

MANAGEMENT'S DISCUSSION AND ANALYSIS

April 30, 2019

In this Management's Discussion and Analysis ("MD&A"), "we", "us", "our", "Shopify" and "the Company" refer to Shopify Inc. and its consolidated subsidiaries, unless the context requires otherwise. In this MD&A, we explain Shopify's results of operations and cash flows for the three months ended March 31, 2019 and 2018, and our financial position as of March 31, 2019. You should read this MD&A together with our unaudited condensed consolidated financial statements and the accompanying notes for the fiscal quarter ended March 31, 2019, as well as with our audited consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2018. Additional information regarding Shopify, including our 2018 annual information form and our annual report on Form 40-F for the year ended December 31, 2018, is available on our website at www.shopify.com, or at www.sedar.com and www.sec.gov.

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All amounts are in U.S. dollars ("USD") except where otherwise indicated.

Our MD&A is intended to enable readers to gain an understanding of Shopify's results of operations, cash flows and financial position. To do so, we provide information and analysis comparing our results of operations, cash flows and financial position for the most recently completed quarter with the same quarter from the preceding fiscal year. We also provide analysis and commentary that we believe will help investors assess our future prospects. In addition, we provide "forward-looking statements" that are not historical facts, but that are based on our current estimates, beliefs and assumptions and which are subject to known and unknown important risks, uncertainties, assumptions and other factors that could cause actual results to differ materially from current expectations. Forward-looking statements are intended to assist readers in understanding management's expectations as of the date of this MD&A and may not be suitable for other purposes. See "Forward-looking statements" below.

In this MD&A, references to our "solutions" means the combination of products and services that we offer to merchants, and references to "our merchants" as of a particular date means the total number of unique shops that are paying for a subscription to our platform.

Forward-looking statements

This MD&A contains forward-looking statements under the provisions of the United States Private Securities Litigation Reform Act of 1995, Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, and forward-looking information within the meaning of applicable Canadian securities legislation.

In some cases, you can identify forward-looking statements by words such as "may", "might", "will", "should", "could", "expects", "intends", "plans", "anticipates", "believes", "estimates", "predicts", "projects", "potential", "continue", or the negative of these terms or other similar words. In addition, any statements or information that refer to expectations, beliefs, plans, projections, objectives, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking. In particular, forward-looking statements in this MD&A include, but are not limited to, statements about:

- the continued expansion of the number of channels for merchants to transact through;
- the achievement of innovations and enhancements to, and expansion of, our platform and our solutions;
- our exploration of new ways to accelerate checkout;
- our ability to make it easier for merchants to manage their storefronts via their mobile devices;
- whether a merchant using Shopify will ever need to re-platform;

- the continued growth of our app developer, theme designer and partner ecosystem;
- our revenue growth objectives and expectations about future profitability;
- plans to continue making investments to drive future growth;
- our expectation that the continued growth of merchant solutions may cause a decline in our overall gross margin percentage;
- our expectation that as a result of the continued growth of our merchant solutions offerings, our seasonality will continue to affect our quarterly results and our business may become more seasonal in the future, and that historical patterns may not be a reliable indicator of our future performance;
- our plan to continue to expand sales and marketing efforts to attract new merchants, retain revenue from existing merchants and increase revenues from both new and existing merchants, including adding sales personnel and expanding our marketing activities to continue to generate additional leads and build brand awareness;
- our expectation that the overall trend of merchant solutions revenue making up an increasing component of total revenues over time, most notably in the fourth quarter due to higher holiday volume, will continue over time;
- our expectation that our results of operations will be adversely impacted by an increase in the value of the Canadian dollar ("CAD") relative to the USD;
- our belief that we have sufficient liquidity to meet our current and planned financial obligations over the next 12 months;
- our expectations regarding contractual and contingent obligations;
- our accounting estimates and assumptions made in the preparation of our financial statements; and
- our expectations regarding the impact of accounting standards not yet adopted.

The forward-looking statements contained in this MD&A are based on our management's perception of historic trends, current conditions and expected future developments, as well as other assumptions that management believes are appropriate in the circumstances, which include, but are not limited to:

- our ability to increase the functionality of our platform;
- our ability to offer more sales channels that can connect to the platform;
- our belief in the increasing importance of a multi-channel platform that is both fully integrated and easy to use;
- our belief that commerce transacted over mobile will continue to grow more rapidly than desktop transactions;
- our ability to expand our merchant base, retain revenue from existing merchants as they grow their businesses, and increase sales to both new and existing merchants;
- our ability to manage our growth effectively;
- our ability to protect our intellectual property rights;
- our belief that our merchant solutions make it easier for merchants to start a business and grow on our platform;
- our ability to develop new solutions to extend the functionality of our platform, provide a high level of merchant service and support;
- our ability to hire, retain and motivate qualified personnel;
- our ability to enhance our ecosystem and partner programs, and the assumption that this will drive growth in our merchant base, further accelerating growth of the ecosystem;
- our belief that our investments and acquisitions will increase our revenue base, improve the retention of this base and strengthen our ability to increase sales to our merchants and help drive our growth;
- our ability to achieve our revenue growth objectives while controlling costs and expenses, and our ability to achieve or maintain profitability;
- our belief that monthly recurring revenue ("MRR") is most closely correlated with the long-term value of our merchant relationships;
- our assumptions regarding the principal competitive factors in our markets;
- our ability to predict future commerce trends and technology;

- our assumptions that higher-margin solutions such as Shopify Capital and Shopify Shipping will continue to contribute to revenues and to grow through increased adoption and international expansion;
- our expectation that Shopify Payments will continue to expand internationally;
- our belief that our investments in sales and marketing initiatives will continue to be effective in growing the number of merchants using our platform, in retaining revenue from existing merchants and increasing revenues from both;
- our ability to develop processes, systems and controls to enable our internal support functions to scale with the growth of our business;
- our ability to obtain sufficient space for our growing employee base;
- our ability to retain key personnel;
- our ability to protect against currency, interest rate, concentration of credit and inflation risks;
- our assumptions as to our future expenses and financing requirements;
- our assumptions as to our critical accounting policies and estimates; and
- our assumptions as to the effects of accounting pronouncements to be adopted.

Factors that may cause actual results to differ materially from current expectations may include, but are not limited to, risks and uncertainties that are discussed in greater detail in the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2018 and elsewhere in this MD&A, including but not limited to risks relating to:

- sustaining our rapid growth;
- managing our growth;
- our history of losses and our potential inability to achieve profitability;
- our limited operating history in new and developing markets and new geographic regions;
- our ability to innovate;
- a denial of service attack or security breach;
- payments processed through Shopify Payments;
- our reliance on a single supplier to provide the technology we offer through Shopify Payments;
- the security of personal information we store relating to merchants and their buyers, as well as buyers with whom we have a direct relationship;
- evolving privacy laws and regulations, cross-border data transfer restrictions, data localization requirements and other domestic or foreign regulations may limit the use and adoption of our services;
- our potential inability to hire, retain and motivate qualified personnel;
- international sales and the use of our platform in various countries;
- our potential inability to compete successfully against current and future competitors;
- serious software errors or defects;
- exchange rate fluctuations that may negatively affect our results of operations;
- our potential inability to achieve or maintain data transmission capacity;
- the reliance of our growth in part on the success of our strategic relationships with third parties;
- our potential failure to maintain a consistently high level of customer service;
- our use of a limited number of data centers and a cloud-based platform to deliver our services;
- ineffective operations of our solutions when accessed through mobile devices;
- changes to technologies used in our platform or new versions or upgrades of operating systems and internet browsers;
- the impact of worldwide economic conditions, including the resulting effect on spending by small and medium-sized businesses ("SMBs") or their buyers;
- potential claims by third parties of intellectual property infringement;
- our potential inability to obtain, maintain and protect our intellectual property rights and proprietary information or prevent third parties from making unauthorized use of our technology;
- our use of open source software;
- our potential inability to generate traffic to our website through search engines and social networking sites;
- our potential failure to effectively maintain, promote and enhance our brand;
- our dependence on the continued services and performance of our senior management and other key employees;

- activities of merchants or partners or the content of merchants' shops;
- acquisitions and investments;
- seasonal fluctuations;
- our reliance on computer hardware, purchased or leased, software licensed from and services rendered by third parties, in order to provide our solutions and run our business, sometimes by a single-source supplier;
- Shopify Capital and offering financing;
- our pricing decisions for our solutions;
- provisions of our financial instruments;
- our potential inability to raise additional funds as may be needed to pursue our growth strategy or continue our operations, on favorable terms or at all;
- unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns;
- new tax laws could be enacted or existing laws could be applied to us or our merchants;
- our tax loss carryforwards;
- our dependence upon buyers' and merchants' access to, and willingness to use, the internet for commerce;
- ownership of our shares;
- our sensitivity to interest rate fluctuations;
- our concentration of credit risk, and the ability to mitigate that risk using third parties; and
- the risk of inflation.

Although we believe that the plans, intentions, expectations, assumptions and strategies reflected in our forward-looking statements are reasonable, these statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control. If one or more of these risks or uncertainties occur, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from those implied or projected by the forward-looking statements. No forward-looking statement is a guarantee of future results. You should read this MD&A and the documents that we reference in this MD&A completely and with the understanding that our actual future results may be materially different from any future results expressed or implied by these forward-looking statements.

The forward-looking statements in this MD&A represent our views as of the date of this MD&A. We anticipate that subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. Therefore, these forward-looking statements do not represent our views as of any date other than the date of this MD&A.

Overview

Shopify is the leading cloud-based, multi-channel commerce platform. Shopify builds web- and mobile-based software and lets merchants easily set up beautiful online storefronts that are rich with retail functionality. Merchants use our software to run their business across all of their sales channels, including web and mobile storefronts, physical retail locations, social media storefronts, and marketplaces. The Shopify platform provides merchants with a single view of their business and customers across all of their sales channels and enables them to manage products and inventory, process orders and payments, ship orders, build customer relationships, source products, leverage analytics and reporting, and access financing, all from one integrated back office.

In an era where social media, cloud computing, mobile devices, and data analytics are creating new possibilities for commerce, Shopify provides differentiated value by offering merchants:

A multi-channel front end. Our software enables merchants to easily display, manage, and sell their products across over a dozen different sales channels, including web and mobile storefronts, physical retail locations, pop-up shops, social media storefronts, native mobile apps, buy buttons, and marketplaces. The Shopify API has been developed to support custom storefronts that let merchants sell anywhere, in any language.

A single integrated back end. Our software provides one single integrated, easy-to-use back end that merchants use to manage their business and buyers across these multiple sales channels. Merchants use their Shopify dashboard to manage products and inventory, process orders and payments, ship orders, build customer relationships, source products, leverage analytics and reporting, and access financing.

A data advantage. Our software is delivered to merchants as a service, and operates on a shared infrastructure. With each new transaction processed, we grow our data proficiency. This cloud-based infrastructure not only relieves merchants from running and securing their own hardware, it also consolidates data generated by the interactions between buyers and merchants' shops, as well as those of our merchants on the Shopify platform, providing rich data to inform both our own decisions as well as those of our merchants.

Shopify also enables merchants to build their own brand, leverage mobile technology, and handle massive traffic spikes with flexible infrastructure.

Brand ownership. Shopify is designed to help our merchants own their brand, develop a direct relationship with their buyers, and make their buyer experience memorable and distinctive. We recognize that in a world where buyers have more choices than ever before, a merchant's brand is increasingly important. The Shopify platform is designed to allow a merchant to keep their brand present in every interaction to help build buyer loyalty and competitive advantage against traditional retailers. While our platform is designed to empower merchants first, merchants benefit when buyers are confident that their payments are secure. We believe that an increasing awareness among buyers that Shopify provides a superior and secure checkout experience is an additional advantage for our merchants in an increasingly competitive market. For merchants using Shopify Payments, buyers are already getting a superior experience, and with our investments in additional customer touchpoints such as retail and shipping, brands that sell on Shopify can offer buyers an end-to-end, managed shopping experience that previously was only available to much larger businesses.

Mobile. As ecommerce expands as a percentage of overall retail transactions, today's buyers expect to be able to transact anywhere, anytime, on any device through an experience that is simple, seamless, and secure. As transactions over mobile devices represent the majority of transactions across online stores powered by Shopify, the mobile experience is a merchant's primary and most important interaction with online buyers. For several years Shopify has focused on enabling mobile commerce, and the Shopify platform now includes a mobile-optimized checkout system, designed to enable merchants' buyers to more easily buy products over mobile websites. Our merchants are able to offer their buyers the ability to quickly and securely check out by using Shopify Pay, Apple Pay, and Google Pay on the web, and we continue to explore other new ways to accelerate checkout. Shopify's mobile capabilities are not limited to the front end: merchants who are often on-the-go find themselves managing their storefronts via their mobile devices, as Shopify continues to strive to make it ever easier to do so.

Infrastructure. We build our platform to address the growing challenges facing merchants with the aim of making complex tasks simple. The Shopify platform is engineered to enterprise-level standards and functionality while being designed for simplicity and ease of use. We also design our platform with a robust technical infrastructure able to manage large spikes in traffic that accompany events such as new product releases, holiday shopping seasons, and flash sales. We are constantly innovating and enhancing our platform, with our continuously deployed, multi-tenant architecture ensuring all of our merchants are always using the latest technology.

This combination of ease of use with enterprise-level functionality allows merchants to start with a Shopify store and grow with our platform to almost any size. Using Shopify, merchants may never need to re-platform. Our Shopify Plus subscription plan was created to accommodate larger merchants, with additional functionality, scalability and support requirements. Shopify Plus is also designed for larger merchants not already on Shopify who want to migrate from their expensive and complex legacy solutions and get more functionality.

A rich ecosystem of app developers, theme designers and other partners, such as digital and service professionals, marketers, photographers, and affiliates has evolved around the Shopify platform. Approximately 19,000 of these partners have referred merchants to Shopify over the last year, and this strong, symbiotic relationship continues to grow. We believe this ecosystem has grown in part due to the platform's functionality, which is highly extensible and can be

expanded through our application program interface ("API") and the approximately 2,700 apps available in the Shopify App Store. The partner ecosystem helps drive the growth of our merchant base, which in turn further accelerates growth of the ecosystem.

Our mission is to make commerce better for everyone, and we believe we can help merchants of nearly all sizes, from aspirational entrepreneurs to large enterprises, and all retail verticals realize their potential at all stages of their business life cycle. While our platform can scale to meet the needs of large merchants, we focus on selling to small and medium-sized businesses and entrepreneurs. Most of our merchants are on subscription plans that cost less than \$50 per month, which is in line with our focus of providing cost effective solutions for early stage businesses. In the three months ended March 31, 2019, our platform facilitated Gross Merchandise Volume ("GMV") of \$11.9 billion, representing an increase of 49.6% from the three months ended March 31, 2018. A detailed description of this metric is presented below in the section entitled, "Key Performance Indicators."

Our business has experienced rapid growth. During the three months ended March 31, 2019 our total revenue was \$320.5 million, an increase of 49.5% versus the three months ended March 31, 2018. Our business model has two revenue streams: a recurring subscription component we call subscription solutions and a merchant success-based component we call merchant solutions.

In the three months ended March 31, 2019, subscription solutions revenues accounted for 43.8% of our total revenues (46.7% in the three months ended March 31, 2018). We offer a range of plans that increase in price depending on additional features and economic considerations. Our highest-end plan, Shopify Plus, is offered at a starting rate that is several times that of our standard Shopify plans. Shopify Plus caters to merchants with higher-volume sales and offers additional functionality, scalability and support requirements, including a dedicated Merchant Success Manager. Unilever, Kylie Cosmetics, Allbirds, and MVMT are a few of the Shopify Plus merchants seeking a reliable, cost-effective and scalable commerce solution. The flexibility of our pricing plans is designed to help our merchants grow in a cost-effective manner and to provide more advanced features and support as their business needs evolve.

Revenue from subscription solutions is generated through the sale of subscriptions to our platform, including variable platform fees, and from the sale of themes, apps, and the registration of domain names. Our merchants typically enter into monthly subscription agreements. The revenue from these agreements is recognized over time on a ratable basis over the contractual term and therefore we have deferred revenue on our balance sheet. We do not consider this deferred revenue balance to be a good indicator of future revenue. Instead, we believe Monthly Recurring Revenue ("MRR") is most closely correlated with the long-term value of our merchant relationships. Subscription solutions revenues increased from \$100.2 million in the three months ended March 31, 2018 to \$140.5 million in the three months ended March 31, 2019, representing an increase of 40.2%. As of March 31, 2019, MRR totaled \$44.2 million, representing an increase of 36.2% relative to MRR at March 31, 2018. Subscription solutions revenue has been growing at a faster rate than MRR due to apps and platform fees increasing as a percentage of total subscription solutions. A detailed description of this metric is presented below in the section entitled, "Key Performance Indicators".

We offer a variety of merchant solutions that are designed to add value to our merchants and augment our subscription solutions. During the three months ended March 31, 2019, merchant solutions revenues accounted for 56.2% of total revenues (53.3% in the three months ended March 31, 2018). We principally generate merchant solutions revenues from payment processing fees from Shopify Payments. Shopify Payments is a fully integrated payment processing service that allows our merchants to accept and process payment cards online and offline. In addition to payment processing fees from Shopify Payments, we also generate merchant solutions revenue from transaction fees, referral fees from partners, Shopify Capital, Shopify Shipping, and sales of point-of-sale ("POS") hardware. Our merchant solutions revenues are directionally correlated with the level of GMV that our merchants process through our platform. Merchant solutions revenues increased from \$114.1 million in the three months ended March 31, 2018 to \$180.0 million in the three months ended March 31, 2019, representing an increase of 57.7%.

Our business model is driven by our ability to attract new merchants, retain revenue from existing merchants, and increase sales to both new and existing merchants. Our merchants represent a wide array of retail verticals and business sizes and no single merchant has ever represented more than five percent of our total revenues in a single reporting period. We believe that our future success is dependent on many factors, including our ability to expand our merchant

base, retain merchants as they grow their businesses on our platform, offer more sales channels that connect merchants with their specific target audience, develop new solutions to extend our platform's functionality and catalyze merchants' sales growth, enhance our ecosystem and partner programs, provide a high level of merchant support, hire, retain and motivate qualified personnel, and build with a focus on maximizing long-term value.

We have focused on rapidly growing our business and plan to continue making investments to drive future growth. We believe that our investments will increase our revenue base, improve the retention of this base and strengthen our ability to increase sales to our merchants.

Key Performance Indicators

Key performance indicators, which we do not consider to be non-GAAP measures, that we use to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions include Monthly Recurring Revenue ("MRR") and Gross Merchandise Volume ("GMV"). Our key performance indicators may be calculated in a manner different than similar key performance indicators used by other companies.

The following table shows MRR and GMV for the three months ended March 31, 2019 and 2018.

	Three months ended March 31,	
	2019	2018
	(in thousands)	
Monthly Recurring Revenue	\$ 44,213	\$ 32,461
Gross Merchandise Volume	\$ 11,895,884	\$ 7,952,432

Monthly Recurring Revenue

We calculate MRR at the end of each period by multiplying the number of merchants who have subscription plans with us at the period end date by the average monthly subscription plan fee, which excludes variable platform fees, in effect on the last day of that period, assuming they maintain their subscription plans the following month. MRR allows us to average our various pricing plans and billing periods into a single, consistent number that we can track over time. We also analyze the factors that make up MRR, specifically the number of paying merchants using our platform and changes in our average revenue earned from subscription plan fees per paying merchant. In addition, we use MRR to forecast monthly, quarterly and annual subscription plan revenue, which makes up the majority of our subscriptions solutions revenue. We had \$44.2 million of MRR as at March 31, 2019 compared to \$32.5 million as at March 31, 2018.

Gross Merchandise Volume

GMV is the total dollar value of orders facilitated through our platform in the period, net of refunds, and inclusive of shipping and handling, duty and value-added taxes. GMV does not represent revenue earned by us. However, the volume of GMV facilitated through our platform is an indicator of the success of our merchants and the strength of our platform. Our merchant solutions revenues are also directionally correlated with the level of GMV facilitated through our platform. For the three months ended March 31, 2019 and 2018, we facilitated GMV of \$11.9 billion and \$8.0 billion, respectively.

Factors Affecting the Comparability of Our Results

Change in Revenue Mix

As a result of the continued growth of Shopify Payments, transaction fees, revenue sharing agreements, Shopify Capital, and Shopify Shipping, our revenues from merchant solutions have generally increased significantly. Merchant solutions are intended to complement subscription solutions by providing additional value to our merchants and increasing their use of our platform. Gross profit margins on Shopify Payments, the biggest driver of merchant solutions revenue, are typically lower than on subscription solutions due to the associated third-party costs of providing this solution. We

view this revenue stream as beneficial to our operating margins, as Shopify Payments requires significantly less sales and marketing and research and development expense than Shopify's core subscription business. The lower margins on merchant solutions compared to subscription solutions means that the continued growth of merchant solutions may cause a decline in our overall gross margin percentage.

Seasonality

Our merchant solutions revenues are directionally correlated with the level of GMV that our merchants facilitated through our platform. Our merchants typically process additional GMV during the fourth quarter holiday season. As a result, we have historically generated higher merchant solutions revenues in our fourth quarter than in other quarters. While we believe that this seasonality has affected and will continue to affect our quarterly results, our rapid growth has largely masked seasonal trends to date. As a result of the continued growth of our merchant solutions offerings, we believe that our business may become more seasonal in the future and that historical patterns in our business may not be a reliable indicator of our future performance.

Foreign Currency Fluctuations

While most of our revenues are denominated in USD, a significant portion of our operating expenses are incurred in CAD. As a result, our results of operations will be adversely impacted by an increase in the value of the CAD relative to the USD. In addition, a portion of Shopify Payments revenue is based on the local currency of the country in which the applicable merchant is located and these transactions expose us to currency fluctuations to the extent non-USD based payment processing and other merchant solutions revenues increase. Refer to the "Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Exchange Risk" section below for additional information on the effect on reported results of changes in foreign exchange rates.

Key Components of Results of Operations

There have been no significant changes to the key components of results of operations during the three months ended March 31, 2019. See Management's Discussion and Analysis dated February 12, 2019 as well as our Annual Report on Form 40-F for the year ended December 31, 2018 for details on the key components of results of operations.

Quarterly Results of Operations

The following table sets forth our results of operations for the three months ended March 31, 2019 and 2018.

	Three months ended March 31,	
	2019	2018
	(in thousands, except share and per share data)	
Revenues:		
Subscription solutions	\$ 140,451	\$ 100,198
Merchant solutions	180,031	114,142
	<u>320,482</u>	<u>214,340</u>
Cost of revenues⁽¹⁾:		
Subscription solutions	27,985	23,160
Merchant solutions	112,206	67,338
	<u>140,191</u>	<u>90,498</u>
Gross profit	<u>180,291</u>	<u>123,842</u>
Operating expenses:		
Sales and marketing ⁽¹⁾	105,022	75,784
Research and development ⁽¹⁾	76,355	47,716
General and administrative ⁽¹⁾	34,704	20,675
Total operating expenses	<u>216,081</u>	<u>144,175</u>
Loss from operations	<u>(35,790)</u>	<u>(20,333)</u>
Other income:		
Interest income, net	12,078	4,649
Foreign exchange loss	(439)	(218)
	<u>11,639</u>	<u>4,431</u>
Net loss	<u>\$ (24,151)</u>	<u>\$ (15,902)</u>
Basic and diluted net loss per share attributable to shareholders	<u>\$ (0.22)</u>	<u>\$ (0.16)</u>
Weighted average shares used to compute basic and diluted net loss per share attributable to shareholders	<u>110,921,276</u>	<u>102,256,644</u>

(1) Includes stock-based compensation expense and related payroll taxes as follows:

	Three months ended March 31,	
	2019	2018
	(in thousands)	
Cost of revenues	\$ 814	\$ 489
Sales and marketing	7,645	4,769
Research and development	19,923	11,916
General and administrative	6,031	2,941
	<u>\$ 34,413</u>	<u>\$ 20,115</u>

Revenues

	Three months ended March 31,		2019 vs. 2018
	2019	2018	% Change
(in thousands, except percentages)			
Revenues:			
Subscription solutions	\$ 140,451	\$ 100,198	40.2%
Merchant solutions	180,031	114,142	57.7%
	<u>\$ 320,482</u>	<u>\$ 214,340</u>	<u>49.5%</u>
Percentage of revenues:			
Subscription solutions	43.8%	46.7%	
Merchant solutions	56.2%	53.3%	
Total revenues	<u>100.0%</u>	<u>100.0%</u>	

Subscription Solutions

Subscription solutions revenues increased \$40.3 million, or 40.2%, for the three months ended March 31, 2019 compared to the same period in 2018. The period over period increase was primarily a result of growth in MRR, which was driven largely by the higher number of merchants using our platform.

Merchant Solutions

Merchant solutions revenues increased \$65.9 million, or 57.7%, for the three months ended March 31, 2019 compared to the same period in 2018. The increase in merchant solutions revenues was primarily a result of Shopify Payments revenue growing in the three months ended March 31, 2019 compared to the same period in 2018. This increase was a result of an increase in the number of merchants using our platform, continued expansion into new geographical regions, and an increase in our Shopify Payments penetration rate, which was 40.9%, resulting in GMV of \$4.9 billion that was facilitated using Shopify Payments for the three months ended March 31, 2019. This compares to a penetration rate of 38.2% resulting in GMV of \$3.0 billion that was facilitated using Shopify Payments in the same period in 2018.

In addition to the increase in revenue from Shopify Payments, revenue from transaction fees, referral fees from partners, Shopify Capital, and Shopify Shipping increased during the three months ended March 31, 2019 compared to the same period in 2018, as a result of the increase in GMV facilitated through our platform compared to the same period in 2018.

Cost of Revenues

	Three months ended March 31,		2019 vs. 2018
	2019	2018	% Change
(in thousands, except percentages)			
Cost of revenues:			
Cost of subscription solutions	\$ 27,985	\$ 23,160	20.8%
Cost of merchant solutions	112,206	67,338	66.6%
Total cost of revenues	<u>\$ 140,191</u>	<u>\$ 90,498</u>	<u>54.9%</u>
Percentage of revenues:			
Cost of subscription solutions	8.7%	10.8%	
Cost of merchant solutions	35.0%	31.4%	
	<u>43.7%</u>	<u>42.2%</u>	

Cost of Subscription Solutions

Cost of subscription solutions increased \$4.8 million, or 20.8%, for the three months ended March 31, 2019 compared to the same period in 2018. The increase was due to an increase in the costs necessary to support a greater number of merchants using our platform, resulting in an increase in: credit card fees for processing merchant billings, amortization related to newly launched platform enhancements, employee-related costs, payments to third-party theme developers, and payments to third-party partners for the registration of domain names. As a percentage of revenues, cost of subscription solutions decreased from 10.8% in the three months ended March 31, 2018 to 8.7% in the three months ended March 31, 2019 due to subscription solutions representing a smaller percentage of our total revenues and a decrease in third-party infrastructure and hosting costs as well as employee-related costs relative to subscription solutions revenue.

Cost of Merchant Solutions

Cost of merchant solutions increased \$44.9 million, or 66.6%, for the three months ended March 31, 2019 compared to the same period in 2018. The increase was primarily due to higher payment processing and interchange fees resulting from an increase in GMV facilitated through Shopify Payments and a one-time item that reduced these fees in the three months ended March 31, 2018. The increase was also due to an increase in credit card fees for processing merchant billings. Cost of merchant solutions as a percentage of revenues increased from 31.4% in the three months ended March 31, 2018 to 35.0% in the three months ended March 31, 2019, mainly as a result of Shopify Payments representing a larger percentage of total revenue.

Gross Profit

	Three months ended March 31,		2019 vs. 2018
	2019	2018	% Change
	(in thousands, except percentages)		
Gross profit	\$ 180,291	\$ 123,842	45.6%
Percentage of total revenues	56.3%	57.8%	

Gross profit increased \$56.4 million, or 45.6%, for the three months ended March 31, 2019 compared to the same period in 2018. As a percentage of total revenues, gross profit decreased from 57.8% in the three months ended March 31, 2018 to 56.3% in the three months ended March 31, 2019, principally due to Shopify Payments representing a larger percentage of total revenue, which was partly offset by the relative growth of higher-margin merchant solutions products, namely referral fees from partners, Shopify Capital, and Shopify Shipping as well as lower third-party infrastructure and hosting costs relative to our revenues resulting from optimization efforts and lower employee-related costs.

Operating Expenses

Sales and Marketing

	Three months ended March 31,		2019 vs. 2018
	2019	2018	% Change
	(in thousands, except percentages)		
Sales and marketing	\$ 105,022	\$ 75,784	38.6%
Percentage of total revenues	32.8%	35.4%	

Sales and marketing expenses increased \$29.2 million, or 38.6%, for the three months ended March 31, 2019 compared to the same period in 2018, due to an increase of \$14.8 million in marketing programs, such as advertisements on search engines and social media, spend on brand and media, as well as payments to partners, all of which support the growth of our business, an increase of \$13.7 million in employee-related costs (\$2.9 million of which related to stock-based compensation and related payroll taxes), and an increase of \$0.7 million related to computer hardware and software.

Research and Development

	Three months ended March 31,		2019 vs. 2018
	2019	2018	% Change
	(in thousands, except percentages)		
Research and development	\$ 76,355	\$ 47,716	60.0%
Percentage of total revenues	23.8%	22.3%	

Research and development expenses increased \$28.6 million, or 60.0%, for the three months ended March 31, 2019 compared to the same period in 2018, due to an increase of \$26.1 million in employee-related costs (\$8.0 million of which related to stock-based compensation and related payroll taxes), a \$1.3 million increase in computer hardware and software costs, and a \$1.2 million increase in professional services fees, all as a result of the growth in our employee base and expanded development programs.

General and Administrative

	Three months ended March 31,		2019 vs. 2018
	2019	2018	% Change
	(in thousands, except percentages)		
General and administrative	\$ 34,704	\$ 20,675	67.9%
Percentage of total revenues	10.8%	9.6%	

General and administrative expenses increased \$14.0 million, or 67.9%, for the three months ended March 31, 2019 compared to the same period in 2018, due to an increase of \$8.4 million in employee-related costs (\$3.1 million of which related to stock-based compensation and related payroll taxes), a \$3.5 million increase in losses and insurance costs related to Shopify Payments and Shopify Capital, a \$1.2 million increase in finance costs, which includes insurance, sales and use and other value added taxes, and bank fees, a \$0.6 million increase in professional services fees for tax services, and a \$0.3 million increase in computer and software costs.

Other Income (Expenses)

	Three months ended March 31,		2019 vs. 2018
	2019	2018	% Change
	(in thousands, except percentages)		
Other income (expenses), net	\$ 11,639	\$ 4,431	*

* Not a meaningful comparison

In the three months ended March 31, 2019 we had other income of \$11.6 million, compared to other income of \$4.4 million in the same period in 2018. The increase was driven mainly by an increase in interest income of \$7.4 million, primarily as a result of our increased cash, cash equivalents and marketable securities balances. This was slightly offset by the fact that the foreign exchange loss of \$0.2 million in 2018 increased to \$0.4 million in 2019, resulting in a decrease in other income of \$0.2 million.

Summary of Quarterly Results

The following table sets forth selected unaudited quarterly results of operations data for each of the eight quarters ended March 31, 2019. The information for each of these quarters has been derived from unaudited condensed consolidated financial statements that were prepared on the same basis as the audited annual financial statements and, in the opinion of management, reflects all adjustments, which includes only normal recurring adjustments, necessary for the fair

presentation of the results of operations for these periods in accordance with U.S. GAAP. This data should be read in conjunction with our unaudited condensed consolidated financial statements and audited consolidated financial statements and related notes for the relevant period. These quarterly operating results are not necessarily indicative of our operating results for a full year or any future period.

	Three months ended							
	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	June 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	June 30, 2017
	(in thousands, except per share data)							
Revenues:								
Subscription solutions	\$ 140,451	\$ 133,560	\$ 120,517	\$ 110,721	\$ 100,198	\$ 93,918	\$ 82,435	\$ 71,598
Merchant solutions	180,031	210,302	149,547	134,242	114,142	128,896	89,021	80,057
	<u>320,482</u>	<u>343,862</u>	<u>270,064</u>	<u>244,963</u>	<u>214,340</u>	<u>222,814</u>	<u>171,456</u>	<u>151,655</u>
Cost of revenues: ⁽¹⁾								
Subscription solutions	27,985	\$ 26,706	\$ 26,600	\$ 24,524	23,160	19,867	15,458	13,688
Merchant solutions	112,206	131,413	93,737	83,484	67,338	81,802	55,971	51,127
	<u>140,191</u>	<u>158,119</u>	<u>120,337</u>	<u>108,008</u>	<u>90,498</u>	<u>101,669</u>	<u>71,429</u>	<u>64,815</u>
Gross profit	<u>180,291</u>	<u>185,743</u>	<u>149,727</u>	<u>136,955</u>	<u>123,842</u>	<u>121,145</u>	<u>100,027</u>	<u>86,840</u>
Operating expenses:								
Sales and marketing ⁽¹⁾	105,022	95,163	91,635	87,487	75,784	67,174	58,314	54,872
Research and development ⁽¹⁾	76,355	67,024	61,629	54,305	47,716	40,339	36,350	32,714
General and administrative ⁽¹⁾	34,704	33,014	27,831	25,924	20,675	19,745	18,039	15,161
Total operating expenses	<u>216,081</u>	<u>195,201</u>	<u>181,095</u>	<u>167,716</u>	<u>144,175</u>	<u>127,258</u>	<u>112,703</u>	<u>102,747</u>
Loss from operations	<u>(35,790)</u>	<u>(9,458)</u>	<u>(31,368)</u>	<u>(30,761)</u>	<u>(20,333)</u>	<u>(6,113)</u>	<u>(12,676)</u>	<u>(15,907)</u>
Other income	11,639	7,944	8,184	6,808	4,431	3,126	3,296	1,877
Net loss	<u>\$ (24,151)</u>	<u>\$ (1,514)</u>	<u>\$ (23,184)</u>	<u>\$ (23,953)</u>	<u>\$ (15,902)</u>	<u>\$ (2,987)</u>	<u>\$ (9,380)</u>	<u>\$ (14,030)</u>
Basic and diluted net loss per share attributable to shareholders	\$ (0.22)	\$ (0.01)	\$ (0.22)	\$ (0.23)	\$ (0.16)	\$ (0.03)	\$ (0.09)	\$ (0.15)

(1) Includes stock-based compensation expense and related payroll taxes as follows:

	Three months ended							
	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	June 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	June 30, 2017
	(in thousands)							
Cost of revenues	\$ 814	\$ 660	\$ 655	\$ 637	\$ 489	\$ 370	\$ 355	\$ 307
Sales and marketing	7,645	6,641	6,397	6,249	4,769	3,182	2,729	2,305
Research and development	19,923	16,769	15,669	15,221	11,916	10,843	9,324	8,075
General and administrative	6,031	5,356	5,007	4,386	2,941	3,302	1,981	2,282
	<u>\$ 34,413</u>	<u>\$ 29,426</u>	<u>\$ 27,728</u>	<u>\$ 26,493</u>	<u>\$ 20,115</u>	<u>\$ 17,697</u>	<u>\$ 14,389</u>	<u>\$ 12,969</u>

The following table sets forth selected unaudited quarterly statements of operations data as a percentage of total revenues for each of the eight quarters ended March 31, 2019.

	Three months ended							
	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	June 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	June 30, 2017
Revenues								
Subscription solutions	43.8 %	38.8 %	44.6 %	45.2 %	46.7 %	42.2 %	48.1 %	47.2 %
Merchant solutions	56.2 %	61.2 %	55.4 %	54.8 %	53.3 %	57.8 %	51.9 %	52.8 %
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues								
Subscription solutions	8.7 %	7.8 %	9.8 %	10.0 %	10.8 %	8.9 %	9.0 %	9.0 %
Merchant solutions	35.0 %	38.2 %	34.7 %	34.1 %	31.4 %	36.7 %	32.6 %	33.7 %
	43.7 %	46.0 %	44.5 %	44.1 %	42.2 %	45.6 %	41.6 %	42.7 %
Gross profit	56.3 %	54.0 %	55.4 %	55.9 %	57.8 %	54.4 %	58.3 %	57.3 %
Operating expenses:								
Sales and marketing	32.8 %	27.7 %	33.9 %	35.7 %	35.4 %	30.1 %	34.0 %	36.2 %
Research and development	23.8 %	19.5 %	22.8 %	22.2 %	22.3 %	18.1 %	21.2 %	21.6 %
General and administrative	10.8 %	9.6 %	10.3 %	10.6 %	9.6 %	8.9 %	10.5 %	10.0 %
	67.4 %	56.8 %	67.0 %	68.5 %	67.3 %	57.1 %	65.7 %	67.8 %
Loss from operations	(11.2)%	(2.8)%	(11.6)%	(12.6)%	(9.5)%	(2.7)%	(7.4)%	(10.5)%
Other income	3.6 %	2.3 %	3.0 %	2.8 %	2.1 %	1.4 %	1.9 %	1.2 %
Net loss	(7.5)%	(0.4)%	(8.6)%	(9.8)%	(7.4)%	(1.3)%	(5.5)%	(9.3)%

We believe that year-over-year comparisons are more meaningful than our sequential results due to seasonality in our business. While we believe that this seasonality has affected and will continue to affect our quarterly results, our rapid growth has largely masked seasonal trends to date. Our merchant solutions revenues are directionally correlated with our merchants' GMV. Our merchants' GMV typically increases during the holiday season. As a result, we have historically generated higher merchant solutions revenues in our fourth quarter than in other quarters. As a result of the continued growth of our merchant solutions offerings, we believe that our business may become more seasonal in the future, and that historical patterns in our business may not be a reliable indicator of our future performance.

Quarterly Revenue and Gross Margin Trends

Revenues experienced a seasonal decrease in our first quarters as buyers typically reduce their spending following the holiday season resulting in a seasonal decrease in GMV per merchant, which was not completely offset by merchant and MRR growth. Subsequently, revenues have increased in each of the next three quarters as a result of merchant, MRR, and overall GMV growth. Our merchants have processed additional GMV during the fourth quarter holiday seasons, and as a result we have generated higher merchant solutions revenues in our fourth quarters compared to other quarters. As a result of the continued growth of our merchant solutions offerings, we believe that our business may become more seasonal in the future.

Our gross margin percentage has varied over the past eight quarters and is generally driven by the mix between our higher margin subscription solutions revenue and lower margin merchant solutions revenue. While our total revenues have increased in recent periods, the mix has shifted towards merchant solutions revenue, most notably in the fourth quarter due to higher holiday volume of orders facilitated and the resulting Shopify Payments revenue during this period. We expect this overall trend to continue over time.

Quarterly Operating Expenses Trends

Total operating expenses have increased sequentially for each period presented primarily due to the addition of personnel in connection with the expansion of our business as well as additional marketing initiatives to attract potential merchants.

Key Balance Sheet Information

	March 31, 2019	December 31, 2018
	(in thousands)	
Cash, cash equivalents and marketable securities	\$ 1,997,014	\$ 1,969,670
Total assets	2,402,751	2,254,785
Total liabilities	274,833	164,017
Total non-current liabilities	101,819	25,329

Total assets increased \$148.0 million as at March 31, 2019 compared to December 31, 2018, principally due to the adoption of the new lease accounting standard, further discussed in the "Critical Accounting Policies and Estimates" section below, which resulted in the addition of right-of-use assets totaling \$90.1 million as at March 31, 2019. The increase in total assets was also driven by a \$27.6 million increase in marketable securities, a \$15.0 million increase in merchant cash advances and loans receivable, a \$9.2 million increase in property and equipment, largely related to leaseholds for our offices, and a \$5.7 million increase in goodwill related to a business acquisition. Total liabilities increased by \$110.8 million, principally as a result of the adoption of the new leasing standard, which resulted in \$79.2 million of additional lease liabilities related to obtaining right-of-use assets. The increase was also due to an increase in accounts payable and accrued liabilities of \$28.1 million, which was due to an increase in payroll liabilities and costs related to marketing, partly offset by a decrease in foreign exchange forward contract liabilities. The growth in sales of our subscription solutions offering resulted in an increase of deferred revenue of \$3.7 million.

Liquidity and Capital Resources

To date, we have financed our operations primarily through the sale of equity securities, raising approximately \$2.0 billion, net of issuance costs, from investors.

In February 2018, the Company completed a public offering, in which it issued and sold 4,800,000 Class A subordinate voting shares at a public offering price of \$137.00 per share. The Company received total net proceeds of \$647.0 million after deducting offering fees and expenses of \$10.6 million.

In July 2018, due to the expiry of our previous short-form base shelf prospectus, we filed a new short-form base shelf prospectus with the Securities Commissions in each of the provinces and territories of Canada, except Quebec, and a corresponding shelf registration statement on Form F-10 with the U.S. Securities and Exchange Commission. The shelf prospectus and registration statement allow Shopify to offer up to \$5.0 billion of Class A subordinate voting shares, preferred shares, debt securities, warrants, subscription receipts, units, or any combination thereof, from time to time during the 25-month period that the shelf prospectus is effective.

In December 2018, the Company completed a public offering, in which it issued and sold 2,600,000 Class A subordinate voting shares at a public offering price of \$154.00 per share. The Company received total net proceeds of \$394.7 million after deducting offering fees and expenses of \$5.7 million.

Our principal cash requirements are for working capital and capital expenditures. Excluding current deferred revenue, working capital at March 31, 2019 was \$2,043.7 million. Given the ongoing cash generated from operations and our existing cash and cash equivalents, we believe there is sufficient liquidity to meet our current and planned financial obligations over the next 12 months. Our future financing requirements will depend on many factors including our growth rate, subscription renewal activity, the timing and extent of spending to support development of our platform, the expansion of sales and marketing activities, and potential mergers and acquisitions activity. Although we currently are not a party to any material undisclosed agreement and do not have any understanding with any third-parties with respect to potential material investments in, or acquisitions of, businesses or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Cash, Cash Equivalents and Marketable Securities

Cash, cash equivalents, and marketable securities increased by \$27.3 million to \$1,997.0 million as at March 31, 2019 from \$1,969.7 million as at December 31, 2018, primarily as a result of cash provided by our operating activities and proceeds from the exercise of stock options.

Cash equivalents and marketable securities include money market funds, repurchase agreements, term deposits, U.S. and Canadian federal bonds, corporate bonds, and commercial paper, all maturing within the 12 months from March 31, 2019.

The following table summarizes our total cash, cash equivalents and marketable securities as at March 31, 2019 and 2018 as well as our operating, investing and financing activities for the three months ended March 31, 2019 and 2018:

	Three months ended March 31,	
	2019	2018
	(in thousands)	
Cash, cash equivalents and marketable securities (end of period)	\$ 1,997,014	\$ 1,580,033
Net cash provided by (used in):		
Operating activities	\$ 24,344	\$ (1,875)
Investing activities	(37,292)	(596,257)
Financing activities	12,056	653,278
Effect of foreign exchange on cash and cash equivalents	655	(245)
Net increase (decrease) in cash and cash equivalents	(237)	54,901
Change in marketable securities	27,581	587,093
Net increase in cash, cash equivalents and marketable securities	\$ 27,344	\$ 641,994

Cash Flows From Operating Activities

Our largest source of operating cash is from subscription solutions. These payments are typically paid to us at the beginning of the applicable subscription period, except for our Shopify Plus merchants who typically pay us at the end of their monthly billing cycle. We also generate significant cash flows from our Shopify Payments processing fee arrangements, which are received on a daily basis as transactions are processed. Our primary uses of cash from operating activities are for third-party payment processing fees, employee-related expenditures, advancing funds to merchants through Shopify Capital, marketing programs, third-party shipping partners, outsourced hosting costs, and leased facilities.

For the three months ended March 31, 2019, cash provided by operating activities was \$24.3 million. This was primarily as a result of our net loss of \$24.2 million, which once adjusted for \$31.2 million of stock-based compensation expense, \$6.8 million of amortization and depreciation, a \$3.2 million increase of our provision for uncollectible merchant cash advances and loans, and an unrealized foreign exchange loss of \$0.1 million, contributed \$17.1 million of positive cash flows. Additional cash of \$38.8 million resulted from the following increases in operating liabilities: \$33.9 million in accounts payable and accrued liabilities due to payroll liabilities and costs related to marketing; \$3.7 million in deferred revenue due to the growth in sales of our subscription solutions; and \$1.2 million in lease assets and liabilities as a result of receiving payment for certain inducements. These were offset by \$31.6 million of cash used resulting from the following increases in operating assets: \$18.1 million in merchant cash advances and loans as we continue to grow Shopify Capital; \$10.6 million in trade and other receivables, and \$2.9 million in other current assets driven primarily by an increase in deposits and prepaid expenses.

For the three months ended March 31, 2018, cash used by operating activities was \$1.9 million. This was primarily as a result of our net loss of \$15.9 million, which once adjusted for \$17.9 million of stock-based compensation expense,

\$7.6 million of amortization and depreciation, a \$1.6 million increase of our provision for uncollectible merchant cash advances, and an unrealized foreign exchange gain of \$0.1 million, contributed \$11.1 million of positive cash flows. Additional cash of \$15.4 million resulted from the following increases in operating liabilities: \$11.6 million in accounts payable and accrued liabilities; \$2.4 million in deferred revenue; and \$1.4 million in lease liabilities. These were offset by \$28.4 million of cash used resulting from the following increases in operating assets: \$18.0 million in merchant cash advances; \$8.2 million in trade and other receivables; and \$2.2 million in other current assets.

Cash Flows From Investing Activities

Cash flows used in investing activities are primarily related to the purchase and sale of marketable securities, purchases of computer equipment, leasehold improvements and furniture and fixtures to support our expanding infrastructure and workforce, software development costs eligible for capitalization, and business acquisitions.

Net cash used in investing activities in the three months ended March 31, 2019 was \$37.3 million, which was driven by net purchases of \$20.6 million in marketable securities, \$9.6 million used to purchase property and equipment, which primarily consisted of expenditures on leasehold improvements, \$1.4 million used for purchasing and developing software to add functionality to our platform and support our expanding merchant base, and \$5.7 million used to make a business acquisition.

Net cash used in investing activities in the three months ended March 31, 2018 was \$596.3 million, reflecting net purchases of \$585.4 million in marketable securities. Cash used in investing activities also included \$5.4 million used to purchase property and equipment, which primarily consisted of expenditures on leasehold improvements, and \$5.4 million used towards the development of software.

Cash Flows From Financing Activities

To date, cash flows from financing activities have related to proceeds from private placements, public offerings, and exercises of stock options.

Net cash provided by financing activities in the three months ended March 31, 2019 was \$12.1 million driven by the proceeds from the issuance of Class A subordinate voting shares and Class B multiple voting shares as a result of stock option exercises. This compares to \$653.3 million for the same period in 2018 of which \$647.0 million was raised by our February 2018 public offering while the remaining \$6.3 million related to stock option exercises.

Contractual Obligations and Contingencies

Our principal commitments consist of obligations under our operating leases for office space. The following table summarizes our contractual obligations as of March 31, 2019:

	Payments Due by Period				Total
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	
	(in thousands)				
Bank indebtedness	\$ —	\$ —	\$ —	\$ —	\$ —
Operating lease and unconditional purchase obligations ⁽¹⁾	32,761	137,686	78,046	306,053	554,546
Total contractual obligations	\$ 32,761	\$ 137,686	\$ 78,046	\$ 306,053	\$ 554,546

(1) Consists of payment obligations under our office leases as well as other unconditional purchase obligations.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements, other than operating leases and other unconditional purchase obligations (which have been disclosed above under "Contractual Obligations and Contingencies").

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a variety of risks, including foreign currency exchange fluctuations, changes in interest rates, concentration of credit and inflation. We regularly assess currency, interest rate and inflation risks to minimize any adverse effects on our business as a result of those factors.

Foreign Currency Exchange Risk

While the majority of our revenues are denominated in USD, a significant portion of operating expenses are incurred in CAD. As a result, our earnings are adversely affected by an increase in the value of the CAD relative to the USD. Foreign currency forward contracts are used to hedge against the earning effects of such fluctuations.

Effect of Foreign Exchange Rates

The following non-GAAP financial measure converts our revenues, cost of revenues, operating expenses, and loss from operations using the comparative period's monthly average exchange rates:

	Three months ended March 31,			
	2019		2018	
	GAAP Amounts As Reported	Exchange Rate Effect ⁽¹⁾	At Prior Year Effective Rates ⁽²⁾	GAAP Amounts As Reported
	(in thousands)			
Revenues	\$ 320,482	\$ 302	\$ 320,784	\$ 214,340
Cost of revenues	(140,191)	—	(140,191)	(90,498)
Operating expenses	(216,081)	2,915	(213,166)	(144,175)
Loss from operations	\$ (35,790)	\$ 3,217	\$ (32,573)	\$ (20,333)

(1) Represents the increase or decrease in GAAP amounts reported resulting from using the comparative period's effective CAD-USD foreign exchange rates.

(2) Represents the outcome that would have resulted if the comparative period's effective CAD-USD foreign exchange rates are applied to the current reporting period.

This effect of foreign exchange rates on our consolidated statements of operations disclosure is a supplement to our consolidated financial statements, which are prepared and presented in accordance with U.S. GAAP. We have provided the above non-GAAP disclosure as we believe it presents a clearer comparison of our period to period operating results by removing the impact of fluctuations in the CAD to USD exchange rate and to assist investors in understanding our financial and operating performance. Non-GAAP financial measures are not recognized measures for financial statement presentation under U.S. GAAP, do not have standardized meanings, and may not be comparable to similar measures presented by other public companies. Such non-GAAP financial measures should be considered as a supplement to, and not as a substitute for, or superior to, the corresponding measures calculated in accordance with U.S. GAAP.

Interest Rate Sensitivity

We had cash, cash equivalents and marketable securities totaling \$1,997.0 million as of March 31, 2019. The cash and cash equivalents are held for operations and working capital purposes. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

Our cash equivalents and our portfolio of marketable securities are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value adversely affected due to a rise in interest rates. Our future investment income may fall short of our expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we

classify our debt securities as "held to maturity," no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other than temporary.

Concentration of Credit Risk

The Company's cash and cash equivalents, marketable securities, trade and other receivables, merchant cash advances and loans receivable, and foreign exchange derivative products subject the Company to concentrations of credit risk. Management mitigates this risk associated with cash and cash equivalents by making deposits and entering into foreign exchange derivative products only with large banks and financial institutions that are considered to be highly credit worthy. Management mitigates the risks associated with marketable securities by adhering to its investment policy, which stipulates minimum rating requirements, maximum investment exposures and maximum maturities. Due to the Company's diversified merchant base, there is no particular concentration of credit risk related to the Company's trade and other receivables and merchant cash advances and loans receivable. Trade and other receivables and merchant cash advances and loans receivable are monitored on an ongoing basis to ensure timely collection of amounts. The Company has mitigated some of the risks associated with Shopify Capital by entering into an agreement with a third party to insure some of the merchant cash advances offered by Shopify Capital. There are no receivables from individual merchants accounting for 10% or more of revenues or receivables.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Management of the Company, under the supervision of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company, including its consolidated subsidiaries, is made known to the CEO and CFO to ensure appropriate and timely decisions are made regarding public disclosure.

Management of the Company, under the supervision of the Company's CEO and CFO, is responsible for establishing and maintaining adequate internal control over the Company's financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP.

The Company's CEO and CFO certified the Company's annual report on Form 40-F for the year ended December 31, 2018, as required by Section 302 and Section 906 of the United States Sarbanes-Oxley Act of 2002 ("SOX"). The Company relied on the statutory exemption contained in section 8.1 of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), which allows it to file with the Canadian securities regulatory authorities the certificates required under SOX as soon as practicable after such certificates are filed with or furnished to the SEC.

As of March 31, 2019, the Company's CEO and CFO were satisfied with the effectiveness of the Company's disclosure controls and procedures. In accordance with the Canadian Securities Administrators NI 52-109, the Company has filed interim certificates signed by the CEO and the CFO that, among other things, report on the appropriateness of the financial disclosure, the design of disclosure controls and procedures, and the design of internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

During the period covered by this quarterly report, there were no significant changes in the Company's internal control over financial reporting, or any other factors that could significantly affect such internal control, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with U.S. GAAP. In the preparation of these consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations would be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we re-evaluate these estimates on an ongoing basis.

Other than the adoption of ASU No. 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract and the new leasing standard described below, there have been no significant changes in our critical accounting policies and estimates during the three months ended March 31, 2019 as compared to the critical accounting policies and estimates described in our most recent annual consolidated financial statements.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, Leases (Topic 842), which requires a lessee to record a right-of-use asset and a corresponding lease liability, initially measured at the present value of the lease payments, on the balance sheet for all leases with terms longer than 12 months, as well as the disclosure of key information about leasing arrangements. The standard requires recognition in the statement of operations of a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. This standard also requires classification of all cash payments within operating activities in the statement of cash flows. In July 2018, the Financial Accounting Standards Board issued ASU No. 2018-11, Leases - Targeted Improvements, which provides an additional transition method.

The Company adopted the new leasing standard effective January 1, 2019, using the modified retrospective approach and applying the transition method which does not require adjustments to comparative periods nor require modified disclosures in the comparative periods. The Company elected the package of practical expedients to not reassess whether a contract is or contains a lease, lease classification, and initial direct costs for contracts that expired or existed prior to the effective date. As the lessee to material operating leases, the most significant impact of adoption of the new leasing standard relates to the recognition of right-of-use assets of \$91.1 million and lease liabilities of \$103.3 million as of January 1, 2019 for the Company's operating leases.

The Company accounts for leases by first determining if an arrangement is a lease at inception. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. The right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Company's leases do not provide an implicit rate, therefore, the incremental borrowing rate based on the information available at commencement date was used to determine the present value of lease payments. The right-of-use assets exclude lease incentives, which are accounted as a reduction of lease liabilities if they have not yet been received. The Company's lease terms may include options to extend or terminate the lease. These options are included in the lease terms when it is reasonably certain they will be exercised. Lease expense related to lease components is recognized on a straight-line basis over the lease term.

The Company's lease agreements include lease and non-lease components, which are accounted for separately under Topic 842. Variable lease components and non-lease components are excluded from the lease payments used to calculate the right-of-use assets and lease liabilities. As the Company previously included non-lease components in the calculation of lease incentives under Topic 840, the transition to Topic 842 resulted in an \$8.4 million cumulative adjustment to reduce opening accumulated deficit.

Recently Issued Accounting Pronouncements Not Yet Adopted

See "Recent Accounting Pronouncements Not Yet Adopted" described in Note 3 of the Notes to the Condensed Consolidated Financial Statements.

Shares Outstanding

Shopify is a publicly traded company listed on the New York Stock Exchange (NYSE: SHOP) and on the Toronto Stock Exchange (TSX: SHOP). As of April 25, 2019 there were 99,333,005 Class A subordinate voting shares issued and outstanding, and 12,251,272 Class B multiple voting shares issued and outstanding.

As of April 25, 2019 there were 2,158,452 options outstanding under the Company's Fourth Amended and Restated Incentive Stock Option Plan, of which 2,118,480 were vested as of such date. Each such option is or will become exercisable for one Class B multiple voting share. As of April 25, 2019 there were 2,780,034 options outstanding under the Company's Amended and Restated Stock Option Plan, of which 978,788 were vested as of such date. Each such option is or will become exercisable for one Class A subordinate voting share.

As of April 25, 2019 there were 2,562,809 RSUs and 562 DSUs outstanding under the Company's Amended and Restated Long Term Incentive Plan. Each such RSU or DSU will vest as one Class A subordinate voting share.