

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of BlackBerry Limited

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheet of BlackBerry Limited and its subsidiaries (together, the Company) as of February 28, 2021 and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for the year then ended, including the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of February 28, 2021, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 28, 2021 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 28, 2021, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for the allowance for credit losses as of March 1, 2020 and the manner in which it accounts for leases as of March 1, 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audit of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable

assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill impairment test

As described in Notes 1, 3 and 4 to the consolidated financial statements, the Company's goodwill balance was \$849 million as of February 28, 2021. Management conducts a goodwill impairment test as of December 31 of each year, or more frequently if events or changes in circumstances indicate that the asset may be impaired. The impairment test is performed in one step by comparing the fair value of a reporting unit to its carrying value, including goodwill. 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. As disclosed by management, during the year ended February 28, 2021, as a result of the deterioration in economic conditions caused by the global COVID-19 pandemic and its impact on the Company's reporting units, and the decline of the trading value of the Company's capital stock below the Company's consolidated carrying value, management determined that it was more likely than not that the fair value of at least one of its reporting units was lower than its carrying amount after including goodwill. As a result, management completed an analysis of the fair values of its reporting units to compare against their respective carrying values as of May 31, 2020. Based on the results of the goodwill impairment test, the Company recorded total goodwill impairment charges of \$594 million in the first quarter of fiscal 2021, relating to the BlackBerry Spark reporting unit. No additional goodwill impairment was identified during the Company's annual impairment test as of the annual test date of December 31, 2020. The estimated fair values of reporting units were determined utilizing multiple valuation techniques, which included the income approach using a discounted future cash flow model, the market-based approach, and the asset value approach. As disclosed by management, the analysis requires significant judgment in estimating future cash flows, especially in light of the ongoing COVID-19 pandemic and its short-term and potential long-term impacts to the Company's business and assumptions, including the long-term rates of revenue growth for the reporting units, terminal growth rates, profitability measures and determination of the discount rates for the reporting units.

The principal considerations for our determination that performing procedures relating to the goodwill impairment test is a critical audit matter are (i) the significant judgment by management when determining the fair values of the reporting units, including the short-term and potential long-term impacts of the COVID-19 pandemic to the Company's business; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to estimated future cash flows including long-term rates of revenue growth, terminal growth rates, profitability measures, and the discount rates; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment test, including controls over the determination of the fair values of the Company's reporting units. These procedures also included, among others (i) testing management's process for determining the fair values of the Company's reporting units; (ii) evaluating the appropriateness of the discounted future cash flow models; (iii) testing the completeness and accuracy of underlying data used in the

discounted future cash flow models; and (iv) evaluating the significant assumptions used by management related to the estimated future cash flows, long-term rates of revenue growth, terminal growth rates, profitability measures, and the discount rates. Evaluating management's assumptions related to the estimated future cash flows including long-term rates of revenue growth and profitability measures involved evaluating whether the assumptions used by management were reasonable considering consistency with (i) current and past performance of each reporting unit (ii) external market and industry data; and (iii) with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the (i) appropriateness of the Company's discounted cash flow models and (ii) reasonableness of the discount rates and terminal growth rates.

Revenue recognition – Intellectual property licensing

As discussed in Notes 1 and 13 to the consolidated financial statements, \$272 million of the Company's total revenues for the year ended February 28, 2021 was generated from Licensing and Other, which includes revenue from intellectual property licensing arrangements. Management examines intellectual property agreements on a case-by-case basis to determine whether they contain distinct performance obligations with standalone functionality and whether the Company is the principal or agent in the transaction. As disclosed by management, significant judgment is applied in assessing contractual terms which could impact the timing and amount of revenue recognition.

The principal considerations for our determination that performing procedures relating to the Revenue recognition – Intellectual property licensing is a critical audit matter are (i) significant judgment by management in assessing contractual terms which could impact the timing and amount of revenue recognition; and (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating evidence relating to the timing and amount of revenue recognition.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls related to the assessment of contractual terms in the intellectual property agreements which impact on the timing and amount of revenue recognition. These procedures also included, among others, (i) testing the completeness and accuracy of management's identification of contractual terms by examining intellectual property agreements on a test basis, and (ii) testing management's process for determining the appropriate amount and timing of revenue recognition based on the contractual terms identified in the intellectual property agreements on a test basis.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 31, 2021

We have served as the Company's auditor since 2020.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of BlackBerry Limited:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of BlackBerry Limited (the Company) as of February 29, 2020, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the two years in the period ended February 29, 2020, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at February 29, 2020, and the results of its operations and its cash flows for each of the two years in the period ended February 29, 2020, in conformity with United States generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We served as the Company's auditor from 1997 to 2020.

/s/ Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Waterloo, Canada
April 6, 2020

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

Consolidated Balance Sheets

	As at	
	February 28, 2021	February 29, 2020
Assets		
Current		
Cash and cash equivalents (note 3)	\$ 214	\$ 377
Short-term investments (note 3)	525	532
Accounts receivable, net of allowance of \$10 and \$9, respectively (note 2 and note 4)	182	215
Other receivables	25	14
Income taxes receivable	10	6
Other current assets (note 4)	50	52
	<u>1,006</u>	<u>1,196</u>
Restricted cash equivalents and restricted short-term investments (note 3)	28	49
Long-term investments (note 3)	37	32
Other long-term assets (note 4)	16	65
Operating lease right-of-use assets, net (note 12)	63	124
Property, plant and equipment, net (note 4)	48	70
Goodwill (note 4)	849	1,437
Intangible assets, net (note 4)	771	915
	<u>\$ 2,818</u>	<u>\$ 3,888</u>
Liabilities		
Current		
Accounts payable	\$ 20	\$ 31
Accrued liabilities (note 4)	178	202
Income taxes payable (note 6)	6	18
Debentures (note 7)	—	606
Deferred revenue, current (note 13)	225	264
	<u>429</u>	<u>1,121</u>
Deferred revenue, non-current (note 13)	69	109
Operating lease liabilities (note 12)	90	120
Other long-term liabilities (note 4)	6	9
Long-term debentures (note 7)	720	—
	<u>1,314</u>	<u>1,359</u>
Commitments and contingencies (note 11)		
Shareholders' equity		
Capital stock and additional paid-in capital		
Preferred shares: authorized unlimited number of non-voting, cumulative, redeemable and retractable	—	—
Common shares: authorized unlimited number of non-voting, redeemable, retractable Class A common shares and unlimited number of voting common shares		
Issued - 565,505,328 voting common shares (February 29, 2020 - 554,199,016)	2,823	2,760
Deficit	(1,306)	(198)
Accumulated other comprehensive loss (note 10)	(13)	(33)
	<u>1,504</u>	<u>2,529</u>
	<u>\$ 2,818</u>	<u>\$ 3,888</u>

See notes to consolidated financial statements.

On behalf of the Board:

John S. Chen
 Director

Barbara Stymiest
 Director

BlackBerry Limited
(United States dollars, in millions)

Consolidated Statements of Shareholders' Equity

	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at February 28, 2018	\$ 2,560	\$ (45)	\$ (10)	\$ 2,505
Net income	—	93	—	93
Other comprehensive loss	—	—	(4)	(4)
Cumulative impact of adoption of ASC 606	—	(86)	—	(86)
Cumulative impact of adoption of ASU 2016-01	—	6	(6)	—
Stock-based compensation (note 8)	67	—	—	67
Value of pre-combination service related to Replacement Awards included in purchase consideration (note 8)	21	—	—	21
Shares issued:				
Exercise of stock options (note 8)	1	—	—	1
Exchange shares related to Cylance acquisition	35	—	—	35
Employee share purchase plan (note 8)	4	—	—	4
Balance as at February 28, 2019	2,688	(32)	(20)	2,636
Net loss	—	(152)	—	(152)
Other comprehensive loss	—	—	(13)	(13)
Cumulative impact of adoption of ASC 842	—	(14)	—	(14)
Stock-based compensation (note 8)	63	—	—	63
Shares issued:				
Exercise of stock options (note 8)	3	—	—	3
Employee share purchase plan (note 8)	6	—	—	6
Balance as at February 29, 2020	2,760	(198)	(33)	2,529
Net loss	—	(1,104)	—	(1,104)
Other comprehensive income	—	—	20	20
Cumulative impact of adoption of ASC 326	—	(4)	—	(4)
Stock-based compensation (note 8)	44	—	—	44
Shares issued:				
Exercise of stock options (note 8)	12	—	—	12
Employee share purchase plan (note 8)	7	—	—	7
Balance as at February 28, 2021	\$ 2,823	\$ (1,306)	\$ (13)	\$ 1,504

See notes to consolidated financial statements.

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

Consolidated Statements of Operations

	For the Years Ended		
	February 28, 2021	February 29, 2020	February 28, 2019
Revenue (note 13)	\$ 893	\$ 1,040	\$ 904
Cost of sales	250	277	206
Gross margin	643	763	698
Operating expenses			
Research and development	215	259	219
Selling, marketing and administration	344	493	409
Amortization	182	194	136
Impairment of goodwill (note 3)	594	22	—
Impairment of long-lived assets (note 3)	43	10	—
Debentures fair value adjustment (note 7)	372	(66)	(117)
Settlements, net (note 11)	—	—	(9)
	1,750	912	638
Operating income (loss)	(1,107)	(149)	60
Investment income (loss), net	(6)	1	17
Income (loss) before income taxes	(1,113)	(148)	77
Provision for (recovery of) income taxes (note 6)	(9)	4	(16)
Net income (loss)	\$ (1,104)	\$ (152)	\$ 93
Earnings (loss) per share (note 9)			
Basic	\$ (1.97)	\$ (0.27)	\$ 0.17
Diluted	\$ (1.97)	\$ (0.32)	\$ 0.00

See notes to consolidated financial statements.

BlackBerry Limited
(United States dollars, in millions)

Consolidated Statements of Comprehensive Income (Loss)

	For the Years Ended		
	February 28, 2021	February 29, 2020	February 28, 2019
Net income (loss)	\$ (1,104)	\$ (152)	\$ 93
Other comprehensive income (loss)			
Net change in unrealized gains (losses) on available-for-sale investments (note 10)	—	(2)	1
Net change in fair value and amounts reclassified to net loss from derivatives designated as cash flow hedges during the year (note 10)	2	(1)	1
Foreign currency translation adjustment	5	(3)	(6)
Net change in fair value from instrument-specific credit risk on the Debentures during the year (note 7)	13	(7)	—
Other comprehensive income (loss)	<u>20</u>	<u>(13)</u>	<u>(4)</u>
Comprehensive income (loss)	<u>\$ (1,084)</u>	<u>\$ (165)</u>	<u>\$ 89</u>

See notes to consolidated financial statements.

BlackBerry Limited
(United States dollars, in millions)

Consolidated Statements of Cash Flows

	For the Years Ended		
	February 28, 2021	February 29, 2020	February 28, 2019
Cash flows from operating activities			
Net income (loss)	\$ (1,104)	\$ (152)	\$ 93
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization	198	212	149
Deferred income taxes	(3)	—	(25)
Stock-based compensation	44	63	67
Impairment of goodwill	594	22	—
Impairment of long-lived assets	43	10	—
Non-cash consideration received from contracts with customers	—	(8)	(46)
Debentures fair value adjustment (note 7)	372	(66)	(117)
Other long-term liabilities	(3)	2	(12)
Operating leases	(4)	(9)	—
Other	1	10	6
Net changes in working capital items			
Accounts receivable, net of allowance	29	18	(9)
Other receivables	(11)	5	52
Income taxes receivable	(4)	3	17
Other assets	55	(35)	(1)
Accounts payable	(11)	(17)	(15)
Accrued liabilities	(20)	(15)	(21)
Income taxes payable	(15)	1	(2)
Deferred revenue	(79)	(18)	(36)
Net cash provided by operating activities	82	26	100
Cash flows from investing activities			
Acquisition of long-term investments	(5)	(1)	(2)
Proceeds on sale or maturity of long-term investments	—	19	2
Acquisition of property, plant and equipment	(8)	(12)	(17)
Proceeds on sale of property, plant and equipment	—	—	1
Acquisition of intangible assets	(36)	(32)	(32)
Business acquisitions, net of cash acquired	—	1	(1,402)
Acquisition of restricted short-term investments	(24)	—	—
Acquisition of short-term investments	(1,039)	(1,180)	(2,895)
Proceeds on sale or maturity of short-term investments	1,047	1,017	3,970
Net cash used in investing activities	(65)	(188)	(375)
Cash flows from financing activities			
Issuance of common shares	19	9	5
Payment of finance lease liability	(1)	(2)	—
Repurchase of 3.75% Debentures	(610)	—	—
Issuance of 1.75% Debentures	365	—	—
Net cash provided by (used in) financing activities	(227)	7	5
Effect of foreign exchange gain (loss) on cash, cash equivalents, restricted cash, and restricted cash equivalents	2	(1)	(3)
Net decrease in cash, cash equivalents, restricted cash, and restricted cash equivalents during the period	(208)	(156)	(273)
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	426	582	855
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	\$ 218	\$ 426	\$ 582

See notes to consolidated financial statements.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

1. BLACKBERRY LIMITED AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

BlackBerry Limited (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.

Basis of Presentation and Preparation

The consolidated financial statements include the accounts of all subsidiaries of the Company with intercompany transactions and balances eliminated on consolidation. All of the Company’s subsidiaries are wholly owned. These consolidated financial statements have been prepared by management in accordance with United States generally accepted accounting principles (“U.S. GAAP”) on a basis consistent for all periods presented, except as described in Note 2.

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

The Company operates as a single operating segment. For additional information concerning the Company’s segment reporting, see Note 13.

Risks and Uncertainties

In March 2020, the World Health Organization characterized the novel coronavirus (“COVID-19”) as a global 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.

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 and caused volatility in demand for the Company’s products and services, adversely affected the ability of the Company’s sales and professional services teams to work with customers, impacted spending from new customers and increased sales cycle times. The uncertainty also resulted in the Company making significant judgments related to its estimates and assumptions concerning the impairment of goodwill, indefinite-lived intangible assets, certain operating lease right-of-use (“ROU”) assets and associated property, plant and equipment, and concerning the collectability of receivables.

As of the date of issuance of the financial statements, the Company is not aware of any additional events or circumstances which would require it to update its estimates, judgments, or revise the carrying value of its assets or liabilities, other than the COVID-19 pandemic as discussed above and below in Note 3. These estimates may change, as new events occur and additional information is obtained, and such changes will be recognized in the consolidated financial statements as soon as they become known. Actual results could differ from these estimates and any such differences may be material to the Company’s financial statements.

Although the Company experienced higher 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 continues to evaluate the current and potential impact of the pandemic on its business, results of operations and consolidated financial statements, including the potential impairment of goodwill and indefinite-lived intangible assets. The Company does not expect the COVID-19 pandemic and its related economic impact to materially adversely affect its 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.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Accounting Policies and Critical Accounting Estimates

Use of 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 (as defined in Note 7), 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 significant accounting policies used in these U.S. GAAP consolidated financial statements are as follows:

Foreign currency translation

The U.S. dollar is the functional and reporting currency of the Company and substantially all of the Company’s subsidiaries.

Foreign currency denominated assets and liabilities of the Company and its U.S. dollar functional currency subsidiaries are translated into U.S. dollars. Accordingly, monetary assets and liabilities are translated using the exchange rates in effect as at the consolidated balance sheet dates, and revenue and expenses are translated at the rates of exchange prevailing when the transactions occurred. Remeasurement adjustments are included in income. Non-monetary assets and liabilities are translated at historical exchange rates.

Foreign currency denominated assets and liabilities of the Company’s non-U.S. dollar functional currency subsidiaries are translated into U.S. dollars at the exchange rates in effect as at the consolidated balance sheet dates. Revenue and expenses are translated using daily exchange rates. Exchange gains or losses arising from translation of foreign currency denominated assets and liabilities are included as a currency translation adjustment within accumulated other comprehensive loss (“AOCL”).

Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and liquid investments with maturities of three months or less at the date of acquisition.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Accounts receivable, net of allowance

Accounting Standards Codification 326, Financial Instruments - Credit Losses ("ASC 326")

On March 1, 2020, the Company adopted ASC 326 using the modified retrospective method. See Note 2. The accounts receivable balance reflects invoiced and accrued revenue and is presented net of an allowance for credit losses. The Company expects the majority of its accounts receivable balances to continue to come from large customers as it sells the majority of its software products and services through resellers and other distribution partners, rather than directly. The Company establishes current expected credit losses ("CECL") for pools of assets with similar risk characteristics by evaluating historical levels of credit losses, current economic conditions that may affect a customer's ability to pay, and creditworthiness of significant customers. When specific customers are identified as no longer sharing the same risk profile as their current pool, they are removed from the pool and evaluated separately. The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. When the Company becomes aware of a specific customer's inability to meet its financial obligations to the Company (such as in the case of bankruptcy filings or material deterioration in the customer's operating results or financial position, and payment experiences), the Company records a specific credit loss provision to reduce the customer's related accounts receivable to its estimated net realizable value. If circumstances related to specific customers change, the Company's estimates of the recoverability of accounts receivable balances could be further adjusted.

For periods prior to the adoption of ASC 326, the accounts receivable balance reflects invoiced and accrued revenue and is presented net of an allowance for doubtful accounts. The allowance for doubtful accounts reflects estimates of probable losses in the accounts receivable balance. The Company expected the majority of its accounts receivable balances to continue to come from large customers as it has sold and continues to sell, the majority of its software products and services through resellers and other distribution partners, rather than directly. The Company evaluated the collectability of its accounts receivable balance based upon a combination of factors on a periodic basis such as specific credit risk of its customers, historical trends and economic circumstances. The Company, in the normal course of business, monitored the financial condition of its customers and reviewed the credit history of each new customer. When the Company became aware of a specific customer's inability to meet its financial obligations to the Company (such as in the case of bankruptcy filings or material deterioration in the customer's operating results or financial position, and payment experiences), the Company recorded a specific bad debt provision to reduce the customer's related accounts receivable to its estimated net realizable value. If circumstances related to specific customers changed, the Company's estimates of the recoverability of accounts receivable balances may have been further adjusted.

Investments

The Company's cash equivalents and investments, other than publicly issued equity securities and private equity investments without readily determinable fair value, consist of money market and other debt securities, which are classified as available-for-sale for accounting purposes and are carried at fair value. Unrealized gains and losses, net of related income taxes, are recorded in AOCL until such investments mature or are sold. The Company uses the specific identification method of determining the cost basis in computing realized gains or losses on available-for-sale investments, which are recorded in investment income. The Company does not exercise significant influence with respect to any of these investments. Publicly issued equity securities are recorded at fair value and revalued at each reporting period with changes in fair value recorded through investment income. The Company elects to record private equity investments without readily determinable fair value at cost minus impairment, and adjusted for any changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. The Company reassesses each reporting period that its private equity investments without readily determinable fair value continue to qualify for this treatment.

Investments with maturities at the time of purchase of three months or less are classified as cash equivalents. Investments with maturities of one year or less (but which are not cash equivalents), public equity investments and any investments that the Company intends to hold for less than one year are classified as short-term investments. Investments with maturities in excess of one year or investments that the Company does not intend to sell are classified as long-term investments.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Allowance for Credit Losses on Available-for-sale Debt Securities

On March 1, 2020, the Company adopted ASC 326 on a modified retrospective basis. See Note 2. Under ASC 326, at each reporting period, the Company evaluates its available-for-sale debt securities at the individual security level to determine whether there is a decline in the fair value below its amortized cost basis (an impairment). In circumstances where the Company intends to sell, or is more likely than not required to sell, the security before it recovers its amortized cost basis, the difference between fair value and amortized cost is recognized as a loss in the consolidated statement of operations, with a corresponding write-down of the security's amortized cost. In circumstances where neither condition exists, the Company then evaluates whether a decline is due to credit-related factors. The factors considered in determining whether a credit loss exists can include the extent to which fair value is less than the amortized cost basis, changes in the credit quality of the underlying issuer, credit ratings actions, as well as other factors. To determine the portion of a decline in fair value that is credit-related, the Company compares the present value of the expected cash flows of the security discounted at the security's effective interest rate to the amortized cost basis of the security. A credit-related impairment is limited to the difference between fair value and amortized cost, and recognized as an allowance for credit loss on the consolidated balance sheet with a corresponding adjustment to net income. Any remaining decline in fair value that is non-credit related is recognized in other comprehensive income (loss), net of tax. Improvements in expected cash flows due to improvements in credit are recognized through reversal of the credit loss and corresponding reduction in the allowance for credit loss.

Prior to the adoption of ASC 326, the Company assessed individual investments that were in an unrealized loss position to determine whether the unrealized loss was other-than-temporary. The Company made this assessment by considering available evidence, including changes in general market conditions, specific industry and individual company data, the length of time and the extent to which the fair value had been less than cost, the financial condition, the near-term prospects of the individual investment and the Company's intent and ability to hold the investment. In the event that a decline in the fair value of an investment occurred and that decline in value was considered to be other-than-temporary, an impairment charge was recorded in investment income equal to the difference between the cost basis and the fair value of the individual investment as at the consolidated balance sheet date of the reporting period for which the assessment was made. The fair value of the investment then became the new cost basis of the investment.

If a debt security's market value was below its amortized cost and either the Company intended to sell the security or it was more likely than not that the Company would be required to sell the security before its anticipated recovery, the Company recorded an other-than-temporary impairment charge to investment income for the entire amount of the impairment. For other-than-temporary impairments on debt securities that the Company did not intend to sell and it was not more likely than not that the entity would be required to sell the security before its anticipated recovery, the Company separated the other-than-temporary impairment into the amount representing the credit loss and the amount related to all other factors. The Company recorded the other-than-temporary impairment related to the credit loss as a charge to investment income, and the remaining other-than-temporary impairment was recorded as a component of AOCL.

Derivative financial instruments

The Company uses derivative financial instruments, including forward contracts and options, to hedge certain foreign currency exposures. The Company does not use derivative financial instruments for speculative purposes.

The Company records all derivative instruments at fair value on the consolidated balance sheets. The fair value of these instruments is calculated based on notional and exercise values, transaction rates, market quoted currency spot rates, forward points, volatilities and interest rate yield curves. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative instrument and the resulting designation.

For derivative instruments designated as cash flow hedges, the derivative's gain or loss is initially reported as a component of AOCL, net of tax, and subsequently reclassified into income in the same period or periods in which the hedged item affects income. In order for the Company to receive hedge accounting treatment, the cash flow hedge must be highly effective in offsetting changes in the fair value of the hedged item and the relationship between the hedging instrument and the associated hedged item must be formally documented at the inception of the hedge relationship. Hedge effectiveness is formally assessed, both at hedge inception and on an ongoing basis, to determine whether the derivatives used in hedging transactions are highly effective in offsetting changes in the value of the hedged items and whether they are expected to continue to be highly effective in future periods.

The Company formally documents relationships between hedging instruments and associated hedged items. This documentation includes: identification of the specific foreign currency asset, liability or forecasted transaction being hedged; the nature of the risk being hedged; the hedge objective; and the method of assessing hedge effectiveness. If an

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

anticipated transaction is deemed no longer likely to occur, the corresponding derivative instrument is de-designated as a hedge and any associated unrealized gains and losses in AOCL are recognized in income at that time. Any future changes in the fair value of the instrument are recognized in current income.

For any derivative instruments that do not meet the requirements for hedge accounting, or for any derivative instruments for which hedge accounting is not elected, the changes in fair value of the instruments are recognized in income in the current period and will generally offset the impact to income as a result of changes in the U.S. dollar value of the associated asset, liability or forecasted transaction.

Property, plant and equipment, net

Property, plant and equipment are stated at cost, less accumulated amortization. Amortization is provided using the following rates and methods:

Buildings, leasehold improvements and other	Straight-line over terms between 5 and 15 years
BlackBerry operations and other information technology	Straight-line over terms between 3 and 5 years
Manufacturing, repair and research and development equipment	Straight-line over terms between 1 and 5 years
Furniture and fixtures	Declining balance at 20% per annum

For amortization on ROU assets, see the Company's accounting policy on leases below and Note 12 for the remaining lease terms of leases.

Leases

On March 1, 2019, the Company adopted the new standard on leases, Accounting Standards Codification 842 ("ASC 842"). Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. As most of the Company's leases do not provide an implicit discount rate, the Company primarily uses its incremental borrowing rate, based on the information available at the commencement date of the lease, in determining the present value of future payments. The Company's incremental borrowing rate requires significant judgment and is determined based on the rate of interest that the Company would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term in a similar economic environment. The operating lease ROU asset includes any lease payments made, lease incentives and initial direct costs incurred. The lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. In some cases, the Company has index-based variable lease payments for which an estimated rate is applied to the initial lease payment to determine future lease payment amounts.

The Company has building, car and data center lease agreements with lease and non-lease components that are accounted for separately. For lease terms of 12 months or less on the commencement date, the Company does not apply the ASC 842 recognition requirements and recognizes the lease payments as lease cost on a straight-line basis over the lease term.

Prior to the adoption of ASC 842, the Company classified leases as either capital or operating leases. Capital leases were capitalized on the consolidated balance sheet and reported on the consolidated statement of operations. Operating leases were considered off-balance sheet transactions and expensed as incurred.

See Note 12 for additional information related to the Company's leases.

Goodwill

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

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

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; see Note 3.

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.

Using the impaired reporting units' fair value determined in step one as the acquisition prices in hypothetical acquisitions of the reporting units, the implied fair values of goodwill were calculated as the residual amount of the acquisition price after allocations made to the fair values of net assets, including working capital, property, plant and equipment and both recognized and unrecognized intangible assets.

Intangible assets

Intangible assets with definite lives are stated at cost, less accumulated amortization. Amortization is provided on a straight-line basis over the following terms:

Acquired technology	Between 3 and 10 years
Intellectual property	Between 1 and 29 years
Other acquired intangibles	Between 2 and 10 years

Acquired technology consists of intangible assets acquired through business acquisitions. Intellectual property consists of patents (including purchased and internally generated patents and maintenance fees). Other acquired intangibles include items such as customer relationships and brand. The useful lives of intangible assets are evaluated at least annually to determine if events or circumstances warrant a revision to their remaining period of amortization. Legal, regulatory and contractual factors, the effects of obsolescence, demand, competition and other economic factors are potential indicators that the useful life of an intangible asset may be revised.

Impairment of long-lived assets

The Company reviews long-lived assets ("LLA") such as property, plant and equipment, intangible assets with finite useful lives and ROU assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset or asset group may not be recoverable. These events and circumstances may include significant decreases in the market price of an asset or asset group, significant changes in the extent or manner in which an asset or asset group is being used by the Company or in its physical condition, a significant change in legal factors or in the business climate, a

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

history or forecast of future operating or cash flow losses, significant disposal activity, a significant decline in the Company's share price, a significant decline in revenue or adverse changes in the economic environment.

The LLA impairment test requires the Company to identify its asset groups and test impairment of each asset group separately. 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.

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

The Company reviews any changes in events and circumstances that have occurred on a quarterly basis to determine if indicators of LLA impairment exist.

Business acquisitions

The Company accounts for its acquisitions using the acquisition method whereby identifiable assets acquired and liabilities assumed are measured at their fair values as of the date of acquisition. The excess of the acquisition price over such fair value, if any, is recorded as goodwill, which is not expected to be deductible for tax purposes. The Company includes the operating results of each acquired business in the consolidated financial statements from the date of acquisition.

Royalties

The Company recognizes its liability for royalties in accordance with the terms of existing license agreements. Where license agreements are not yet finalized, the Company recognizes its current estimates of the obligation in accrued liabilities in the consolidated financial statements. When the license agreements are subsequently finalized, the estimate is revised accordingly. Management's estimates of royalty rates are based on the Company's historical licensing activities, royalty payment experience, and forward-looking expectations.

Convertible debentures

The Company elected to measure its outstanding convertible debentures (collectively, the "Debentures", as defined in Note 7) at fair value in accordance with the fair value option. Each period, the fair value of the Debentures is recalculated and resulting gains and losses from the change in fair value of the Debentures associated with non-credit components are recognized in income, while the change in fair value associated with credit components is recognized in AOCL.

3.75% Debentures

The fair value of the 3.75% Debentures (as defined in Note 7) was determined using the significant inputs of principal value, interest rate spreads and curves, embedded call option prices, observable trades of the Debentures, the market price and volatility of the Company's listed common shares and the Company's implicit credit spread.

1.75% Debentures

The fair value of the 1.75% Debentures (as defined in Note 7) has been determined using the significant inputs of principal value, interest rate spreads and curves, any observable trades of the Debentures that occurred during the period, the market price and volatility of the Company's listed common shares, and the significant level 3 inputs related to credit spread and the implied discount of the 1.75% Debentures at issuance.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Revenue recognition

The Company recognizes revenue when control of the promised products or services are transferred to customers, in an amount that reflects the consideration that the Company expects to receive in exchange for those products and services. Revenue is recognized through the application of the following steps: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when (or as) the Company satisfies a performance obligation.

A contract exists with a customer when both parties have approved the contract, commitments to performance and rights of each party (including payment terms) are identified, the contract has commercial substance and collection of substantially all consideration is probable for goods and services that are transferred.

Performance obligations promised in a contract are identified based on the goods and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other available resources, and are distinct in the context of the contract, whereby the transfer of the good or service is separately identifiable from other promises in the contract. If these criteria are not met, the promised goods and services are accounted for as a combined performance obligation.

The transaction price is determined based on the consideration the Company expects to be entitled to in exchange for transferring promised goods and services to the customer, excluding amounts collected on behalf of third parties such as sales taxes. Determining the transaction price requires significant judgment. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Non-cash consideration received is measured at fair value at contract inception. The estimated fair value is determined utilizing multiple valuation techniques, including the discounted future cash flows and the market-based approach.

Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative SSP. The Company's method for allocation of consideration to be received and its method of estimation of SSP are described below under "Significant judgments".

For each of the Company's major categories of revenue, the following paragraphs describe the applicable specific revenue recognition policy, and when the Company satisfies its performance obligations.

Nature of products and services

The Company is organized and managed as one operating segment. The Company has multiple products and services from which it derives revenue, which are structured in two groups: Software and Services, and Licensing and Other.

Software and Services

Software and Services includes revenue from the Company's BlackBerry Spark® software platform and BlackBerry IoT Solutions. Software and Services revenue is generated predominantly through software licenses, commonly bundled with support, maintenance and professional services.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

BlackBerry Spark

The BlackBerry Spark platform is a comprehensive offering of security software products and services, including the BlackBerry Spark® Unified Endpoint Security Suite and the BlackBerry Spark® Unified Endpoint Management Suite, which are also marketed together as the BlackBerry Spark® Suites, offering the Company's broadest range of tailored cybersecurity and endpoint management options.

The BlackBerry Spark UES Suite includes revenue from the Company's Cylance® artificial intelligence and machine learning-based platform consisting of BlackBerry® Protect, BlackBerry® Optics, BlackBerry® Persona, BlackBerry® Guard managed services and other cybersecurity applications. The Company generates software license revenue from term subscription products, which includes technical support, and any updates and upgrades. The Company also offers the BlackBerry Cyber Suite, which is a UEM-agnostic version of the BlackBerry UES Suite which will be able to integrate with UEM software from other vendors.

The Company recognizes the license revenue over the term of the contract beginning on the commencement date of each contract, the date that services are made available to customers. The Company's software license and updates, to the extent made available, are not distinct in the context of the contract as they are critical to the ongoing usability of the solution and so fulfill a single promise to the customer in the contract. The typical subscription term is one to three years. The technical support is recognized over the support period, which will normally be the same term as the software license.

Revenue for hourly rate professional services arrangements is recognized as services are performed and revenue for fixed fee professional services is recognized on a proportional performance basis as the services are performed.

BlackBerry Spark® UEM Suite includes the Company's BlackBerry® UEM, BlackBerry® Dynamics™ and BlackBerry® Workspaces solutions. The Company generates software license revenue from both term subscription and perpetual license contracts, both of which are commonly bundled with support, maintenance and professional services.

If the licensed software in a contract requires access to the Company's proprietary secure network infrastructure in order to function, revenue from term subscription contracts is recognized over time, ratably over the term, and revenue from perpetual license contracts is recognized over time, ratably over the expected customer life, which in most cases the Company has estimated to be four years. If access to the Company's proprietary network infrastructure is not required for the software to function, revenue associated with both term subscription and perpetual licenses contracts is recognized at a point in time upon delivery of the software. Generally, most of the Company's enterprise software products sold require access to the Company's proprietary secure network infrastructure in order to function, and therefore the associated revenue is recognized over time, ratably over either the subscription term or expected customer life as described above.

BlackBerry IoT Solutions

BlackBerry IoT Solutions includes revenue from BlackBerry Technology Solutions, which consists of BlackBerry® QNX®, BlackBerry Certicom®, BlackBerry Radar® and other IoT applications, and from Secure Communications which consists of BlackBerry® AtHoc® and SecuSUITE.

BlackBerry® QNX® software license revenue from both term subscription and perpetual contracts is recognized at a point in time when the software is made available to the customer for use, as the software has standalone functionality and the license is distinct in the context of the contract. The licenses for certain software embedded into hardware such as automotive infotainment systems and advanced driver-assistance systems are sold as a sales-based royalty where intellectual property is the predominant item to which the royalty relates, and are recognized based on actual volumes and underlying sales by the customer of the hardware with the embedded software except in cases where the customer makes a non-refundable prepayment related to its future royalties, in which case consideration is fixed and recognized immediately.

BlackBerry® AtHoc® generates revenue from networked crisis communication software from term subscription products, which includes technical support, and associated professional services. The Company recognizes the license revenue over the term of the contract beginning on the commencement date of each contract, the date that services are made available to customers.

SecuSUITE revenue is generated from software license products associated with secure messaging and the associated hardware. Similar to the BlackBerry Spark products, if the licensed software requires access to the Company's proprietary secure network infrastructure, revenue from the contract is recognized over time, ratably over the expected term or over the customer life, if licensed on a perpetual basis. If access to the Company's proprietary network infrastructure is not required, revenue associated with the license is recognized at a point in time upon delivery of the software. Revenue from

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

the hardware is recognized once title and the significant risks and rewards of ownership of the products are transferred to the customer, which occurs after the product has shipped.

Revenue from technical support is recognized over the support period. Revenue from professional services is recognized as the customer simultaneously receives and consumes the benefits provided by the Company's performance as the services are provided. This can be on a proportional performance basis, or over the term of the contract. Revenue from software maintenance services is recognized over the length of the maintenance period, with an average term of one year.

Licensing and Other

Licensing and Other includes revenue from the Company's intellectual property licensing arrangements, BBM Consumer licensing arrangement, settlement awards and mobility licensing software arrangements, which include revenue from licensed hardware sales. Other revenue consists of revenue associated with the Company's legacy service access fees ("SAF") business.

The Company's outbound patent licensing agreements provide for license fees that may be a single upfront payment or multiple payments representing all or a majority of the licensing revenue that will be payable to the Company. These agreements may be perpetual or term in nature and grant (i) a limited non-exclusive, non-transferable license to certain of the Company's patents, (ii) a covenant not to enforce patent rights against the licensee, and (iii) the release of the licensee from certain claims.

The Company examines intellectual property agreements on a case-by-case basis to determine whether the intellectual property contain distinct performance obligations with standalone functionality and whether the Company is the principal or agent in the transaction. Significant judgment is applied in assessing contractual terms which could impact the timing and amount of revenue recognition. Revenue from patent licensing agreements is often recognized for the transaction price either when the license has been transferred to the customer or based upon subsequent sales by the customer in the case of sales-based royalty licenses where the license of intellectual property is the predominant item to which the royalty relates. The transaction price may include non-monetary consideration in the form of patents transferred to the Company, which is recorded at fair value as determined by a combination of market and income-based valuation approaches. As part of these agreements the Company may also recognize revenue relating to the sale and assignment of patents.

The Company recognizes revenue related to consideration that may result from a negotiated agreement with a licensee that utilized the Company's IP prior to signing a patent license agreement with the Company or from the resolution of a disagreement or arbitration with a licensee over the specific terms of an existing license agreement. The Company may also recognize revenue related to consideration for past patent royalties in connection with the settlement of patent litigation where there was no prior patent license agreement.

The Company's BBM Consumer licensing arrangement is a multi-year agreement where the license was not previously separately identifiable from the requirement to maintain interoperability between the licensed BBM Consumer product and the BBM Enterprise product sold by the Company. During fiscal 2020, the licensed BBM Consumer product was shut down by the licensee, removing any requirement for the Company to maintain interoperability and thus all performance obligations were completed. As a result, the Company estimated the amount for which it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur and recognized that amount as revenue during fiscal 2020.

In fiscal 2017 and fiscal 2018, the Company entered into multiple multi-year license agreements under which the Company licensed its security software and services suite and, in many cases, related brand assets to third parties who design, manufacture, sell and provide customer support for BlackBerry-branded and white-label handsets. Mobility license revenue for licensees whose sales exceed contractual sales minimums is recognized when licensed products are sold as reported by the Company's licensees. For licensees whose sales do not exceed contractual sales minimums, revenue is recognized over time, ratably over the license term based on contractual minimum amounts due to the promise to provide engineering services to the licensees.

Other includes revenue associated with the Company's legacy SAF business, relating to subscribers utilizing the Company's legacy BlackBerry 7 and prior operating systems, as well as legacy handheld revenue associated with the release of previously accrued amounts when the Company determines it has no further performance obligations. SAF revenue is recognized over time as the monthly service is provided. In instances where the Company invoices the SAF customer prior to performing the service, the pre-billing is recorded as deferred revenue.

See Note 13 for further information, including revenue by major product and service types.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Significant judgments in 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.

Revenue contract balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets are generated when contractual billing schedules differ from revenue recognition timing. An unbilled receivable is recorded in instances when revenue is recognized prior to invoicing, and amounts collected in advance of services being provided are recorded as deferred revenue.

Certain sales commissions are considered incremental and recoverable costs of obtaining a contract with a customer. The Company's capitalized commissions are recorded as other current assets and other long-term assets and are recognized immediately or amortized proportionally, based on the satisfaction of the related performance obligations, and are included in selling, marketing and administration expenses. The Company has applied the practical expedient to expense sales commission as incurred if the amortization period would have been for one year or less. The practical expedient was applied to sales commissions allocated to professional services, as these contracts are generally for one year or less. See Note 13 for further information on the Company's contract balances.

Payment terms and conditions vary by contract type although standard billing terms are that payment is due upon receipt of invoice, payable within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that contracts generally do not include a significant financing component if the period between when the payment is received and when the Company transfers the promised goods or services to the customer will be one year or less.

Income taxes

The Company uses the liability method of income tax allocation to account for income taxes. Deferred income tax assets and liabilities are recognized based upon temporary differences between the financial reporting and income tax bases of assets and liabilities and measured using enacted income tax rates and tax laws that will be in effect when the differences are expected to reverse. The Company records a valuation allowance to reduce deferred income tax assets to the amount that is more likely than not to be realized. The Company considers both positive evidence and negative evidence, to determine whether, based upon the weight of that evidence, a valuation allowance is required. Judgment is required in considering the relative impact of negative and positive evidence.

Significant judgment is also required in evaluating the Company's uncertain income tax positions and provisions for income taxes. Liabilities for uncertain income tax positions are recognized based on a two-step approach. The first step is to evaluate whether an income tax position has met the recognition threshold by determining if the weight of available evidence indicates that it is more likely than not to be sustained upon examination. The second step is to measure the

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

income tax position that has met the recognition threshold as the largest amount that is more than 50% likely of being realized upon settlement. The Company continually assesses the likelihood and amount of potential adjustments and adjusts the income tax provisions, income taxes payable and deferred income taxes in the period in which the facts that give rise to a revision become known. The Company recognizes interest and penalties related to uncertain income tax positions as interest expense, which is then netted and reported within investment income.

The Company uses the flow-through method to account for investment tax credits (“ITCs”) earned on eligible scientific research and experimental development expenditures. Under this method, the ITCs are recognized as a reduction to income tax expense.

Research and development

Research costs are expensed as incurred. Development costs for licensed software to be sold, leased or otherwise marketed are subject to capitalization beginning when a product’s technological feasibility has been established and ending when a product is available for general release to customers. The Company’s products are generally released soon after technological feasibility has been established and therefore costs incurred subsequent to achievement of technological feasibility are not significant and have been expensed as incurred. The Company does not currently have any capitalized research and development costs other than those identified through business combinations as in-process research and development included within intangible assets, net, which were recorded at their fair values and began amortizing when the related technology became available for general release to customers.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in net assets of a business enterprise during a period from transactions and other events and circumstances from non-owner sources and includes all changes in equity during a period, except those resulting from investments by owners and distributions to owners. The Company’s reportable items of comprehensive income (loss) are the cumulative translation adjustment resulting from non-U.S. dollar functional currency subsidiaries as described under the foreign currency translation policy above, cash flow hedges as described above in derivative financial instruments, changes in the fair value of available-for-sale investments as described in Note 3, changes in fair value from instrument-specific credit risk on the Debentures as described in Note 7 and Note 10, and actuarial gains or losses associated with certain other post-employment benefit obligations. Realized gains or losses on available-for-sale investments are reclassified into investment income using the specific identification basis.

Earnings (loss) per share

Earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the fiscal year. The treasury stock method is used for the calculation of the dilutive effect of stock options. The if-converted method is used for the calculation of the dilutive effect of the Debentures.

Stock-based compensation plans

The Company has stock-based compensation plans. Awards granted under the plans are detailed in Note 8(b).

The Equity Incentive Plan (the “Equity Plan”) was adopted during fiscal 2014. The Equity Plan provides for grants of incentive stock options and restricted share units (“RSUs”) to officers and employees of the Company or its subsidiaries. RSUs may be either time-based (“TBRsUs”) or time- and performance-based (“PBRsUs”). The number of common shares authorized for awards under the Equity Plan is 45,875,000 common shares. Any shares that are subject to options granted under the Equity Plan are counted against this limit as 0.625 shares for every one option granted, any shares that are subject to TBRsUs granted under the Equity Plan are counted against this limit as one share for every TBRsU, and any shares that are subject to PBRsUs granted under the Equity Plan are counted against this limit at the maximum performance attainment (which is generally 1.5 shares for every PBRsU). Awards previously granted under the Equity Plan that expire or are forfeited, or settled in cash, are added to the shares available under the Equity Plan. Options forfeited will be counted as 0.625 shares to the shares available under the Equity Plan. Shares issued as awards other than options that expire or are forfeited (i.e, RSUs), settled in cash or sold to cover withholding tax requirements are counted as one share added to the shares available under the Equity Plan. There are approximately 18 million shares in the equity pool available for future grants under the Equity Plan as at February 28, 2021.

In connection with the Cylance (as defined in Note 5) acquisition in fiscal 2019, the Company adopted the BlackBerry-Cylance Stock Plan (the “Cylance Stock Plan”). The Cylance Stock Plan provides for the grant of Replacement Awards (as defined in Note 8(b)) in connection with unvested Cylance employee equity awards. The number of common shares authorized for awards under the Cylance Stock Plan is 9,144,176 common shares, which is equal to the amount of Replacement Awards granted. As at February 28, 2019, there were no shares remaining in the Cylance Stock Plan for

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

future grants. In addition, no shares may be reissued under the Cylance Stock Plan in respect of shares that expire, are forfeited, or are settled in cash.

The Company measures stock-based compensation expense for options at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton ("BSM") option pricing model for stock options, and the expense is recognized ratably over the vesting period. Options granted under the Cylance Stock Plan generally vest over a four-year period with 25% vesting on the first anniversary date, and the remainder vesting in equal monthly installments. The BSM model requires various judgmental assumptions including volatility and expected option life. In addition, judgment is also applied in estimating the number of stock-based awards that are expected to be forfeited, and if actual results differ significantly from these estimates, stock-based compensation expense and the Company's results of operations would be impacted.

Any consideration paid by employees on exercise of stock options, plus any recorded stock-based compensation within additional paid-in capital related to that stock option, is credited to capital stock.

RSUs are redeemed for common shares issued by the Company or the cash equivalent on the vesting dates established by the Board or the Compensation, Nomination and Governance Committee of the Board. The RSUs granted under the Equity Plan generally vest over a three-year period, either in equal annual installments or on the third anniversary date. For PBRs, the Company estimates its achievement against the performance goals, which are based on the Company's business plan approved by the Board. The estimated achievement is updated for the Company's outlook for the fiscal year as at the end of each fiscal quarter. Compensation cost will only be recognized to the extent that performance goals are achieved. The Company classifies RSUs as equity instruments as the Company has the ability and intent to settle the awards in common shares. The compensation expense for standard RSUs is calculated based on the fair value of each RSU as determined by the closing value of the Company's common shares on the business day of the grant date. The Company recognizes compensation expense over the vesting period of the RSU. The Company expects to settle RSUs, upon vesting, through the issuance of new common shares from treasury.

The Company has a Deferred Share Unit Plan (the "DSU Plan"), originally approved by the Board on December 20, 2007, under which each independent director is credited with Deferred Share Units ("DSUs") in satisfaction of all or a portion of the cash fees otherwise payable to them for serving as a director of the Company. Each independent director's annual retainer will be entirely satisfied in the form of DSUs. Within a specified period after a director ceases to be a member of the Board, DSUs will be redeemed for cash with the redemption value of each DSU equal to the weighted average trading price of the Company's shares over the five trading days preceding the redemption date. Alternatively, the Company may elect to redeem DSUs by way of shares purchased on the open market or issued by the Company.

DSUs are accounted for as liability-classified awards and are awarded on a quarterly basis. These awards are measured at their fair value on the date of issuance and remeasured at each reporting period until settlement.

Advertising costs

The Company expenses all advertising costs as incurred. These costs are included in selling, marketing and administration expenses.

Government Subsidies

The Company recognizes government subsidies as a reduction to operating expenses in the consolidated statement of operations when there is reasonable assurance the Company will receive the amount and has complied with the conditions, if any, attached to the government subsidies.

2. ADOPTION OF ACCOUNTING POLICIES

Accounting Standards Adopted During Fiscal 2021

ASC 350, Goodwill and Other

In January 2017, the Financial Accounting Standards Board ("FASB") released ASU 2017-04 on the topic of Intangibles — Goodwill and Other (ASC 350). ASU 2017-04 simplifies the subsequent measurement of goodwill, eliminating Step 2 from the goodwill impairment test. Previously, under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) after performing a required procedure to determine the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments of ASU 2017-04, an entity performs its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying value. The Company will recognize an impairment charge for any amount by which the carrying value exceeds the reporting unit's fair value. The amendments in

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

this update were effective for an entity's annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company adopted this standard on March 1, 2020.

ASC 326, Credit Losses

In June 2016, the FASB released ASU 2016-13 on the topic of Financial Instruments — Credit Losses (ASC 326). ASU 2016-13 replaces the previous incurred loss impairment methodology in U.S. GAAP with a methodology that reflects expected credit losses, requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates, and requires entities to estimate an expected lifetime credit loss on its financial assets.

The guidance also amends the impairment model for available-for-sale debt securities, requiring entities to determine whether all or a portion of the unrealized loss on such securities is a credit loss, and also eliminating the option for management to consider the length of time a security has been in an unrealized loss position as a factor in concluding whether or not a credit loss exists. The amended model states that an entity recognizes an allowance for credit losses on available-for-sale debt securities, instead of a direct reduction of the amortized cost basis of the investment, as required under previous guidance. As a result, entities recognize improvements to estimated credit losses on available-for-sale debt securities immediately in earnings as opposed to in interest income over time.

The guidance was effective for interim and annual periods beginning after December 15, 2019. The Company adopted this guidance in the first quarter of fiscal 2021 using the modified retrospective method. As a result of the adoption of the new standard on credit losses, the Company recorded a cumulative adjustment to the consolidated balance sheet increasing the allowance for credit losses and increasing deficit by approximately \$4 million as at March 1, 2020. As a result, the allowance for credit losses was \$13 million in the consolidated balance sheet as at March 1, 2020.

Accounting Pronouncements Issued But Not Yet Adopted

In August 2020, the FASB issued a new accounting standard on the topic of debt with conversion and other options, ASU 2020-06. The amendment in this update simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments and convertible preferred stock. This update also amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions and requires the application of the if-converted method for calculating diluted earnings per share. The update also requires entities to provide expanded disclosures about the terms and features of convertible instruments, how the instruments have been reported in the entity's financial statements, and about events, conditions, and circumstances that can affect how to assess the amount or timing of an entity's future cash flows related to those instruments. The guidance is effective for interim and annual periods beginning after December 15, 2021. The Company will adopt this guidance in the first quarter of fiscal 2023 and does not expect the adoption to have a material impact on its results of operations, financial position and disclosures.

In December 2019, the FASB released ASU 2019-12 on the topic of simplifying the accounting for income taxes, as part of its simplification initiative to reduce the cost and complexity in accounting for income taxes. The amendments in this update removes certain exceptions from Topic 740, Income Taxes, including (i) the exception to the incremental approach for intra period tax allocation; (ii) the exception to accounting for basis differences when there are ownership changes in foreign investments; and (iii) the exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. The update also simplifies U.S. GAAP in several other areas of Topic 740 such as (i) franchise taxes and other taxes partially based on income; (ii) transactions with a government that result in a step up in the tax basis of goodwill; (iii) separate financial statements of entities not subject to tax; and (iv) enacted changes in tax laws in interim periods. The guidance is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The Company will adopt this guidance in the first quarter of fiscal 2022 and the only aspect of ASU 2019-12 that could have a material impact on the Company's consolidated financial statements is the removal of the exception related to intraperiod tax allocation. Upon adoption of the new standard, the Company would determine the tax attributable to continuing operations without regard to the tax effect of other items included in other comprehensive income.

3. FAIR VALUE MEASUREMENTS, CASH, CASH EQUIVALENTS AND INVESTMENTS

Fair Value

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use in pricing the asset or

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

liability, such as inherent risk, non-performance risk and credit risk. The Company applies the following fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value into three levels:

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

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

Recurring Fair Value Measurements

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

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

The Company's investments largely consist of securities issued by major corporate and banking organizations, the provincial and federal governments of Canada, international government banking organizations and the United States Department of the Treasury and are all investment grade. The Company also holds a limited amount of equity securities following the initial public offering by the issuer of a previous private equity investment.

The Company no longer has Level 3 assets as of February 29, 2020. The Company's Level 3 assets previously consisted of auction rate securities. The Company realized \$3 million in gains on auction rate securities for the year ended February 29, 2020 (February 28, 2019 - nil). The Company recognizes transfers in and out of levels within the fair value hierarchy at the end of the reporting period in which the actual event or change in circumstance occurred. There were no significant transfers in or out of Level 3 assets during the years ended February 28, 2021 or February 29, 2020.

For a description of how the fair values of the Debentures (as defined in Note 7) were determined, see the "Convertible debentures" accounting policies in Note 1. The 3.75% Debentures (as defined in Note 7) were classified as Level 2 and the 1.75% Debentures (as defined in Note 7) are classified as Level 3. For a description of how the fair value of the CEO Contingent Cash Award (as defined in Note 8) was determined, see the "2019 Executive Chair Incentive Grant" section of Note 8(b).

Non-Recurring Fair Value Measurements

Upon the occurrence of certain events, the Company re-measures the fair value of long-lived assets, including property, plant and equipment, operating lease ROU assets, intangible assets and goodwill.

Goodwill Impairment

During the year ended February 28, 2021, as a result of the deterioration in economic conditions caused by the global COVID-19 pandemic and its impact on the Company's reporting units, and the decline of the trading value of the Company's capital stock below the Company's consolidated carrying value, the Company determined that it was more likely than not that the fair value of at least one of its reporting units was lower than its carrying value after including goodwill. As a result, the Company completed an analysis of the fair value of its reporting units to compare against their respective carrying values as of May 31, 2020.

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 which is based on the sum of the values of each of the assets and liabilities within the entity. In addition to market data, the valuation techniques utilized Level 3 inputs such as the Company's internal forecasts of its future results, cash flows and its weighted average cost of capital, which is risk-adjusted to reflect the specific risk profile of the reporting unit being tested and based upon the Company's estimated credit rating. The analysis involves significant judgment in the selection of assumptions necessary to arrive at

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

the reporting units' fair values, especially in light of the ongoing COVID-19 pandemic and its short-term and potential long-term impacts to the Company's business. The total of the fair values of the Company's reporting units was reconciled to the Company's market capitalization based on the quoted market price of the Company's stock in an active market, adjusted by an appropriate control premium. Where the carrying value of a reporting unit exceeded its fair value, goodwill of the reporting unit was considered to be impaired.

Based on the results of the goodwill impairment test, it was concluded that the carrying value of one reporting unit exceeded its fair value, necessitating an impairment charge for the amount of excess and reducing the carrying value of Goodwill. Consequently, the Company recorded total non-cash goodwill impairment charges of \$594 million in the first quarter of fiscal 2021, relating to its BlackBerry Spark reporting unit (the "Goodwill Impairment Charge"). The estimated fair values of the Company's other reporting units substantially exceeded their carrying values at May 31, 2020. No additional goodwill impairment was identified during the Company's annual impairment test and the Company's reporting units all substantially exceeded their carrying values as of the annual test date of December 31, 2020.

During the year ended February 29, 2020, the Company recorded a goodwill impairment charge of \$22 million relating to its BBM Consumer reporting unit.

During the year ended February 28, 2019, there was no goodwill impairment charge.

Impairment of Long-Lived Assets

During the year ended February 28, 2021, the Company decided to exit and seek subleases for certain leased facilities and made a change in the estimate of future sublease activity of a previously exited facility. In addition, during the fourth quarter of fiscal 2021, the Company made a strategic decision to move towards a significant work from home model and will vacate or consolidate numerous facilities globally. The Company will also actively market certain facilities for sublease as part of its strategic decision. During the year ended February 28, 2021, the Company recorded a non-cash, pre-tax and after-tax impairment charge of \$46 million consisting of \$37 million related to operating lease ROU assets for those facilities and \$9 million related to property, plant and equipment associated with those facilities. The impairment was determined by comparing the fair value of the impacted ROU asset to the carrying value of the asset as of the impairment measurement date, as required under ASC Topic 360, Property, Plant, and Equipment, using Level 2 inputs. The fair value of the ROU asset was based on the estimated sublease income for certain facilities taking into consideration the time period it will take to obtain a sublessor, the applicable discount rate and the sublease rate. The Company also recorded a decrease to its lease liabilities of \$3 million associated with certain leased facilities with an early termination option, which has been included as a partial offset in impairment of long-lived assets on the Company's consolidated statements of operations. The Company conducts an evaluation of the related liabilities and expenses and revises its assumptions and estimates as appropriate as new or updated information becomes available.

During the year ended February 29, 2020, the Company recorded a non-cash, pre-tax and after-tax impairment charge of \$10 million consisting of \$8 million related to operating lease ROU assets for certain facilities that have been exited (see Note 12) and \$2 million related to property, plant and equipment associated with those facilities.

During the year ended February 28, 2019, there were no LLA impairment charges.

BlackBerry Limited

Notes to the Consolidated Financial Statements

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

Cash, Cash Equivalents and Investments

The components of cash, cash equivalents and investments by fair value level as at February 28, 2021 were as follows:

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments	Restricted Cash Equivalents	Restricted Short-term Investments
Bank balances	\$ 165	\$ —	\$ —	\$ 165	\$ 165	\$ —	\$ —	\$ —	\$ —
Other investments	37	—	—	37	—	—	37	—	—
	<u>202</u>	<u>—</u>	<u>—</u>	<u>202</u>	<u>165</u>	<u>—</u>	<u>37</u>	<u>—</u>	<u>—</u>
Level 1:									
Equity securities	10	—	(7)	3	—	3	—	—	—
Level 2:									
Term deposits, certificates of deposits, and GIC's	138	—	—	138	7	103	—	4	24
Bearer deposit notes	40	—	—	40	—	40	—	—	—
Commercial paper	162	—	—	162	15	147	—	—	—
Non-U.S. promissory notes	55	—	—	55	26	29	—	—	—
Non-U.S. government sponsored enterprise notes	154	—	—	154	1	153	—	—	—
Non-U.S. treasury bills/notes	25	—	—	25	—	25	—	—	—
Corporate notes/bonds	25	—	—	25	—	25	—	—	—
	<u>599</u>	<u>—</u>	<u>—</u>	<u>599</u>	<u>49</u>	<u>522</u>	<u>—</u>	<u>4</u>	<u>24</u>
	<u>\$ 811</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ 804</u>	<u>\$ 214</u>	<u>\$ 525</u>	<u>\$ 37</u>	<u>\$ 4</u>	<u>\$ 24</u>

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

The components of cash, cash equivalents and investments by fair value level as at February 29, 2020 were as follows:

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments	Restricted Cash Equivalents
Bank balances	\$ 100	\$ —	\$ —	\$ 100	\$ 100	\$ —	\$ —	\$ —
Other investments	32	—	—	32	—	—	32	—
	132	—	—	132	100	—	32	—
Level 1:								
Equity securities	10	—	(8)	2	—	2	—	—
Level 2:								
Term deposits, certificates of deposits, and GICs	118	—	—	118	44	25	—	49
Bankers' acceptances/bearer deposit notes	84	—	—	84	30	54	—	—
Commercial paper	276	—	—	276	108	168	—	—
Non-U.S. promissory notes	133	—	—	133	25	108	—	—
Non-U.S. government sponsored enterprise notes	144	—	—	144	—	144	—	—
Non-U.S. treasury bills/notes	56	—	—	56	25	31	—	—
U.S. treasury bills/notes	45	—	—	45	45	—	—	—
	856	—	—	856	277	530	—	49
	<u>\$ 998</u>	<u>\$ —</u>	<u>\$ (8)</u>	<u>\$ 990</u>	<u>\$ 377</u>	<u>\$ 532</u>	<u>\$ 32</u>	<u>\$ 49</u>

As at February 28, 2021, the Company had private equity investments without readily determinable fair value of \$37 million (February 29, 2020 - \$32 million).

During the year ended February 28, 2021, there was no impairment recognized relating to private equity investments without readily determinable fair value (February 29, 2020 - \$3 million and February 28, 2019 - nil).

There were no realized gains or losses on available-for-sale securities for the year ended February 28, 2021 (February 29, 2020 and February 28, 2019 - nil).

The Company has restricted cash and cash equivalents and restricted short-term investments, consisting of cash and securities pledged as collateral to major banking partners in support of the Company's requirements for letters of credit. These letters of credit support certain leasing arrangements entered into in the ordinary course of business. The letters of credit are for terms ranging from one month to five years. The Company is legally restricted from accessing these funds during the term of the leases for which the letters of credit have been issued; however, the Company can continue to invest the funds and receive investment income thereon.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

The following table provides a reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents as at February 28, 2021, February 29, 2020 and February 28, 2019 from the consolidated balance sheets to the consolidated statements of cash flows:

	As at		
	February 28, 2021	February 29, 2020	February 28, 2019
Cash and cash equivalents	\$ 214	\$ 377	\$ 548
Restricted cash and cash equivalents	4	49	34
Total cash, cash equivalents, restricted cash, and restricted cash equivalents presented in the consolidated statements of cash flows	<u>\$ 218</u>	<u>\$ 426</u>	<u>\$ 582</u>

The contractual maturities of available-for-sale investments as at February 28, 2021 and February 29, 2020 were as follows:

	As at			
	February 28, 2021		February 29, 2020	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Due in one year or less	\$ 599	\$ 599	\$ 856	\$ 856
No fixed maturity	10	3	10	2
	<u>\$ 609</u>	<u>\$ 602</u>	<u>\$ 866</u>	<u>\$ 858</u>

As at February 28, 2021, the Company had investments with continuous unrealized losses totaling \$7 million, consisting of unrealized losses on equity securities (February 29, 2020 - continuous unrealized losses totaling \$8 million).

4. CONSOLIDATED BALANCE SHEET DETAILS

Accounts Receivable, Net

The allowance for credit losses as at February 28, 2021 was \$10 million (February 29, 2020 - \$9 million).

The Company recognizes current estimated credit losses for accounts receivable, net of allowance. The CECL for accounts receivable, net are estimated based on days past due and region for each customer in relation to a representative pool of assets consisting of a large number of customers with similar risk characteristics that operate under similar economic environments. The Company determined the CECL by estimating historical credit loss experience based on the past due status and region of the customers, adjusted as appropriate to reflect current conditions and estimates of future economic conditions, inclusive of the effect of the COVID-19 pandemic on credit losses. The duration and severity of the COVID-19 pandemic and the resulting market volatility are highly uncertain and, as such, the impact on expected credit losses is subject to significant judgment and may cause variability in the Company's allowance for credit losses in future periods. When specific customers are identified as no longer sharing the same risk profile as their current pool, they are removed from the pool and evaluated separately. The Company also has long-term accounts receivable included in Other Long-term Assets. The CECL for long-term accounts receivable is estimated using the probability of default method and the default exposure due to limited historical information. The exposure of default is represented by the assets' amortized carrying amount at the reporting date.

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

	For the Year Ended February 28, 2021
Beginning balance as of February 29, 2020	\$ 9
Impact of adopting ASC 326	4
Current period recovery for expected credit losses	(3)
Ending balance of the allowance for credit loss as at February 28, 2021	<u>\$ 10</u>

The allowance for credit losses as at February 28, 2021 consists of \$3 million relating to CECL estimated based on days past due and geographic region and \$7 million relating to specific customers that were evaluated separately.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

There was one customer that comprised more than 10% of accounts receivable as at February 28, 2021 (February 29, 2020 - two customers comprised more than 10%).

Other Current Assets

As at February 28, 2021 and February 29, 2020, other current assets include items such as the current portion of deferred commissions and prepaid expenses, among other items, none of which were greater than 5% of the current assets balance in all years presented.

Property, Plant and Equipment, Net

Property, plant and equipment comprised the following:

	As at	
	February 28, 2021	February 29, 2020
Cost		
Buildings, leasehold improvements and other	\$ 67	\$ 72
BlackBerry operations and other information technology	110	84
Manufacturing, repair and research and development equipment	72	73
Furniture and fixtures	10	11
	<u>259</u>	<u>240</u>
Accumulated amortization	211	170
Net book value	<u>\$ 48</u>	<u>\$ 70</u>

For the year ended February 28, 2021, amortization expense related to property, plant and equipment amounted to \$21 million (February 29, 2020 - \$24 million; February 28, 2019 - \$20 million).

Intangible Assets, Net

Intangible assets comprised the following:

	As at February 28, 2021		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	\$ 1,023	\$ 712	\$ 311
Intellectual property	498	299	199
Other acquired intangibles	494	233	261
	<u>\$ 2,015</u>	<u>\$ 1,244</u>	<u>\$ 771</u>

	As at February 29, 2020		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	\$ 1,019	\$ 636	\$ 383
Intellectual property	489	275	214
Other acquired intangibles	494	176	318
	<u>\$ 2,002</u>	<u>\$ 1,087</u>	<u>\$ 915</u>

For the year ended February 28, 2021, amortization expense related to intangible assets amounted to \$177 million (February 29, 2020 - \$188 million; February 28, 2019 - \$129 million).

Total additions to intangible assets in fiscal 2021 amounted to \$36 million (fiscal 2020 - \$32 million). During fiscal 2021, additions to intangible assets primarily consisted of payments for intellectual property relating to patent maintenance, registration and license fees.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Based on the carrying value of the identified intangible assets as at February 28, 2021, and assuming no subsequent impairment of the underlying assets, the annual amortization expense for each of the succeeding years is expected to be as follows: fiscal 2022 - \$153 million; fiscal 2023 - \$117 million; fiscal 2024 - \$109 million; fiscal 2025 - \$101 million; and fiscal 2026 - \$95 million.

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

	As at	
	February 28, 2021	February 29, 2020
Acquired technology	4.7 years	5.4 years
Intellectual property	6.4 years	6.6 years
Other acquired intangibles	5.0 years	6.0 years

Goodwill

Changes to the carrying amount of goodwill during the fiscal years ended February 28, 2021, February 29, 2020 and February 28, 2019 were as follows:

	Carrying Amount
Carrying amount as at February 28, 2018	\$ 569
Effect of foreign exchange on non-U.S. dollar denominated goodwill	(5)
Goodwill acquired through business combination completed during the year	899
Carrying amount as at February 28, 2019	1,463
Measurement period adjustment (note 5)	(2)
Goodwill impairment charge	(22)
Effect of foreign exchange on non-U.S. dollar denominated goodwill	(2)
Carrying amount as at February 29, 2020	1,437
Effect of foreign exchange on non-U.S. dollar denominated goodwill	6
Goodwill impairment charge (note 3)	(594)
Carrying amount as at February 28, 2021	<u>\$ 849</u>

Other Long-term Assets

As at February 28, 2021 and February 29, 2020, other long-term assets include long-term portion of deferred commission and long-term receivables, among other items, none of which were greater than 5% of total assets in any of the periods presented.

Accrued Liabilities

Accrued liabilities comprised the following:

	As at	
	February 28, 2021	February 29, 2020
Variable incentive accrual	\$ 16	\$ 33
Operating lease liabilities, current (note 12)	33	31
Other	129	138
	<u>\$ 178</u>	<u>\$ 202</u>

Other accrued liabilities include accrued vendor liabilities, accrued carrier liabilities and payroll withholding taxes, among other items, none of which were greater than 5% of the current liabilities balance.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Other Long-term Liabilities

Other long-term liabilities consist of the long-term portion of finance lease liabilities and non-lease component liabilities related to the Company's previous Resource Allocation Program entered into in order to transition the Company from a legacy hardware manufacturer to a licensing driven software business.

5. BUSINESS ACQUISITIONS

There were no business acquisitions during fiscal 2021 and fiscal 2020.

On February 21, 2019, the Company acquired all of the issued and outstanding shares of Cylance Inc. ("Cylance"), an artificial intelligence and cybersecurity leader, for approximately \$1.4 billion in cash and common shares, plus the assumption of unvested employee incentive awards. The acquisition of Cylance was a strategic addition to the Company's end-to-end secure communications portfolio. The accounting for the acquisition of Cylance was completed in the second quarter of fiscal 2020, as the calculation of working capital of Cylance was finalized. In lieu of cash, a proportion of consideration owed to certain Cylance shareholders will be paid in BlackBerry shares issued from treasury in equal instalments on the first three anniversary dates of the acquisition (the "Exchange Shares"). There are no service or other requirements associated with the issuance of these shares. One installment of the Exchange Shares was issued in each of fiscal 2021 and fiscal 2020.

The Company incurred \$12 million in acquisition-related costs included in selling, general and administration expenses for the fiscal year ended February 28, 2019.

The Company recorded a measurement period recovery of \$2 million in selling, general and administration expenses during the fiscal year ended February 29, 2020, as the amount would have been recognized in the prior fiscal year, if the adjustment to the provisional amounts had been recognized as of the acquisition date.

6. INCOME TAXES

The difference between the amount of the provision for (recovery of) income taxes and the amount computed by multiplying income (loss) before income taxes by the statutory Canadian tax rate is reconciled as follows:

	For the Years Ended		
	February 28, 2021	February 29, 2020	February 28, 2019
Statutory Canadian tax rate	26.5 %	26.5 %	26.5 %
Expected provision for (recovery of) income taxes	\$ (295)	\$ (39)	\$ 20
Differences in income taxes resulting from:			
Valuation allowance	205	41	(55)
Investment tax credits	(41)	(10)	(10)
Change in unrecognized income tax benefits	(48)	(12)	9
Foreign tax rate differences	3	3	(1)
Non-deductible permanent differences	13	15	19
Goodwill impairment	158	6	—
Other differences	(4)	1	2
Withholding tax on unremitted earnings	—	(1)	—
	<u>\$ (9)</u>	<u>\$ 4</u>	<u>\$ (16)</u>

	For the Years Ended		
	February 28, 2021	February 29, 2020	February 28, 2019
Income (loss) before income taxes:			
Canadian	\$ (383)	\$ 15	\$ 63
Foreign	(730)	(163)	14
	<u>\$ (1,113)</u>	<u>\$ (148)</u>	<u>\$ 77</u>

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

The provision for (recovery of) income taxes consists of the following:

	For the Years Ended		
	February 28, 2021	February 29, 2020	February 28, 2019
Current			
Canadian	\$ (2)	\$ 2	\$ 2
Foreign	(7)	3	7
Deferred			
Foreign	—	(1)	(25)
	<u>\$ (9)</u>	<u>\$ 4</u>	<u>\$ (16)</u>

Deferred income tax assets and liabilities consist of the following temporary differences:

	As at	
	February 28, 2021	February 29, 2020
Assets		
Property, plant, equipment and intangibles assets	\$ 240	\$ 174
Non-deductible reserves	59	65
Minimum taxes	206	267
Convertible Debentures (note 7)	94	1
Research and development	390	327
Tax loss carryforwards	414	419
Other	82	117
Deferred income tax assets	<u>1,485</u>	<u>1,370</u>
Valuation allowance	<u>1,360</u>	<u>1,223</u>
Deferred income tax assets net of valuation allowance	125	147
Liabilities		
Property, plant, equipment and intangibles assets	(125)	(147)
Deferred income tax liabilities	<u>(125)</u>	<u>(147)</u>
Net deferred income tax asset (liability)	<u>\$ —</u>	<u>\$ —</u>

The Company regularly assesses the need for a valuation allowance against its deferred tax assets. In making that assessment, the Company considers both positive and negative evidence related to the likelihood of realization of the deferred tax assets to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will be realized.

In evaluating the need for a valuation allowance, the Company noted that there had been three years of cumulative losses including fiscal 2021. In fiscal 2021, the Company saw an increase in the deferred tax valuation allowance of \$205 million (February 29, 2020 - increase of \$41 million). As a result, the deferred tax valuation allowance had an ending balance of \$1,360 million (February 29, 2020 - \$1,223 million). This accounting treatment has no effect on the Company's ability to utilize deferred tax assets to reduce future cash tax payments. The Company will continue to assess the likelihood that the deferred tax assets will be realizable at each reporting period and the valuation allowance will be adjusted accordingly.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

The Company's total unrecognized income tax benefits as at February 28, 2021 and February 29, 2020 were \$24 million and \$72 million, respectively. A reconciliation of the beginning and ending amount of unrecognized income tax benefits that, if recognized, would affect the Company's effective income tax rate is as follows:

	For the Years Ended		
	February 28, 2021	February 29, 2020	February 28, 2019
Unrecognized income tax benefits, opening balance	\$ 72	\$ 84	\$ 73
Increase for income tax positions of prior years	—	2	10
Increase for income tax positions of current year	2	1	5
Settlement of tax positions	(50)	(15)	(4)
Unrecognized income tax benefits, ending balance	<u>\$ 24</u>	<u>\$ 72</u>	<u>\$ 84</u>

As at February 28, 2021, \$22 million of the unrecognized tax benefits have been netted against deferred income taxes and \$2 million has been recorded within income taxes payable on the Company's consolidated balance sheets.

A summary of open tax years by major jurisdiction is presented below:

Jurisdiction	
Canada ⁽¹⁾	Fiscal 2016 - 2021
United States ⁽²⁾	Fiscal 2018 - 2021
United Kingdom	Fiscal 2019 - 2021

⁽¹⁾ Includes federal as well as provincial jurisdictions, as applicable.

⁽²⁾ Pertains to federal tax years. Certain state jurisdictions remain open from fiscal 2017 through fiscal 2021.

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

The Company recognizes interest and penalties related to unrecognized income tax benefits as interest expense that is netted and reported within investment income, net. The amount of interest accrued as at February 28, 2021 was approximately \$3 million (February 29, 2020 - approximately \$4 million). The amount of penalties accrued as at February 28, 2021 was nil (February 29, 2020 - nil).

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

As at February 28, 2021, the Company has the following net operating loss carryforwards and tax credits, which are scheduled to expire in the following years:

Year of Expiry	Net Operating Losses	Capital Losses	Research and Development Tax Credits ⁽¹⁾	Minimum Taxes
2029	\$ 10	\$ —	\$ —	\$ 1
2030	—	—	—	108
2031	1	—	23	71
2032	28	—	1	22
2033	88	—	146	—
2034	96	—	120	—
2035	92	—	52	4
2036	275	—	39	—
2037	475	—	23	—
2038	225	—	17	—
2039	13	—	16	—
2040	—	—	14	—
2041	—	—	3	—
Indefinite	236	19	19	—
	<u>\$ 1,539</u>	<u>\$ 19</u>	<u>\$ 473</u>	<u>\$ 206</u>

⁽¹⁾ Includes federal, provincial and state balances.

7. DEBENTURES

1.75% Convertible Debentures

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

Interest on the 1.75% Debentures is payable quarterly in arrears at a rate of 1.75% per annum. The 1.75% Debentures mature on November 13, 2023 and each \$1,000 of 1.75% Debentures is convertible at any time into 166.67 common shares of the Company, for a total of 60.8 million common shares at a price of \$6.00 per share for all 1.75% Debentures, subject to adjustments. Covenants associated with the 1.75% Debentures include limitations on the Company's total indebtedness.

Under specified events of default, the outstanding principal and any accrued interest on the 1.75% Debentures become immediately due and payable upon request of holders holding not less than 25% of the principal amount of the 1.75% Debentures then outstanding. During an event of default, the interest rate rises to 5.75% per annum.

The 1.75% Debentures are subject to a change of control provision whereby the Company would be required to make an offer to repurchase the 1.75% Debentures at 115% of par value if a person or group (not affiliated with Fairfax) acquires 35% of the Company's outstanding common shares, acquires all or substantially all of its assets, or if the Company merges with another entity and the Company's existing shareholders hold less than 50% of the common shares of the surviving entity. 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 (the "Blocker Provision").

Due to the conversion option and other embedded derivatives within the 1.75% Debentures, and consistent with the Company's accounting for the 3.75% Debentures, the Company has elected to record the 1.75% Debentures, including the debt itself and all embedded derivatives, at fair value and present the 1.75% Debentures as a single hybrid financial instrument. No portion of the fair value of the 1.75% Debentures has been recorded as equity, nor would be if the embedded derivatives were bifurcated from the host debt contract.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

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

The Company determined its credit spread by calibrating to observable trades of the 3.75% Debentures and trending the calibrated spread to valuation dates utilizing an appropriate credit index. The Company's credit spread was determined to be 7.90% as of the issuance date of the 1.75% Debentures and 6.20% as of February 28, 2021. An increase in credit spread will result in a decrease in the fair value of 1.75% Debentures and vice versa. The fair value of the 1.75% Debentures on September 1, 2020 was determined to be approximately \$456 million and the implied discount approximately \$91 million. The Company determined the implied discount on the 1.75% Debentures by calculating the fair value of the 1.75% Debentures on September 1, 2020 utilizing the above credit spread and other inputs described above.

The following table summarizes the changes in fair value of the 1.75% Debentures for the fiscal year ended February 28, 2021:

	As at February 28, 2021
Balance as at Principal received as of September 1, 2020	\$ 365
Change in fair value of the Debentures	355
Balance as at February 28, 2021	\$ 720

The difference between the fair value of the 1.75% Debentures and the unpaid principal balance of \$365 million is \$355 million.

The following table shows the impact of the changes in fair value of the 1.75% Debentures for the years ended February 28, 2021, February 29, 2020 and February 28, 2019:

	For the Years Ended		
	February 28, 2021	February 29, 2020	February 28, 2019
Charge associated with the change in fair value from non-credit components recorded in the consolidated statements of operations	\$ (347)	\$ —	\$ —
Charge associated with the change in fair value from instrument-specific credit components recorded in AOCL	(8)	—	—
Total increase in the fair value of the 1.75% Debentures	\$ (355)	\$ —	\$ —

For the year ended February 28, 2021, the Company recorded interest expense related to the Debentures of \$15 million, which has been included in investment income (loss), net on the Company's consolidated statements of operations (fiscal 2020 - \$23 million; fiscal 2019 - \$24 million). The Company is required to make quarterly interest-only payments of approximately \$2 million during the remaining term the 1.75% Debentures are outstanding.

Fairfax, a related party under U.S. GAAP due to its beneficial ownership of common shares in the Company after taking into account potential conversion of the Debentures, owned \$500 million principal amount of the 3.75% Debentures and purchased \$330 million principal amount of the 1.75% Debentures. As such, the redemption of Fairfax's portion of the 3.75% Debentures, the investment by Fairfax in the 1.75% Debentures and the payment of interest on the Debentures represent related party transactions. Fairfax receives interest at the same rate as other holders of the Debentures.

3.75% Convertible Debentures

On September 7, 2016, Fairfax and other institutional investors invested in the Company through a \$605 million private placement of the 3.75% Debentures. The terms of the 3.75% Debentures were substantially similar to those of the 1.75% Debentures, except that the 3.75% Debentures had a higher interest rate, were convertible into common shares at a price of \$10.00 per common share, were subject to a lower approval threshold for extraordinary resolutions, did not contain the Blocker Provision and had a maturity date of November 13, 2020.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

On July 22, 2020, the Company announced that, with the required approval of the holders of the 3.75% Debentures, it would redeem the 3.75% Debentures for a redemption amount of approximately \$615 million (the “Redemption Amount”), which would settle all outstanding obligations of the Company in respect of the 3.75% Debentures. The redemption was completed on September 1, 2020. As the Redemption Amount represented fair value at August 31, 2020 and the Company elected the fair value option for the 3.75% Debentures, the impact of the redemption on the fair value was recorded in the second quarter of fiscal 2021. A portion of the fair value associated with changes in instrument-specific credit components in the amount of \$6 million remained in OCI until redemption on September 1, 2020 at which point \$6 million was discharged to the consolidated statement of operations and is included in the table below.

The following table shows the impact of the changes in fair value of the 3.75% Debentures for the years ended February 28, 2021, February 29, 2020 and February 28, 2019:

	For the Years Ended		
	February 28, 2021	February 29, 2020	February 28, 2019
Income (charge) associated with the change in fair value from non-credit components recorded in the consolidated statements of operations	\$ (19)	\$ 66	\$ 117
Income (charge) associated with the change in fair value from instrument-specific credit components recorded in AOCL	15	(7)	—
Realized charges associated with the change in fair value from credit components recorded in the consolidated statements of operations on redemption	(6)	—	—
Realized charges associated with the change in fair value from credit components released from AOCL on redemption	6	—	—
Total decrease (increase) in the fair value of the 3.75% Debentures	\$ (4)	\$ 59	\$ 117

8. CAPITAL STOCK

(a) Capital Stock

The Company is authorized to issue an unlimited number of voting common shares, an unlimited number of non-voting, redeemable, retractable Class A common shares and an unlimited number of non-voting, cumulative, redeemable, retractable preferred shares. As at February 28, 2021 and February 29, 2020, there were no Class A common shares or preferred shares outstanding.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

The following details the changes in issued and outstanding common shares for the years ended February 28, 2021, February 29, 2020 and February 28, 2019:

	Capital Stock and Additional Paid-in Capital	
	Stock Outstanding (000s)	Amount
Common shares outstanding as at February 28, 2018	536,734	\$ 2,560
Exercise of stock options	105	1
Common shares issued for restricted share unit settlements	10,156	—
Stock-based compensation	—	67
Exchange shares issued from Cylance acquisition (note 5)	—	35
Value of pre-combination service related to Replacement Awards included in purchase consideration	—	21
Common shares issued for employee share purchase plan	363	4
Common shares outstanding as at February 28, 2019	547,358	2,688
Exercise of stock options	1,189	3
Common shares issued for restricted share unit settlements	3,361	—
Stock-based compensation	—	63
Common shares issued related to Exchange Shares (note 5)	1,380	—
Common shares issued for employee share purchase plan	911	6
Common shares outstanding as at February 29, 2020	554,199	2,760
Exercise of stock options	3,072	12
Common shares issued for restricted share unit settlements	5,330	—
Stock-based compensation	—	44
Common shares issued related to Exchange Shares (note 5)	1,380	—
Common shares issued for employee share purchase plan	1,524	7
Common shares outstanding as at February 28, 2021	<u>565,505</u>	<u>\$ 2,823</u>

The Company had 566 million voting common shares outstanding, 2 million options to purchase voting common shares, 22 million RSUs and 1 million DSUs outstanding as at March 26, 2021. In addition, 60.8 million common shares are issuable upon conversion in full of the 1.75% Debentures as described in Note 7.

(b) Stock-based Compensation

Replacement awards

In connection with the Cylance acquisition in fiscal 2019, the Company granted 8,320,130 options and 824,046 RSUs (“Replacement Awards”) to replace unvested Cylance employee stock options and unvested restricted share units, all of which were canceled upon the closing of the transaction. The Company was obligated to replace the unvested Cylance employee equity awards under the merger agreement governing the acquisition.

In accordance with ASC Topic 805, *Business Combinations*, as the Company was obligated to conduct the replacement, these awards are considered to be replacement awards. Exchanges of share options or other share-based payment awards in conjunction with a business combination are modifications of share-based payment awards in accordance with ASC Topic 718, *Compensation - Stock Compensation* (“ASC 718”). As a result, a portion of the fair-value-based measure of the Replacement Awards is included in measuring the consideration transferred in the Cylance business combination. To determine the portion of the Replacement Awards that is consideration transferred, the Company measured the value of both the Replacement Awards granted by the Company and the historical Cylance awards as of February 21, 2019 in accordance with ASC 718. The portion of the fair-value-based measure of the Replacement Awards that was part of the consideration transferred equaled the portion of the replaced Cylance award that was attributable to pre-combination service. The Company attributed a portion of the Replacement Awards to post-combination service as these awards require post-combination service. The fair value of the rollover consideration was estimated to be \$39 million, net of forfeitures, of which \$21 million was attributable to pre-acquisition services. The remaining fair value of \$18 million is

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

recorded as stock-based compensation over the remaining vesting period subsequent to the acquisition date. As of February 28, 2021, the remaining amount of unrecognized expense for the replacement awards totaled \$3 million (February 29, 2020 - \$6 million).

Stock options

The Company recorded a charge to income and a credit to paid-in capital of approximately \$6 million in fiscal 2021 (fiscal 2020 - \$5 million; fiscal 2019 - \$1 million) in relation to stock option-based compensation expense.

Stock options previously granted under the Equity Plan generally vest over a period of three years, and are generally exercisable over a period of five years from the grant date. Replacement stock options granted under the Cylance Stock Plan generally vest between three months and four years and are generally exercisable over a period of five to ten years. The Company issues new shares to satisfy stock option exercises.

A summary of option activity for fiscal 2021 is shown below:

	Options Outstanding			
	Number (000's)	Weighted Average Exercise Price	Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (millions)
Balance as at February 29, 2020	5,705	\$ 4.41		
Granted during the year	—	—		
Exercised during the year	(3,072)	3.78		
Forfeited/canceled/expired during the year	(1,050)	5.51		
Balance as at February 28, 2021	<u>1,583</u>	<u>\$ 4.92</u>	<u>6.48</u>	<u>\$ 8</u>
Vested and expected to vest as at February 28, 2021	<u>1,475</u>	<u>\$ 4.85</u>	<u>6.40</u>	<u>\$ 8</u>
Exercisable as at February 28, 2021	<u>1,035</u>	<u>\$ 4.40</u>	<u>5.94</u>	<u>\$ 6</u>

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that would have been received by the option holders if all in-the-money options had been exercised on February 28, 2021. The intrinsic value of stock options exercised during fiscal 2021, calculated using the average market price during the year, was approximately \$2.22 per share (February 29, 2020 - \$4.30; February 28, 2019 - \$2.55).

A summary of unvested stock options since February 28, 2021 is shown below:

	Options Outstanding	
	Number (000's)	Weighted Average Grant Date Fair Value
Balance as at February 29, 2020	2,240	\$ 4.91
Vested during the year	(1,171)	5.20
Forfeited during the year	(521)	4.69
Balance as at February 28, 2021	<u>548</u>	<u>\$ 4.50</u>

As at February 28, 2021, there was \$2 million of unrecognized stock-based compensation expense related to unvested stock options that will be expensed over the vesting period, which, on a weighted average basis, results in a period of approximately 1.28 years. The total fair value of stock options vested during the year ended February 28, 2021 amounted to \$6 million (February 29, 2020 - \$25 million; February 28, 2019 - \$1 million).

Cash received from the stock options exercised for the year ended February 28, 2021 amounted to \$12 million (February 29, 2020 - \$3 million; February 28, 2019 - \$1 million). There were no tax deficiencies incurred by the Company related to stock options exercised as at February 28, 2021 (February 29, 2020 - tax deficiency of nil; February 28, 2019 - tax deficiency of nil).

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

During the year ended February 28, 2021, there were no stock options granted (February 29, 2020 - nil; February 28, 2019 - 8,320,130). The weighted average fair value of these grants was calculated using the BSM option pricing model with the following assumptions:

	February 28, 2021	February 29, 2020	February 28, 2019
Weighted average grant date fair value of stock options granted during the period	\$ —	\$ —	\$3.97 to \$7.48
Assumptions:			
Risk-free interest rates	— %	— %	2.50% to 2.56%
Expected life in years	0	0	3.91 to 6.16
Expected dividend yield	— %	— %	— %
Volatility	— %	— %	37% to 40%

The Company has no current expectation of paying cash dividends on its common shares. The risk-free interest rates utilized during the life of the stock options are based on a U.S. Treasury security for an equivalent period. The Company estimates the volatility of its common shares at the date of grant based on a combination of the implied volatility of publicly traded options on its common shares and historical volatility, as the Company believes that this is a reasonable indicator of expected volatility going forward. The expected life of stock options granted under the Equity Plan is based on historical exercise patterns, which the Company believes are representative of future exercise patterns. The expected life of stock options granted under the Cylance Stock Plan is based on the simplified method, as the terms and conditions are different than those previously granted under the Equity Plan.

Restricted share units

The Company recorded compensation expense with respect to RSUs of approximately \$38 million in the year ended February 28, 2021 (February 29, 2020 - \$57 million; February 28, 2019 - \$66 million).

A summary of RSU activity during fiscal 2021 is shown below:

	RSUs Outstanding			
	Number (000's)	Weighted Average Grant Date Fair Value	Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (millions)
Balance as at February 29, 2020	24,502	\$ 7.93		
Granted during the year	8,621	5.54		
Vested during the year	(5,330)	8.22		
Forfeited/cancelled during the year	(5,718)	6.82		
Balance as at February 28, 2021	22,075	\$ 7.88	1.60	\$ 222
Expected to vest February 28, 2021	19,614	\$ 7.33	1.59	\$ 197

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the aggregate closing share price of the Company's common shares on February 28, 2021 that would have been received by RSU holders if all RSUs had been vested on February 28, 2021).

Tax deficiencies incurred by the Company related to the RSUs vested were nil for the year ended February 28, 2021 (February 29, 2020 - tax deficiency of nil; February 28, 2019 - tax deficiency of nil).

As at February 28, 2021, there was \$80 million of unrecognized compensation expense related to RSUs that will be expensed over the vesting period, which, on a weighted average basis, results in a period of approximately 1.66 years.

During the year ended February 28, 2021, there were 8,620,551 RSUs granted (February 29, 2020 - 16,902,445, of which 4,182,189 were inducement awards in connection with the Cylance acquisition), all of which will be settled upon vesting by the issuance of new common shares.

During the year ended February 28, 2021, the weighted average fair value for RSUs granted was \$5.54 (February 29, 2020 - \$7.19; February 28, 2019 - \$9.45). During the year ended February 28, 2021, the fair value of RSUs that vested was \$44 million (February 29, 2020 - \$33 million; February 28, 2019 - \$73 million).

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Inducement awards

In the first quarter of fiscal 2020, the Board approved an agreement to grant performance-based equity awards (“Inducement Awards”) to the co-founders of Cylance covering up to 4,182,189 common shares. Up to 25%, 35% and 40% of the Inducement Awards may be earned at the end of the Company’s 2020, 2021 and 2022 fiscal years, respectively, if certain performance conditions are met, and any earned amounts will vest at the end of fiscal 2022. In fiscal 2020, 3,122,140 common shares subject to Inducement Awards were forfeited due to the departure of one of the co-founders of Cylance.

As at February 28, 2021, there were 861,290 common shares subject to Inducement Awards outstanding. The Company recorded compensation expense with respect to the Inducement Awards of approximately \$1 million for the year ended February 28, 2021 (February 29, 2020 - \$3 million).

2019 Executive Chair Incentive Grant

In the first quarter of fiscal 2019, the Board approved an agreement to grant a time-based equity award, a long-term market performance-based equity award and a contingent cash award (together, the “2019 Executive Chair Grant”) to the Company’s Executive Chair and CEO as an incentive to remain as Executive Chair until November 3, 2023. The expense associated with the time-based equity award and market performance-based equity award is included in the compensation expense noted above. The equity and liability components of the agreement are summarized below:

Time-based equity award

The time-based equity award consists of 5 million time-based RSUs that will vest annually in five equal tranches beginning on November 3, 2019.

Market performance-based equity award

The market performance-based equity award consists of five tranches, each of 1 million market-condition RSUs that will become earned and vested in increments of 1 million RSUs when the 10-day volume weighted average closing price of the Company’s common shares on the New York Stock Exchange reaches \$16, \$17, \$18, \$19 and \$20, respectively. The grant date fair value and the derived service period for each of the market condition equity awards were determined through the use of a Monte Carlo simulation model utilizing Level 2 inputs. Should the target price of an award be reached prior to the derived service date, the remaining unrecognized compensation cost for the award will be accelerated and recorded at that time. Any market-condition RSUs that have not been earned before November 3, 2023 will terminate on such date.

Contingent cash award

The contingent cash award consists of a cash amount of \$90 million that becomes payable should the 10-day volume weighted average closing price of the Company’s common shares on the New York Stock Exchange reach \$30 (“CEO Contingent Cash Award”). As the award is triggered by the Company’s share price, it is considered stock-based compensation and accounted for as a share-based liability award, the fair value of which is determined at each reporting period end utilizing a option pricing model using Level 2 inputs and the associated compensation expense for the reporting period recorded. If unearned, the contingent cash award will terminate on November 3, 2023. The Company recorded compensation expense with respect to the contingent cash award of approximately \$8 million for the year ended February 28, 2021 (February 29, 2020 - \$1 million; February 28, 2019 - \$1 million). The liability recorded in respect to the award was \$8 million as at February 28, 2021 and is included within accrued liabilities (February 29, 2020 - \$1 million).

Deferred share units

The Company issued 282,090 DSUs in the year ended February 28, 2021. There were 1.4 million DSUs outstanding as at February 28, 2021 (February 29, 2020 - 1.1 million). The Company had a liability of \$14 million in relation to the DSU Plan as at February 28, 2021 (February 29, 2020 - \$6 million) included in accrued liabilities.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

9. EARNINGS (LOSS) PER SHARE

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

	For the Years Ended		
	February 28, 2021	February 29, 2020	February 28, 2019
Net income (loss) for basic and diluted earnings (loss) per share available to common shareholders	\$ (1,104)	\$ (152)	\$ 93
Less: Debentures fair value adjustment ⁽¹⁾⁽²⁾	—	(66)	(117)
Add: interest expense on Debentures ⁽¹⁾⁽²⁾	—	23	24
Net income (loss) for diluted earnings (loss) per share available to common shareholders	<u>\$ (1,104)</u>	<u>\$ (195)</u>	<u>\$ —</u>
Weighted average number of shares outstanding (000's) - basic ⁽³⁾	561,305	553,861	540,477
Effect of dilutive securities (000's)			
Stock-based compensation ⁽⁴⁾⁽⁵⁾	—	—	11,308
Conversion of Debentures ⁽¹⁾⁽²⁾	—	60,500	60,500
Exchange shares from Cylance acquisition ⁽⁶⁾	—	—	4,182
Weighted average number of shares and assumed conversions (000's) diluted	<u>561,305</u>	<u>614,361</u>	<u>616,467</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>

⁽¹⁾ The Company has not presented the dilutive effect of the Debentures using the if-converted method in the calculation of diluted earnings (loss) per share for the year ended February 28, 2021, as to do so would be antidilutive. See Note 7 for details on the Debentures.

⁽²⁾ The Company has presented the dilutive effect of the Debentures using the if-converted method, assuming conversion at the beginning of the fiscal year for the years ended February 29, 2020 and February 28, 2019. Accordingly, to calculate diluted earnings (loss) per share, the Company adjusted net income (loss) by eliminating the fair value adjustment made to the Debentures and interest expense incurred on the Debentures in the years ended February 29, 2020 and February 28, 2019, and added the number of shares that would have been issued upon conversion to the diluted weighted average number of shares outstanding. See Note 7 for details on the Debentures.

⁽³⁾ The year ended February 28, 2021, includes approximately 1,421,945 common shares (Exchange Shares) remaining to be issued on the third anniversary date of the Cylance acquisition, in consideration for the acquisition. The year ended February 29, 2020, includes approximately 2,802,067 common shares to be issued in equal installments on the two anniversary dates of the Cylance acquisition thereafter, in consideration for the acquisition. There are no service or other requirements associated with the issuance of these shares.

⁽⁴⁾ The Company has not presented the dilutive effect of in-the-money options and RSUs that will be settled upon vesting by the issuance of new common shares in the calculation of diluted earnings (loss) per share for the years ended February 28, 2021 and February 29, 2020, as to do so would be antidilutive.

⁽⁵⁾ The Company has presented the dilutive effect of in-the-money options and RSUs that will be settled upon vesting by the issuance of new common shares in the calculation of diluted earnings (loss) per share for the years ended February 28, 2019. As at February 28, 2019, there were 8,985,836 options and 9,300,191 RSUs outstanding that were in-the-money and may have a dilutive effect on earnings (loss) per share in future periods.

⁽⁶⁾ The Company has presented the dilutive effect of the Exchange Shares in connection with the Cylance acquisition completed on February 21, 2019 in the calculation of diluted earnings (loss) per share for the year ended February 28, 2019. The remaining Exchange Shares are included in the calculation of weighted average number of shares outstanding for the years ended February 28, 2021 and February 29, 2020 as noted in footnote 3 above.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in AOCL by component net of tax, for the years ended February 28, 2021, February 29, 2020 and February 28, 2019 were as follows:

	As At		
	February 28, 2021	February 29, 2020	February 28, 2019
Available-for-Sale Debt Securities			
Balance, beginning of period	\$ —	\$ 2	\$ (7)
Other comprehensive income (loss) before reclassification	—	(2)	1
Cumulative impact of adoption of ASU 2016-01	—	—	8
Accumulated net unrealized gains on available-for-sale debt securities	\$ —	\$ —	\$ 2
Cash Flow Hedges			
Balance, beginning of period	\$ (1)	\$ —	\$ (1)
Other comprehensive income (loss) before reclassification	2	(1)	(2)
Amounts reclassified from AOCL into net income (loss)	—	—	3
Accumulated net unrealizes gains (losses) on derivative instruments designated as cash flow hedges	\$ 1	\$ (1)	\$ —
Foreign Currency Cumulative Translation Adjustment			
Balance, beginning of period	\$ (9)	\$ (7)	\$ (1)
Other comprehensive income (loss) before reclassification	5	(2)	(6)
Foreign currency cumulative translation adjustment	\$ (4)	\$ (9)	\$ (7)
Change in Fair Value From Instrument-Specific Credit Risk On Debentures			
Balance, beginning of period	\$ (22)	\$ (14)	\$ —
Other comprehensive income (loss) before reclassification	7	(8)	—
Amounts reclassified from AOCL into net income (loss)	6	—	—
Cumulative impact of adoption of ASU 2016-01	—	—	(14)
Change in fair value from instruments-specific credit risk on Debentures	\$ (9)	\$ (22)	\$ (14)
Other Post-Employment Benefit Obligations			
Actuarial losses associated with other post-employment benefit obligations	\$ (1)	\$ (1)	\$ (1)
Accumulated Other Comprehensive Loss, End of Period	\$ (13)	\$ (33)	\$ (20)

As a result of the adoption of ASU 2016-01 in fiscal 2019, the Company reclassified \$8 million in unrecognized losses on equity securities that had previously been recorded to other comprehensive income (loss), through a cumulative addition to deficit in the consolidated balance sheet as of March 1, 2018. The Company recognized approximately \$14 million on the change in fair value from instrument-specific credit risk associated with the 3.75% Debentures that had previously been recorded to deficit through a cumulative increase to accumulated other comprehensive loss in the consolidated balance sheet as of March 1, 2018.

During the year ended February 28, 2021, nil gains or losses (pre-tax and post-tax) associated with cash flow hedges were reclassified from AOCL into selling, marketing and administration expenses (February 29, 2020 - nil gains or losses).

11. COMMITMENTS AND CONTINGENCIES

(a) Letters of Credit

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 as of February 28, 2021. See the discussion of restricted cash and restricted short-term investments in Note 3.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

(b) Contingencies

Litigation

The Company is involved in litigation in the normal course of its business, both as a defendant and as a plaintiff. The Company is subject to a variety of claims (including claims related to patent infringement, purported class actions and other claims in the normal course of business) and may be subject to additional claims either directly or through indemnities against claims that it provides to certain of its partners and customers. In particular, the industry in which the Company competes has many participants that own, or claim to own, intellectual property, including participants that have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used by the Company in its products. The Company has received, and may receive in the future, assertions and claims from third parties that the Company's products infringe on their patents or other intellectual property rights. Litigation has been, and will likely continue to be, necessary to determine the scope, enforceability and validity of third-party proprietary rights or to establish the Company's proprietary rights. Regardless of whether claims against the Company have merit, those claims could be time-consuming to evaluate and defend, result in costly litigation, divert management's attention and resources and subject the Company to significant liabilities.

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

As of February 28, 2021, there are no material claims outstanding for which the Company has assessed the potential loss as both probable to result and reasonably estimable; therefore, no accrual has been made. Further, there are claims outstanding for which the Company has assessed the potential loss as reasonably possible to result; however, an estimate of the amount of loss cannot reasonably be made. There are many reasons that the Company cannot make these assessments, including, among others, one or more of the following: the early stages of a proceeding does not require the claimant to specifically identify the patent claims that have allegedly been infringed or the products that are alleged to infringe; damages sought are unspecified, unsupported, unexplained or uncertain; discovery has not been started or is incomplete; the facts that are in dispute are highly complex (e.g., once a patent is identified, the analysis of the patent and a comparison to the activities of the Company is a labour-intensive and highly technical process); the difficulty of assessing novel claims; the parties have not engaged in any meaningful settlement discussions; the possibility that other parties may share in any ultimate liability; and the often slow pace of litigation.

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

Between October and December 2013, several purported class action lawsuits and one individual lawsuit were filed against the Company and certain of its former officers in various jurisdictions in the U.S. and Canada alleging that the Company and certain of its officers made materially false and misleading statements regarding the Company's financial condition and business prospects and that certain of the Company's financial statements contain material misstatements. The individual lawsuit was voluntarily dismissed.

On March 14, 2014, the four putative U.S. class actions were consolidated in the U.S. District Court for the Southern District of New York, and on May 27, 2014, a consolidated amended class action complaint was filed. On March 13, 2015, the Court issued an order granting the Company's motion to dismiss. The Court denied the plaintiffs' motion for reconsideration and for leave to file an amended complaint on November 13, 2015. On August 24, 2016, the U.S. Court of Appeals for the Second Circuit affirmed the District Court order dismissing the complaint, but vacated the order denying leave to amend and remanded to the District Court for further proceedings in connection with the plaintiffs' request for leave to amend. The Court granted the plaintiffs' motion for leave to amend on September 13, 2017. On September 29, 2017, the plaintiffs filed a second consolidated amended class action complaint (the "Second Amended Complaint"), which added the Company's former Chief Legal Officer as a defendant. The Court denied the motion to dismiss the Second Amended Complaint on March 19, 2018. On January 4, 2019, the Court issued an order placing the case on its suspense calendar but allowed fact and expert discovery to continue. On August 2, 2019, the Magistrate Judge issued a Report and Recommendation that the Court grant the defendants' motion for judgment on the pleadings dismissing the claims of additional plaintiffs Cho and Ulug. On September 24, 2019, the District Court Judge accepted the Magistrate Judge's recommendation and dismissed the claims of Cho and Ulug against all defendants. On October 17, 2019, Cho and

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Ulug filed a Notice of Appeal. The Second Circuit Court of Appeals affirmed the District Court judgment dismissing Cho and Ulug's claims on March 11, 2021. The District Court removed the case from its suspense calendar on May 29, 2020. Plaintiffs filed a motion for class certification on June 8, 2020, the defendants filed oppositions on August 10, 2020, and the plaintiffs filed a reply on September 28, 2020. All discovery was completed as of November 13, 2020. On January 26, 2021, the District Court granted the plaintiffs' motion for class certification. On February 9, 2021, the defendants filed a Rule 23(f) petition for interlocutory review of the class certification order with the Second Circuit Court of Appeals. The plaintiffs filed an opposition to the Rule 23(f) petition on February 19, 2021, and the defendants filed a motion for leave to file a reply in support of the petition on February 26, 2021. On February 8, 2021, the Magistrate Judge set a settlement conference for May 19, 2021. On February 15, 2021, the District Court set the following briefing schedule for dispositive motions: motions due April 19, 2021, oppositions due June 18, 2021, and replies due July 19, 2021.

On July 23, 2014, the plaintiffs in the putative Ontario class action filed a motion for certification and leave to pursue statutory misrepresentation claims. On November 16, 2015, the Ontario Superior Court of Justice issued an order granting the plaintiffs' motion for leave to file a statutory claim for misrepresentation. On December 2, 2015, the Company filed a notice of motion seeking leave to appeal this ruling. On January 22, 2016, the Court postponed the hearing on the plaintiffs' certification motion to an undetermined date after asking the Company to file a motion to dismiss the claims of the U.S. plaintiffs for forum non conveniens. Before that motion was heard, the parties agreed to limit the class to purchasers who reside in Canada or purchased on the Toronto Stock Exchange. On November 15, 2018, the Court denied the Company's motion for leave to appeal the order granting the plaintiffs leave to file a statutory claim for misrepresentation. On February 5, 2019, the Court entered an order certifying a class comprised persons (a) who purchased BlackBerry common shares between March 28, 2013, and September 20, 2013, and still held at least some of those shares as of September 20, 2013, and (b) who acquired those shares on a Canadian stock exchange or acquired those shares on any other stock exchange and were a resident of Canada when the shares were acquired. Notice of class certification was published on March 6, 2019. The Company filed its Statement of Defence on April 1, 2019, and discovery is proceeding.

On February 15, 2017, a putative employment class action was filed against the Company in the Ontario Superior Court of Justice. The Statement of Claim alleges that actions the Company took when certain of its employees decided to accept offers of employment from Ford Motor Company of Canada amounted to a wrongful termination of the employees' employment with the Company. The claim seeks (i) an unspecified quantum of statutory, contractual, or common law termination entitlements; (ii) punitive or breach of duty of good faith damages of CAD\$20,000,000, or such other amount as the Court finds appropriate, (iii) pre- and post- judgment interest, (iv) attorneys' fees and costs, and (v) such other relief as the Court deems just. The Court granted the plaintiffs' motion to certify the class action on May 27, 2019. The Company commenced a motion for leave to appeal the certification order on June 11, 2019. The Court denied the motion for leave to appeal on September 17, 2019. The Company filed its Statement of Defence on December 19, 2019, and discovery is proceeding.

Other contingencies

As at February 28, 2021, the Company has received \$15 million (February 29, 2020 - \$10 million) in funds from claims filed with the Ministry of Innovation, Science and Economic Development Canada relating to its Strategic Innovation Fund program's investment in BlackBerry QNX. A portion of this amount may be repayable in the future under certain circumstances if certain terms and conditions are not met by the Company, which is not probable at this time.

(c) Settlements, net

Panasonic settlement agreement

In fiscal 2019, the Company and Panasonic Corporation entered into a settlement agreement whereby the Company received approximately \$12 million in connection with previously purchased components utilized by the legacy handheld devices business. This amount, net of legal costs of approximately \$3 million, was recorded within settlements, net on the consolidated statements of operations in the fourth quarter of fiscal 2019.

(d) Concentrations in Certain Areas of the Company's Business

The Company attempts to ensure that most components essential to the Company's business are generally available from multiple sources; however, certain components are currently obtained from limited sources within a competitive market, which subjects the Company to supply, availability and pricing risks. The Company has also entered into various agreements for the supply of components, and the manufacturing of its products; however, there can be no guarantee that the Company will be able to extend or renew these agreements on similar terms, or at all. Therefore, the Company remains subject to risks of supply shortages.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

(e) Indemnifications

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

The Company has entered into indemnification agreements with its current and former directors and executive officers. Under these agreements, the Company agreed, subject to applicable law, to indemnify its current and former directors and executive officers against all costs, charges and expenses reasonably incurred by such individuals in respect of any civil, criminal or administrative action that could arise by reason of their status as directors or officers. The Company maintains liability insurance coverage for the benefit of the Company, and its current and former directors and executive officers. The Company has not encountered material costs as a result of such indemnifications in fiscal 2021. See the Company's Management Information Circular for its 2020 annual meeting of shareholders for additional information regarding the Company's indemnification agreements with its current and former directors and executive officers.

12. LEASES

The Company has operating and finance leases primarily for corporate offices, research and development facilities, data centers and certain equipment. The Company's leases have remaining lease terms of between one year and seven years, some of which may include options to extend the lease for up to 10 years, and some of which may include options to terminate the lease within three months.

The components of lease expense were as follows:

	For the Years Ended	
	February 28, 2021	February 29, 2020
Operating lease cost, included in selling, marketing and administration	\$ 30	\$ 33
Finance lease cost		
Amortization of ROU assets, included in amortization	\$ 1	\$ 2
Interest on lease liabilities, included in investment income, net	—	—
Total finance lease cost	\$ 1	\$ 2

Supplemental cash flow information related to leases was as follows:

	For the Years Ended	
	February 28, 2021	February 29, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Cash used in operating activities related to operating lease payments	\$ 37	\$ 40
Cash used in financing activities related to finance lease payments	1	2

During the year ended February 28, 2021, the Company entered into \$4 million in lease obligations and recognized a corresponding ROU asset of \$4 million. During the year ended February 28, 2021, the Company incurred losses of \$37 million on LLA impairment of ROU assets, as described in Note 3. The Company also had sublease income of \$1 million and incurred \$2 million in short-term lease costs during the year ended February 28, 2021.

During the year ended February 29, 2020, the Company entered into \$1 million in lease obligations and recognized a corresponding ROU asset of \$1 million. During the year ended February 29, 2020, the Company incurred losses of \$8 million on LLA impairment of ROU assets, as described in Note 3. The Company also had sublease income of \$2 million and incurred \$2 million in short-term lease costs during the year ended February 29, 2020.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Supplemental consolidated balance sheet information related to leases was as follows:

	As at	
	February 28, 2021	February 29, 2020
Operating leases		
Operating lease assets		
Operating lease ROU assets	\$ 63	\$ 124
Operating lease liabilities		
Accrued liabilities	\$ 33	\$ 31
Operating lease liabilities	90	120
Total operating lease liabilities	\$ 123	\$ 151
Finance leases		
Finance lease assets		
Property, plant and equipment	\$ 3	\$ 5
Accumulated amortization	(3)	(4)
Total finance lease assets	\$ —	\$ 1
Finance lease liabilities		
Accrued liabilities	\$ —	\$ 1
Other long-term liabilities	—	—
Total finance lease liabilities	\$ —	\$ 1
	As at	
	February 28, 2021	February 29, 2020
Weighted average remaining lease term		
Operating leases	4.7 years	5.5 years
Finance leases	0.9 years	1.3 years
Weighted average discount rate		
Operating lease	3.4 %	3.6 %
Finance leases	2.5 %	2.2 %

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Maturities of undiscounted lease liabilities were as follows:

	As at	
	February 28, 2021	
	Operating Leases	Finance Leases
Fiscal year 2022	\$ 36	\$ —
Fiscal year 2023	30	—
Fiscal year 2024	22	—
Fiscal year 2025	17	—
Fiscal year 2026	12	—
Thereafter	16	—
Total future minimum lease payments	<u>133</u>	<u>—</u>
Less:		
Imputed interest	(10)	—
Total	<u>\$ 123</u>	<u>\$ —</u>

13. REVENUE AND SEGMENT DISCLOSURES

Revenue

The Company disaggregates revenue from contracts with customers based on geographical regions, timing of revenue recognition, and the major product and service types as described in Note 1.

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

	For the Years Ended					
	February 28, 2021		February 29, 2020		February 28, 2019	
North America ⁽¹⁾	\$ 633	70.9 %	\$ 743	71.4 %	\$ 599	66.2 %
Europe, Middle East and Africa	197	22.1 %	221	21.3 %	222	24.6 %
Other regions	63	7.0 %	76	7.3 %	83	9.2 %
Total	<u>\$ 893</u>	<u>100.0 %</u>	<u>\$ 1,040</u>	<u>100.0 %</u>	<u>\$ 904</u>	<u>100.0 %</u>

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

Total revenue, classified by product and service type (see Note 1), was as follows:

	For the Years Ended		
	February 28, 2021	February 29, 2020	February 28, 2019
Software and Services	\$ 621	\$ 691	\$ 559
Licensing and Other	272	349	345
Total	<u>\$ 893</u>	<u>\$ 1,040</u>	<u>\$ 904</u>

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

	For the Year Ended		
	February 28, 2021	February 29, 2020	February 28, 2019
Products and services transferred over time	\$ 476	\$ 512	\$ 488
Products and services transferred at a point in time	417	528	416
Total	<u>\$ 893</u>	<u>\$ 1,040</u>	<u>\$ 904</u>

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Revenue contract balances

The following table sets forth the activity in the Company's revenue contract balances for the fiscal year ended February 28, 2021:

	Accounts Receivable	Deferred Revenue	Deferred Commissions
Opening balance as at February 29, 2020	\$ 267	\$ 373	\$ 28
Increases due to invoicing of new or existing contracts, associated contract acquisition costs, or other	842	574	23
Decrease due to payment, fulfillment of performance obligations, or other	(921)	(653)	(30)
Increase (decrease), net	(79)	(79)	(7)
Closing balance as at February 28, 2021	<u>\$ 188</u>	<u>\$ 294</u>	<u>\$ 21</u>

Transaction price allocated to the remaining performance obligations

The table below discloses the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied as at February 28, 2021 and the time frame in which the Company expects to recognize this revenue. The disclosure includes estimates of variable consideration, except when the variable consideration is a sales-based or usage-based royalty promised in exchange for a license of intellectual property.

	As at February 28, 2021			
	Less than 12 Months	12 to 24 Months	Thereafter	Total
Remaining performance obligations	\$ 239	\$ 62	\$ 23	\$ 324

Revenue recognized for performance obligations satisfied in prior periods

For the fiscal year ended February 28, 2021, \$2 million in revenue was recognized relating to performance obligations satisfied in a prior period (fiscal year ended February 29, 2020 - \$1 million, in revenue recognized relating to performance obligations satisfied in a prior period; fiscal year ended February 28, 2019 - \$11 million in revenue recognized relating to the legacy handheld devices business).

Segment Disclosures

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

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

	As at			
	February 28, 2021		February 29, 2020	
	Property, Plant and Equipment, Intangible Assets, Operating Lease ROU Assets and Goodwill	Total Assets	Property, Plant and Equipment, Intangible Assets, Operating Lease ROU Assets and Goodwill	Total Assets
Canada	\$ 289	\$ 504	\$ 374	\$ 657
United States	1,411	1,963	2,132	3,071
Other	31	351	40	160
	<u>\$ 1,731</u>	<u>\$ 2,818</u>	<u>\$ 2,546</u>	<u>\$ 3,888</u>

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Information About Major Customers

There was one customer that comprised 22% of the Company’s revenue in fiscal 2021 (fiscal 2020 - one customer that comprised 13%; fiscal 2019 - one customer that comprised more than 10%).

14. CASH FLOW AND ADDITIONAL INFORMATION

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

	For the Years Ended		
	February 28, 2021	February 29, 2020	February 28, 2019
Interest paid during the year	\$ 15	\$ 23	\$ 24
Income taxes paid during the year	5	8	6
Income tax refunds received during the year	2	9	15

- (b) **Additional Information**

Advertising expense, which includes media, agency and promotional expenses totaling \$24 million is included in selling, marketing and administration expenses for the fiscal year ended February 28, 2021. (February 29, 2020 - \$39 million; February 28, 2019 - \$22 million)

Selling, marketing and administration expenses for the fiscal year ended February 28, 2021 included \$1 million with respect to foreign exchange gain, net of foreign exchange hedging (February 29, 2020 - nil; February 28, 2019 - gain of \$2 million).

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. Other expenses, consisting mainly of salaries and certain other operating costs, were incurred primarily in Canadian dollars, but were also incurred in U.S. dollars, euros and British pounds. At February 28, 2021, approximately 20% of cash and cash equivalents, 25% of accounts receivable 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.

Interest rate risk

Cash and cash equivalents and investments are invested in certain instruments of varying maturities. Consequently, the Company is exposed to interest rate risk as a result of holding investments of varying maturities. The fair value of investments, as well as the investment income derived from the investment portfolio, will fluctuate with changes in prevailing interest rates. The Company has also issued the Debentures as described in Note 7. The fair value of the Debentures will fluctuate with changes in prevailing interest rates. Consequently, the Company is exposed to interest rate risk as a result of the Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio or changes in the market value of the Debentures.

Credit risk

The Company is exposed to market and credit risk on its investment portfolio. The Company reduces this risk by investing in liquid, investment-grade securities and by limiting exposure to any one entity or group of related entities. As at February 28, 2021, no single issuer represented more than 13% of the total cash, cash equivalents and investments (February 29, 2020 - no single issuer represented more than 8% of the total cash, cash equivalents and investments), representing cash balances at one of the Company’s banking counterparties.

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

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

counterparties on a daily basis, subject to exposure and transfer thresholds. As at February 28, 2021, the Company had nil collateral posted or held with counterparties (February 29, 2020 - \$1 million in collateral posted).

Liquidity risk

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.

Government subsidies

During the first quarter of fiscal 2021, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") for Canadian employers whose businesses were affected by the COVID-19 pandemic, initially running for a thirty-six week period between March and November 2020. The program was subsequently extended to December 2020 and the Government of Canada has announced plans for an additional extension to June 2021. The CEWS originally provided a subsidy of up to 75% of eligible employees' employment insurable remuneration, subject to certain criteria, which declined to up to 65% for a period of time before returning to 75%. Accordingly, the Company applied for the CEWS to the extent it met the requirements to receive the subsidy and during the year ended February 28, 2021, recorded \$53 million in government subsidies as a reduction to operating expenses in the consolidated statement of operations.