Fair Value Adjustment”

Reconciliation of U.S. GAAP net income (loss) and U.S. GAAP basic earnings (loss) per share for the years ended February 28, 2021, February 29, 2020 and February 28, 2019 to the adjusted net income and adjusted basic earnings per share is reflected in the tables below:

For the Fiscal Years Ended (in millions, except per share amounts)	February 28, 2021		February 29, 2020		February 28, 2019	
		Basic earnings (loss) per share		Basic earnings (loss) per share		Basic earnings per share
<b>Net income (loss)</b>	\$ (1,104)	\$ (1.97)	\$ (152)	\$ (0.27)	\$ 93	\$ 0.17
Software deferred revenue acquired	26		59		12	
Restructuring charges	2		10		11	
Stock compensation expense	52		63		68	
Debenture fair value adjustment	372		(66)		(117)	
Software deferred commission expense acquired	(13)		(16)		—	
Acquired intangibles amortization	129		141		82	
Business acquisition and integration costs	—		4		12	
Goodwill impairment charge	594		22		—	
LLA impairment charge	43		10		—	
Settlements, net	—		—		(9)	
Acquisition valuation allowance	—		(1)		(21)	
<b>Adjusted net income</b>	<u>\$ 101</u>	<u>\$0.18</u>	<u>\$ 74</u>	<u>\$0.13</u>	<u>\$ 131</u>	<u>\$0.24</u>

Reconciliation of U.S. GAAP Software and Services revenue for the years ended February 28, 2021, February 29, 2020 and February 28, 2019 to adjusted Software and Services revenue is reflected in the tables below:

For the Fiscal Years Ended (in millions)	February 28, 2021		February 29, 2020		February 28, 2019	
<b>Software and Services Revenue</b>	\$ 621	\$ 691	\$ 559			
Software deferred revenue acquired	26	59	12			
<b>Adjusted Software and Services revenue</b>	<u>\$ 647</u>	<u>\$ 750</u>	<u>\$ 571</u>			

Reconciliation of U.S GAAP research and development, selling, marketing and administration, and amortization expense for the years ended February 28, 2021, February 29, 2020 and February 28, 2019 to adjusted research and development, selling, marketing and administration, and amortization expense is reflected in the tables below:

For the Fiscal Years Ended (in millions)	February 28, 2021		February 29, 2020		February 28, 2019	
<b>Research and development</b>	\$ 215	\$ 259	\$ 219			
Restructuring charges	—	—	2			
Stock compensation expense	11	13	12			
<b>Adjusted research and development</b>	<u>\$ 204</u>	<u>\$ 246</u>	<u>\$ 205</u>			
<b>Selling, marketing and administration</b>	\$ 344	\$ 493	\$ 409			
Restructuring charges	2	5	7			
Software deferred commission expense acquired	(13)	(16)	—			
Stock compensation expense	36	45	52			
Business acquisition and integration costs	—	4	12			
<b>Adjusted selling, marketing and administration</b>	<u>\$ 319</u>	<u>\$ 455</u>	<u>\$ 338</u>			
<b>Amortization</b>	\$ 182	\$ 194	\$ 136			
Acquired intangibles amortization	129	141	82			
<b>Adjusted amortization</b>	<u>\$ 53</u>	<u>\$ 53</u>	<u>\$ 54</u>			

Adjusted operating income, adjusted EBITDA, adjusted operating income margin percentage and adjusted EBITDA margin percentage for the three months ended February 28, 2021, February 29, 2020 and February 28, 2019 are reflected in the table below. These are non-GAAP financial measures that do not have any standardized meaning as prescribed by U.S. GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

For the Three Months Ended (in millions)	February 28, 2021	February 29, 2020	February 28, 2019
<b>Operating income (loss)</b>	\$ (313)	\$ (41)	\$ 28
Non-GAAP adjustments to operating income (loss)			
Software deferred revenue acquired	5	9	2
Restructuring charges	—	1	3
Stock compensation expense	17	17	14
Debenture fair value adjustment	258	5	(6)
Software deferred commission expense acquired	(3)	(3)	—
Acquired intangibles amortization	32	35	18
Business acquisition and integration costs	—	1	8
Goodwill impairment charge	—	22	—
LLA impairment charge	22	5	—
Settlements, net	—	—	(9)
<b>Total non-GAAP adjustments to operating income (loss)</b>	<b>331</b>	<b>92</b>	<b>30</b>
<b>Adjusted operating income</b>	<b>18</b>	<b>51</b>	<b>58</b>
Amortization	49	52	33
Acquired intangibles amortization	(32)	(35)	(18)
<b>Adjusted EBITDA</b>	<b>\$ 35</b>	<b>\$ 68</b>	<b>\$ 73</b>
<b>Adjusted revenue (per above)</b>	<b>\$ 215</b>	<b>\$ 291</b>	<b>\$ 257</b>
<b>Adjusted operating income margin % <sup>(1)</sup></b>	<b>8%</b>	<b>18%</b>	<b>23%</b>
<b>Adjusted EBITDA margin % <sup>(2)</sup></b>	<b>16%</b>	<b>23%</b>	<b>28%</b>

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

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

Adjusted operating income, adjusted EBITDA, adjusted operating income margin percentage and adjusted EBITDA margin percentage for the fiscal years ended February 28, 2021, February 29, 2020 and February 28, 2019 are reflected in the table below.

For the Fiscal Years Ended (in millions)	February 28, 2021	February 29, 2020	February 28, 2019
<b>Operating income (loss)</b>	\$ (1,107)	\$ (149)	\$ 60
Non-GAAP adjustments to operating income (loss)			
Software deferred revenue acquired	26	59	12
Restructuring charges	2	10	11
Stock compensation expense	52	63	68
Debenture fair value adjustment	372	(66)	(117)
Software deferred commission expense acquired	(13)	(16)	—
Acquired intangibles amortization	129	141	82
Business acquisition and integration costs	—	4	12
Goodwill impairment charge	594	22	—
LLA impairment charge	43	10	—
Settlements, net	—	—	(9)
Total non-GAAP adjustments to operating income (loss)	1,205	227	59
<b>Adjusted operating income</b>	98	78	119
Amortization	198	212	149
Acquired intangibles amortization	(129)	(141)	(82)
<b>Adjusted EBITDA</b>	\$ 167	\$ 149	\$ 186
<b>Adjusted revenue (per above)</b>	\$ 919	\$ 1,099	\$ 916
<b>Adjusted operating income margin % <sup>(1)</sup></b>	11 %	7 %	13 %
<b>Adjusted EBITDA margin % <sup>(2)</sup></b>	18 %	14 %	20 %

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

<sup>(2)</sup> Adjusted EBITDA margin % is calculated by dividing adjusted EBITDA by adjusted 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 billings, recurring revenue percentage, annual recurring revenue ("ARR"), dollar-based net retention rate ("DBNRR"), net customer churn rate and free cash flow 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.

### 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.

Both Software and Services and total Company billings increased in the fourth quarter of fiscal 2021 compared to the third quarter of fiscal 2021. Software and Services billings were consistent with the fourth quarter of fiscal 2020, but total Company billings decreased. In fiscal 2022, the Company expects Cyber Security and BTS billings to grow by double-digit percentages.

### 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 fourth quarter of fiscal 2021 and decreased from greater than 90% recurring in the fourth quarter of fiscal 2020 due to product mix.

### ***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.

Software and Services ARR was approximately \$468 million in the fourth quarter of fiscal 2021 and decreased compared to the third quarter of fiscal 2021 primarily due to the impact of COVID-19 on BTS, specifically on QNX production-based royalties. QNX royalties are included in the ARR calculation on a trailing four quarter basis.

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

The Company calculates the DBNRR as of any 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.

Software and Services DBNRR was 91% in the fourth quarter of fiscal 2021 and increased compared to 90% in the third quarter of fiscal 2021.

### ***Net Customer Churn Rate***

The Company defines net customer churn rate as the difference between the gross customer churn rate and the new customer acquisition rate, divided by the number of active customers in the prior quarter, expressed as a percentage. The Company uses net customer churn rate to evaluate the rate the Company is obtaining new customers to offset customers lost due to account cancellations or non-renewal of subscriptions.

Net Customer Churn Rate was approximately 1% in the fourth quarter of fiscal 2021 consistent with the third quarter of fiscal 2021.

### ***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 February 28, 2021, the Company's net cash flow provided by operating activities was \$51 million and capital expenditures were \$3 million, resulting in the Company reporting free cash flow of \$48 million.

For the fiscal year ended February 28, 2021, the Company's net cash provided by operating activities was \$82 million and capital expenditures were \$8 million, resulting in the Company reporting free cash flow of \$74 million.

The Company previously stated that it expected to generate positive free cash flow in fiscal 2021. The Company has generated positive free cash flow in fiscal 2021.

## Results of Operations - Fiscal year ended February 28, 2021 compared to fiscal year ended February 29, 2020

### Revenue

#### Revenue by Product and Service

Comparative breakdowns of revenue by product and service on a U.S. GAAP basis are set forth below.

	For the Fiscal Years Ended (in millions)				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
<b>Revenue by Product and Service</b>					
Software and Services	\$ 621	\$ 691	\$ (70)	\$ 559	\$ 132
Licensing and Other	272	349	(77)	345	4
	<u>\$ 893</u>	<u>\$ 1,040</u>	<u>\$ (147)</u>	<u>\$ 904</u>	<u>\$ 136</u>
<b>% Revenue by Product and Service</b>					
Software and Services	69.5 %	66.4 %		61.8 %	
Licensing and Other	30.5 %	33.6 %		38.2 %	
	<u>100.0 %</u>	<u>100.0 %</u>		<u>100.0 %</u>	

#### Software and Services

Software and Services revenue was \$621 million, or 69.5% of revenue in fiscal 2021, a decrease of \$70 million compared to \$691 million, or 66.4% of revenue in fiscal 2020. The decrease in Software and Services revenue of \$70 million was primarily due to a decrease of \$75 million in recurring royalties in BlackBerry QNX, due to the slowdown in the automotive market related to the COVID-19 pandemic and the conversion in the prior fiscal year of certain existing royalty-bearing licenses to fixed pricing from volume-based pricing, a decrease of \$16 million relating to professional services, a decrease of \$9 million in BlackBerry AtHoc revenue and a decrease of \$7 million relating to non-automotive OEM business, partially offset by an increase of \$24 million related to product revenue in BlackBerry Spark and an increase of \$18 million related to the sale of Secusmart solutions.

Adjusted Software and Services revenue was \$647 million in fiscal 2021 compared to \$750 million in fiscal 2020, representing a decrease of \$103 million. The \$103 million decrease in adjusted Software and Services revenue was primarily attributable to the same reasons described above on a U.S. GAAP basis and due to a decrease of \$33 million in the non-GAAP adjustment of deferred software revenue acquired to \$26 million in fiscal 2021 from \$59 million in fiscal 2020.

The Company previously stated that in fiscal 2021, the Company expected BlackBerry QNX revenue to be negatively impacted by a slowdown in automotive market related to the COVID-19 pandemic, the impact of which could be partially offset by increased customer demand for the Company's endpoint security and productivity solutions that support business continuity and remote working environments, including the BlackBerry Spark platform, SecuSUITE and BlackBerry AtHoc. This is reflected in the Company's results as noted above, with the exception of BlackBerry AtHoc which also declined.

The Company previously stated that it expected Software and Services, excluding BTS, to have slight U.S. GAAP and adjusted revenue growth in the second half of fiscal 2021. Software and Services, excluding BTS, had slight U.S. GAAP and adjusted revenue growth in the second half of fiscal 2021.

In fiscal 2022, the Company expects that Cyber Security revenue and BTS revenue will be higher in the second half of the year than in the first half of the year, and that Cyber Security revenue will be between \$495 million and \$515 million. Assuming that the global chip shortage has been alleviated by the middle of fiscal 2022, the Company 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, such that full-year Software and Services revenue will be between \$675 million and \$715 million.

## Licensing and Other

Licensing and Other revenue was \$272 million, or 30.5% of revenue in fiscal 2021, a decrease of \$77 million compared to \$349 million, or 33.6% of revenue in fiscal 2020. The decrease in Licensing and Other revenue of \$77 million was primarily due to a decrease of \$93 million in revenue from the BBM Consumer licensing arrangement and a decrease of \$8 million from mobility licensing arrangements, partially offset by an increase of \$16 million in revenue from the Company's intellectual property ("IP") licensing arrangements including its patent licensing agreement with Telety, and an increase in \$16 million in revenue generated from IP sales. SAF revenue, which is generated from users of BlackBerry 7 and prior BlackBerry operating systems, also decreased by \$8 million, primarily due to a lower number of BlackBerry 7 users and lower revenue from those users compared to fiscal 2020.

The Company previously stated that it expects Licensing revenue to be modestly above \$250 million in fiscal 2021, which is reflected in the above results.

The Company previously stated that it expected to generate total Company adjusted revenue of approximately \$950 to \$965 million in fiscal 2021, assuming a gradual re-opening of the global economy as the measures undertaken to contain the COVID-19 pandemic are reduced. Total adjusted revenue was \$919 million in fiscal 2021 primarily due to the impact on the Company's Licensing and Other business of the Company having entered into negotiations in the fourth quarter of fiscal 2021 for the potential sale of a portion of the Company's patent portfolio. The Company has limited its patent monetization activities due to the negotiations and because revenue from additional transactions that could have been completed in the fourth quarter of fiscal 2021 would have been treated as contingent revenue and deferred to future periods. Had negotiations not been in progress during the quarter, the Company believes that Licensing and Other revenue would have been higher.

Throughout the period in which negotiations or anticipated regulatory reviews related to the potential patent portfolio transaction are ongoing, the Company expects to continue to limit its monetization activities and expects to generate Licensing and Other revenue of \$10 million to \$15 million per fiscal quarter. If the sale process concludes in the middle of fiscal 2022 without the completion of a transaction, the Company will resume its prior monetization activities and expects that Licensing and Other revenue will be approximately \$100 million in fiscal 2022. If a sale transaction is completed, the Company expects that Licensing and Other revenue will be significantly higher than \$100 million in fiscal 2022 and the Company expects to use the transaction proceeds primarily to support the growth of the Software and Services business.

### *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 Fiscal Years Ended (in millions)				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
<b>Revenue by Geography</b>					
North America	\$ 633	\$ 743	\$ (110)	\$ 599	\$ 144
Europe, Middle East and Africa	197	221	(24)	222	(1)
Other regions	63	76	(13)	83	(7)
	<u>\$ 893</u>	<u>\$ 1,040</u>	<u>\$ (147)</u>	<u>\$ 904</u>	<u>\$ 136</u>
<b>% Revenue by Geography</b>					
North America	70.9 %	71.4 %		66.2 %	
Europe, Middle East and Africa	22.1 %	21.3 %		24.6 %	
Other regions	7.0 %	7.3 %		9.2 %	
	<u>100.0 %</u>	<u>100.0 %</u>		<u>100.0 %</u>	

### North America Revenue

Revenue in North America was \$633 million, or 70.9% of revenue, in fiscal 2021, reflecting a decrease of \$110 million compared to \$743 million, or 71.4% of revenue in fiscal 2020. The decrease in North American revenue is primarily due to a decrease of \$93 million in revenue from the BBM Consumer licensing arrangement and a decrease of \$37 million in BlackBerry QNX revenue, due to the reasons discussed above in "Revenue by Product and Service", a decrease of \$11 million relating to professional services, a decrease of \$9 million in BlackBerry AtHoc revenue and a decrease of \$7 million relating to non-automotive OEM business, partially offset by an increase of \$32 million in IP licensing and sale revenue due to the reasons discussed above in "Revenue by Product and Service" and an increase of \$18 million in product revenue in BlackBerry Spark.

## Europe, Middle East and Africa Revenue

Revenue in Europe, Middle East and Africa was \$197 million, or 22.1% of revenue, in fiscal 2021, reflecting a decrease of \$24 million compared to \$221 million, or 21.3% of revenue, in fiscal 2020. The decrease in revenue is primarily due to a decrease of \$30 million in BlackBerry QNX revenue, a decrease of \$7 million in SAF revenue due to the reasons discussed above in “Revenue by Product and Service” and a decrease of \$5 million in professional services, partially offset by an increase of \$18 million related to the sale of Secusmart solutions.

## Other Regions Revenue

Revenue in other regions was \$63 million, or 7.0% of revenue, in fiscal 2021, reflecting a decrease of \$13 million compared to \$76 million, or 7.3% of revenue, in fiscal 2020. The decrease in revenue is primarily due to a decrease of \$8 million from mobility licensing arrangements and a decrease of \$7 million in BlackBerry QNX revenue due to the reasons discussed above in “Revenue by Product and Service”, a decrease of \$4 million in professional services and a decrease of \$2 million in development seat revenue, partially offset by an increase of \$6 million in product revenue in BlackBerry Spark.

## Gross Margin

### Consolidated Gross Margin

Consolidated gross margin decreased by \$120 million to approximately \$643 million in fiscal 2021 from \$763 million in fiscal 2020. The decrease was primarily due to a decrease in revenue in BlackBerry QNX and Licensing and Other, partially offset by increases in revenue in Secusmart and BlackBerry Spark, due to the reasons discussed above in “Revenue by Product and Service”, 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 1.4%, to approximately 72.0% of consolidated revenue in fiscal 2021 from 73.4% of consolidated revenue in fiscal 2020. The decrease was primarily due a lower proportion of gross margin percentage associated with BlackBerry QNX due to the reasons discussed above in “Revenue by Product and Service”.

## Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expense for fiscal 2021 compared to fiscal 2020 and fiscal 2020 compared to fiscal 2019.

	For the Fiscal Years Ended (in millions)				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
<b>Revenue</b>	\$ 893	\$ 1,040	\$ (147)	\$ 904	\$ 136
<b>Operating expenses</b>					
Research and development	215	259	(44)	219	40
Selling, marketing and administration	344	493	(149)	409	84
Amortization	182	194	(12)	136	58
Impairment of goodwill	594	22	572	—	22
Impairment of long-lived assets	43	10	33	—	10
Debentures fair value adjustment	372	(66)	438	(117)	51
Settlements, net	—	—	—	(9)	9
<b>Total</b>	<u>\$ 1,750</u>	<u>\$ 912</u>	<u>\$ 838</u>	<u>\$ 638</u>	<u>\$ 274</u>
<b>Operating Expense as % of Revenue</b>					
Research and development	24.1 %	24.9 %		24.2 %	
Selling, marketing and administration	38.5 %	47.4 %		45.2 %	
Amortization	20.4 %	18.7 %		15.0 %	
Impairment of goodwill	66.5 %	2.1 %		— %	
Impairment of long-lived assets	4.8 %	1.0 %		— %	
Debentures fair value adjustment	41.7 %	(6.3)%		(12.9)%	
Settlements, net	— %	— %		(1.0)%	
<b>Total</b>	<u>196.0 %</u>	<u>87.7 %</u>		<u>70.6 %</u>	

See “Non-GAAP Financial Measures” for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the years ended February 28, 2021, February 29, 2020 and February 28, 2019.

#### *U.S. GAAP Operating Expenses*

Operating expenses increased by \$838 million, or 91.9%, to \$1,750 million, or 196.0% of revenue in fiscal 2021, compared to \$912 million, or 87.7% of revenue, in fiscal 2020. The increase was primarily attributable to an increase of \$572 million in goodwill impairment, the difference between the Fiscal 2021 Debentures Fair Value Adjustment and the fair value adjustment related to the Debentures incurred in fiscal 2020 (the “Fiscal 2020 Debentures Fair Value Adjustment”) of \$438 million, and an increase of \$33 million in impairment of long-lived assets, partially offset by the benefit of \$53 million in government subsidies resulting from claims filed for the CEWS program to support the business through the COVID-19 pandemic, a decrease of \$42 million in salaries and benefits expense, and a decrease of \$19 million in variable incentive plan costs.

#### *Adjusted Operating Expenses*

Adjusted operating expenses decreased by \$178 million, or 23.6%, to \$576 million in fiscal 2021, compared to \$754 million in fiscal 2020. The decrease was primarily attributable to the benefit of \$53 million in CEWS funding, a decrease of \$41 million in salaries and benefits expense, a decrease of \$20 million in variable incentive plan costs, a decrease of \$19 million in travel expense, a decrease in cost associated with a direct IP licensing arrangement of \$18 million in fiscal 2020 which did not recur, and a decrease of \$15 million in marketing and advertising expense.

#### *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 \$44 million, or 17.0%, to \$215 million, or 24.1% of revenue, in fiscal 2021, compared to \$259 million, or 24.9% of revenue, in fiscal 2020. The decrease was primarily attributable to a decrease of \$25 million in salaries and benefits expense, a decrease of \$8 million in variable incentive plan costs, a decrease of \$7 million in consulting fees, and a decrease of \$2 million in travel expense, partially offset by a decrease of \$4 million in claims filed with the Ministry of Innovation, Science and Economic Development Canada relating to its Strategic Innovation Fund program’s investment in BlackBerry QNX.

Adjusted research and development expenses decreased by \$42 million, or 17.1% to \$204 million in fiscal 2021 compared to \$246 million in fiscal 2020. 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 decreased by \$149 million, or 30.2%, to \$344 million, or 38.5% of revenue, in fiscal 2021 compared to \$493 million in fiscal 2020, or 47.4% of revenue. The decrease was primarily attributable to the benefit of \$53 million in CEWS funding, a decrease in costs associated with direct IP licensing arrangements of \$18 million in fiscal 2020 which did not recur, a decrease of \$16 million in travel expense, a decrease of \$16 million in salaries and benefits expense, a decrease of \$15 million in marketing and advertising cost, and a decrease of \$11 million in variable incentive plan costs.

Adjusted selling, marketing and administration expenses decreased by \$136 million, or 29.9%, to \$319 million in fiscal 2021 compared to \$455 million in fiscal 2020. The decrease was primarily due to the same reasons described above on a U.S. GAAP basis.

## Amortization Expense

The table below presents a comparison of amortization expense relating to property, plant and equipment and intangible assets recorded as amortization or cost of sales for fiscal 2021 compared to fiscal 2020 and fiscal 2020 compared to fiscal 2019. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Fiscal Years Ended (in millions)				
	Included in Operating Expense				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
Property, plant and equipment	\$ 17	\$ 18	\$ (1)	\$ 14	\$ 4
Intangible assets	165	176	(11)	122	54
<b>Total</b>	<b>\$ 182</b>	<b>\$ 194</b>	<b>\$ (12)</b>	<b>\$ 136</b>	<b>\$ 58</b>

  

	Included in Cost of Sales				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
	Property, plant and equipment	\$ 4	\$ 6	\$ (2)	\$ 6
Intangible assets	12	12	—	7	5
<b>Total</b>	<b>\$ 16</b>	<b>\$ 18</b>	<b>\$ (2)</b>	<b>\$ 13</b>	<b>\$ 5</b>

### Amortization included in Operating Expense

Amortization expense relating to certain property, plant and equipment and intangible assets decreased by \$12 million to \$182 million for fiscal 2021, compared to \$194 million for fiscal 2020. The decrease in amortization expense was due to the lower cost base of assets.

Adjusted amortization expense was \$53 million in fiscal 2021, consistent with \$53 million in fiscal 2020.

### Amortization included in Cost of Sales

Amortization expense relating to certain property, plant and equipment and intangible assets employed in the Company's service operations decreased by \$2 million to \$16 million for fiscal 2021, compared to \$18 million for fiscal 2020. The decrease in amortization expense was due to the lower cost base of assets.

### **Investment Income (Loss), Net**

Investment income (loss), net, which includes the interest expense from the Debentures, decreased by \$7 million to investment loss, net of \$6 million in fiscal 2021, from investment income, net of \$1 million in fiscal 2020. The decrease in investment income, net is primarily due to a lower yield on cash and investments in fiscal 2021 compared to fiscal 2020 and a decrease in average cash and investment balance during fiscal 2021 compared to fiscal 2020 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 fiscal 2021, the Company's net effective income tax recovery rate was approximately 1%, compared to a net effective income tax expense of approximately 3% for the prior fiscal year. The Company's net effective income tax rate reflects the change in unrecognized income tax benefits 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.

The Company's adjusted net effective income tax recovery rate was approximately 10%, compared to a net effective income tax expense of approximately 6% for the same period in the prior fiscal year. The increase is due to current year taxable items that could not be offset with carried forward tax attributes such as tax losses.

## Net Loss

The Company's net loss for fiscal 2021 was \$1.10 billion, reflecting an increase in net loss of \$952 million compared to net loss of \$152 million in fiscal 2020, primarily due to an increase in operating expenses due to the goodwill impairment and increase in debenture fair value adjustment, as described above in "Operating Expenses", and a decrease in revenue as described above in "Revenue by Product and Service".

Adjusted net income for fiscal 2021 was \$101 million compared to \$74 million in fiscal 2020, reflecting an increase in adjusted net income of \$27 million, primarily due to a decrease in operating expenditures as described above in "Operating Expenses", partially offset by a decrease in revenue as described above in "Revenue by Product and Service" and a decrease in gross margin percentage, as describe above in "Consolidated Gross Margin Percentage".

Basic and diluted loss per share on a U.S. GAAP basis was \$1.97 in fiscal 2021, an increase in basic and diluted loss per share of \$1.70 and \$1.65, respectively, compared to basic loss per share on a U.S. GAAP basis of \$0.27 and diluted loss per share on a U.S. GAAP basis of \$0.32 in fiscal 2020.

The weighted average number of shares outstanding was 561 million for basic and diluted loss per share, respectively, for the fiscal year ended February 28, 2021. The weighted average number of shares outstanding was 554 million and 614 million for basic and diluted loss per share, respectively, for the fiscal year ended February 29, 2020.

The Company previously stated that it expected to be profitable on a non-GAAP basis for fiscal 2021. The Company was non-GAAP profitable for fiscal 2021.

## Common Shares Outstanding

On March 26, 2021, there were 566 million voting common shares, options to purchase 2 million voting common shares, 22 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 7 to the Consolidated Financial Statements.

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

## Results of Operations - Three months ended February 28, 2021 compared to the three months ended February 29, 2020

The following section sets forth certain unaudited 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 three months ended February 28, 2021, February 29, 2020 and February 28, 2019:

	For the Three Months Ended (in millions, except for share and per share amounts)				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
Revenue	\$ 210	\$ 282	\$ (72)	\$ 255	\$ 27
Gross margin	152	212	(60)	206	6
Operating expenses	465	253	212	178	75
Investment income (loss), net	—	(1)	1	4	(5)
Income (loss) before income taxes	(313)	(42)	(271)	32	(74)
Provision for (recovery of) income taxes	2	(1)	3	(19)	18
Net income (loss)	\$ (315)	\$ (41)	\$ (274)	\$ 51	\$ (92)
Earnings (loss) per share - reported					
Basic	\$ (0.56)	\$ (0.07)	\$ (0.49)	\$ 0.09	\$ (0.16)
Diluted <sup>(1)</sup>	\$ (0.56)	\$ (0.07)	\$ (0.49)	\$ 0.08	\$ (0.15)
Weighted-average number of shares outstanding (000's)					
Basic	566,089	556,668		547,272	
Diluted <sup>(1)</sup>	566,089	556,668		615,593	

<sup>(1)</sup> Diluted loss per share on a U.S. GAAP basis in the fourth quarter of 2021 and 2020 do not include the dilutive effect of the Debentures as to do so would be anti-dilutive. Diluted loss per share on a U.S. GAAP basis in the fourth quarter of 2021 and 2020 do not include the dilutive effect of stock-based compensation as to do so would be anti-dilutive.

## Revenue

### Revenue by Product and Service

Comparative breakdowns of revenue by product and service on a U.S. GAAP basis are set forth below.

	For the Three Months Ended (in millions)				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
<b>Revenue by Product and Service</b>					
Software and Services	\$ 160	\$ 170	\$ (10)	\$ 147	\$ 23
Licensing and Other	50	112	(62)	108	4
	<u>\$ 210</u>	<u>\$ 282</u>	<u>\$ (72)</u>	<u>\$ 255</u>	<u>\$ 27</u>
<b>% Revenue by Product and Service</b>					
Software and Services	76.2 %	60.3 %		57.6 %	
Licensing and Other	23.8 %	39.7 %		42.4 %	
	<u>100.0 %</u>	<u>100.0 %</u>		<u>100.0 %</u>	

#### Software and Services

Software and Services revenue was \$160 million, or 76.2% of revenue, in the fourth quarter of fiscal 2021, a decrease of \$10 million compared to \$170 million, or 60.3% of revenue, in the fourth quarter of fiscal 2020. The decrease in Software and Services revenue of \$10 million was primarily due to a decrease of \$6 million due to the slowdown in the automotive market related to the COVID-19 pandemic and the conversion in the prior fiscal year of certain existing royalty-bearing licenses to fixed pricing from volume-based pricing, a decrease of \$4 million relating to professional services and a decrease of \$2 million relating to non-automotive OEM business, partially offset by an increase of \$2 million related to the sale of Secusmart solutions and an increase of \$1 million related to product revenue in BlackBerry Spark.

Adjusted Software and Services revenue was \$165 million in the fourth quarter of fiscal 2021, a decrease of \$14 million compared to \$179 million in the fourth quarter of fiscal 2020. Adjusted Software and Services revenue decreased due to the reasons described above on a U.S. GAAP basis and due to a decrease of \$4 million in the non-GAAP adjustment of deferred software revenue acquired to \$5 million in the fourth quarter of fiscal 2021 from \$9 million in the fourth quarter of fiscal 2020.

The Company previously stated that it expected Software and Services to have sequential non-GAAP revenue growth in the fourth quarter of fiscal 2021. Software and Services non-GAAP revenue decreased by approximately 2% sequentially in the fourth quarter of fiscal 2021 primarily due to lower than expected revenue from Secusmart and BlackBerry AtHoc.

The Company previously stated that it expected sequential BTS revenue growth in the fourth quarter of fiscal 2021. BTS revenue grew sequentially in the fourth quarter of fiscal 2021.

#### Licensing and Other

Licensing and Other revenue was \$50 million, or 23.8% of revenue, in the fourth quarter of fiscal 2021, a decrease of \$62 million compared to \$112 million, or 39.7% of revenue, in the fourth quarter of fiscal 2020. The decrease in Licensing and Other revenue of \$62 million was primarily due to a decrease of \$71 million in revenue from the BBM Consumer licensing arrangement, partially offset by an increase of \$10 million in revenue from the Company's IP licensing and sale arrangements including its patent licensing agreement with Teletry.

## U.S. GAAP Revenue by Geography

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

	For the Three Months Ended (in millions)				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
<b>Revenue by Geography</b>					
North America	\$ 141	\$ 213	\$ (72)	\$ 176	\$ 37
Europe, Middle East and Africa	53	53	—	61	(8)
Other regions	16	16	—	18	(2)
	<u>\$ 210</u>	<u>\$ 282</u>	<u>\$ (72)</u>	<u>\$ 255</u>	<u>\$ 27</u>
<b>% Revenue by Geography</b>					
North America	67.1 %	75.5 %		69.0 %	
Europe, Middle East and Africa	25.2 %	18.8 %		23.9 %	
Other regions	7.7 %	5.7 %		7.1 %	
	<u>100.0 %</u>	<u>100.0 %</u>		<u>100.0 %</u>	

### North America Revenue

Revenue in North America was \$141 million, or 67.1% of revenue, in the fourth quarter of fiscal 2021, reflecting a decrease of \$72 million compared to \$213 million, or 75.5% of revenue, in the fourth quarter of fiscal 2020. Revenue in North America decreased compared to the fourth quarter of fiscal 2020 primarily due to a decrease of \$71 million in revenue from the BBM Consumer licensing arrangement, a decrease of \$2 million in BlackBerry QNX revenue due to the reasons discussed above in “Revenue by Product and Service”, a decrease of \$2 million in BlackBerry AtHoc revenue and a decrease of \$2 million related to product revenue in BlackBerry Spark, partially offset by an increase of \$10 million in IP licensing revenue due to the reasons discussed above in “Revenue by Product and Service”.

### Europe, Middle East and Africa Revenue

Revenue in Europe, Middle East and Africa was \$53 million or 25.2% of revenue in the fourth quarter of fiscal 2021, consistent with \$53 million or 18.8% of revenue in the fourth quarter of fiscal 2020. An increase of \$3 million related to the sale of Secusmart solutions and an increase of \$1 million related to product revenue in BlackBerry Spark were offset by a decrease of \$3 million in BlackBerry QNX revenue due to the reasons discussed above in “Revenue by Product and Service” and a decrease of \$1 million relating to professional services.

### Other Regions Revenue

Revenue in other regions was \$16 million or 7.7% of revenue in the fourth quarter of fiscal 2021, consistent with \$16 million or 5.7% of revenue in the fourth quarter of fiscal 2020. An increase \$2 million related to product revenue in BlackBerry Spark was offset by a decrease of \$2 million in revenue relating to professional services.

## **Gross Margin**

### *Consolidated Gross Margin*

Consolidated gross margin decreased by \$60 million to approximately \$152 million in the fourth quarter of fiscal 2021 from \$212 million in the fourth quarter of fiscal 2020. The decrease was primarily due to a decrease in revenue from Licensing and Other and BlackBerry QNX, partially offset by an increase in revenue from Secusmart due to the reasons discussed above in “Revenue by Product and Service”, 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 2.8%, to approximately 72.4% of consolidated revenue in the fourth quarter of fiscal 2021 from 75.2% of consolidated revenue in the fourth quarter of fiscal 2020. The decrease was primarily due to a lower gross margin contribution from Licensing and Other (at a higher relative gross margin percentage in each case) due to the reasons discussed above in “Revenue by Product and Service” and a higher gross margin contribution from BlackBerry Spark and Secusmart (at a lower relative gross margin percentage) due to the reasons discussed above in “Revenue by Product and Service”.

## Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expenses for the quarter ended February 28, 2021, compared to the quarter ended November 30, 2020 and the quarter ended February 29, 2020. The Company believes it is also meaningful to provide a sequential comparison between the fourth quarter of fiscal 2021 and the third quarter of fiscal 2021.

	For the Three Months Ended (in millions)			
	February 28, 2021	November 30, 2020	February 29, 2020	February 28, 2019
<b>Revenue</b>	\$ 210	\$ 218	\$ 282	\$ 255
<b>Operating expenses</b>				
Research and development	48	53	60	52
Selling, marketing and administration	92	83	113	110
Amortization	45	45	48	31
Impairment of long-lived assets	22	—	5	—
Impairment of goodwill	—	—	22	—
Debentures fair value adjustment	258	95	5	(6)
Settlements, net	—	—	—	(9)
<b>Total</b>	<u>\$ 465</u>	<u>\$ 276</u>	<u>\$ 253</u>	<u>\$ 178</u>
<b>Operating Expense as % of Revenue</b>				
Research and development	22.9 %	24.3 %	21.3 %	20.4 %
Selling, marketing and administration	43.8 %	38.1 %	40.1 %	43.1 %
Amortization	21.4 %	20.6 %	17.0 %	12.2 %
Impairment of long-lived assets	10.5 %	— %	1.8 %	— %
Impairment of goodwill	— %	— %	7.8 %	— %
Debentures fair value adjustment	122.9 %	43.6 %	1.8 %	(2.4)%
Settlements, net	— %	— %	— %	(3.5)%
<b>Total</b>	<u>221.4 %</u>	<u>126.6 %</u>	<u>89.7 %</u>	<u>69.8 %</u>

See “Non-GAAP Financial Measures” for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three months ended February 28, 2021, November 30, 2020, February 29, 2020 and February 28, 2019.

### U.S. GAAP Operating Expenses

Operating expenses increased by \$189 million, or 68.5%, to \$465 million, or 221.4%% of revenue, in the fourth quarter of fiscal 2021, compared to \$276 million, or 126.6% of revenue, in the third quarter of fiscal 2021. The increase was primarily attributable to the difference between the Q4 Fiscal 2021 Debentures Fair Value Adjustment and Q3 Fiscal 2021 Debentures Fair Value Adjustment of \$163 million and an increase of \$22 million in impairment of long-lived assets, partially offset by a decrease of \$10 million in variable incentive plan costs and a benefit of \$6 million in CEWS funding.

Operating expenses increased by \$212 million, or 83.8%, to \$465 million, or 221.4%% of revenue, in the fourth quarter of fiscal 2021, compared to \$253 million, or 89.7% of revenue, in the fourth quarter of fiscal 2020. The increase was primarily attributable to the difference between the Q4 Fiscal 2021 Debentures Fair Value Adjustment and Q4 Fiscal 2020 Debentures Fair Value Adjustment of \$253 million and an increase of \$17 million in impairment of long-lived assets, partially offset by \$22 million in impairment of goodwill in the fourth quarter of fiscal 2020 which did not recur, a benefit of \$16 million in CEWS funding and a decrease of \$9 million in salaries and benefits expenses.

### Adjusted Operating Expenses

Adjusted operating expenses decreased by \$2 million, or 1.4%, to \$140 million in the fourth quarter of fiscal 2021 compared to \$142 million in the third quarter of fiscal 2021. The decrease was primarily attributable to a decrease of \$10 million in variable incentive plan cost and a benefit of \$6 million in CEWS funding, partially offset by an increase of \$5 million in the Company’s

deferred share unit liability due to increases in the Company's stock price, an increase of \$4 million in consulting fees and an increase of \$2 million in legal costs.

Adjusted operating expenses decreased by \$32 million, or 18.6%, to \$140 million in the fourth quarter of fiscal 2021, compared to \$172 million in the fourth quarter of fiscal 2020. The decrease was primarily attributable to the benefit of \$16 million in CEWS funding, a decrease of \$9 million in salaries and benefits expenses and a decrease of \$8 million in variable incentive plan costs, partially offset by an increase of \$6 million in the Company's deferred share unit liability due to increases in the Company's stock price and an increase of \$3 million in legal costs.

#### *Research and Development Expense*

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 \$12 million, or 20.0%, to \$48 million in the fourth quarter of fiscal 2021 compared to \$60 million in the fourth quarter of fiscal 2020. The decrease was primarily attributable to a decrease of \$8 million in variable incentive plan costs and a decrease of \$5 million in salaries and benefits expense, partially offset by an increase of \$2 million in infrastructure costs.

Adjusted research and development expenses decreased by \$12 million, or 21.1%, to \$45 million in the fourth quarter of fiscal 2021 compared to \$57 million in the fourth quarter of fiscal 2020. This decrease was primarily due to the 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 decreased by \$21 million, or 18.6%, to \$92 million in the fourth quarter of fiscal 2021 compared to \$113 million in the fourth quarter of fiscal 2020. This decrease was primarily attributable to the increase benefit of \$16 million in CEWS funding, a decrease of \$4 million in salaries and benefits expenses, a decrease of \$3 million in sales incentive plan costs and a decrease of \$3 million in travel expense, partially offset by an increase of \$6 million in the Company's deferred share unit liability due to increases in the Company's stock price and an increase of \$3 million in legal costs.

Adjusted selling, marketing and administration expenses decreased by \$20 million, or 19.6%, to \$82 million in the fourth quarter of fiscal 2021 compared to \$102 million in the fourth quarter of fiscal 2020. This decrease was primarily due to the reasons described above on a U.S. GAAP basis.

#### *Amortization Expense*

The table below presents a comparison of amortization expense relating to property, plant and equipment and intangible assets recorded as amortization or cost of sales for the quarter ended February 28, 2021 compared to the quarter ended February 29, 2020 and for the quarter ended February 29, 2020 compared to the quarter ended February 28, 2019. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Three Months Ended (in millions)				
	<b>Included in Operating Expense</b>				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
Property, plant and equipment	\$ 4	\$ 4	\$ —	\$ 4	\$ —
Intangible assets	41	44	(3)	27	17
<b>Total</b>	<b>\$ 45</b>	<b>\$ 48</b>	<b>\$ (3)</b>	<b>\$ 31</b>	<b>\$ 17</b>
	<b>Included in Cost of Sales</b>				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
Property, plant and equipment	\$ 1	\$ 2	\$ (1)	\$ 1	\$ 1
Intangible assets	3	2	1	1	1
<b>Total</b>	<b>\$ 4</b>	<b>\$ 4</b>	<b>\$ —</b>	<b>\$ 2</b>	<b>\$ 2</b>

### Amortization included in Operating Expense

Amortization expense relating to certain property, plant and equipment and certain intangible assets decreased by \$3 million to \$45 million for the fourth quarter of fiscal 2021 compared to \$48 million for the fourth quarter of fiscal 2020. The decrease in amortization expense was due to the lower cost base of assets.

Adjusted amortization was \$13 million in the fourth quarter of fiscal 2021, consistent with \$13 million in the fourth quarter of fiscal 2020.

### 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 were \$4 million in the fourth quarter of fiscal 2021, consistent with \$4 million in the fourth quarter of fiscal 2020.

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

Investment loss, net decreased by \$1 million to nil in the fourth quarter of fiscal 2021, compared to investment loss, net of \$1 million in the fourth quarter of fiscal 2020. The decrease is primarily due a decrease in interest expense from the Debentures, partially offset by a lower yield on cash and investments in the fourth quarter of fiscal 2021 compared to the fourth quarter of fiscal 2020 and lower average cash and investment balances due to the redemption of the 3.75% Debentures in fiscal 2021 and issuance of the 1.75% Debentures.

### ***Income Taxes***

For the fourth quarter of fiscal 2021, the Company's net effective income tax expense rate was approximately 1%, compared to an effective income tax recovery rate of approximately 2% 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 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 fourth quarter of fiscal 2021 was \$315 million, or \$0.56 basic and diluted loss per share on a U.S. GAAP basis, reflecting an increase in net loss of \$274 million compared to a net loss of \$41 million, or \$0.07 basic and diluted loss per share, in the fourth quarter of fiscal 2020. The decrease in net income of \$274 million was primarily due to an increase in operating expenses due to the increase in debenture fair value adjustment, as described above in "Operating Expenses", a decrease in revenue as described above in "Revenue by Product and Service" and a decrease in gross margin percentage as described above in "Consolidated Gross Margin Percentage".

Adjusted net income was \$16 million in the fourth quarter of fiscal 2021 compared to \$51 million in the fourth quarter of fiscal 2020, reflecting a decrease in adjusted net income of \$35 million primarily due to a decrease in revenue as described above in "Revenue by Product and Service" 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 566 million common shares for basic and diluted loss per share for the fourth quarter of fiscal 2021. The weighted average number of shares outstanding was 557 million common shares for basic and diluted loss per share for the fourth quarter of fiscal 2020.

### **Financial Condition**

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

Cash, cash equivalents, and investments decreased by \$186 million to \$804 million as at February 28, 2021 from \$990 million as at February 29, 2020, primarily due to the redemption of the 3.75% Debentures which was partially offset by the issuance of the 1.75% Debentures. The majority of the Company's cash, cash equivalents, and investments are denominated in U.S. dollars as at February 28, 2021.

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

	As at (in millions)				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
Cash and cash equivalents	\$ 214	\$ 377	\$ (163)	\$ 548	\$ (171)
Restricted cash equivalents and restricted short-term investments	28	49	(21)	34	15
Short-term investments	525	532	(7)	368	164
Long-term investments	37	32	5	55	(23)
Cash, cash equivalents, and investments	\$ 804	\$ 990	\$ (186)	\$ 1,005	\$ (15)

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

	As at (in millions)				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
Current assets	\$ 1,006	\$ 1,196	\$ (190)	\$ 1,233	\$ (37)
Current liabilities	429	1,121	(692)	510	611
Working capital	\$ 577	\$ 75	\$ 502	\$ 723	\$ (648)

#### Current Assets

The decrease in current assets of \$190 million at the end of fiscal 2021 from the end of fiscal 2020 was primarily due to a decrease in cash and cash equivalents of \$163 million, accounts receivable, net of \$33 million, decreases in short term investments of \$7 million and other current assets of \$2 million partially offset by an increase in other receivables of \$11 million and an increase income taxes receivable of \$4 million.

At February 28, 2021, accounts receivable was \$182 million, a decrease of \$33 million from February 29, 2020. The decrease was primarily due to lower revenue recognized over the three months ended February 28, 2021 compared to the three months ended February 29, 2020 and an increase in the allowance for credit losses from the adoption of ASC 326, partially offset by an increase in days sales outstanding to 85 days at the end of the fourth quarter of fiscal 2021 from 70 days at the end of the fourth quarter of fiscal 2020 primarily due to a significant long-term receivable becoming current, the associated revenue for which was recognized in the prior period, as well as extended payment terms resulting from the COVID-19 pandemic.

At February 28, 2021, other receivables increased by \$11 million to \$25 million compared to \$14 million as at February 29, 2020. The increase was primarily due to an increase of \$11 million relating to the CEWS program.

At February 28, 2021, other current assets was \$50 million, a decrease of \$2 million from February 29, 2020. The decrease is primarily due to a decrease in deferred commission of \$3 million partially offset by an increase in derivative assets of \$2 million.

At February 28, 2021, income taxes receivable was \$10 million, an increase of \$4 million from February 29, 2020. The increase was primarily due to the U.S. CARES Act resulting in an increase in taxes receivable from tax loss carry backs.

#### Current Liabilities

The decrease in current liabilities of \$692 million at the end of fiscal 2021 from the end of fiscal 2020 was primarily due to a decrease in Debentures of \$606 million due to redemption of the 3.75% Debentures, a decrease in deferred revenue of \$39 million, a decrease in accrued liabilities of \$24 million, a decrease in income taxes payable of \$12 million and a decrease in accounts payable of \$11 million.

Deferred revenue, current was \$225 million, which reflects a decrease of \$39 million compared to February 29, 2020 that was attributable to a \$39 million decrease in deferred revenue, current related to BlackBerry Spark and \$10 million related to IP licensing, partially offset by a \$6 million increase in deferred revenue, current related to BlackBerry AtHoc.

As at February 28, 2021, accounts payable were \$20 million, reflecting a decrease of \$11 million from February 29, 2020, which was primarily attributable to payments of accounts payable.

Accrued liabilities were \$178 million, reflecting a decrease of \$24 million compared to February 29, 2020, which was primarily attributable to a \$17 million decrease in variable incentive plan costs and a decrease of \$6 million in payroll accrual, partially offset by an increase of \$8 million in the Company's deferred share unit liability due to increases in the Company's stock price.

Cash flows for the fiscal year ended February 28, 2021 compared to the fiscal year ended February 29, 2020 were as follows:

	For the Fiscal Years Ended (in millions)				
	February 28, 2021	February 29, 2020	Change	February 28, 2019	Change
<b>Net cash flows provided by (used in):</b>					
Operating activities	\$ 82	\$ 26	\$ 56	\$ 100	\$ (74)
Investing activities	(65)	(188)	123	(375)	187
Financing activities	(227)	7	(234)	5	2
Effect of foreign exchange gain (loss) on cash and cash equivalents	2	(1)	3	(3)	2
Net decrease in cash and cash equivalents	\$ (208)	\$ (156)	\$ (52)	\$ (273)	\$ 117

#### *Operating Activities*

The increase in net cash flows provided by operating activities of \$56 million primarily reflects the net changes in working capital.

#### *Investing Activities*

During the fiscal year ended February 28, 2021, cash flows used in investing activities were \$65 million and included cash used in transactions involving the acquisitions of restricted short-term, short-term and long-term investments, net of the proceeds on sale or maturity in the amount of \$21 million, intangible asset additions of \$36 million, and acquisitions of property, plant and equipment of \$8 million. During fiscal 2020, cash flows used in investing activities were \$188 million and included cash flows used in transactions involving the acquisitions of short-term and long-term investments, net of the proceeds on sale or maturity in the amount of \$145 million, intangible asset additions of \$32 million, and acquisitions of property, plant and equipment of \$12 million, partially offset by proceeds received from the decrease in consideration paid for the Cylance acquisition following finalizing the accounting for the acquisition.

#### *Financing Activities*

The decrease in cash flows used in financing activities was \$234 million for fiscal 2021 due to the redemption of the 3.75% Debentures on September 1, 2020, partially offset by the issuance of the 1.75% Debentures as described above in “Business Overview - Debt Redemption and New Issuance” and an increase in common shares issued for stock options exercised and 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 February 28, 2021:

	(in millions)				
	Total	Less than One Year	One to Three Years	Four to Five Years	Greater than Five Years
Operating lease obligations	\$ 134	\$ 37	\$ 52	\$ 29	\$ 16
Purchase obligations and commitments	159	94	65	—	—
Debt interest and principal payments	383	6	377	—	—
Total	\$ 676	\$ 137	\$ 494	\$ 29	\$ 16

Purchase obligations and commitments amounted to approximately \$676 million as at February 28, 2021, including future principal and interest payments of \$383 million on the 1.75% Debentures and operating lease obligations of \$134 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 February 28, 2021 decreased by approximately \$337 million as compared to the February 29, 2020 balance of approximately \$1,013 million, which was attributable to the redemption of the 3.75% Debentures on September 1, 2020, partially offset by the issuance of the 1.75% Debentures as described above in “Business Overview - Debt Redemption and New Issuance”, a decrease in purchase obligations and commitments and a decrease in operating lease obligations.

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

See Note 7 to the Consolidated Financial Statements for a description of the Debentures.

The Company has \$28 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 and restricted short-term investments.

Cash, cash equivalents, and investments were approximately \$804 million as at February 28, 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 Exchange Act, or under applicable Canadian securities laws.

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

### ***Accounting Policies***

See Note 1 to the Consolidated Financial Statements for a description of the Company's significant accounting policies and the adoption of the new standard in accounting for credit losses on financial instruments and goodwill.

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

### ***Critical Accounting Estimates***

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. Significant areas requiring the use of management estimates relate to revenue-related estimates including variable consideration, standalone selling price ("SSP"), estimated customer life, if control of licenses to intellectual property has transferred, the value of non-cash consideration, right of return and customer incentive commitments, fair value of reporting units in relation to actual or potential goodwill impairment, fair value of the Debentures, fair value of share-based liability award, fair value of long-lived assets in relation to actual or potential impairment, the Company's long-lived asset groupings, useful lives of property, plant and equipment and intangible assets, provision for income taxes, realization of deferred income tax assets and the related components of the valuation allowance, allowance for credit losses, incremental borrowing rate in determining the present value of lease liabilities and the determination of reserves for various litigation claims. Actual results could differ from these estimates, which were based upon circumstances that existed as of the date of the consolidated financial statements, February 28, 2021. Subsequent to this date, it is reasonably possible that the COVID-19 pandemic and its impact on the health of the global economy could cause changes to estimates as a result of the financial circumstances of the markets in which the Company operates and the price of the Company's publicly traded equity in comparison to the Company's carrying value.

The Company's critical accounting estimates have been reviewed and discussed with the Company's Audit & Risk Management Committee and are set out below. Except as noted, there have not been any changes to the critical accounting estimates made by the Company, during the past three fiscal years.

### ***Valuation of Long-Lived Assets***

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

The Company's determination of its asset groups, its primary asset and its remaining useful life, and estimated cash flows are significant factors in assessing the recoverability of the Company's assets for the purposes of LLA impairment testing. The Company's share price can be affected by, among other things, changes in industry or market conditions, including the effect of competition, changes in the Company's results of operations, changes in the Company's forecasts or market expectations relating to future results, and the Company's strategic initiatives and the market's assessment of any such factors. See Part 1, Item 1A "Risk Factors - The market price of the Company's common shares is volatile". The current macroeconomic environment and competitive dynamics continue to be challenging to the Company's business and the Company cannot be

certain of the duration of these conditions and their potential impact on the Company's future financial results and cash flows. A decline in the Company's performance, the Company's market capitalization and future changes to the Company's assumptions and estimates used in the LLA impairment test, particularly the expected future cash flows, remaining useful life of the primary asset and terminal value of the asset group, may result in further impairment charges in future periods of some or all of the assets on the Company's balance sheet. Although it does not affect the Company's cash flow, an impairment charge to earnings has the effect of decreasing the Company's earnings or increasing the Company's losses, as the case may be. The Company's share price could also be adversely affected by the Company's recorded LLA impairment charges.

The Company used various valuation techniques to determine the fair values of its assets to measure and allocate impairment. Techniques related to capital equipment and intangible assets included the direct capitalization method, market comparable transactions, the replacement cost method, discounted cash flow analysis, as well as the relief from royalty and excess earnings valuation methods. Determining valuations using these valuation techniques requires significant judgment and assumptions by management. Different judgments could yield different results.

#### *Valuation of Goodwill Reporting Units*

Goodwill represents the excess of the acquisition price in a business combination over the fair value of identifiable net assets acquired. Goodwill is allocated at the date of the business combination. Goodwill is not amortized but is tested for impairment annually on December 31 or more frequently if events or changes in circumstances indicate the asset may be impaired. These events and circumstances may include a significant change in legal factors or in the business climate, a significant decline in the Company's share price, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant disposal activity and the testing of recoverability for a significant asset group.

On March 1, 2020 the Company adopted ASU 2017-04 on the topic of Intangibles— Goodwill and Other (ASC 350). ASU 2017-04 simplifies the subsequent measurement of goodwill, enabling the Company to carry out its goodwill impairment test in one step, instead of two steps. In the test, the carrying value of the reporting unit, including goodwill, was compared with its fair value. The estimated fair value was determined utilizing multiple approaches based on the nature of the reporting units being valued. In its analysis, the Company utilized multiple valuation techniques, including the income approach using a discounted future cash flow model, the market-based approach, and the asset value approach. The analysis requires significant judgment, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rates of revenue growth for the Company's reporting units, estimation of the useful life over which cash flows will occur, terminal growth rates, profitability measures, and determination of the discount rates for the reporting units. The carrying value of the Company's assets was assigned to reporting units using reasonable methodologies based on the asset type. When the carrying value of a reporting unit exceeds its fair value, goodwill of the reporting unit is considered to be impaired and written down to its fair value. Different judgments could yield different results. Events and circumstances resulted in an additional goodwill impairment test being conducted as at May 31, 2020, in addition to the Company's annual impairment test.

Prior to the adoption of ASU 2017-04, the Company's annual impairment test was carried out in two steps. In the first step, the carrying value of the reporting unit, including goodwill, was compared with its fair value. The estimated fair value was determined utilizing multiple approaches based on the nature of the reporting units being valued. In its analysis, the Company utilized multiple valuation techniques, including the income approach, discounted future cash flows, the market-based approach, and the asset value approach. The analysis requires significant judgment, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of revenue growth for our reporting units, estimation of the useful life over which cash flows will occur, terminal growth rate, profitability measures, and determination of the discount rates for the reporting units. The carrying value of the Company's assets was assigned to reporting units using reasonable methodologies based on the asset type. When the carrying value of a reporting unit exceeded its fair value, goodwill of the reporting unit was considered to be impaired and the second step was necessary. Different judgments could have yielded different results. In fiscal 2020, the Company disaggregated one reporting unit and goodwill was assigned to the disaggregated reporting units based upon the relative fair value allocation approach.

In the second step, the implied fair value of the reporting unit's goodwill was compared with its carrying value to measure the amount of the impairment loss, if any. The second step involved significant judgment in the selection of assumptions necessary to arrive at an implied fair value of goodwill. Different judgments could have yielded different results.

#### *Valuation Allowance Against Deferred Tax Assets*

The Company regularly assesses the need for a valuation allowance against its deferred tax assets. A valuation allowance is required for deferred tax assets if it is more likely than not that all or some portion of the asset will not be realized. All available evidence, both positive and negative, that may affect the realization of deferred tax assets must be identified and considered in determining the appropriate amount of the valuation allowance. Additionally, for interim periods, the estimated annual effective tax rate should include the valuation allowance for current year changes in temporary differences and losses or income arising during the year. For interim periods, the Company needs to consider the valuation allowance that it expects to recognize at the end of the fiscal year as part of the estimated annual effective tax rate. During interim quarters, the Company uses estimates

including pre-tax results and ending position of temporary differences as at the end of the fiscal year to estimate the valuation allowance that it expects to recognize at the end of the fiscal year. This accounting treatment has no effect on the Company's actual ability to utilize deferred tax assets to reduce future cash tax payments. Different judgments could yield different results. See "Results of Operations - Fiscal year ended February 28, 2021 compared to fiscal year ended February 29, 2020 - Income Taxes" and "Results of Operations - Three months ended February 28, 2021 compared to three months ended February 29, 2020 - Income Taxes".

#### *Revenue Recognition*

The Company's contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue recognized under the contract will not occur. Any estimates, including any constraints on variable consideration, are evaluated at each reporting period. Judgment is required to determine the fair value of non-cash consideration at contract inception. The Company uses an independent third-party valuator for the fair value of non-cash consideration.

Judgment is required to determine the SSP for each distinct performance obligation. The Company's products and services often have observable SSP when the Company sells a promised product or service separately to similar customers. A contractually stated price or list price for a good or service may be the SSP of that good or service. However, in instances where SSP is not directly observable, the Company determines the SSP by maximizing observable inputs and using an adjusted market assessment approach using information that may include market conditions and other observable inputs from the Company's pricing team, including historical SSP.

Judgment is required to determine in certain agreements if the Company is the principal or agent in the arrangement. The Company considers factors such as, but not limited to, which party can direct the usage of the product or service, which party obtains substantially all the remaining benefits and which party has the ability to establish the selling price.

Significant judgment is required to determine the estimated customer life used in perpetual license contracts that require access to the Company's proprietary secure network infrastructure to function. The Company uses historical experience regarding the length of the technology upgrade cycle and the expected life of the product to draw this conclusion.

### **ITEM 7A. 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 fiscal 2021 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 February 28, 2021, approximately 20% of cash and cash equivalents, 25% of accounts receivables and 34% of accounts payable were denominated in foreign currencies (February 29, 2020 – 12%, 17% and 17%, 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 exchanges 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 February 28, 2021 and February 29, 2020 (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.