



**Condensed Consolidated
Financial Statements**
(unaudited)
March 31, 2021

Shopify Inc.
Condensed Consolidated Balance Sheets
(unaudited)
Expressed in US \$000's except share amounts

	Note	As at	
		March 31, 2021	December 31, 2020
		\$	\$
Assets			
Current assets			
Cash and cash equivalents	4	2,785,571	2,703,597
Marketable securities	4	5,086,877	3,684,370
Trade and other receivables, net	6	163,461	120,752
Merchant cash advances, loans and related receivables, net	7	312,771	244,723
Income taxes receivable	15	56,572	56,067
Other current assets		77,854	68,247
		<u>8,483,106</u>	<u>6,877,756</u>
Long-term assets			
Property and equipment, net	8	87,152	92,104
Intangible assets, net		129,692	135,676
Right-of-use assets, net	8	128,026	119,373
Deferred tax assets	15	54,097	52,677
Equity and other investments	5	1,630,950	173,454
Goodwill	9	311,865	311,865
		<u>2,341,782</u>	<u>885,149</u>
Total assets		<u>10,824,888</u>	<u>7,762,905</u>
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		338,876	300,795
Income taxes payable	15	25,935	19,677
Deferred revenue	6	114,725	107,809
Lease liabilities	8	15,567	10,051
		<u>495,103</u>	<u>438,332</u>
Long-term liabilities			
Deferred revenue	6	22,417	21,006
Lease liabilities	8	153,918	144,836
Convertible senior notes	3, 10	909,205	758,008
Deferred tax liabilities	15	102,374	—
		<u>1,187,914</u>	<u>923,850</u>
Commitments and contingencies	8, 12		
Shareholders' equity			
Common stock, unlimited Class A subordinate voting shares authorized, 112,775,983 and 110,929,570 issued and outstanding; unlimited Class B multiple voting shares authorized, 11,551,329 and 11,599,301 issued and outstanding	13	7,760,984	6,115,232
Additional paid-in capital		92,913	261,436
Accumulated other comprehensive income	14	6,046	8,770
Retained earnings		1,281,928	15,285
Total shareholders' equity		<u>9,141,871</u>	<u>6,400,723</u>
Total liabilities and shareholders' equity		<u>10,824,888</u>	<u>7,762,905</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

Shopify Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(unaudited)

Expressed in US \$000's, except share and per share amounts

	Note	Three months ended	
		March 31, 2021	March 31, 2020
		\$	\$
Revenues			
Subscription solutions		320,681	187,609
Merchant solutions		667,966	282,392
		<u>988,647</u>	<u>470,001</u>
Cost of revenues			
Subscription solutions		58,382	37,712
Merchant solutions		371,549	175,339
		<u>429,931</u>	<u>213,051</u>
Gross profit		<u>558,716</u>	<u>256,950</u>
Operating expenses			
Sales and marketing		186,223	154,862
Research and development		175,886	116,396
General and administrative		67,102	44,842
Transaction and loan losses		10,606	14,083
Total operating expenses		<u>439,817</u>	<u>330,183</u>
Income (loss) from operations		<u>118,899</u>	<u>(73,233)</u>
Other income, net			
Interest income		2,830	10,467
Interest expense		(873)	—
Unrealized gain on equity and other investments	5	1,250,944	—
Foreign exchange (loss) gain		(2,256)	2,642
Total other income, net		<u>1,250,645</u>	<u>13,109</u>
Income (loss) before income taxes		<u>1,369,544</u>	<u>(60,124)</u>
(Provision for) recovery of income taxes	15	(111,099)	28,695
Net income (loss)		<u>1,258,445</u>	<u>(31,429)</u>
Net income (loss) per share attributable to shareholders:			
Basic	16	\$ 10.21	\$ (0.27)
Diluted	16	\$ 9.94	\$ (0.27)
Shares used to compute net income (loss) per share attributable to shareholders:			
Basic	16	123,243,650	116,806,549
Diluted	16	126,674,388	116,806,549
Other comprehensive loss			
Unrealized loss on cash flow hedges	14	(3,706)	(22,631)
Tax effect on unrealized loss on cash flow hedges	14	982	5,998
Comprehensive income (loss)		<u>1,255,721</u>	<u>(48,062)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

Shopify Inc.
Condensed Consolidated Statements of Changes in Shareholders' Equity
(unaudited)

Expressed in US \$000's except share amounts

	Common Stock		Additional Paid-In Capital \$	Accumulated Other Comprehensive Income (Loss) \$	Accumulated Deficit \$	Total \$
	Shares	Amount \$				
As at December 31, 2019	116,428,975	3,256,284	62,628	1,046	(304,224)	3,015,734
Exercise of stock options	409,965	30,753	(11,326)	—	—	19,427
Stock-based compensation	—	—	53,752	—	—	53,752
Vesting of restricted share units	385,757	46,370	(46,370)	—	—	—
Net loss and comprehensive loss for the period	—	—	—	(16,633)	(31,429)	(48,062)
As at March 31, 2020	117,224,697	3,333,407	58,684	(15,587)	(335,653)	3,040,851

	Note	Common Stock		Additional Paid-In Capital \$	Accumulated Other Comprehensive Income (Loss) \$	Retained Earnings \$	Total \$
		Shares	Amount \$				
As at December 31, 2020		122,528,871	6,115,232	261,436	8,770	15,285	6,400,723
Adjustment related to the adoption of ASU 2020-06, Debt	3	—	—	(158,810)	—	8,198	(150,612)
As at January 1, 2021		122,528,871	6,115,232	102,626	8,770	23,483	6,250,111
Exercise of stock options		349,730	35,681	(12,756)	—	—	22,925
Stock-based compensation		—	—	69,156	—	—	69,156
Vesting of restricted share units		268,711	66,113	(66,113)	—	—	—
Issuance of Class A subordinate voting shares, net of offering costs of \$7,742, net of tax of \$2,790	13	1,180,000	1,543,958	—	—	—	1,543,958
Net income and comprehensive income for the period		—	—	—	(2,724)	1,258,445	1,255,721
As at March 31, 2021		124,327,312	7,760,984	92,913	6,046	1,281,928	9,141,871

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Shopify Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)
Expressed in US \$000's

	Note	Three months ended	
		March 31, 2021	March 31, 2020
		\$	\$
Cash flows from operating activities			
Net income (loss) for the period		1,258,445	(31,429)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Amortization and depreciation		15,800	14,366
Stock-based compensation		69,156	53,752
Amortization of debt offering costs	10	585	—
Provision for transaction and loan losses		4,236	6,103
Deferred income tax expense (recovery)		100,954	(6,643)
Unrealized gain on equity and other investments	5	(1,250,944)	—
Unrealized foreign exchange loss (gain)		1,734	(3,779)
Changes in operating assets and liabilities:			
Trade and other receivables		(39,063)	(2,378)
Merchant cash advances, loans and related receivables		(74,561)	(46,478)
Other current assets		(13,205)	(15,349)
Accounts payable and accrued liabilities		39,756	30,621
Income tax assets and liabilities		9,525	(90,375)
Deferred revenue		8,327	5,804
Lease assets and liabilities		4,938	830
Net cash provided (used) by operating activities		<u>135,683</u>	<u>(84,955)</u>
Cash flows from investing activities			
Purchase of marketable securities		(2,444,955)	(496,224)
Maturity of marketable securities		1,038,316	913,178
Purchase of equity and other investments		(206,552)	—
Acquisitions of property and equipment		(5,188)	(16,740)
Acquisitions of intangible assets		—	(219)
Net cash (used) provided by investing activities		<u>(1,618,379)</u>	<u>399,995</u>
Cash flows from financing activities			
Proceeds from public equity offerings, net of issuance costs	13	1,541,168	—
Proceeds from the exercise of stock options		22,925	19,427
Net cash provided by financing activities		<u>1,564,093</u>	<u>19,427</u>
Effect of foreign exchange on cash and cash equivalents		577	(15,020)
Net increase in cash and cash equivalents		<u>81,974</u>	<u>319,447</u>
Cash and cash equivalents – Beginning of Period		<u>2,703,597</u>	<u>649,916</u>
Cash and cash equivalents – End of Period		<u><u>2,785,571</u></u>	<u><u>969,363</u></u>
Supplemental cash flow information:			
Cash paid for amounts included in the measurement of lease liabilities included in cash flows from operating activities		<u>6,674</u>	<u>4,742</u>
Lease liabilities arising from obtaining right-of-use assets		<u>12,207</u>	<u>2,718</u>
Acquired property and equipment remaining unpaid		<u>1,557</u>	<u>2,441</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

Shopify Inc.
Notes to the Condensed Consolidated Financial Statements
(unaudited)

Expressed in US \$000's except share and per share amounts

1. Nature of Business

Shopify Inc. ("Shopify" or the "Company") was incorporated as a Canadian corporation on September 28, 2004. Shopify is a leading global commerce company, providing trusted tools to start, grow, market, and manage a retail business of any size. Shopify makes commerce better for everyone with a platform and services that are engineered for reliability, while delivering a better shopping experience for buyers everywhere. Merchants use the Company's 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, fulfill and ship orders, build customer relationships, source products, leverage analytics and reporting, and access financing, all from one integrated back office.

Founded in Ottawa, Canada, the Company's principal place of business is the internet.

2. Basis of Presentation and Consolidation

These unaudited condensed consolidated financial statements include the accounts of the Company and its directly and indirectly held wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated upon consolidation.

These unaudited condensed consolidated financial statements of the Company have been presented in United States dollars (USD) and have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), including the applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding financial reporting. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations.

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of its financial position, results of operations and comprehensive income (loss), cash flows and changes in shareholders' equity for the interim periods. The financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2020. The condensed consolidated balance sheet at December 31, 2020 was derived from the audited annual financial statements, but does not contain all of the footnote disclosures from the annual financial statements.

The interim results for the three months ended March 31, 2021 are not necessarily indicative of the results expected for the full fiscal year.

3. Significant Accounting Policies

Except for the adoption of the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2020-06, which is discussed below, and the fair value of the Company's investment in Affirm Holdings, Inc. ("Affirm") being readily determinable, as described in note 5, there have been no material changes to the Company's significant accounting policies during the three months ended March 31, 2021, as compared to the significant accounting policies described in the Company's annual consolidated financial statements for the year ended December 31, 2020.

Debt - Accounting for Convertible Instruments

In August 2020, the FASB issued ASU No. 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, which eliminates certain models associated with accounting for convertible instruments, makes targeted improvements to the disclosures for convertible instruments and earnings per share guidance, and amends the guidance for the derivative scope exception for contracts in an

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entity's own equity. The updates are effective for annual periods beginning after December 15, 2021 including interim periods within those periods. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those periods. The Company early adopted this ASU effective January 1, 2021 using the modified retrospective approach. The adoption eliminated the requirement to separately account for the liability and equity components of its 0.125% convertible senior notes due 2025 (the "Notes"), which existed under previous accounting guidance. This results in a reclassification of \$158,810 from additional paid-in capital to long-term liabilities. Furthermore, as a result of the adoption, non-cash interest expense related to the Company's currently outstanding Notes has been eliminated. As the Company previously recognized non-cash interest expense relating to the debt discount on the liability component, this results in a \$8,198 cumulative adjustment to increase opening retained earnings.

The Company accounts for the Notes at amortized cost as a single unit of account on the balance sheet. The carrying value of the liability is represented by the face amount of the Notes, less debt offering costs, plus any amortization of offering costs. Offering costs are being amortized to interest expense over the term of the Notes using the effective interest rate method.

Use of Estimates

The preparation of consolidated financial statements, in accordance with U.S. GAAP, requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates, judgments and assumptions in these condensed consolidated financial statements include: key judgments related to revenue recognition in determining whether the Company is the principal or an agent to the arrangements with merchants; estimates of expected credit losses related to financial assets measured at amortized cost, including contract balances and merchant cash advances and loans; inputs used to fair value acquired intangible assets; estimates involved in evaluating the recoverability of right-of-use assets and leasehold improvements, including, but not limited to, the estimated useful lives of right-of-use assets and leasehold improvements; and the incremental borrowing rate applied to lease payments. Actual results may differ from the estimates made by management.

Concentration of Credit Risk

The Company's cash and cash equivalents, marketable securities, trade and other receivables, merchant cash advances, loans and related receivables, 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 creditworthy. 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 that insures a portion of the merchant cash advances and loans offered by Shopify Capital. The receivable related to insurance recoveries is included in the merchant cash advances, loans and related receivables balance. There are no receivables from individual merchants accounting for 10% or more of revenues or receivables. Potential ongoing effects from the novel coronavirus "COVID-19" pandemic on the Company's credit risk have been considered and have resulted in adjustments to the Company's allowances for expected credit losses on contract balances and merchant cash advances and loans, as discussed in notes 6 and 7, respectively. The Company continues its assessment given the fluidity of COVID-19's global impact.

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Interest Rate Risk

Certain of the Company's cash, cash equivalents and marketable securities and loans earn interest. The Company's trade and other receivables, accounts payable and accrued liabilities and lease liabilities do not bear interest. The Company's Notes have a fixed annual interest rate and thus, the Company does not have economic interest rate exposure on the Notes. The Company is not exposed to material interest rate risk.

Foreign Exchange Risk

The Company's exposure to foreign exchange risk is primarily related to fluctuations between the Canadian Dollar (CAD) and the USD. The Company is exposed to foreign exchange fluctuations on the revaluation of foreign currency assets and liabilities. The Company uses foreign exchange derivative products to manage the impact of foreign exchange fluctuations. By their nature, derivative financial instruments involve risk, including the credit risk of non-performance by counter parties.

While the majority of the Company's revenues and cost of revenues are denominated in USD, a significant portion of operating expenses are incurred in CAD. As a result, earnings are adversely affected by an increase in the value of the CAD relative to the USD.

The following table summarizes the effects on revenues, cost of revenues, operating expenses, and income (loss) from operations of a 10% strengthening⁽¹⁾ of the CAD versus the USD without considering the impact of the Company's hedging activities and without factoring in any potential changes in demand for the Company's solutions as a result of changes in the CAD to USD exchange rates.

	Three months ended					
	March 31, 2021			March 31, 2020		
	GAAP Amounts As Reported \$	Exchange Rate Effect ⁽²⁾ \$	At 10% Stronger CAD Rate ⁽³⁾ \$	GAAP Amounts As Reported \$	Exchange Rate Effect ⁽²⁾ \$	At 10% Stronger CAD Rate ⁽³⁾ \$
Revenues	988,647	1,790	990,437	470,001	946	470,947
Cost of revenues	(429,931)	(2,615)	(432,546)	(213,051)	(1,277)	(214,328)
Operating expenses	(439,817)	(15,313)	(455,130)	(330,183)	(11,769)	(341,952)
Income (loss) from operations	118,899	(16,138)	102,761	(73,233)	(12,100)	(85,333)

(1) A 10% weakening of the CAD versus the USD would have an equal and opposite impact on our revenues, cost of revenues, operating expenses and income (loss) from operations as presented in the table.

(2) Represents the increase or decrease in GAAP amounts reported resulting from a 10% strengthening in the CAD-USD foreign exchange rates.

(3) Represents the outcome that would have resulted had the CAD-USD rates in those periods been 10% stronger than they actually were, excluding the impact of our hedging program and without factoring in any potential changes in demand for the Company's solutions as a result of changes in the CAD-USD rates.

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4. Financial Instruments

As at March 31, 2021, the carrying amount and fair value of the Company's financial instruments were as follows:

	Level 1 \$		Level 2 \$		Level 3 \$	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:						
Cash equivalents:						
Canadian federal bonds and agency securities	174,285	174,285	—	—	—	—
Corporate bonds and commercial paper	111,664	111,750	—	—	—	—
Marketable securities:						
U.S. term deposits	1,175,000	1,177,278	—	—	—	—
U.S. federal bonds and agency securities	1,120,002	1,123,078	—	—	—	—
Canadian federal bonds and agency securities	605,625	606,424	—	—	—	—
Corporate bonds and commercial paper	—	—	2,186,250	2,188,931	—	—
Derivative assets:						
Foreign exchange forward contracts	—	—	12,742	12,742	—	—
Equity and other investments:						
Equity and other investments with readily determinable fair values (see note 5)	1,435,446	1,435,446	—	—	—	—
Liabilities:						
Derivative liabilities:						
Foreign exchange forward contracts	—	—	108	108	—	—

The fair values above include accrued interest of \$8,915, which is excluded from the carrying amounts. The accrued interest is included in Trade and other receivables in the condensed consolidated balance sheets.

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As at December 31, 2020, the carrying amount and fair value of the Company's financial instruments were as follows:

	Level 1 \$		Level 2 \$		Level 3 \$	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:						
Cash equivalents:						
U.S federal bonds	174,397	174,399	—	—	—	—
Corporate bonds and commercial paper	134,056	134,396	—	—	—	—
Repurchase agreements	—	—	290,000	290,001	—	—
Marketable securities:						
U.S. term deposits	885,000	887,102	—	—	—	—
U.S. federal bonds	1,224,052	1,226,657	—	—	—	—
Canadian federal bonds	24,988	24,987	—	—	—	—
Corporate bonds and commercial paper	—	—	1,550,330	1,552,907	—	—
Derivative assets:						
Foreign exchange forward contracts	—	—	16,340	16,340	—	—

The fair values above include accrued interest of \$7,563, which is excluded from the carrying amounts. The accrued interest is included in Trade and other receivables in the condensed consolidated balance sheets.

All cash equivalents and marketable securities mature within one year of the condensed consolidated balance sheet date.

As at March 31, 2021, the Company held foreign exchange forward contracts to convert USD into CAD, with a total notional value of \$374,936 (December 31, 2020 - \$340,843), to fund a portion of its operations. The foreign exchange forward contracts have maturities of twelve months or less. The fair value of foreign exchange forward contracts and corporate bonds was based upon Level 2 inputs, which included period-end mid-market quotations for each underlying contract as calculated by the financial institution with which the Company has transacted. The quotations are based on bid/ask quotations and represent the discounted future settlement amounts based on current market rates.

Derivative Instruments and Hedging

The Company has a hedging program to mitigate the impact of foreign currency fluctuations on future cash flows and earnings. Under this program, the Company has entered into foreign exchange forward contracts with certain financial institutions and designated those hedges as cash flow hedges. As of March 31, 2021, \$12,742 of unrealized gains and \$108 of unrealized losses related to changes in the fair value of foreign exchange forward contracts designated as cash flow hedges were included in accumulated other comprehensive income and current assets and current liabilities on the condensed consolidated balance sheet. These amounts are expected to be reclassified into earnings over the next twelve months. In the three months ended March 31, 2021, \$9,154 of realized gains (March 31, 2020 - \$1,295 of realized losses) related to the maturity of foreign exchange forward contracts designated as cash flow hedges were included in cost of revenues and operating expenses. Under the current hedging program, the Company is hedging cash flows associated with payroll and facility costs.

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Convertible Senior Notes

As at March 31, 2021, the estimated fair value of the Company's Notes, as further described in note 10 below, was approximately \$1,053,096. The estimated fair value was determined based on the last executed trade for the Notes of the reporting period in an over-the-counter market, which is considered as Level 2 in the fair value hierarchy.

5. Equity and Other Investments

Strategic investments are a part of the Company's strategy and use of capital, expanding our expertise and building strong partnerships around strategic initiatives. The Company holds equity and other investments in public companies with readily determinable fair values, as well as in private companies without readily determinable fair values. Equity and other investments in public companies with readily determinable fair values are carried at fair value at each balance sheet date and any movements in the fair value are recognized into income. Equity and other investments in private companies without readily determinable fair values are carried at cost less impairments, with subsequent adjustments for observable changes (referred to as the measurement alternative).

In July 2020, the Company received an investment in Affirm in conjunction with its strategic partnership for Shop Pay Installments. As at December 31, 2020, the carrying value of the Company's investment was \$158,000. On January 13, 2021, Affirm completed its initial public offering and began trading on the Nasdaq. As a result, the fair value of the investment became readily determinable (Level 1 in the fair value hierarchy) and the use of the measurement alternative was no longer applicable. As at March 31, 2021, the carrying value of the Company's investment in Affirm was \$1,435,446 measured using Affirm's closing share price on the last day of trading of the reporting period. For the three months ended March 31, 2021, an unrealized gain of \$1,277,294 was recorded within other income in the statement of operations and comprehensive income (loss).

Adjustments related to equity and other investments with readily determinable fair values in the three months ended March 31, 2021 were as follows:

	March 31, 2021
	\$
Balance, beginning of the period	—
Adjustments related to equity and other investments with readily determinable fair values:	
Transfers from measurement alternative ⁽¹⁾	158,152
Gross unrealized gains	1,277,294
Balance, end of the period	1,435,446

⁽¹⁾ Effective January 13, 2021, the Company's investment in Affirm no longer qualified for the use of the measurement alternative as the fair value of the investment became readily determinable.

For the Company's equity and other investments in private companies without readily determinable fair values, the carrying amount of such investments as at March 31, 2021 was \$195,504 (December 31, 2020 - \$173,454). For the three months ended March 31, 2021, net unrealized losses of \$26,350 relating to these investments were recorded within other income in the statement of operations and comprehensive income (loss).

In the three months ended March 31, 2021, the Company made two separate investments totaling \$200,000 in a private company, that is a partner in its ecosystem, without readily determinable fair values, which are currently accounted for using the measurement alternative. Subsequent to the closing of the first investment, the second investment represented an observable transaction and resulted in the recognition of a \$26,722 unrealized loss on the first investment.

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Adjustments related to equity and other investments without readily determinable fair values for the three months ended March 31, 2021 and 2020 were as follows:

	March 31, 2021	March 31, 2020
	\$	\$
Balance, beginning of the period	173,454	2,500
Adjustments related to equity and other investments without readily determinable fair values:		
Additions	206,552	10,000
Transfers to readily determinable fair values ⁽¹⁾	(158,152)	—
Gross unrealized gains	372	—
Gross unrealized losses and impairments	(26,722)	—
Balance, end of the period	<u>195,504</u>	<u>12,500</u>

⁽¹⁾ Effective January 13, 2021, the Company's investment in Affirm no longer qualified for the use of the measurement alternative as the fair value of the investment became readily determinable.

Cumulative gross unrealized gains and cumulative gross unrealized losses and impairment related to equity and other investments without readily determinable fair values held at March 31, 2021 were approximately \$2,325 and \$26,722, respectively.

6. Contract Balances

When revenue is recognized, the Company records a receivable that is included in trade and other receivables on the condensed consolidated balance sheet. Trade receivables and unbilled revenues, net of allowance for credit losses, were as follows:

	March 31, 2021	December 31, 2020	January 1, 2020
	\$	\$	\$
Unbilled revenues, net	77,794	50,073	31,629
Indirect taxes receivable	51,620	45,961	36,821
Trade receivables, net	20,544	13,449	9,660
Accrued interest	8,915	7,563	5,754
Other receivables	4,588	3,706	6,665
	<u>163,461</u>	<u>120,752</u>	<u>90,529</u>

The allowance for credit losses reflects our best estimate of probable losses inherent in our unbilled revenues and trade receivables accounts. The Company determined the provision based on known troubled accounts, historical experience, supportable forecasts of collectibility, potential impacts of COVID-19 and other currently available evidence.

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Activity in the allowance for credit losses was as follows:

	Three months ended	
	March 31, 2021	March 31, 2020
	\$	\$
Allowance, beginning of the period	6,041	2,894
Provision for credit losses related to uncollectible receivables	3,653	1,706
Write-offs	(1,314)	(24)
Allowance, end of the period	<u>8,380</u>	<u>4,576</u>

Changes in deferred revenue were as follows:

	Three months ended	
	March 31, 2021	March 31, 2020
	\$	\$
Balance, beginning of the period	128,815	62,660
Deferral of revenue	56,062	35,332
Recognition of deferred revenue	(47,735)	(29,528)
Balance, end of the period	<u>137,142</u>	<u>68,464</u>
Current portion	114,725	62,884
Long term portion	22,417	5,580
	<u>137,142</u>	<u>68,464</u>

The opening balances of current and long-term deferred revenue were \$56,691 and \$5,969, respectively, as of January 1, 2020.

7. Merchant Cash Advances, Loans and Related Receivables

	March 31, 2021	December 31, 2020	January 1, 2020
	\$	\$	\$
Merchant cash advances receivable, gross	281,599	218,840	131,227
Related receivables	253	819	3,179
Allowance for credit losses related to uncollectible merchant cash advances receivable	(18,920)	(15,816)	(10,420)
Loans receivable, gross	52,583	43,644	28,547
Allowance for credit losses related to uncollectible loans receivable	(2,744)	(2,764)	(2,361)
Merchant cash advances, loans and related receivables, net	<u>312,771</u>	<u>244,723</u>	<u>150,172</u>

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The following table summarizes the activities of the Company's allowance for credit losses related to uncollectible merchant cash advances and loans receivable:

	Three months ended	
	March 31, 2021	March 31, 2020
	\$	\$
Allowance, beginning of the period	18,580	12,781
Provision for credit losses related to uncollectible merchant cash advances receivable	5,723	7,096
Merchant cash advances receivable charged off, net of recoveries	(2,619)	(2,199)
Provision for credit losses related to uncollectible loans receivable	224	1,807
Loans receivable charged off, net of recoveries	(244)	(375)
Allowance, end of the period	21,664	19,110
Related receivables	(253)	(4,116)
Allowance, net of related receivables	21,411	14,994

8. Leases

The Company has office leases in Canada, the United States, Singapore, Ireland and other countries in Europe and Asia. These leases have remaining lease terms of 1 year to 11 years, some of which include options to extend the leases for up to 10 years. Additional office space leases are set to commence between 2021 and 2026, at which point the Company's right-of-use assets and lease liabilities will increase. The Company has entered into various lease agreements for office space that are set to commence after March 31, 2021, which will create significant right-of-use assets and lease liabilities. All of the Company's leases are operating leases.

The components of lease expense were as follows:

	Three months ended	
	March 31, 2021	March 31, 2020
	\$	\$
Operating lease expense	5,503	5,600
Variable lease expense, including non-lease components	3,262	3,482
Total lease expense	8,765	9,082

As at March 31, 2021, the weighted average remaining lease term is 9 years and the weighted average discount rate is 4.2% (December 31, 2020 - 9 years and 4.4%, respectively).

During the year ended December 31, 2020, in light of the COVID-19 pandemic, the Company decided to move from a primarily physical office-centric work model to a primarily digital work-from-home-centric work model. The Company plans to keep, but repurpose certain office locations to support the new model and terminate or sublet other office locations that it ceases to use.

With respect to certain office locations expected to be kept, but repurposed, the Company has recognized accelerated depreciation of certain leasehold improvements and furniture in order to reflect changes that it plans to make to accommodate greater physical distancing and increased team onsite meeting spaces. During the year ended December 31, 2020, the Company identified \$40,457 of leasehold improvements and furniture that will be accelerated over a 2 to 3 year period as the Company retrofits its existing offices.

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With respect to certain office space the Company has ceased using, for which the lease has been or will be either terminated or sublet, these decisions resulted in impairment charges of \$14,785 related to its right-of-use assets and \$16,838 related to its leasehold improvements in the year ended December 31, 2020.

Maturities of lease liabilities as at March 31, 2021 were as follows:

Fiscal Year	Operating Leases \$
Remainder of 2021	23,031
2022	44,078
2023	43,543
2024	51,061
2025	54,036
Thereafter	371,919
Total future minimum payments	587,668
Minimum payments related to leases that have not yet commenced	(147,567)
Minimum payments related to variable lease payments, including non-lease components	(235,467)
Imputed interest	(35,149)
Total lease liabilities	169,485

9. Goodwill

The Company's goodwill relates to previous acquisitions of various companies including, but not limited to, 6 River Systems, Inc. (6RS) which was acquired on October 17, 2019.

No goodwill impairment was recognized in the three months ended March 31, 2021 or in the year ended December 31, 2020.

There have been no gross changes in the carrying amount of goodwill in the three months ended March 31, 2021 or in the year ended December 31, 2020.

10. Convertible Senior Notes

In September 2020, the Company issued \$920,000 aggregate principal amount of 0.125% convertible senior notes due 2025. The net proceeds from the issuance of the Notes were \$907,950 after deducting underwriting fees and offering costs.

The interest on the Notes is payable semi-annually in arrears on May 1 and November 1 of each year, beginning on May 1, 2021. The Notes will mature on November 1, 2025, unless earlier redeemed or repurchased by the Company or converted pursuant to their terms.

The Notes will have an initial conversion rate of 0.6944 Class A subordinate voting shares per one thousand dollars of principal amount of Notes, which is equivalent to an initial conversion price of approximately \$1,440.09 per share. The conversion rate is subject to adjustment following the occurrence of certain specified events, as set out or defined in the Trust indenture agreement for the Notes. In addition, upon the occurrence of a make-whole fundamental change prior to the maturity date or upon our issuance of a notice of redemption, as set out or defined in the Trust indenture agreement for the Notes, the Company will, in certain circumstances, increase the conversion rate by a number of additional Class A subordinate voting shares for a holder that elects to convert its Notes in connection with such make-whole fundamental change or during the relevant redemption period.

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Prior to the close of business on the business day immediately preceding August 1, 2025, the Notes may be convertible at the option of the holders only under the following circumstances:

- (1) during any calendar quarter commencing after March 31, 2021, and only during such calendar quarter, if the last reported sale price of the Class A subordinate voting shares on the New York Stock Exchange (the "NYSE") for at least 20 trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is more than or equal to 130% of the conversion price for the Notes on each applicable trading day;
- (2) during the ten business day period after any ten consecutive trading day period in which, for each trading day of that period, the trading price per one thousand dollars principal amount of Notes for each trading day was less than 98% of the product of the last reported sale price of the Class A subordinate voting shares on the NYSE and the conversion rate for the Notes on each such trading day;
- (3) if the Company calls any or all of the Notes for optional redemption, clean-up redemption or tax redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or
- (4) upon the occurrence of certain specified corporate events.

On or after August 1, 2025, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders of the Notes may, at their option, convert all or any portion of their Notes regardless of the foregoing conditions.

Upon conversion, the Company can elect to settle in cash, Class A subordinate voting shares, or a combination of cash and Class A subordinate voting shares.

On or after September 15, 2023, the Company may, at its option, redeem for cash all or any portion of the Notes if the last reported sale price of the Company's Class A subordinate voting shares on the NYSE has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No "sinking fund" is provided for the Notes.

The Company may redeem for cash all, but not less than all, of the Notes at any time if less than \$80,000 aggregate principal amount of Notes remains outstanding at such time, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

The Company may redeem all, but not less than all, of the Notes if the Company has or would become obligated to pay to the holder of any Note additional amounts (which are more than a *de minimis* amount) as a result of a change in applicable Canadian tax laws or regulations after September 15, 2020 at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the applicable redemption date but without reduction for applicable Canadian taxes (except in respect of certain excluded holders).

Upon the occurrence of a fundamental change (as set out or defined in the Trust indenture agreement for the Notes) prior to the maturity date of the Notes, the Company, subject to limited exceptions, will be required to offer to purchase all of the Notes for cash at a price equal to 100% of the principal amount

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thereof, plus any accrued and unpaid interest thereon to, but excluding, the fundamental change purchase date.

The Notes are governed by customary terms and covenants, including that upon certain events of default occurring and continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding may declare 100% of the principal of, and accrued and unpaid interest on, all the Notes to be due and payable immediately.

The Notes are senior unsecured obligations and will rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment with the Company's existing and future unsecured liabilities that are not so subordinated; effectively subordinated to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of current or future subsidiaries of the Company.

The Company accounts for the Notes as a single unit of account on the balance sheet. The carrying value of the liability is represented by the face amount of the Notes, less total offering costs, plus any amortization of offering costs. Total offering costs upon issuance of the Notes were \$12,050 and are amortized to interest expense using the effective interest rate method over the contractual term of the Notes. Interest expense is recognized at an annual effective interest rate of 0.38% over the contractual term of the Notes.

The net carrying amount of the outstanding Notes was as follows:

	March 31, 2021	December 31, 2020
	\$	\$
Principal	920,000	920,000
Unamortized offering costs ⁽¹⁾	(10,795)	(9,434)
Unamortized discounts ⁽¹⁾	—	(152,558)
Net carrying amount	<u>909,205</u>	<u>758,008</u>

⁽¹⁾ Prior to the adoption of ASU 2020-06 on January 1, 2021, the Company accounted for its Notes as separate liability and equity components. The comparative figures represent the offering costs and debt discount related to the liability component prior to adoption.

The following table sets forth the interest expense recognized related to the outstanding Notes:

	Three months ended March 31, 2021
	\$
Contractual interest expense	288
Amortization of offering costs	585
Total interest expense related to the outstanding Notes	<u>873</u>

11. Credit Facility

The Company has a revolving credit facility with Royal Bank of Canada for \$8,000 CAD. The credit facility bears interest at the Royal Bank Prime Rate plus 0.30%. As at March 31, 2021 the effective rate was 2.75%, and no cash amounts have been drawn under this credit facility.

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12. Commitments and Contingencies

Unconditional Purchase Obligations

The Company has entered into agreements where it commits to certain usage levels related to third party services. The amount of the minimum fixed and determinable portion of the unconditional purchase obligations over the next five years, as at March 31, 2021, was \$195,262.

Litigation and Loss Contingencies

The Company records accruals for loss contingencies when losses are probable and reasonably estimable. From time to time, the Company may become a party to litigation and subject to claims incidental to the ordinary course of business, including intellectual property claims, labour and employment claims and threatened claims, breach of contract claims, tax and other matters. The Company currently has no material pending litigation or claims. The Company is not aware of any litigation matters or loss contingencies that would be expected to have a material adverse effect on the business, consolidated financial position, results of operations, or cash flows.

13. Shareholders' Equity

Public Offerings

In February 2021, the Company completed a public offering in which it issued and sold 1,180,000 Class A subordinate voting shares at a public offering price of \$1,315.00 per share. The Company received total net proceeds of \$1,541,168 after deducting offering fees and expenses of \$10,532.

In September 2020, the Company completed a public offering in which it issued and sold 1,265,000 Class A subordinate voting shares at a public offering price of \$900.00 per share, including the 165,000 Class A subordinate voting shares purchased by the underwriters pursuant to the exercise of the over-allotment option. The Company received total net proceeds of \$1,117,646 after deducting offering fees and expenses of \$20,854.

In May 2020, the Company completed a public offering in which it issued and sold 2,127,500 Class A subordinate voting shares at a public offering price of \$700.00 per share, including the 277,500 Class A subordinate voting shares purchased by the underwriters pursuant to the exercise of the over-allotment option. The Company received total net proceeds of \$1,460,945 after deducting offering fees and expenses of \$28,305.

Common Stock Authorized

The Company is authorized to issue an unlimited number of Class A subordinate voting shares and an unlimited number of Class B multiple voting shares. The Class A subordinate voting shares have one vote per share and the Class B multiple voting shares have 10 votes per share. The Class B multiple voting shares are convertible into Class A subordinate voting shares on a one-for-one basis at the option of the holder. Class B multiple voting shares will also automatically convert into Class A subordinate voting shares in certain other circumstances.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares issuable in series. Each series of preferred shares shall consist of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the Company's Board of Directors prior to the issuance thereof. Holders of preferred shares, except as otherwise provided in the terms specific to a series of preferred shares or as required by law, will not be entitled to vote at meetings of holders of shares.

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Stock-Based Compensation

As at March 31, 2021 there were 25,142,112 shares reserved for issuance under the Company's Stock Option Plan and Long Term Incentive Plan.

The following table summarizes the stock option and Restricted Share Unit ("RSU") award activities under the Company's share-based compensation plans for the three months ended March 31, 2021:

	Shares Subject to Options Outstanding				Outstanding RSUs		
	Number of Options ⁽¹⁾	Weighted Average Exercise Price \$	Remaining Contractual Term (in years)	Aggregate Intrinsic Value ⁽²⁾ \$	Weighted Average Grant Date Fair Value \$	Outstanding RSUs	Weighted Average Grant Date Fair Value \$
December 31, 2020	2,489,277	103.76	5.45	2,559,442	—	1,112,967	377.08
Stock options granted	120,444	1,280.32	—	—	535.76	—	—
Stock options exercised	(349,730)	65.55	—	—	—	—	—
Stock options forfeited	(8,058)	630.46	—	—	—	—	—
RSUs granted	—	—	—	—	—	161,339	1,280.32
RSUs settled	—	—	—	—	—	(268,711)	246.01
RSUs forfeited	—	—	—	—	—	(32,012)	425.43
March 31, 2021	2,251,933	170.74	5.54	2,107,266	—	973,583	561.35

Stock options exercisable as of March 31, 2021 1,720,853 61.99 4.67 1,797,456

(1) As at March 31, 2021 842,813 of the outstanding stock options were granted under the Company's Legacy Option Plan and are exercisable for Class B multiple voting shares, 1,360,870 of the outstanding stock options were granted under the Company's Stock Option Plan and are exercisable for Class A subordinate voting shares, and 48,250 of the outstanding stock options were granted under the 6 River Systems 2016 Amended and Restated Stock Option and Grant Plan and are exercisable for Class A subordinate voting shares.

(2) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock option awards and the closing market price of the Company's Class A subordinate voting shares as of March 31, 2021 and December 31, 2020.

As at March 31, 2021 the Company had issued 883 Deferred Share Units under its Long Term Incentive Plan.

In connection with the acquisition of 6RS, 122,080 Class A subordinate voting shares were issued with trading restrictions. The restrictions on these shares are lifted over time and are being accounted for as stock-based compensation as the vesting is contingent on continued employment and therefore related to post-combination services. As at March 31, 2021, 91,560 of the Class A subordinate voting shares remained restricted.

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The following table illustrates the classification of stock-based compensation expense in the condensed consolidated statements of operations and comprehensive income (loss), which includes both stock-based compensation and restricted share-based compensation expense.

	Three months ended	
	March 31, 2021	March 31, 2020
	\$	\$
Cost of revenues	1,515	1,148
Sales and marketing	8,853	11,207
Research and development	44,289	32,604
General and administrative	14,499	8,793
	<u>69,156</u>	<u>53,752</u>

14. Changes in Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in accumulated other comprehensive income (loss), which is reported as a component of shareholders' equity, for the three months ended March 31, 2021 and 2020:

	Accumulated Other Comprehensive Income (Loss)	
	Three months ended	
	March 31, 2021	March 31, 2020
	\$	\$
Balance, beginning of the period	<u>8,770</u>	<u>1,046</u>
Other comprehensive income (loss) before reclassifications	5,448	(23,926)
(Gain) loss on cash flow hedges reclassified from accumulated other comprehensive income (loss) to earnings were as follows:		
Cost of revenues	(399)	59
Sales and marketing	(2,314)	336
Research and development	(5,108)	714
General and administrative	(1,333)	186
Tax effect on unrealized loss on cash flow hedges	982	5,998
Other comprehensive loss, net of tax	<u>(2,724)</u>	<u>(16,633)</u>
Balance, end of the period	<u>6,046</u>	<u>(15,587)</u>

15. Income Taxes

The Company's provision for, or recovery of, income taxes is determined by applying the estimated annual effective tax rate to income or loss from recurring operations and adding the effects of any discrete income tax items specific to the period. The Company updates its estimate of the annual effective tax rate each quarter and makes cumulative adjustments if its estimated annual tax rate changes.

The Company's effective tax rate may be subject to fluctuation during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as the mix of forecasted pre-tax earnings in the various jurisdictions in which the Company operates, valuation allowances against deferred tax assets, the recognition and derecognition of tax benefits related to uncertain tax positions, and changes in or the interpretation of tax laws in jurisdictions where the Company conducts business.

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During the three months ended March 31, 2021, the Company released a portion of the valuation allowance against its deferred income tax assets in Canada due to the unrealized gain on the Company's investment in Affirm (see note 5).

As a result of the unrealized gain on equity and other investments, ongoing operations, other discrete items, primarily related to tax benefits for share-based compensation, the Company's ability to carry-back losses to prior years in Canada, and the recognition of deferred tax assets in Canada, the Company has a provision for income taxes of \$111,099 in the three months ended March 31, 2021 and had a recovery of income taxes of \$28,695 in the three months ended March 31, 2020.

16. Net Income (Loss) per Share

The Company applies the two-class method to calculate its basic and diluted net income (loss) per share as both classes of its voting shares are participating securities with equal participation rights and are entitled to receive dividends on a share for share basis.

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding:

	Three months ended	
	March 31, 2021	March 31, 2020
Numerator:		
Net income (loss)	\$ 1,258,445	\$ (31,429)
After tax effect of debt interest	642	—
Net income (loss) after tax effected debt interest	<u>\$ 1,259,087</u>	<u>\$ (31,429)</u>
Denominator:		
Basic weighted average number of shares outstanding	123,243,650	116,806,549
Effect of dilutive securities ⁽¹⁾	3,430,738	—
Diluted weighted average number of shares	<u>126,674,388</u>	<u>116,806,549</u>
Net income (loss) per share:		
Basic	<u>\$ 10.21</u>	<u>\$ (0.27)</u>
Diluted	<u>\$ 9.94</u>	<u>\$ (0.27)</u>
Common stock equivalents excluded from income (loss) per diluted share because they are anti-dilutive	<u>4,085</u>	<u>5,414,872</u>

(1) Included in the effect of dilutive securities is the assumed conversion of employee stock options, employee RSUs and the Notes.

In the three months ended March 31, 2020, the Company was in a loss position and therefore diluted loss per share is equal to basic loss per share.