UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016 **Commission File Number 001-37400**

SHOPIFY INC.

(Exact name of Registrant as specified in its charter)

Canada
(Province or other jurisdiction of incorporation or organization)

7372
(Primary Standard Industrial Classification Code Number (if applicable))

30-0830605
(I.R.S. Employer Identification Number (if applicable))

150 Elgin Street, 8th Floor Ottawa, Ontario, Canada K2P 1L4
Attention: Joseph A. Frasca, SVP, General Counsel and Corporate Secretary
613-241-2828
(Address and telephone number of Registrant's principal executive offices)

CT Corporation System
1209 Orange Street, Wilmington, DE 19801
(302) 658-7581
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Copies of all correspondence should be sent to:

Joseph A. Frasca
SVP, General Counsel and Corporate Secretary
Shopify Inc.
150 Elgin Street, 8th Floor
Ottawa, ON K2P 1L4
Canada
Tel: (613) 241-2828

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Class A Subordinate Voting Shares	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
Class B Multiple Voting Shares
(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

☒ Annual Information Form ☒ Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

The Registrant had 77,030,952 Class A Subordinate Voting Shares and 12,374,528 Class B Multiple Voting Shares issued and outstanding as of December 31, 2016.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

☒ Yes ☐ No

PRIOR FILINGS MODIFIED AND SUPERSEDED

This annual report on Form 40-F of Shopify Inc. ("Shopify", "we", "our", the "Company" or the "Registrant") for the year ended December 31, 2016, at the time of filing with the U.S. Securities and Exchange Commission (the "SEC" or the "Commission"), modifies and supersedes all prior documents filed pursuant to Sections 13, 14 and 15(d) of the U.S. Securities Exchange Act of 1934 (as amended, the "Exchange Act") for purposes of any offers or sales of any securities after the date of this filing pursuant to any registration statement or prospectus filed pursuant to the U.S. Securities Act of 1933 (as amended, the "Securities Act")which incorporates by reference this annual report on Form 40-F (or any of the documents filed as Exhibits to this annual report on Form 40-F).

FORWARD-LOOKING STATEMENTS

Shopify has made in this annual report on Form 40-F and the documents filed as Exhibits hereto, and from time to time may otherwise make, forward-looking statements under the provisions of the United States Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act, and Section 21E of the Exchange Act, and forward-looking information within the meaning of applicable Canadian securities legislation.

The Company's actual future results may be materially different from any future results expressed or implied by these forward-looking statements.

The forward-looking statements represent the Company's views as of the date of this annual report on Form 40-F. The Company anticipates that subsequent events and developments may cause these views to change. However, while the Company may elect to update these forward-looking statements at some point in the future, the Company has no current intention of doing so except to the extent required by applicable law. Therefore, these forward-looking statements do not represent the Company's views as of any date other than the date of this annual report on Form 40-F.

See Shopify's management’s discussion and analysis for the year ended December 31, 2016, attached as Exhibit 1.3 to this Annual Report on Form 40-F (the "Shopify 2016 MD&A"), under the heading "Forward-looking statements", for a discussion of forward-looking statements.

A. Disclosure Controls and Procedures and Internal Control Over Financial Reporting

All control systems, no matter how well designed, have inherent limitations. Accordingly, even disclosure controls and procedures and internal controls over financial reporting determined to be effective can only provide reasonable assurance of achieving their control objectives with respect to financial statement preparation and presentation.

Disclosure Controls and Procedures

Management of the Company, under the supervision of the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining disclosure controls and procedures (as defined by the Commission in Rule 13a-15(e) under the Exchange Act for the Company to ensure that material information relating to the Company, including its consolidated subsidiaries, that is required to be made known to the Chief Executive Officer and Chief Financial Officer by others within the Company and disclosed by the Company in reports filed or submitted by it under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms; and (ii) accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

We, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2016 and have concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2016.

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company, under the supervision of the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over the Company’s financial reporting. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with United States generally accepted accounting principles.

We, including the Chief Executive Officer and Chief Financial Officer, have assessed the effectiveness of the Company’s internal control over financial reporting in accordance with Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, we, including the Chief Executive Officer and Chief Financial Officer, have determined that the Company’s internal control over financial reporting was effective as at December 31, 2016. Additionally, based on our assessment, we determined that there were no material weaknesses in the Company’s internal control over financial reporting as at December 31, 2016.

The Company’s Chief Executive Officer and Chief Financial Officer have certified this annual report on Form 40-F with the Commission as required by Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002 ("SOX").

Auditors' Report on Internal Control over Financial Reporting

The effectiveness of the Company's internal control over financial reporting as at December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which accompanies Shopify's annual audited consolidated financial statements for the year ended December 31, 2016 (the "Shopify 2016 Financial Statements"), and is incorporated herein by reference.

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2016 , 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.

B. Identification of the Audit Committee

The board of directors of the Company (the "Board") has a separately designated standing audit committee (the "Audit Committee") established in accordance with section 3(a)(58)(A) of the Exchange Act. The Board has appointed four independent directors, Steven Collins (Chair), Robert Ashe, Gail Goodman and John Phillips, to the Audit Committee.

C. Audit Committee Financial Expert

The Board has determined that Steven Collins, the Chair of the Audit Committee, is qualified as an "audit committee financial expert" within the meaning of Item 407 of Regulation S-K. The Board has further determined that all members of the Audit Committee are "independent" within the meaning of applicable Commission regulations and the listing standards of the New York Stock Exchange (the "NYSE").

The Commission has indicated that the designation of a person as an audit committee financial expert does not make such person an "expert" for any purpose, or impose any duties, obligations or liability on such person that are greater than those imposed on members of the Audit Committee and the Board who do not carry this designation, or affect the duties, obligations or liability of any other member of the Audit Committee or Board.

D. Code of Ethics

The Company's code of ethics, the Shopify Code of Conduct, is applicable to all of its directors, officers and employees, including the Chief Executive Officer, Chief Financial Officer, Controller, and persons performing similar functions. The Shopify Code of Conduct is available on the Company's website at https://investors.shopify.com/governance/governance-documents/default.aspx. Except for the Shopify Code of Conduct, and notwithstanding any reference to Shopify's website or other websites in this annual report on Form 40-F or in the documents incorporated by reference herein or attached as Exhibits hereto, no information contained on the Company's website or any other site shall be incorporated by reference in this annual report on Form 40-F or in the documents incorporated by reference herein or attached as Exhibits hereto.

E. Principal Accountant Fees and Services

The aggregate amounts paid or accrued by the Company with respect to fees payable to PricewaterhouseCoopers LLP, the auditors of the Company, for audit (including separate audits of wholly-owned and non-wholly owned entities, financings, regulatory reporting requirements and SOX related services), audit-related, tax and other services in the years ended December 31, 2016 and 2015 were as follows:

	Fiscal 2016 US$	**Fiscal 2015 US$**
	(in thousands)	
Audit Fees	542	802
Audit-related Fees	—	—
Tax Fees	—	—
All Other Fees	2	7
Total	**544**	**809**

Audit Fees

Audit fees relate to the audit of our annual consolidated financial statements, the review of our quarterly condensed consolidated financial statements and services in connection with our registration statement on Form F-1 (related to our 2015 initial public offering) and our registration statement on Form F-10 (related to our 2016 follow-on public offering).

Audit-Related Fees

Audit-related fees consist of aggregate fees for accounting consultations and other services that were reasonably related to the performance of audits or reviews of our consolidated financial statements and were not reported above under "Audit Fees."

Tax Fees

Tax fees relate to assistance with tax compliance, expatriate tax return preparation, tax planning and various tax advisory services.

All Other Fees

Other fees are any additional amounts for products and services provided by the principal accountants, other than the services reported above under "Audit Fees,", "Audit-Related Fees" and "Tax Fees".

Audit Committee Pre-Approval Policies and Procedures

From time to time, management recommends to and requests approval from the Audit Committee for audit and non-audit services to be provided by the Company's auditors. The Audit Committee considers such requests on a quarterly basis, and if acceptable, pre-approves such audit and non-audit services. During such deliberations, the Audit Committee assesses, among other factors, whether the services requested would be considered "prohibited services" as contemplated by the SEC, and whether the services requested and the fees related to such services could impair the independence of the Company's auditors.

The Audit Committee considered and agreed that the fees paid to the Company's auditors in the years ended December 31, 2016 and 2015 are compatible with maintaining the independence of the Company's auditors. The Audit Committee determined that, in order to ensure the continued independence of the auditors, only limited non-audit services will be provided to the Company by PricewaterhouseCoopers LLP.

Since the implementation of the Audit Committee pre-approval process in November 2015, all audit and non-audit services rendered by our auditors have been pre-approved by the Audit Committee.

F. Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements, other than operating leases (which have been disclosed under "Contractual Obligations and Contingencies" in the Shopify 2016 MD&A).

G. Tabular Disclosure of Contractual Obligations

See Shopify 2016 MD&A, under the heading "Contractual Obligations and Contingencies", which section is incorporated by reference in this annual report on Form 40-F, for a tabular disclosure and discussion of contractual obligations.

H. NYSE Exemptions

Section 310.00 of the NYSE Listed Company Manual generally requires that a listed company’s by-laws provide for a quorum for any meeting of the holders of the company’s common shares that is sufficiently high to ensure a representative vote. Pursuant to the NYSE corporate governance rules we, as a foreign private issuer, have elected to comply with practices that are permitted under Canadian law in lieu of the provisions of Section 310.00. Our by-laws provide that the holders of at least 25% of the shares entitled to vote at the meeting, present in person or represented by proxy, and at least two persons entitled to vote at the meeting, present in person or represented by proxy, constitutes a quorum.

Except as stated above, we are in compliance with the rules generally applicable to U.S. domestic companies listed on the NYSE. We may in the future decide to use other foreign private issuer exemptions with respect to some of the other NYSE listing requirements. Following our home country governance practices, as opposed to the requirements that would otherwise apply to a company listed on the NYSE, may provide less protection than is accorded to investors under the NYSE listing requirements applicable to U.S. domestic issuers.

I. Undertaking

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

			Shopify Inc.
			(Registrant)
Date:	February 15, 2017	By:	/s/ *Joseph A. Frasca*
			Name: Joseph A. Frasca Title: SVP, General Counsel and Secretary

EXHIBITS

The following documents are filed as exhibits to this Form 40-F:

Exhibit No.	Document
1.1	Annual Information Form for the year ended December 31, 2016
1.2	Audited Consolidated Financial Statements for the year ended December 31, 2016
1.3	Management's Discussion and Analysis for the year ended December 31, 2016
23.1	Consent of PricewaterhouseCoopers LLP
31.1	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

EXHIBIT 1.1

SHOPIFY INC.
2016 ANNUAL INFORMATION FORM

February 14, 2017

ANNUAL INFORMATION FORM
SHOPIFY INC.
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ANNUAL INFORMATION FORM
SHOPIFY INC.

GENERAL MATTERS

Information Contained in this Annual Information Form

In this Annual Information Form ("AIF") "we", "our", "Shopify", and the "Company" refer to Shopify Inc. and its consolidated subsidiaries, unless the context requires otherwise. 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. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

Unless otherwise indicated, all information in this AIF is presented as at February 10, 2017, and references to specific years are references to the fiscal years of Shopify ended December 31.

This AIF should be read in conjunction with Shopify's 2016 audited consolidated financial statements and notes ("2016 Financial Statements") and the Company's 2016 Management's Discussion and Analysis ("2016 MD&A"), but which, for greater certainty, are not incorporated by reference herein.

Shopify and the associated logo are registered trademarks of Shopify Inc. or its subsidiaries. All other marks used herein are trademarks or registered trademarks belonging to their respective owners.

Presentation of Financial Information

We prepare and report our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Our reporting currency is U.S. dollars, and we express all amounts in this AIF in U.S. dollars, except where otherwise indicated. All references in this AIF to "dollars", "$" and "US$" refer to United States dollars, and all references to "CAD$" refer to Canadian dollars, unless otherwise expressly stated. On February 10, 2017, the Bank of Canada noon rates of exchange for the conversion of U.S. dollars into Canadian dollars was $1.00 = CAD$1.3074.

FORWARD-LOOKING INFORMATION

This AIF 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, the "Securities Act"), and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended, the "Exchange Act"), and forward-looking information within the meaning of applicable Canadian securities legislation.

In some cases, you can identify forward-looking statements by terminology 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 AIF include, but are not limited to, statements about:

- our ability to predict future commerce trends and technology;
- the size of our addressable markets and our ability to serve those markets;
- the achievement of advances in and expansion of our platform and our solutions;
- the intended growth of our business and making investments to drive future growth, and the impact of those investments;
- our expectation that our business may become more seasonal in the future;
- our ability to growth our base of merchants;
- the growth of our merchants' revenues;
- innovations in and expansion of our platform;
- the growth and strengthening of our third-party ecosystem, including formation of strategic partnerships;
- our ability to continue to build for the long-term;
- our expectation of increased competition;
- potential selective acquisitions and investments; and,
- the expansion of our platform into new markets.

The forward-looking statements contained in this AIF 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 belief that monthly recurring revenue ("MRR") is most closely correlated with the long-term value of our merchant relationships;
- our ability to expand our merchant base;
- our growth rate, subscription renewal activity, the timing and extent of spending to support development of our platform and expansion of sales and marketing activities;
- our ability to retain merchants as they grow their businesses on our platform;
- our ability to increase sales and revenues from both new and existing merchants;
- assumptions about the growth of our merchants' revenues;
- our ability to reach economies of scale;
- our ability to reach profitability;
- our ability to offer more sales channels that can connect to the platform;
- our ability to develop new solutions to extend the functionality of our platform;
- assumptions as to the mix of subscription plans that our merchants select;
- assumptions as to the timing of infrastructure expansion projects;
- our ability to predict future commerce trends and technology;
- our ability to enhance our ecosystem and partner programs;
- our ability to provide a high level of merchant service and support;
- our ability to hire, retain and motivate qualified personnel;
- our ability to develop processes, systems and controls to enable our internal support functions to scale with the growth of our business;
- our expectations on future costs of compliance associated with being a public company;
- our belief that our investments in marketing initiatives will continue to be effective in growing the number of merchants using our platform;
- our belief that our investments will increase our revenue base, improve the retention of this base and strengthen our ability to increase sales to our merchants;
- our belief that our merchant solutions make it easier for merchants to start a business and grow on our platform;
- our assumptions regarding the principal competitive factors in our market;

- our future expenses and financing requirements;
- our ability to protect against currency, interest rate, concentration of credit and inflation risks;
- our critical accounting policies and estimates; and
- our ability to obtain sufficient space for our growing employee base.

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 this AIF, including but not limited to risks relating to:

- our rapid growth and managing our growth;
- our history of losses and our potential inability to achieve profitability;
- our limited operating history in new and developing markets;
- our ability to innovate;
- a denial of service attack or security breach;
- payments processed through Shopify Payments;
- our reliance on third party suppliers to provide the technology we offer through Shopify Payments and Shopify Shipping, and our reliance on a single supplier for Shopify Payments;
- the security of personally identifiable information we store relating to merchants and their customers;
- 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;
- the limited number of data centers we use;
- 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 customers;
- 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 potential inability to hire, retain and motivate qualified personnel;
- our dependence on the continued services and performance of our senior management and other key employees;
- activities of merchants or the content of their shops;
- seasonal fluctuations;
- international sales and the use of our platform in various countries;
- 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;
- our potential inability to compete successfully against current and future competitors;
- our pricing decisions for our solutions;

- acquisitions and investments;
- 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;
- being required to collect federal, state and local business taxes and sales and use taxes in additional jurisdictions or for past sales;
- our tax loss carryforwards;
- our dependence upon consumers' and merchants' access to, and willingness to use, the internet for commerce;
- challenges in expanding into new geographic regions;
- Shopify Capital and offering merchant cash advances; and
- ownership of our shares.

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 AIF and the documents that we reference in this AIF 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 AIF represent our views as of the date of this AIF. 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 AIF.

CORPORATE STRUCTURE

Name, Address and Incorporation

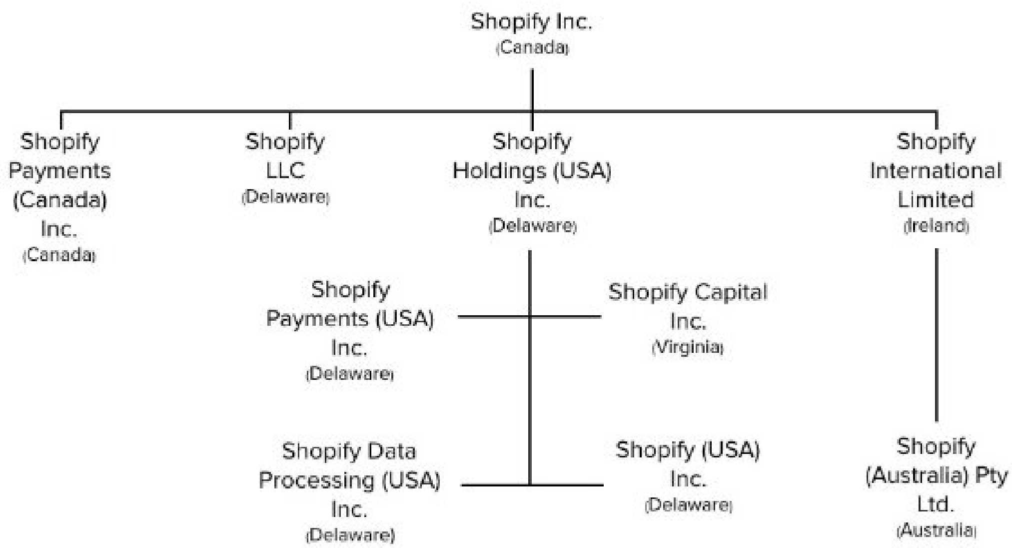
The Company was incorporated under the *Canada Business Corporations Act* (the "CBCA") on September 28, 2004 under the name 4261607 Canada Ltd. We filed articles of amendment on January 19, 2006 to change our name to Jaded Pixel Technologies Inc., and again on November 30, 2011 to change our name to Shopify Inc. On April 12, 2013, we filed articles of amendment to split all of our issued and outstanding common shares and all of our issued and outstanding Series A and Series B preferred shares on a 5-for-1 basis. On May 22, 2015, we filed articles of amendment to amend and re-designate our authorized and issued share capital in connection with our initial public offering. See "Capital Structure" for more information about our current share capital. On May 27, 2015, we restated our amended articles of incorporation.

Our head and registered office is located at 150 Elgin Street, 8th floor, Ottawa, Ontario, Canada K2P 1L4, and our telephone number is (613) 241-2828. We also have offices in Montreal, Toronto, Waterloo, and San

Francisco. Our website address is www.shopify.com. Information contained on, or accessible through, our website is not a part of this AIF.

Intercorporate Relationships

The following chart shows our current material subsidiaries. All of our subsidiaries are wholly owned.



DESCRIPTION OF THE BUSINESS

Overview

Shopify provides the leading cloud-based, multi-channel commerce platform designed for small and medium-sized businesses ("SMBs"). 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. As the number of channels over which merchants transact continues to expand, the importance of a multi-channel platform that is both fully integrated and easy to use increases. 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 and leverage analytics and reporting from one integrated back office. Core to a merchant's daily workflow and enabling transactions over multiple channels, our platform generates rich data to inform both our own decisions as well as those of our merchants.

The Shopify platform enables merchants to access the technology and functionality that are necessary to create a best-of-breed, multi-channel business in an era where social media, cloud computing, mobile devices and data analytics are transforming commerce. Consumers expect to be able to transact anywhere, anytime on any device and the experience needs to be simple, seamless and secure. As transactions over mobile devices now represent the majority of transactions across online stores powered by Shopify, the mobile experience is becoming merchants' primary and most important interaction with online consumers. 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' consumers to more easily buy products over mobile websites. Our merchants are now able to offer their customers the ability to quickly and securely check out by using Apple Pay, and in the future Android Pay, on the web.

We built our platform to address the growing challenges facing merchants with the aim of making complex tasks simple. The Shopify platform has been engineered to enterprise-level standards and functionality while being designed for simplicity and ease of use. We have also designed 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.

Unlike an online marketplace, Shopify is designed to help our merchants own their brand and make their consumer experience memorable. We recognize that in a world where consumers have more choices than ever before, a merchant's brand is increasingly important. If a consumer searches a third-party marketplace or ecommerce site and selects a merchant's product from among thousands of search results, the consumer is more likely to remember the brand of the third-party site than the brand of the merchant. The Shopify platform is designed to allow a merchant to keep their brand present in every interaction to help build customer loyalty.

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.

Our Merchants

Our mission is to make commerce better for everyone, and we believe we can help merchants of nearly all sizes and retail verticals realize their potential. While our platform can scale to meet the needs of large merchants, we focus on selling to SMBs 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.

As of December 31, 2016, we had more than 377,500 merchants from approximately 175 countries using our platform, geographically dispersed as follows: United States of America, 58%; United Kingdom, 10%; Canada, 7%; Australia, 7%; and 18% in the rest of the world.

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 can connect to the platform, develop new solutions to extend the functionality of our platform, enhance our ecosystem and partner programs, provide a high level of merchant service and support, and hire, retain and motivate qualified personnel.

Merchant Acquisition

Our merchant acquisition strategy is primarily focused on marketing that builds awareness of our offerings. Our approach includes a strong emphasis on data and analytics while continuously innovating and testing new ideas to drive growth.

We actively grow our audience through online channels, including organic search, paid search and social media. Our offline channel strategy includes participating in trade shows and local events to generate awareness of our platform. We also invest in content marketing, such as the Shopify Blog, podcasts, video content, eBooks and other free tools, and provide thought leadership to help our merchants succeed and to build their own brand. Our Build A Business competitions similarly help increase our brand awareness and merchant acquisition. We also began to hire outbound sales representatives in early 2015 for our Shopify Plus offering, and with the early success we have achieved, we intend to continue funding what we believe is a key growth opportunity.

In addition to direct channels, we leverage relationships with third-party design agencies, developers and freelancers around the world who actively refer merchants to us. We also partner with adjacent companies and resellers to sell and offer our solutions to their customers.

Partner Ecosystem

A rich ecosystem of app developers, theme designers and other partners has evolved around the Shopify platform. With approximately 11,000 active partners referring merchants over the last year, we have built a strong, symbiotic relationship with our partners that 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 1,400 apps available in the Shopify App Store. The app ecosystem also integrates additional functionality. The partner ecosystem helps drive the growth of our merchant base, which in turn further accelerates growth of the ecosystem.

Our Offerings

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.

Subscription Solutions

We principally generate subscription solutions revenues through the sale of subscriptions to our platform. We also generate associated subscription solutions revenues from the sale of themes, apps and registration of domain names.

We offer pricing plans designed to meet the needs of our current and prospective merchants. Offering different service and pricing levels allows entrepreneurs to scale without leaving the Shopify platform. We believe this ability to retain merchants as they grow is an important factor for success in serving the SMB market. Shopify offers a number of pricing plans that have varying features, and as a merchant upgrades to the higher-priced options, they receive more powerful tools. While our Basic and Professional plans are our most popular plans, the majority of our GMV comes from merchants subscribing to our Advanced and Shopify Plus plans. Also, merchant retention rates are higher among merchants on higher-priced plans. Offered at a starting rate that is several times that of our Shopify Advanced plan, Shopify Plus caters to merchants with higher-volume sales and offers additional functionality, scalability and support requirements, including a dedicated Merchant

Success Manager. Nestle, GE, Red Bull and Kylie Cosmetics are among the approximately 2,500 Shopify Plus merchants seeking a reliable, cost-effective and scalable commerce solution.

Our subscription plans typically have a one-month term, although a small number of our merchants have annual or multi-year subscription terms. Subscription terms automatically renew unless notice of cancellation is provided in advance. Merchants purchase subscription plans directly from us. Subscription fees are paid to us at the start of the applicable subscription period, regardless of the length of the subscription period. These subscription fees are non-refundable.

We also generate additional subscription solutions revenues from merchants that have subscription plans with us through the sale of themes, apps and the registration of domain names. Domain names are sold separately, typically on an annual term.

Merchant Solutions

We also offer a variety of merchant solutions that are designed to add value to our merchants and augment our subscription solutions. Merchant solutions are intended to supplement subscription solutions by providing additional value to our merchants and increasing their use of our platform. 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, and is also designed to drive higher retention among merchant subscribers. We introduced Shopify Payments in the United States in August 2013, Canada in September 2013, the United Kingdom in November 2014, Australia in November 2015, and Ireland in October 2016. As a result of introducing Shopify Payments, our revenues from merchant solutions and associated costs have increased significantly.

In addition to payment processing fees from Shopify Payments, we also generate merchant solutions revenue from transaction fees, Shopify Shipping, Shopify Capital, referral fees from partners, and sales of point-of-sale ("POS") hardware.

For subscription plans where the merchant does not sign up for Shopify Payments, we typically charge a transaction fee based on a percentage of Gross Merchandise Volume ("GMV") processed.

Shopify Shipping was launched in the United States in September 2015 and in Canada in September 2016, and allows merchants to buy and print shipping labels and track orders directly within the Shopify platform.

Shopify Capital, a merchant cash advance ("MCA") program, was launched in the United States in April 2016 to help eligible merchants secure financing and accelerate the growth of their business by providing access to simple, fast, and convenient working capital. We apply underwriting criteria prior to purchasing the eligible merchant's future receivables to help ensure collectability. Under Shopify Capital, we purchase a designated amount of future receivables at a discount. The purchase price is paid to the merchant at the time the MCA is entered into, and the Merchant remits a fixed percentage of their daily sales until the outstanding balance has been remitted. We have mitigated some of the risks associated with Shopify Capital by entering into an agreement with a third party to insure merchant cash advances offered by Shopify Capital.

We also generate merchant solutions revenues in the form of referral fees from partners to whom we direct business and with whom we have an arrangement in place. Pursuant to terms of the agreements with our partners, these revenues can be recurring or non-recurring. Where the agreement provides for recurring payments to us, we typically earn revenues so long as the merchant that we have referred to the partner continues to use the services of the partner. Non-recurring revenues generally take the form of one-time payments that we receive when we initially refer the merchant to the partner.

In connection with Shopify POS, a mobile application that lets merchants sell their products in a physical or retail setting, we sell compatible hardware products which are sourced from third-party vendors.

Seasonality

Seasonality has affected and will continue to affect our quarterly results. While our rapid growth has largely masked seasonal trends to date in subscription solutions revenues, our merchant solutions revenues are directionally correlated with the level of GMV that merchants process through our platform. As a result of the additional GMV our merchants typically process during the holiday season, 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.

Research and Development

Research and development is currently focused on product management, product development, and product design. We continue to focus our research and development efforts on adding new features and solutions, and increasing the functionality and enhancing the ease of use of our platform.

Growth Strategy

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. Our growth strategy is driven by our mission: make commerce better for everyone. Key elements of our strategy include:

- *Grow our Base of Merchants.* We believe that we have a significant opportunity to increase the size of our current merchant base. We intend to continue to strategically invest in marketing programs that enhance the awareness of our brand and solutions among businesses at different stages of their lifecycle, from entrepreneurs just starting a business to larger, well-established businesses. While we believe it is important to establish relationships early in the business lifecycle and grow along with our merchants, we also see the opportunity from larger businesses looking for faster time-to-market and better value as they innovate to meet rapidly evolving consumer demands. We intend to grow our base of merchants primarily by inspiring entrepreneurship through marketing programs including our Build A Business competitions and Shopify Blog. Over the past six years, Shopify's competitions have helped inspire over 100,000 new businesses that have sold millions of dollars in products. Additionally, we are investing in additional sales capacity focused on larger merchants, as we continue to hire and train outbound sales representatives for Shopify Plus.

- *Grow our Merchants' Revenue.* Our goals are closely aligned with the goals of our merchants. The more a merchant sells on our platform, the more revenue we generate as they process more transactions, upgrade plans, add additional sales channels, ship more products, and use additional solutions. We intend to continue to improve our platform to help our merchants sell more and expect to continue to use initiatives such as our Retail Tour roadshows, Shopify Blog and Shopify Guru programs to educate our merchant base on how they can be even more successful using our platform.

Last year, the Shopify Blog had over 27 million page views, which we believe makes it one of the internet's top ecommerce and entrepreneurial blogs.

- *Continuous Innovation and Expansion of our Platform* . Our platform is built to support innovation and the rapid technology changes in commerce. We foresaw the rise of mobile and launched our iPhone-based Shopify Mobile application in 2010. Shopify Mobile gives merchants the ability to set-up, track, and manage their business on the go. We intend to continue to build more sales channels and additional functionality to make our merchants more effective and further differentiate our platform. We have done this with Shopify Payments, which eliminates the need for merchants to set up and maintain a direct relationship with a third-party payment gateway, gives merchants access to low credit card processing rates, and allows us to cross-sell additional solutions to our merchant base. We added functionality with Shopify Shipping, which allows merchants to print postage labels and ship products at discounted rates directly through Shopify. We intend to follow this same approach with other merchant solutions in the future.

- *Continue to Grow and Develop our Ecosystem* . We have a thriving third-party ecosystem that includes app developers, theme designers, and other partners that bolster the functionality of our platform. This ecosystem has grown in part due to the platform's functionality, which is highly extensible and can be expanded through our API. There are currently approximately 1,400 apps available in the Shopify App Store. We believe that growing our ecosystem makes the Shopify platform more attractive and stickier, which further expands our merchant base, and in turn drives additional growth of our ecosystem.

- *Continue to Expand our Referral Partner Programs* . We have strong relationships with thousands of design and marketing agencies throughout the world. These agencies build merchant web and mobile shops on our platform. Our approximately 11,000 active partners refer merchants to us and we refer work to them using our Shopify Experts directory. We intend to strengthen our existing relationships with referral partners and resellers and create new ones with the goal of expanding our overall merchant base.

- *Continue to Build for the Long-term* . We have a culture of iteration and testing new ideas with a focus on maximizing long-term value. As we continue to build for the future, we may consider focused international expansion, strategic partnerships, new solutions, and selective acquisitions.

Technology

The Shopify platform is a multi-tenant cloud-based system that is engineered for high scalability, reliability and performance. Open source has played a major role at Shopify from the beginning when our founder was active on the core team that built Ruby on Rails, the technology that powers much of the Shopify platform. We host the Shopify platform using a mix of co-located and cloud-based servers. Maintaining the integrity and security of our technology infrastructure is critical to our business, and we plan to invest further in our data center and network infrastructure to meet our merchants' needs and maintain their trust. The key attributes of the Shopify platform are:

- *Security.* Credit card processing on the Shopify platform is performed by a dedicated, highly scalable, geographically redundant, high-security environment with specialized policies and procedures in place. The environment is designed to be highly isolated and secure and exceeds the requirements of PCI DSS. We have been certified as a PCI DSS Level 1 compliant service provider, which is the highest level of compliance available. We use firewalls, denial of service mitigation appliances, advanced encryption, intrusion detection systems, two-factor authentication and other technology to keep our merchants' data secure.

- *Scalability.* The cloud-based architecture of our platform has been designed to support sudden traffic and order spikes from our merchants. We use a technology called "containerization" to efficiently scale our computing resources across our platform. We have benchmarked the Shopify platform to handle at least 50,000 requests per second and 12,000 orders per minute based on platform load testing.

- *Reliability.* Our platform includes servers in geographically dispersed, co-located data centers that are fault-tolerant and ensure that our platform is highly reliable. Because Shopify is at the heart of our merchants' businesses, we employ a highly redundant, horizontally scalable, shared architecture to ensure resiliency and high availability.

- *Performance.* We believe that the faster our merchants' shops appear to their customers, the more our merchants will sell. We have a dedicated team that is constantly profiling and optimizing the performance of the Shopify platform. We leverage content delivery networks with global points of presence to ensure that content and data is delivered quickly to users across the globe. In 2016, online shops hosted on our platform had sub 100 millisecond median response times; our merchants' shops averaged 166 million unique monthly visitors, most of which were from mobile devices; and we processed an average of 17.8 million orders per month.

- *Deployment.* The Shopify platform is "single branch" software, which means that all of our merchants use the latest version of Shopify at all times. The result is that we have no overhead in maintaining older versions of our platform. Our software deployment process enables us to quickly distribute new software as soon as it is ready. This is made possible by our ongoing investment in end-to-end automation and comprehensive test suites.

Competition

Our market is transforming, competitive and highly fragmented, and we expect competition to increase in the future. We believe the principal competitive factors in our market are:

- vision for commerce and product strategy;
- simplicity and ease of use;
- integration of multiple channels;
- cost-effective solution;
- breadth and depth of functionality;
- pace of innovation;
- ability to scale;
- security and reliability;
- support for a merchant's brand development; and
- brand recognition and reputation.

With respect to each of these factors, we believe that we compare favorably to our competitors.

We believe no competitor offers an integrated, multi-channel, cloud-based commerce platform with comparable functionality to ours. However, some merchants may elect to piece together technology from other companies that overlaps with certain functions and features that we provide, including:

- ecommerce software vendors;
- content management systems;
- payment processors;
- POS software providers;
- domain registrars; and
- marketplaces.

Intellectual Property

Our intellectual property and proprietary rights are important to our business. In our efforts to safeguard them, we rely on a combination of copyright, trade secret, trade dress, domain names, trademarks, and other rights in Canada, the United States and other jurisdictions in which we conduct our business. We also have confidentiality agreements, assignment agreements and license agreements with employees, contractors, merchants, distributors, and other third parties, which limit access to and use of our proprietary intellectual property. Though we rely, in part, upon these legal and contractual protections, we believe that factors such as the skills and ingenuity of our employees, as well as the functionality and frequent enhancements to our platform, make our intellectual property difficult to replicate.

We have been issued the following trademark registrations: "Shopify" in Australia, Canada, the European Union, Germany, New Zealand, Switzerland and the United States; "S & Design" in Australia, Canada, the European Union, New Zealand and the United States; "S Shopify & Design" in Australia, Canada, New Zealand and the United States; "A shop in minutes, a business for life" in Canada and the United States; "Do what you do best" in Canada; and "Shopify" in Chinese characters in China.

We are subject to certain risks related to our intellectual property. For more information, see "Risk Factors - Risks Related to our Business and Industry."

Property

We are headquartered in Ottawa, Canada. We do not own any real property. The following table outlines significant properties that we currently lease, all of which are used for office space:

Location	Square Feet	Date Lease Ends
Ottawa, Ontario	170,119	December 31, 2026
Toronto, Ontario	112,286	December 31, 2028
Toronto, Ontario	36,771	August 31, 2021
Toronto, Ontario	33,813	December 31, 2018
Kitchener-Waterloo, Ontario	57,365	July 31, 2028
Kitchener-Waterloo, Ontario	39,173	September 30, 2022
Montreal, Quebec	61,110	June 30, 2027
San Francisco, California	5,450	February 15, 2018

We also lease space in two data centers in the United States.

We believe that our current facilities are adequate to meet our ongoing needs and that, if we require additional space, we will be able to obtain additional facilities on commercially reasonable terms.

Culture and Employees

If you have ambitious goals, you need an equally ambitious team. Shopify is composed of highly talented, deeply caring individuals all working on making commerce better for everyone. Our culture is continuously being redefined with every person that joins our company, but, at our core, we value people who:

- get shit done;
- build for the long-term;
- focus on simple solutions;
- act like owners; and
- thrive on change.

In those values, there is a focus on continuous learning and personal development. We are a fast-growing company that is constantly trying to get better. We expect to see similar growth from everyone in our team.

We deeply value innovation and experimentation. Every few months we take a break from our regular work and for two full days every employee has free reign to work on whatever project they want as long as it adds value to Shopify. We call these two days "Hack Days". There is no limit to the creativity or scope of the projects. The only rule is that employees must complete their projects no later than 4 p.m. at the end of the second day, at which point teams pitch their finished projects.

We believe that being headquartered in Ottawa, Canada gives us access to a large talent pool. Ottawa is currently home to approximately 1,700 technology companies and has the highest concentration per capita of scientists and engineers in Canada. We recruit our employees through multiple avenues including internships, campus recruiting and global outreach.

As of December 31, 2016, we had over 1,900 employees and contractors worldwide. None of our employees is represented by a labor organization or is a party to a collective bargaining arrangement. We consider our relationship with our employees to be excellent.

Government Regulation

We are subject to a number of foreign and domestic laws and regulations that affect companies conducting business on the internet, many of which are still evolving and could be interpreted in ways that could harm our business. Concern about the use of software as a service ("SaaS") platforms for illegal conduct, such as money laundering or supporting terrorist activities, may in the future result in legislation or other governmental action that could require changes to our platform.

We are subject to U.S. and Canadian laws and regulations that govern or restrict our business and activities in certain countries and with certain persons, including the economic sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Control, the sanctions regulations administered or enforced by the Office of the Superintendent of Financial Institutions in Canada, and the export control laws administered by the U.S. Commerce Department's Bureau of Industry and Security, the U.S. State Department's Directorate of Defense Trade Controls and the Canadian Export and Import Controls Bureau. We are currently subject to a variety of laws and regulations in Canada, the United States, the United Kingdom and elsewhere related to payment processing, including those governing cross-border and domestic money transmission, gift cards and other prepaid access instruments, electronic funds transfers, foreign exchange, anti-money laundering, counter-terrorist financing, banking and import and export restrictions. Depending on how Shopify Payments and our other merchant solutions evolve, we may be subject to additional laws in Canada, the United States, the United Kingdom, Australia and elsewhere.

We are also subject to federal, state, provincial and foreign laws regarding privacy and protection of data. Some jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data and our agreements with certain merchants require us to notify them in the event of a security incident. We post on our website our privacy policy and terms of service, which describe our practices concerning the use, transmission and disclosure of merchant data and data relating to their customers. Any failure by us to comply with our posted privacy policy or privacy-related laws and regulations could result in proceedings against us by governmental authorities or others, which could harm our business. In addition, the interpretation of data protection laws, and their application to the internet, is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting ways from province to province, state to state, country to country or region to region, and in a manner that is not consistent with our current data protection practices. Because our services are accessible worldwide, certain foreign jurisdictions have claimed and others may claim that we are required to comply with their laws, including in jurisdictions where we have no local entity, employees or infrastructure. Complying with these varying international requirements could cause us to incur additional costs and change our business practices. Further, any failure by us to adequately protect our merchants' or their customers' data could result in a loss of confidence in our platform and ultimately in a loss of merchants that have subscriptions to our platform which could adversely affect our business.

In addition, our reputation and brand may be negatively affected by the actions of merchants or their users that are deemed to be hostile, offensive, inappropriate or unlawful. We do not monitor or review the appropriateness of the content accessible through merchants' shops in connection with our services, and we do not have control over the activities in which merchants' customers engage. While we have adopted policies regarding illegal or offensive use of our platform, merchants or their customers could nonetheless engage in these activities. The safeguards we have in place may not be sufficient to avoid harm to our reputation and brand, especially if such hostile, offensive or inappropriate use was high profile, which could adversely affect our ability to expand our merchant subscription base and could harm our business and financial results. It is possible that we could also be subject to liability. In many jurisdictions, laws relating to the liability of providers of online services for activities of their customers and other third parties are currently being tested by a number of claims, including actions based on defamation, invasion of privacy and other torts, unfair competition, copyright and trademark infringement, and other theories based on the nature of the relevant content. Any court ruling or other governmental regulation or action that imposes liability on providers of online services in connection with the activities of their customers or their customers' users could harm our business. In such circumstances we may also be subject to liability under applicable law, which may not be fully mitigated by our terms of service. Any liability attributed to us could adversely affect our brand, reputation, ability to expand our subscriber base, and financial results.

GENERAL DEVELOPMENT OF THE BUSINESS

As of December 31, 2016, the Company operated in only a single operating and reportable segment.

Three-Year History

In the fourth quarter of 2016:

Shopify's Sell on Amazon integration was made generally available to merchants in December. Designed to seamlessly connect Shopify store owners to the millions of customers searching for products to buy on Amazon, merchants using this integration are able to conveniently manage their product catalog for their ecommerce website, retail store, Amazon store, and other sales channels all in one place.

Shopify completed the acquisition of Boltmade in October 2016, a product design and development consultancy based in Waterloo, Ontario. The acquisition of Boltmade was intended to help accelerate the development of the Shopify Plus product offering by adding deep software design and engineering talent to the Shopify Plus product development team.

Shopify expanded on its Facebook Messenger integration by enabling merchants to sell within Facebook Messenger. In the second quarter, Shopify made it possible for merchants to leverage Facebook Messenger as a means to engage in conversational commerce directly with their customers, and already, over 30,000 merchants have installed Facebook Messenger for their shops.

In the third quarter of 2016:

Shopify completed a follow-on public offering in August 2016 of 8,625,000 Class A subordinate voting shares, of which 6,125,000 were sold by the Company and 2,500,000 were sold by certain of our shareholders. The aggregate net proceeds to the Company of US$224,000,000 strengthened Shopify's balance sheet and provided flexibility to fund growth strategies. The offering was made pursuant to a previously filed short form base shelf prospectus and registration statement on Form F-10 which allows Shopify to offer up to US$500,000,000 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.

Shopify announced that our merchants would be among the first to be able to accept Apple Pay and Android Pay for web orders on mobile. These mobile wallets will allow our merchants' customers to quickly and securely check out by simply tapping the Pay button and scanning their fingerprint.

Shopify released its new mobile Shopify app which introduced a number of new features merchants can use to manage their stores, including the ability to sign up, launch and run a store entirely on mobile.

Shopify entered into an agreement with Export Development Canada to help insure merchant cash advances offered by Shopify Capital. This agreement supports the continued growth of Shopify Capital, which was launched earlier in 2016 to help merchants secure financing and accelerate their business growth.

Shopify expanded Shopify Shipping beyond USPS by integrating Canada Post, allowing Canada-based Shopify merchants to quickly buy and print discounted Canada Post shipping labels at rates up to 40% off retail Canada Post rates.

In the second quarter of 2016:

In April 2016 Shopify acquired Kit CRM Inc. ("Kit"), a virtual marketing assistant that uniquely interfaces with business owners via messaging to help manage marketing, reporting and other back-office tasks. The acquisition was intended to strengthen our capabilities in messaging and conversational commerce. A top-rated app in the Shopify app store, Kit helps merchants grow their business by placing targeted ads, posting updates to merchants' Facebook Pages, and making recommendations based on shop or business activity.

Shopify announced that it was the first commerce platform to integrate with Facebook's new Messenger

Platform, making it easier for merchants to engage in conversational commerce with their customers. The integration allows merchants to provide live customer support, and to automatically send order confirmations, shipping updates, and push notifications all within Facebook Messenger.

Shopify announced the launch of Shopify Capital, offering merchant cash advances to select merchants, which provide them timely access to funds to respond quickly to capital needs for their business.

Shopify expanded same-day shipping options with its integration with Postmates. Available in over 200 cities across the United States and serviced by over 25,000 couriers, Postmates allows merchants and customers to track purchases from checkout to delivery.

Shopify launched the Shopify Plus Partner Program, partnering with award-winning, global, digital, marketing and design agencies to develop a partner ecosystem specifically for Shopify Plus merchants.

In the first quarter of 2016:

Orders on mobile surpassed those on desktop for the first time ever, with just over 51% of orders at the end of the first quarter of 2016 coming from mobile devices.

Shopify's partner ecosystem, a critical component to Shopify's success, was well represented at Shopify's first ever partner conference, Unite, in San Francisco. More than 650 partners participated in Unite, where we unveiled a number of platform enhancements, including the Sales Channel SDK, which enables partners to use Shopify's APIs to build out new channels for Shopify merchants. Houzz, Wanelo and Ebates have already built channels through which Shopify merchants can list and sell.

In 2015:

On October 14, 2015, Shopify announced a partnership with Uber to offer same-day delivery with UberRUSH delivery service to Shopify merchants in select cities.

On September 30, 2015, Shopify introduced a partnership with Twitter to allow Shopify merchants to sell products directly on Twitter with Twitter’s "Buy Now" buttons.

On September 25, 2015, Shopify announced the launch of its EMV credit card reader that allows Shopify merchants in the U.S. to securely accept chip and pin, tap and swipe credit and debit cards as well as contactless payment technologies like Apple Pay.

On September 24, 2015, Shopify announced the launch of Shopify Shipping, which allows merchants to easily buy and print discounted shipping labels directly within the Shopify platform.

On September 17, 2015, Shopify announced that it had been selected as the preferred migration provider for Amazon Webstore merchants, and that Shopify would be providing its merchants with tools and services to help customers grow their online business and easily integrate Amazon offerings such as Login and Pay with Amazon, Fulfillment by Amazon and Selling on Amazon.

On September 16, 2015, Shopify introduced the Shop Section on Facebook Pages, to enable Shopify merchants to showcase and sell their products in the Shop section on Facebook Pages.

On June 2, 2015, Shopify introduced selling on Pinterest using buyable pins.

On May 27, 2015, Shopify announced the closing of its initial public offering of 8,855,000 Class A subordinate voting shares, for a total of US$150,535,000 in aggregate gross proceeds.

On April 14, 2015, Shopify announced that it had filed a registration statement on Form F-1 with the U.S. Securities and Exchange Commission (the "SEC") and a preliminary prospectus with the securities regulatory authorities in each of the provinces and territories of Canada for a proposed initial public offering of its Class A subordinate voting shares.

On March 31, 2015, Shopify announced the release of multi-channel Shopify, which made it easier for merchants to manage and sell their products across all sales channels, and updates to Shopify POS.

In 2014:

On November 11, 2014, Shopify made Shopify Payments available to UK merchants.

On October 16, 2014, Shopify moved into its new Ottawa headquarters.

On April 7, 2014, Shopify announced that it had launched new features to its point of sale system.

On February 4, 2014, Shopify launched Shopify Plus, an enterprise ready, white glove ecommerce solution.

RISK FACTORS

In addition to any other risks contained in this AIF, as well as our "Management's Discussion and Analysis" and our audited financial statements and related notes, the risks described below are the principal risks that could have a material and adverse effect on our business, financial condition, results of operations, cash flows, future prospects or the trading price of our Class A subordinate voting shares. This AIF also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of a number of factors, including the risks described below. See "Forward-Looking Information."

Risks Related to Our Business and Industry

Our rapid growth may not be sustainable and depends on our ability to attract new merchants, retain existing merchants and increase sales to both new and existing merchants.

We principally generate revenues through the sale of subscriptions to our platform and the sale of additional solutions to our merchants. Our subscription plans typically have a one-month term, although a small percentage of our merchants have annual or multi-year subscription terms. Our merchants have no obligation to renew their subscriptions after their subscription term expires. As a result, even though the number of merchants using our platform has grown rapidly in recent years, there can be no assurance that we will be able to retain these merchants. We have historically experienced merchant turnover as a result of many of our merchants being small- and medium-sized businesses ("SMBs") that are more susceptible than larger businesses to general economic conditions and other risks affecting their businesses. Many of these SMBs are in the entrepreneurial stage of their development and there is no guarantee that their businesses will succeed. Our costs associated with subscription renewals are substantially lower than costs associated with generating revenue from new merchants or costs associated with generating sales of additional solutions to existing merchants. Therefore, if we are unable to retain merchants or if we are unable to increase revenues from existing merchants, even if such losses are offset by an increase in new merchants or an increase in other revenues, our operating results could be adversely impacted.

We may also fail to attract new merchants, retain existing merchants or increase sales to both new and existing merchants as a result of a number of other factors, including: reductions in our current or potential merchants’ spending levels; competitive factors affecting the software as a service ("SaaS") business software applications market, including the introduction of competing platforms, discount pricing and other strategies that may be implemented by our competitors; our ability to execute on our growth strategy and operating plans; a decline in the number of entrepreneurs; a decline in our merchants’ level of satisfaction with our platform and merchants’ usage of our platform; the difficulty and cost to switch to a competitor may not be significant for many of our merchants; changes in our relationships with third parties, including our partners, app developers, theme designers, referral sources and payment processors; the timeliness and success of new products and services we may offer in the future; concerns relating to actual or perceived security breaches; the frequency and severity of any system outages; technological changes or problems; and our focus on long-term value over short-term results, meaning that we may make strategic decisions that may not maximize our short-term revenue or profitability if we believe that the decisions are consistent with our mission and will improve our financial performance over the long-term.

Additionally, we anticipate that our growth rate will decline over time to the extent that the number of merchants using our platform increases and we achieve higher market penetration rates. As our growth rate declines, investors' perception of our business may be adversely affected and the trading price of our Class A subordinate voting shares could decline as a result. To the extent our growth rate slows, our business performance will become increasingly dependent on our ability to retain existing merchants and increase sales to existing merchants.

Our business could be harmed if we fail to manage our growth effectively.

The rapid growth we have experienced in our business places significant demands on our operational infrastructure. The scalability and flexibility of our platform depends on the functionality of our technology and network infrastructure and its ability to handle increased traffic and demand for bandwidth. The growth in the number of merchants using our platform and the number of orders processed through our platform has increased the amount of data and requests that we process. Any problems with the transmission of increased data and requests could result in harm to our brand or reputation. Moreover, as our business grows, we will need to devote additional resources to improving our operational infrastructure and continuing to enhance its scalability in order to maintain the performance of our platform.

Our growth has placed, and will likely continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We have grown to over 1,900 employees and contractors at December 31, 2016 . We intend to further expand our overall business, including headcount, with no assurance that our revenues will continue to grow. As we grow, we will be required to continue to improve our operational and financial controls and reporting procedures and we may not be able to do so effectively. In addition, as we have grown, we have significantly expanded our lease commitments and we plan to further expand such commitments. Furthermore, some members of our management do not have significant experience managing a large global business operation, so our management may not be able to manage such growth effectively. As such, we may be unable to manage our expenses effectively in the future, which may negatively impact our gross profit or operating expenses. We are also subject to the risks of over-hiring and/or over-compensating our employees and over-expanding our operating infrastructure.

In addition, we believe that an important contributor to our success has been our corporate culture, which we believe fosters innovation, teamwork and passion for our merchants and a focus on attractive design and technologically advanced and well-crafted software. Most of our employees have been with us for fewer than two years as a result of our rapid growth. As we continue to grow, we must effectively integrate, develop and motivate a growing number of new employees, some of whom are based in various countries around the world, and we must effectively preserve our ability to execute quickly on new features and initiatives. As a result, we may find it difficult to maintain our corporate culture, which could limit our ability to innovate and operate effectively. Any failure to preserve our culture could also negatively affect our ability to retain and recruit personnel, to continue to perform at current levels or to execute on our business strategy effectively and efficiently.

We have a history of losses and we may be unable to achieve profitability.

We incurred net losses of $37.2 million in 2016 , $18.8 million in 2015 , and $22.3 million in 2014 . At December 31, 2016 , we had an accumulated deficit of $83.2 million . These losses and accumulated deficit are a result of the substantial investments we made to grow our business and we expect to make significant expenditures to expand our business in the future. We expect to increase our investment in sales and marketing as we continue to spend on marketing activities and expand our partner referral programs. We plan to increase our investment in research and development as we continue to introduce new products and services to extend the functionality of our platform. We also intend to invest in maintaining our high level of merchant service and support, which we consider critical for our continued success. In order to support the continued growth of our business and to comply with continuously changing security and operational requirements, we plan to continue investing in our data center and network infrastructure. These increased expenditures will make it harder for us to achieve profitability and we cannot predict if we will achieve profitability in the near term or at all. Historically, our costs have increased each year due to these factors and we expect to continue to incur increasing costs to support our anticipated future growth. We also expect to incur additional general and administrative expenses as a result of both our growth and the increased costs associated with being a public company. If the costs associated with acquiring new merchants materially rise in the future, including the fees we pay to third parties to market our platform, our expenses may rise significantly. If we are unable to generate adequate revenue growth and manage our expenses, we may continue to incur significant losses and may not achieve or maintain profitability.

We may make decisions that would reduce our short-term operating results if we believe those decisions will improve the experiences of our merchants and their customers and if we believe such decisions will improve our operating results over the long term. These decisions may not be consistent with the expectations of investors and may not produce the long-term benefits that we expect, in which case our business may be materially and adversely affected.

Our limited operating history in new and developing markets makes it difficult to evaluate our current business and future prospects and may increase the risk that we will not be successful.

We launched the Shopify platform in 2006 and the majority of our revenue growth has occurred in the past few years. This short history makes it difficult to accurately assess our future prospects. We also operate in new and developing markets that may not develop as we expect. You should consider our future prospects in light of the challenges and uncertainties that we face, including the fact that our business has grown rapidly and it may not be possible to discern fully the trends that we are subject to, that we operate in new and developing markets and that elements of our business strategy are new and subject to ongoing development. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries, including increasing and unforeseen expenses as we continue to grow our business. If we do not manage these risks successfully, our business, results of operations and prospects will be harmed.

If we fail to improve and enhance the functionality, performance, reliability, design, security and scalability of our platform in a manner that responds to our merchants' evolving needs, our business may be adversely affected.

The markets in which we compete are characterized by constant change and innovation and we expect them to continue to evolve rapidly. Our success has been based on our ability to identify and anticipate the needs of our merchants and design a platform that provides them with the tools they need to operate their businesses. Our ability to attract new merchants, retain existing merchants and increase sales to both new and existing merchants will depend in large part on our ability to continue to improve and enhance the functionality, performance, reliability, design, security and scalability of our platform.

Furthermore, as we expand Shopify Plus, and as the number of our merchants with higher volume sales increases, so does the need for us to offer increased functionality, scalability and support.

We may experience difficulties with software development that could delay or prevent the development, introduction or implementation of new solutions and enhancements. Software development involves a significant amount of time for our research and development team, as it can take our developers months to update, code and test new and upgraded solutions and integrate them into our platform. We must also continually update, test and enhance our software platform. For example, our design team spends a significant amount of time and resources incorporating various design enhancements, such as customized colors, fonts, content and other features, into our platform. The continual improvement and enhancement of our platform requires significant investment and we may not have the resources to make such investment. Our improvements and enhancements may not result in our ability to recoup our investments in a timely manner, or at all. We may make significant investments in new solutions or enhancements that may not achieve expected returns. The improvement and enhancement of the functionality, performance, reliability, design, security and scalability of our platform is expensive and complex, and to the extent we are not able to perform it in a manner that responds to our merchants' evolving needs, our business, operating results and financial condition will be adversely affected.

Security breaches, denial of service attacks, or other hacking and phishing attacks on our systems or other security breaches could delay or interrupt service to our merchants and their customers, harm our reputation or subject us to significant liability, and adversely affect our business and financial results.

We operate in an industry that is prone to cyber attacks. Failure to prevent or mitigate security breaches and improper access to or disclosure of our data, merchant data, or their customer data, could result in the loss or misuse of such data, which could harm our business and reputation. In the past, we have been subject to distributed denial of service, or DDoS, attacks, a technique used by hackers to take an internet service offline by overloading its servers. Our platform and our third-party apps may be subject to DDoS attacks in the future and we cannot guarantee that applicable recovery systems, security protocols, network protection mechanisms and other procedures are or will be adequate to prevent network and service interruption, system failure or data loss. In addition, computer malware, viruses, and hacking and phishing attacks by third parties have become more prevalent in our industry. We have experienced such attacks in the past and may experience such attacks in the future. As a result of our increased visibility, we believe that we are increasingly a target for such breaches and attacks.

Moreover, our platform and our third-party apps could be breached if vulnerabilities in our platform or our third-party apps are exploited by unauthorized third parties or due to employee error, malfeasance, or otherwise. Since techniques used to obtain unauthorized access change frequently and the size of DDoS attacks are increasing, we may be unable to implement adequate preventative measures or stop the attacks while they are occurring. A DDoS attack or security breach could delay or interrupt service to our merchants and their customers and may deter consumers from visiting our merchants' shops. In addition, some of the third parties we work with may receive information provided by us, by our merchants, or by our merchants' customers through web or mobile applications integrated with Shopify. If these third parties fail to adhere to adequate data security practices, or in the event of a breach of their networks, our own and our merchants' data may be improperly accessed, used or disclosed.

Any actual or perceived DDoS attack or security breach could damage our reputation and brand, expose us to a risk of litigation and possible liability and require us to expend significant capital and other resources to alleviate problems caused by the DDoS attack or security breach. Some jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data and our agreements with certain merchants require us to notify them in the event of a security incident. Such mandatory disclosures could lead to negative publicity and may cause our merchants to lose confidence in the effectiveness of our data security measures. Moreover, if a high profile security breach occurs with respect to another SaaS provider, merchants may lose trust in the security of the SaaS business model generally, which could adversely impact our ability to retain existing merchants or attract new ones. Any of these events could harm our reputation or subject us to significant liability, and materially and adversely affect our business and financial results.

Payment transactions on Shopify Payments may subject us to regulatory requirements, additional fees, and other risks that could be costly and difficult to comply with or that could harm our business.

More than two-thirds of our merchants use Shopify Payments, an integrated payment processing solution that allows them to accept payments on major payment card s. We are subject to a number of risks related to payments processed through Shopify Payments, including:

- we pay interchange and other fees, which may increase our operating expenses;
- if we are unable to maintain our chargeback rate at acceptable levels, our credit card fees may increase or credit card issuers may terminate their relationship with us;
- increased costs and diversion of management time and effort and other resources to deal with fraudulent transactions or chargeback disputes;
- potential fraudulent or otherwise illegal activity by merchants, their customers, developers, employees or third parties which could lead to increased liabilities;
- restrictions on funds or required reserves related to payments; and
- additional disclosure and other requirements, including new reporting regulations and new credit card association rules.

We are required by our payment processors to comply with payment card network operating rules and we have agreed to reimburse our payment processors for any fees or fines they are assessed by payment card networks as a result of any rule violations by us or our merchants. The payment card networks set and interpret the card rules. In addition, we face the risk that one or more payment card networks or other processors may, at any time, assess penalties against us or terminate our ability to accept credit card payments or other forms of online payments from customers, which would have an adverse effect on our business, financial condition and operating results.

If we fail to comply with the rules and regulations adopted by the payment card networks, including the Payment Card Industry Data Security Standard, or PCI DSS, we would be in breach of our contractual obligations to our payment processors, financial institutions, partners and merchants. Such failure to comply may subject us to fines, penalties, damages, higher transaction fees and civil liability, and could eventually prevent us from processing or accepting payment cards or could lead to a loss of payment processor partners, even if there is no compromise of customer information.

We are currently subject to a variety of laws and regulations in Canada, the United States, the United Kingdom, Ireland, Australia, and elsewhere related to payment processing, including those governing cross-border and domestic money transmission, gift cards and other prepaid access instruments, electronic funds transfers, foreign exchange, anti-money laundering, counter-terrorist financing, banking and import and export restrictions. Depending on how Shopify Payments and our other merchant solutions evolve, we may be subject to additional laws, either in existing or new jurisdictions. In some jurisdictions, the application or interpretation of these laws and regulations is not clear. Our efforts to comply with these laws and regulations could be costly and result in diversion of management time and effort and may still not guarantee compliance. In the event that we are found to be in violation of any such legal or regulatory requirements, we may be subject to monetary fines or other penalties such as a cease and desist order, or we may be required to make changes to our platform, any of which could have an adverse effect on our business, financial condition and results of operations.

We rely on a single supplier to provide the technology we offer through Shopify Payments.

In order to provide Shopify Payments, we have entered into payment service provider agreements with Stripe Inc. ("Stripe"). These payment service provider agreements renew every 12 months, unless either party terminates the agreement earlier upon 180 days' notice. These agreements are integral to Shopify Payments and any disruption or problems with Stripe or its services could have an adverse effect on our reputation, results of operations and financial results. If Stripe were to terminate its relationship with us, we could incur substantial delays and expense in finding and integrating an alternative payment service provider into Shopify Payments, and the quality and reliability of such alternative payment service provider may not be comparable. Any long-term or permanent disruption in Shopify Payments would decrease our revenues from merchant solutions, since our merchants would be required to use one of the alternative payment gateways offered through our platform.

We store personally identifiable information of our merchants and their customers. If the security of this information is compromised or otherwise subjected to unauthorized access, our reputation may be harmed and we may be exposed to liability and loss of business.

We store personally identifiable information, credit card information and other confidential information of our merchants and their customers. Mobile applications integrated with Shopify and the third-party apps sold on our platform may also store personally identifiable information, credit card information and/or other confidential information of our merchants and their customers. We do not regularly monitor or review the content that our merchants upload and store, or the information provided to us through the mobile applications integrated with Shopify, and, therefore, we do not control the substance of the content on our servers, which may include personal information. We have in the past and may in the future experience successful attempts by third parties to obtain unauthorized access to the personally identifiable information of our merchants and their customers. This information could also be otherwise exposed through human error, malfeasance or otherwise. The unauthorized access or compromise of this personally identifiable information could have a material adverse affect on our business, financial condition and results of operations. Even if such a data breach were to affect one or more of our competitors, the resulting consumer concern could negatively affect our merchants and our business.

We are also subject to federal, state, provincial and foreign laws regarding privacy and protection of data. Some jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data and our agreements with certain merchants require us to notify them in the event of a security incident. We post on our website our privacy policy and terms of service, which describe our practices concerning the use, transmission and disclosure of merchant data and data relating to their customers. In addition, the interpretation of data protection laws in the United States, Canada, the European Union and elsewhere, and their application to the internet, is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting ways from jurisdiction to jurisdiction, and in a manner that is not consistent with our current data protection practices. Changes to such data protection laws may impose more stringent requirements for compliance and impose significant penalties for non-compliance. Any such new laws or regulations, or changing interpretations of existing laws and regulations, may cause us to incur significant costs and expend significant effort to ensure compliance. Because our services are accessible worldwide, certain foreign jurisdictions may claim that we are required to comply with their laws, including in jurisdictions where we have no local entity, employees or infrastructure.

Our failure to comply with federal, state, provincial and foreign laws regarding privacy and protection of data could lead to significant fines and penalties imposed by regulators, as well as claims by our merchants or their customers. These proceedings or violations could force us to spend money in defense or settlement of these proceedings, result in the imposition of monetary liability, diversion of management’s time and attention, increase our costs of doing business, and materially adversely affect our reputation and the demand for our solutions. In addition, if our security measures fail to protect credit card information adequately, we could be liable to both our merchants and their customers for their losses, as well as our payments processing partners under our agreements with them. As a result, we could be subject to fines and higher transaction fees, we could face regulatory action, and our merchants could end their relationships with us. There can be no assurance that the limitations of liability in our contracts would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim. We also cannot be sure that our existing insurance coverage and coverage for errors and omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims, or that our insurers will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceeds our available insurance coverage, or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have an adverse effect on our business, financial condition and results of operations.

If our software contains serious errors or defects, we may lose revenue and market acceptance and may incur costs to defend or settle claims with our merchants.

Software such as ours often contains errors, defects, security vulnerabilities or software bugs that are difficult to detect and correct, particularly when first introduced or when new versions or enhancements are released. Despite internal testing, our platform may contain serious errors or defects, security vulnerabilities or software bugs that we may be unable to successfully correct in a timely manner or at all, which could result in lost revenue, significant expenditures of capital, a delay or loss in market acceptance and damage to our reputation and brand, any of which could have an adverse effect on our business, financial condition and results of operations. Furthermore, our platform is a multi-tenant cloud based system that allows us to deploy new versions and enhancements to all of our merchants simultaneously. To the extent we deploy new versions or enhancements that contain errors, defects, security vulnerabilities or software bugs to all of our merchants simultaneously, the consequences would be more severe than if such versions or enhancements were only deployed to a smaller number of our merchants.

Since our merchants use our services for processes that are critical to their businesses, errors, defects, security vulnerabilities, service interruptions or software bugs in our platform could result in losses to our merchants. Our merchants may seek significant compensation from us for any losses they suffer or cease conducting business with us altogether. Further, a merchant could share information about bad experiences on social media, which could result in damage to our reputation and loss of future sales. There can be no assurance that provisions typically included in our agreements with our merchants that attempt to limit our exposure to claims would be enforceable or adequate or would otherwise protect us from liabilities or damages with respect to any particular claim. Even if not successful, a claim brought against us by any of our merchants would likely be time-consuming and costly to defend and could seriously damage our reputation and brand, making it harder for us to sell our solutions.

Exchange rate fluctuations may negatively affect our results of operations.

While most of our revenues are denominated in U.S. dollars, a significant portion of our operating expenses are incurred in Canadian dollars. As a result, our results of operations will be adversely impacted by an increase in the value of the Canadian dollar relative to the U.S. dollar. Exchange rate fluctuations may also affect our merchant solutions. For example, we generate revenue through Shopify Payments in the local currency of the country in which the applicable merchant is located. As a result, we will be further exposed to currency fluctuations to the extent non-U.S. dollar revenues from Shopify Payments increase. The value of the Canadian dollar relative to the U.S. dollar has varied significantly and investors are cautioned that past and current exchange rates are not indicative of future exchange rates.

We may be unable to achieve or maintain data transmission capacity.

Our merchants often draw significant numbers of consumers to their shops over short periods of time, including from events such as new product releases, holiday shopping seasons and flash sales, which significantly increases the traffic on our servers and the volume of transactions processed on our platform. Our servers may be unable to achieve or maintain data transmission capacity high enough to handle increased traffic or process orders in a timely manner. Our failure to achieve or maintain high data transmission capacity could significantly reduce demand for our solutions. In the future, we may be required to allocate resources, including spending substantial amounts of money, to build, purchase or lease additional data centers and equipment and upgrade our technology and network infrastructure in order to handle the increased load. Our ability to deliver our solutions also depends on the development and maintenance of internet infrastructure by third parties, including the maintenance of reliable networks with the necessary speed, data capacity and bandwidth. If one of these third parties suffers from capacity constraints, our business may be adversely affected. In addition, because we and our merchants generate a disproportionate amount of revenue in the fourth quarter, any disruption in our merchants' ability to process and fulfill customer orders in the fourth quarter could have a disproportionately negative effect on our operating results.

Our growth depends in part on the success of our strategic relationships with third parties.

We anticipate that the growth of our business will continue to depend on third-party relationships, including relationships with our app developers, theme designers, referral sources, resellers, payment processors, providers of online sales channels and other partners. In addition to growing our third-party partner ecosystem, we have entered into agreements with, and intend to pursue additional relationships with, other third parties, such as technology and content providers and implementation consultants. Identifying, negotiating and documenting relationships with third parties requires significant time and resources as does integrating third-party content and technology. Some of the third parties that sell our services have the direct contractual relationships with the merchants, and therefore we risk the loss of such merchants if the third parties fail to perform their obligations. Our agreements with providers of cloud hosting, technology, content and consulting services are typically non-exclusive and do not prohibit such service providers from working with our competitors or from offering competing services. These third-party providers may choose to terminate their relationship with us or to make material changes to their businesses, products or services.

The success of our platform depends, in part, on our ability to integrate third-party apps, themes and other offerings into our third-party ecosystem. Third-party developers may also change the features of their offering of apps and themes or alter the terms governing the use of their offerings in a manner that is adverse to us. If third-party apps and themes change such that we do not or cannot maintain the compatibility of our platform with these apps and themes, or if we fail to provide third-party apps and themes that our merchants desire to add to their shops, demand for our platform could decline. If we are unable to maintain technical inter-operation, our merchants may not be able to effectively integrate our platform with other systems and services they use. We may also be unable to maintain our relationships with certain third-party vendors if we are unable to integrate our platform with their offerings. In addition, third-party developers may refuse to partner with us or limit or restrict our access to their offerings. Such changes could functionally limit or terminate our ability to use these third-party offerings with our platform, which could negatively impact our solution offerings and harm our business. If we fail to integrate our platform with new third-party offerings that our merchants need for their shops, or to adapt to the data transfer requirements of such third-party offerings, we may not be able to offer the functionality that our merchants and their customers expect, which would negatively impact our offerings and, as a result, harm our business.

Our competitors may be effective in providing incentives to third parties to favor their products or services or to prevent or reduce subscriptions to our platform. In addition, these providers may not perform as expected under our agreements or under their agreements with our merchants, and we or our merchants may in the future have disagreements or disputes with such providers. If we lose access to products or services from a particular supplier, or experience a significant disruption in the supply of products or services from a current supplier, especially a single-source supplier, it could have an adverse effect on our business and operating results.

If we fail to maintain a consistently high level of customer service or if we fail to manage our reputation, our brand, business and financial results may be harmed.

We believe our focus on customer service and support is critical to onboarding new merchants and retaining our existing merchants and growing our business. As a result, we have invested heavily in the quality and training of our support team along with the tools they use to provide this service. If we are unable to maintain a consistently high level of customer service, we may lose existing merchants. In addition, our ability to attract new merchants is highly dependent on our reputation and on positive recommendations from our existing merchants. Any failure to maintain a consistently high level of customer service, or a market perception that we do not maintain high-quality customer service, could adversely affect our reputation and the number of positive merchant referrals that we receive.

We use a limited number of data centers to deliver our services. Any disruption of service at these facilities could harm our business.

We currently manage our services and serve all of our merchants from two third-party data center facilities. While we own the hardware on which our platform runs and deploy this hardware to the data center facilities, we do not control the operation of these facilities. We have experienced, and may in the future experience, failures at the third-party data centers where our hardware is deployed from time to time. Data centers are vulnerable to damage or interruption from human error, intentional bad acts, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures and similar events. Any of these events could result in lengthy interruptions in our services and/or loss of data. Changes in law or regulations applicable to data centers in various jurisdictions could also cause a disruption in service. Interruptions in our services would reduce our revenue, subject us to potential liability and adversely affect our ability to retain our merchants or attract new merchants. The performance, reliability and availability of our platform is critical to our reputation and our ability to attract and retain merchants. Merchants could share information about bad experiences on social media, which could result in damage to our reputation and loss of future sales. The property and business interruption insurance coverage we carry may not be adequate to compensate us fully for losses that may occur.

Our agreements with our third-party data facility providers terminate on May 31, 2018 and September 15, 2018, respectively. The agreements do not provide for early termination without cause, as defined therein. Upon expiration of the initial term, both agreements will automatically renew for successive 12-month periods unless appropriate notice is provided. However, when our agreements with the third-party data facilities terminate, the owners of the data facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, or if the owners of the data facilities decide to close such facilities, we may be required to transfer to new data center facilities and we may incur costs and possible service interruption in connection with doing so.

Mobile devices are increasingly being used to conduct commerce, and if our solutions do not operate as effectively when accessed through these devices, our merchants and their customers may not be satisfied with our services, which could harm our business.

Commerce transacted over mobile devices continues to grow more rapidly than desktop transactions. In 2016, 53% of the orders on our merchants' shops were from mobile devices. We are dependent on the interoperability of our platform with third-party mobile devices and mobile operating systems as well as web browsers that we do not control. Any changes in such devices, systems or web browsers that degrade the functionality of our platform or give preferential treatment to competitive services could adversely affect usage of our platform. Mobile commerce is a key element in Shopify's strategy and effective mobile functionality is integral to our long-term development and growth strategy. In the event that our merchants and their customers have difficulty accessing and using our platform on mobile devices, our business and operating results could be adversely affected.

Our business and prospects would be harmed if changes to technologies used in our platform or new versions or upgrades of operating systems and internet browsers adversely impact the process by which merchants and consumers interface with our platform.

We believe the simple and straightforward interface for our platform has helped us to expand and offer our solutions to merchants with limited technical expertise. In the future, providers of internet browsers could introduce new features that would make it difficult for merchants to use our platform. In addition, internet browsers for desktop or mobile devices could introduce new features, change existing browser specifications such that they would be incompatible with our platform, or prevent consumers from accessing our merchants' shops. Any changes to technologies used in our platform, to existing features that we rely on, or to operating systems or internet browsers that make it difficult for merchants to access our platform or consumers to access our merchants' shops, may make it more difficult for us to maintain or increase our revenues and could adversely impact our business and prospects.

The impact of worldwide economic conditions, including the resulting effect on spending by SMBs or their customers, may adversely affect our business, operating results and financial condition.

A majority of the merchants that use our platform are SMBs and many of our merchants are in the entrepreneurial stage of their development. Our performance is subject to worldwide economic conditions and their impact on levels of spending by SMBs and their customers. SMBs and entrepreneurs may be disproportionately affected by economic downturns. SMBs and entrepreneurs frequently have limited budgets and may choose to allocate their spending to items other than our platform, especially in times of economic uncertainty or recessions.

Economic downturns may also adversely impact retail sales, which could result in merchants who use our platform going out of business or deciding to stop using our services in order to conserve cash. Weakening economic conditions may also adversely affect third parties with whom we have entered into relationships and upon which we depend in order to grow our business. Uncertain and adverse economic conditions may also lead to increased refunds and chargebacks, any of which could adversely affect our business.

We may be subject to claims by third parties of intellectual property infringement.

The software industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patents and other intellectual property rights. Third parties have in the past asserted, and may in the future assert, that our platform, solutions, technology, methods or practices infringe, misappropriate or otherwise violate their intellectual property or other proprietary rights. Such claims may be made by our competitors seeking to obtain a competitive advantage or by other parties. Additionally, in recent years, non-practicing entities have begun purchasing intellectual property assets for the purpose of making claims of infringement and attempting to extract settlements from companies like ours. The risk of claims may increase as the number of solutions that we offer and competitors in our market increases and overlaps occur. In addition, to the extent that we gain greater visibility and market exposure, we face a higher risk of being the subject of intellectual property infringement claims.

Any such claims, regardless of merit, that result in litigation could result in substantial expenses, divert the attention of management, cause significant delays in introducing new or enhanced services or technology, materially disrupt the conduct of our business and have a material and adverse effect on our brand, business, financial condition and results of operations. Although we do not believe that our proprietary technology, processes and methods have been patented by any third party, it is possible that patents have been issued to third parties that cover all or a portion of our business. As a consequence of any patent or other intellectual property claims, we could be required to pay substantial damages, develop non-infringing technology, enter into royalty-bearing licensing agreements, stop selling or marketing some or all of our solutions or re-brand our solutions. We may also be obligated to indemnify our merchants or partners or pay substantial settlement costs, including royalty payments, in connection with any such claim or litigation and to obtain licenses, modify applications or refund fees, which could be costly. If it appears necessary, we may seek to secure license rights to intellectual property that we are alleged to infringe at a significant cost, potentially even if we believe such claims to be without merit. If required licenses cannot be obtained, or if existing licenses are not renewed, litigation could result. Litigation is inherently uncertain and can cause us to expend significant money, time and attention to it, even if we are ultimately successful. Any adverse decision could result in a loss of our proprietary rights, subject us to significant liabilities, require us to seek licenses for alternative technologies from third parties, prevent us from offering all or a portion of our solutions and otherwise negatively affect our business and operating results.

We may be unable to obtain, maintain and protect our intellectual property rights and proprietary information or prevent third parties from making unauthorized use of our technology.

Our trade secrets, trademarks, trade dress, domain names, copyrights, trade secrets and other intellectual property rights are important to our business. We rely on a combination of confidentiality clauses, assignment agreements and license agreements with employees and third parties, trade secrets, copyrights and trademarks to protect our intellectual property and competitive advantage, all of which offer only limited protection. The steps we take to protect our intellectual property require significant resources and may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. We may be required to use significant resources to monitor and protect these rights. Despite our precautions, it may be possible for unauthorized third parties to copy our platform and use information that we regard as proprietary to create services that compete with ours. Some license provisions protecting against unauthorized use, copying, transfer and disclosure of our proprietary information may be unenforceable under the laws of certain jurisdictions and foreign countries. Further, we hold no issued patents and thus would not be entitled to exclude or prevent our competitors from using our proprietary technology, methods and processes to the extent independently developed by our competitors. In addition, we may not be able to acquire or maintain appropriate domain names in all countries in which we do business, or prevent third parties from acquiring domain names that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights. Furthermore, regulations governing domain names may not protect our trademarks or similar proprietary rights.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have strategic relationships and business alliances. No assurance can be given that these agreements will be effective in controlling access to our proprietary information and trade secrets. The confidentiality agreements on which we rely to protect certain technologies may be breached, may not be adequate to protect our confidential information, trade secrets and proprietary technologies and may not provide an adequate remedy in the event of unauthorized use or disclosure of our confidential information, trade secrets or proprietary technology. Further, these agreements do not prevent our competitors or others from independently developing software that is substantially equivalent or superior to our software. In addition, others may independently discover our trade secrets and confidential information, and in such cases, we likely would not be able to assert any trade secret rights against such parties. Additionally, we may from time to time be subject to opposition or similar proceedings with respect to applications for registrations of our intellectual property, including our trademarks. While we aim to acquire adequate protection of our brand through trademark registrations in key markets, occasionally third parties may have already registered or otherwise acquired rights to identical or similar marks for services that also address our market. We rely on our brand and trademarks to identify our platform and to differentiate our platform and services from those of our competitors, and if we are unable to adequately protect our trademarks third parties may use our brand names or trademarks similar to ours in a manner that may cause confusion in the market, which could decrease the value of our brand and adversely affect our business and competitive advantages.

Policing unauthorized use of our intellectual property and misappropriation of our technology and trade secrets is difficult and we may not always be aware of such unauthorized use or misappropriation. Despite our efforts to protect our intellectual property rights, unauthorized third parties may attempt to use, copy or otherwise obtain and market or distribute our intellectual property rights or technology or otherwise develop services with the same or similar functionality as our platform. If our competitors infringe, misappropriate or otherwise misuse our intellectual property rights and we are not adequately protected, or if our competitors are able to develop a platform with the same or similar functionality as ours without infringing our intellectual property, our competitive advantage and results of operations could be harmed. Litigation brought to protect and enforce our intellectual property rights could be costly, time consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. As a result, we may be aware of infringement by our competitors but may choose not to bring litigation to enforce our intellectual property rights due to the cost, time and distraction of bringing such litigation. Furthermore, if we do decide to bring litigation, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits challenging or opposing our right to use and otherwise exploit particular intellectual property, services and technology or the enforceability of our intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our solutions, impair the functionality of our platform, prevent or delay introductions of new or enhanced solutions, result in our substituting inferior or more costly technologies into our platform or injure our reputation. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to developing and protecting their technology or intellectual property rights than we do.

Our use of "open source" software could negatively affect our ability to sell our solutions and subject us to possible litigation.

Our solutions incorporate and are dependent to a significant extent on the use and development of "open source" software and we intend to continue our use and development of open source software in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses and is typically freely accessible, usable and modifiable. Pursuant to such open source licenses, we may be subject to certain conditions, including requirements that we offer our proprietary software that incorporates the open source software for no cost, that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and that we license such modifications or derivative works under the terms of the particular open source license. If an author or other third party that uses or distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our solutions that contained or are dependent upon the open source software and required to comply with the foregoing conditions, which could disrupt the distribution and sale of some of our solutions. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition or require us to devote additional research and development resources to change our platform. The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts. As there is little or no legal precedent governing the interpretation of many of the terms of certain of these licenses, the potential impact of these terms on our business is uncertain and may result in unanticipated obligations regarding our solutions and technologies. It is our view that we do not distribute our software, since no installation of our software is necessary and our platform is accessible solely through the "cloud." Nevertheless, this position could be challenged. Any requirement to disclose our proprietary source code, termination of open source license rights or payments of damages for breach of contract could be harmful to our business, results of operations or financial condition, and could help our competitors develop products and services that are similar to or better than ours.

In addition to risks related to license requirements, usage of open source software can lead to greater risks than the use of third-party commercial software, as open source licensors generally do not provide warranties, controls on the origin or development of the software, or remedies against the licensors. Many of the risks associated with usage of open source software cannot be eliminated and could adversely affect our business.

Although we believe that we have complied with our obligations under the various applicable licenses for open source software, it is possible that we may not be aware of all instances where open source software has been incorporated into our proprietary software or used in connection with our solutions or our corresponding obligations under open source licenses. We do not have robust open source software usage policies or monitoring procedures in place. We rely on multiple software programmers to design our proprietary software and we cannot be certain that our programmers have not incorporated open source software into our proprietary software that we intend to maintain as confidential or that they will not do so in the future. To the extent that we are required to disclose the source code of certain of our proprietary software developments to third parties, including our competitors, in order to comply with applicable open source license terms, such disclosure could harm our intellectual property position, competitive advantage, results of operations and financial condition. In addition, to the extent that we have failed to comply with our obligations under particular licenses for open source software, we may lose the right to continue to use and exploit such open source software in connection with our operations and solutions, which could disrupt and adversely affect our business.

We rely on search engines and social networking sites to attract a meaningful portion of our merchants. If we are not able to generate traffic to our website through search engines and social networking sites, our ability to attract new merchants may be impaired. In addition, if our merchants are not able to generate traffic to their shops through search engines and social networking sites, their ability to attract consumers may be impaired.

Many of our merchants locate our website through internet search engines, such as Google, and advertisements on social networking sites, such as Facebook. The prominence of our website in response to internet searches is a critical factor in attracting potential merchants to our platform. If we are listed less prominently or fail to appear in search results for any reason, visits to our website could decline significantly, and we may not be able to replace this traffic.

Similarly, many consumers locate our merchants' shops through internet search engines and advertisements on social networking sites. If our merchants' shops are listed less prominently or fail to appear in search results for any reason, visits to our merchants' shops could decline significantly. As a result, our merchants' businesses may suffer, which would affect the GMV that they process through our platform and could affect the ability of such merchants to pay for our solutions.

Search engines revise their algorithms from time to time in an attempt to optimize their search results. If search engines modify their algorithms, our website and our merchants' shops may appear less prominently or not at all in search results, which could result in reduced traffic to our website and to our merchants' shops.

Additionally, if the price of marketing our solutions over search engines or social networking sites increases, we may incur additional marketing expenses or may be required to allocate a larger portion of our marketing spend to search engine marketing and our business and operating results could be adversely affected. Furthermore, competitors may in the future bid on the search terms that we use to drive traffic to our website. Such actions could increase our marketing costs and result in decreased traffic to our website. In addition, search engines or social networking sites may change their advertising policies from time to time. If any change to these policies delays or prevents us from advertising through these channels, it could result in reduced traffic to our website and sales of our solutions. As well, new search engines or social networking sites may develop, particularly in specific jurisdictions, that reduce traffic on existing search engines and social networking sites. and if we are not able to achieve awareness through advertising or otherwise, we may not achieve significant traffic to our website through these new platforms. If we are unable to continue to successfully promote and maintain our websites, or if we incur excessive expenses to do so, our business and operating results could be adversely affected.

Our brand is integral to our success. If we fail to effectively maintain, promote and enhance our brand, our business and competitive advantage may be harmed.

We believe that maintaining, promoting and enhancing the Shopify brand is critical to expanding our business. Maintaining and enhancing our brand will depend largely on our ability to continue to provide high-quality, well-designed, useful, reliable and innovative solutions, which we may not do successfully.

Errors, defects, disruptions or other performance problems with our platform, including with third-party apps, may harm our reputation and brand. We may introduce new solutions or terms of service that our merchants and their customers do not like, which may negatively affect our brand. Additionally, if our merchants or their customers have a negative experience using our solutions or third-party solutions integrated with Shopify, such an experience may affect our brand. Our Shopify Experts directory enables independent designers, developers and marketers to offer their services to merchants who engage them directly. Our reputation may be harmed if any of the services provided by these third parties does not meet our merchants' expectations. Any unfavorable media coverage or negative publicity about our industry or our company, the quality and reliability of our platform, or our privacy and security practices, could adversely affect our reputation, our brand, and our business.

We believe that the importance of brand recognition will increase as competition in our market increases. In addition to our ability to provide reliable and useful solutions at competitive prices, successful promotion of our brand will depend on the effectiveness of our marketing efforts. While we market our platform primarily through advertisements on search engines and social networking and media sites, and paid banner advertisements on other websites, our platform is also marketed through our partner and reseller channels and through a number of free traffic sources, including customer referrals, word-of-mouth and search engines. We also hire sales personnel to market Shopify Plus, a subscription plan for merchants with higher volume sales and additional functionality requirements, introducing additional costs with no assurance of success. Our efforts to market our brand have involved significant expenses, which we intend to increase. Our marketing spend may not yield increased revenue, and even if it does, any increased revenue may not offset the expenses we incur in building and maintaining our brand.

If we are unable to hire, retain and motivate qualified personnel, our business will suffer.

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel. Our ability to identify, hire, develop, motivate and retain qualified personnel will directly affect our ability to maintain and grow our business, and such efforts will require significant time, expense and attention. The inability to attract or retain qualified personnel or delays in hiring required personnel may seriously harm our business, financial condition and operating results. Our ability to continue to attract and retain highly skilled personnel, specifically employees with technical and engineering skills and employees with high levels of experience in designing and developing software and internet-related services, will be critical to our future success. Competition for highly skilled personnel in the Ottawa area, Greater Toronto area, Montreal area, Kitchener-Waterloo area, San Francisco Bay area and elsewhere can be intense due in part to the more limited pool of qualified personnel as compared to other places in the world, and we have experienced difficulties hiring employees from foreign jurisdictions to work in our offices. Further, decreases in the Canadian dollar relative to the U.S. dollar and other currencies could make it more difficult for us to offer compensation packages to new employees that are competitive with packages in the United States or elsewhere and could increase our costs of acquiring qualified personnel. In addition, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited or divulged proprietary or other confidential information. While we intend to issue stock options or other equity awards as key components of our overall compensation and employee attraction and retention efforts, we are required under U.S. GAAP to recognize compensation expense in our operating results for employee stock-based compensation under our equity grant programs which may increase the pressure to limit stock-based compensation.

We are dependent on the continued services and performance of our senior management and other key employees, the loss of any of whom could adversely affect our business, operating results and financial condition.

Our future performance depends on the continued services and contributions of our senior management, including our Chief Executive Officer, Tobias Lütke, and other key employees to execute on our business plan and to identify and pursue new opportunities and product innovations. The failure to properly manage succession plans and/or the loss of services of senior management or other key employees could significantly delay or prevent the achievement of our strategic objectives. From time to time, there may be changes in our senior management team resulting from the hiring or departure of executives, which could disrupt our business. We do not maintain key person life insurance policies on any of our employees. The loss of the services of one or more of our senior management or other key employees for any reason could adversely affect our business, financial condition and operating results and require significant amounts of time, training and resources to find suitable replacements and integrate them within our business, and could affect our corporate culture.

Activities of merchants or the content of their shops could damage our brand, subject us to liability and harm our business and financial results.

Our terms of service prohibit our merchants from using our platform to engage in illegal activities and our terms of service permit us to take down a merchant's shop if we become aware of such illegal use. Merchants may nonetheless engage in prohibited or illegal activities or upload store content in violation of applicable laws, which could subject us to liability. Furthermore, our brand may be negatively impacted by the actions of merchants that are deemed to be hostile, offensive, inappropriate or illegal. We do not proactively monitor or review the appropriateness of the content of our merchants' shops and we do not have control over merchant activities. The safeguards we have in place may not be sufficient for us to avoid liability or avoid harm to our brand, especially if such hostile, offensive, inappropriate or illegal use is high profile, which could adversely affect our business and financial results. In addition, due to our international expansion, we may be subject to international actions alleging that merchants' store content violate laws in foreign jurisdictions.

Our operating results are subject to seasonal fluctuations.

Our merchant solutions revenues are directionally correlated with the level of GMV that our merchants process through our platform. Our merchants historically have processed additional GMV during the 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 sales activity or performance. Fluctuations in quarterly results may materially and adversely affect the predictability of our business and the price of our Class A subordinate voting shares.

Our business is susceptible to risks associated with international sales and the use of our platform in various countries.

We currently have merchants in more than 175 countries and we expect to continue to expand our international operations in the future. However, our international sales and the use of our platform in various countries subject us to risks that we do not generally face with respect to domestic sales within North America. These risks include, but are not limited to:

- greater difficulty in enforcing contracts, including our universal terms of service and other agreements;
- lack of familiarity and burdens and complexity involved with complying with multiple, conflicting and changing foreign laws, standards, regulatory requirements, tariffs, export controls and other barriers;
- difficulties in ensuring compliance with countries' multiple, conflicting and changing international trade, customs and sanctions laws;
- data privacy laws which may require that merchant and customer data be stored and processed in a designated territory;
- difficulties in managing systems integrators and technology partners;
- differing technology standards;
- potentially adverse tax consequences, including the complexities of foreign value-added tax (or other tax) systems and restrictions on the repatriation of earnings;
- uncertain political and economic climates;
- difficulties in ensuring compliance with government regulations of ecommerce and other services, potentially restrictive governmental actions, and restrictions on foreign ownership;
- lower levels of credit card usage and increased payment risks;
- currency exchange rates;
- reduced or uncertain protection for intellectual property rights in some countries;
- new and different sources of competition;
- lower levels of consumer spending; and
- restricted access to and/or lower levels of use of the internet.

These factors may cause our international costs of doing business to exceed our comparable domestic costs and may also require significant management attention and financial resources. Any negative impact from our international business efforts could adversely affect our business, results of operations and financial condition.

We rely on computer hardware, purchased or leased, and 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.

We rely on computer hardware, purchased or leased, and 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. Third-party hardware, software and services may not continue to be available on commercially reasonable terms, or at all. Any loss of the right to use or any failures of third-party hardware, software or services could result in delays in our ability to provide our solutions or run our business until equivalent hardware, software or services are developed by us or, if available, identified, obtained and integrated, which could be costly and time-consuming and may not result in an equivalent solution, any of which could cause an adverse effect on our business and operating results. Further, merchants could assert claims against us in connection with such service disruption or cease conducting business with us altogether. Even if not successful, a claim brought against us by any of our merchants would likely be time-consuming and costly to defend and could seriously damage our reputation and brand, making it harder for us to sell our solutions.

Our business is highly competitive. We may not be able to compete successfully against current and future competitors.

We face competition in various aspects of our business and we expect such competition to intensify in the future, as existing and new competitors introduce new services or enhance existing services. We have competitors with longer operating histories, larger customer bases, greater brand recognition, greater experience and more extensive commercial relationships in certain jurisdictions, and greater financial, technical, marketing and other resources than we do. Our potential new or existing competitors may be able to develop products and services better received by merchants or may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, regulations or merchant requirements. In addition, some of our larger competitors may be able to leverage a larger installed customer base and distribution network to adopt more aggressive pricing policies and offer more attractive sales terms, which could cause us to lose potential sales or to sell our solutions at lower prices.

Competition may intensify as our competitors enter into business combinations or alliances or raise additional capital, or as established companies in other market segments or geographic markets expand into our market segments or geographic markets. For instance, certain competitors could use strong or dominant positions in one or more markets to gain a competitive advantage against us in areas where we operate including: by integrating competing platforms or features into products they control such as search engines, web browsers, mobile device operating systems or social networks; by making acquisitions; or by making access to our platform more difficult. Further, current and future competitors could choose to offer a different pricing model or to undercut prices in an effort to increase their market share. We also expect new entrants to offer competitive services. If we cannot compete successfully against current and future competitors, our business, results of operations and financial condition could be negatively impacted.

Our pricing decisions may adversely affect our ability to attract new merchants and retain existing merchants.

We have limited experience determining the optimal prices for our solutions. We have changed our pricing model from time to time and expect to do so in the future. For example, in February 2014, we launched Shopify Plus with a flat monthly fee. In order to optimize the pricing at which we offer Shopify Plus, we implemented a new pricing model on February 1, 2017, under which the monthly fee is based on a percentage of the merchants’ transactions on our platform. However, given our limited experience with selling new solutions, it may turn out that the new pricing model, or the pricing for any of our other solutions, is not optimal, which may result in our solutions not being profitable or not gaining market share. Therefore, we expect to change our pricing models again in the future. As competitors introduce new solutions that compete with ours, especially in the payments space where we face significant competition, we may be unable to attract new merchants at the same price or based on the same pricing models as we have used historically. Pricing decisions may also impact the mix of adoption among our plans and negatively impact our overall revenue. Moreover, SMBs, which comprise the majority of merchants using our platform, may be quite sensitive to price increases or prices offered by competitors. As a result, in the future we may be required to reduce our prices, which could adversely affect our revenue, gross profit, profitability, financial position and cash flows.

We have in the past made and in the future may make acquisitions and investments, which could divert management's attention, result in operating difficulties and dilution to our shareholders and otherwise disrupt our operations and adversely affect our business, operating results or financial position.

From time to time, we evaluate potential strategic acquisition or investment opportunities. Any transactions that we enter into could be material to our financial condition and results of operations. The process of acquiring and integrating another company or technology could create unforeseen operating difficulties and expenditures. Acquisitions and investments involve a number of risks, such as:

- diversion of management time and focus from operating our business;
- use of resources that are needed in other areas of our business;
- in the case of an acquisition, implementation or remediation of controls, procedures and policies of the acquired company;
- in the case of an acquisition, difficulty integrating the accounting systems and operations of the acquired company, including potential risks to our corporate culture;
- in the case of an acquisition, coordination of product, engineering and selling and marketing functions, including difficulties and additional expenses associated with supporting legacy services and products and hosting infrastructure of the acquired company and difficulty converting the customers of the acquired company onto our platform and contract terms, including disparities in the revenues, licensing, support or professional services model of the acquired company;
- in the case of an acquisition, retention and integration of employees from the acquired company;
- unforeseen costs or liabilities;
- adverse effects to our existing business relationships with partners and merchants as a result of the acquisition or investment;
- the possibility of adverse tax consequences;
- litigation or other claims arising in connection with the acquired company or investment; and
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could adversely affect our results of operations.

Acquisitions and investments may also result in dilutive issuances of equity securities, which could adversely affect our share price, or result in issuances of securities with superior rights and preferences to the Class A subordinate voting shares or the incurrence of debt with restrictive covenants that limit our future uses of capital in pursuit of business opportunities.

We may not be able to identify acquisition or investment opportunities that meet our strategic objectives, or to the extent such opportunities are identified, we may not be able to negotiate terms with respect to the acquisition or investment that are acceptable to us. At this time we have made no commitments or agreements with respect to any such material transactions.

Provisions of our financial instruments may restrict our ability to pursue our business strategies.

We currently have a credit facility which is collateralized by substantially all of our assets. Our credit facility requires us, and any debt instruments we may enter into in the future may require us, to comply with various covenants that limit our ability to, among other things:

- dispose of assets;
- complete mergers or acquisitions;
- incur indebtedness;
- encumber assets;
- pay dividends or make other distributions to holders of our shares;
- make specified investments;
- change certain key management personnel;
- engage in any business other than the businesses we currently engage in; and
- engage in transactions with our affiliates.

These restrictions could inhibit our ability to pursue our business strategies. If we default under a credit facility, and such event of default is not cured or waived, the lenders could terminate commitments to lend and cause all amounts outstanding with respect to the debt to be due and payable immediately, which in turn could result in cross-defaults under our other debt instruments. Our assets and cash flow may not be sufficient to fully repay borrowings under all of our outstanding debt instruments if some or all of these instruments are accelerated upon a default.

We may also incur additional indebtedness in the future. The instruments governing such indebtedness could contain provisions that are as, or more, restrictive than our existing debt instruments. If we are unable to repay, refinance or restructure our indebtedness when payment is due, the lenders could proceed against the collateral granted to them to secure such indebtedness, as applicable, or force us into bankruptcy or liquidation.

We may need to raise additional funds to pursue our growth strategy or continue our operations, and we may be unable to raise capital when needed or on acceptable terms.

From time to time, we may seek additional equity or debt financing to fund our growth, enhance our platform, respond to competitive pressures or make acquisitions or other investments. Our business plans may change, general economic, financial or political conditions in our markets may deteriorate or other circumstances may arise, in each case that have a material adverse effect on our cash flows and the anticipated cash needs of our business. Any of these events or circumstances could result in significant additional funding needs, requiring us to raise additional capital. We cannot predict the timing or amount of any such capital requirements at this time. If financing is not available on satisfactory terms, or at all, we may be unable to expand our business at the rate desired and our results of operations may suffer. Financing through issuances of equity securities would be dilutive to holders of our shares.

Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our operating results and financial condition.

With sales in various countries, we are subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. The amount of taxes we pay in these jurisdictions could increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws or revised interpretations of existing tax laws and precedents, which could have an adverse impact on our liquidity and results of operations.

In addition, the authorities in several jurisdictions could review our tax returns and impose additional tax, interest and penalties, which could have an impact on us and on our results of operations. We previously have participated in government programs with both the Canadian federal government and the Government of Ontario that provide investment tax credits based upon qualifying research and development expenditures. If Canadian taxation authorities successfully challenge such expenses or the correctness of such income tax credits claimed, our historical operating results could be adversely affected. As a public company, we are no longer eligible for refundable tax credits under the Canadian federal Scientific Research and Experimental Development Program, or SR&ED credits. However, we are still eligible for non-refundable SR&ED credits under this program, which are eligible to reduce future income taxes payable.

Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expected timing and amount of the release of any tax valuation allowances;
- tax effects of stock-based compensation;
- costs related to intercompany restructurings;
- changes in tax laws, regulations or interpretations thereof; or
- future earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated earnings in countries where we have higher statutory tax rates.

We currently conduct activities in the United States and other jurisdictions through our subsidiaries pursuant to transfer pricing arrangements and may in the future conduct operations in other jurisdictions pursuant to similar arrangements. If two or more affiliated companies are located in different countries, the tax laws or regulations of each country generally will require that transfer prices be the same as those between unrelated companies dealing at arms' length. While we believe that we operate in compliance with applicable transfer pricing laws and intend to continue to do so, our transfer pricing procedures are not binding on applicable tax authorities. If tax authorities in any of these countries were to successfully challenge our transfer prices as not reflecting arm's length transactions, they could require us to adjust our transfer prices and thereby reallocate our income to reflect these revised transfer prices, which could result in a higher tax liability to us.

New tax laws could be enacted or existing laws could be applied to us or our merchants, which could increase the costs of our solutions and adversely impact our business.

The application of federal, state, provincial, local and foreign tax laws to solutions provided over the internet is evolving. New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time, possibly with retroactive effect, and could be applied solely or disproportionately to solutions provided over the internet. These enactments could adversely affect our sales activity due to the inherent cost increase the taxes would represent, and could ultimately result in a negative impact on our results of operations and cash flows.

Federal, state and local tax authorities may seek to assess state and local business taxes and sales and use taxes. If we are required to collect sales and use taxes in additional jurisdictions, we might be subject to tax liability for past sales.

There is a risk that U.S. states could assert that we are liable for U.S. federal, state and local business activity taxes, which are levied upon income or gross receipts, or for the collection of U.S. local sales and use taxes. This risk exists regardless of whether we are subject to U.S. federal income tax. States are becoming increasingly active in asserting nexus for business activity tax purposes and imposing sales and use taxes on products and services provided over the internet. We may be subject to U.S. state and local business activity taxes if a state tax authority asserts that our activities or the activities of our non-U.S. subsidiaries are sufficient to establish nexus. We could also be liable for the collection of U.S. state and local sales and use taxes if a state tax authority asserts that distribution of our solutions over the internet is subject to sales and use taxes. Each state has different rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that change over time. We review these rules and regulations periodically and, when we believe we are subject to sales and use taxes in a particular state, voluntarily engage state tax authorities in order to determine how to comply with their rules and regulations. If a state tax authority asserts that distribution of our solutions is subject to such sales and use taxes, the additional cost may decrease the likelihood that such merchants would purchase our solutions or continue to renew their subscriptions.

A successful assertion by one or more states requiring us to collect sales or other taxes on subscription service revenue could result in substantial tax liabilities for past transactions and otherwise harm our business. We cannot assure you that we will not be subject to sales and use taxes or related penalties for past sales in states where we currently believe no such taxes are required. New obligations to collect or pay taxes of any kind could increase our cost of doing business.

We may not be able to utilize a significant portion of our non-capital loss carryforwards, net operating loss carryforwards and other tax credits, which could adversely affect our profitability.

As of December 31, 2016, we had Canadian non-capital loss carryforwards of $17.7 million due to prior period losses, as well as non-refundable SR&ED credits due to current and prior year SR&ED claims, which, if not utilized will begin to expire in 2032. These non-capital loss carryforwards and non-refundable tax credits could expire unused and be unavailable to offset future income tax liabilities, which could adversely affect our profitability.

Additionally, as of December 31, 2016, we had U.S. state net operating loss carryforwards, due to prior period losses, which, if not utilized, will begin to expire in 2029. These net operating loss carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could adversely affect our profitability

We are dependent upon consumers' and merchants' continued and unimpeded access to the internet, and upon their willingness to use the internet for commerce.

Our success depends upon the general public's ability to access the internet and its continued willingness to use the internet as a means to pay for purchases, communicate, access social media, research and conduct commercial transactions, including through mobile devices. If consumers or merchants become unable, unwilling or less willing to use the internet for commerce for any reason, including lack of access to high-speed communications equipment, congestion of traffic on the internet, internet outages or delays, disruptions or other damage to merchants' and consumers' computers, increases in the cost of accessing the internet and security and privacy risks or the perception of such risks, our business could be adversely affected.

We may face challenges in expanding into new geographic regions.

Our future success will depend in part upon our ability to expand into new geographic regions, and we will face risks entering markets in which we have limited or no experience and in which we do not have any brand recognition. It is costly to establish, develop and maintain international operations, and to promote our brand internationally. In addition, expanding into new geographic regions where the main language is not English will require substantial expenditures and take considerable time and attention, and we may not be successful enough in these new markets to recoup our investments in a timely manner, or at all. Our efforts to expand into new geographic regions may not be successful, which could limit our ability to grow our business.

Shopify Capital is subject to additional risks relating to the availability of capital to fund merchants, the ability of our merchants to generate sales to remit receivables, general macroeconomic conditions and the risk of fraud.

The merchant cash advance ("MCA") program offered by Shopify Capital is subject to additional risks. If we cannot source capital to fund MCAs for our merchants, we might have to reduce the availability of this service, or cease offering it altogether. A decline in macroeconomic conditions could lead to a decrease in the number of merchants eligible for an MCA, and/or increase the risk of fraud or non-payment. If more of our merchants cease operations, experience a decline in their sales, or engage in fraudulent behavior, it would make it more difficult for us to obtain the receivables we have purchased, as we do not have any other economic recourse to the seller in the event that they are unable to deliver a portion of their receivables to us. Although we have currently mitigated some of the risks associated with Shopify Capital by entering into an agreement with a third party to insure MCAs, if we are unable to properly manage the risks of offering MCAs to merchants our business may be materially and adversely affected. If we are unable to maintain third party insurance our exposure to losses increases, which could have an adverse impact on our results.

Risks Related to Ownership of our Shares

Our dual class structure has the effect of concentrating voting control and the ability to influence corporate matters with those shareholders who held our shares prior to our initial public offering, including our executive officers, employees and directors and their affiliates.

Our Class B multiple voting shares have 10 votes per share and our Class A subordinate voting shares have one vote per share. As of February 10, 2017, shareholders who hold Class B multiple voting shares, including our executive officers, directors and their affiliates, together hold approximately 59.7% of the voting power of our outstanding voting shares and therefore have significant influence over our management and affairs and over all matters requiring shareholder approval, including the election of directors and significant corporate transactions.

In addition, because of the 10-to-1 voting ratio between our Class B multiple voting shares and Class A subordinate voting shares, the holders of our Class B multiple voting shares collectively continue to control a majority of the combined voting power of our voting shares even where the Class B multiple voting shares represent a substantially reduced percentage of our total outstanding shares. The concentrated voting control of holders of our Class B multiple voting shares limits the ability of our Class A subordinate voting shareholders to influence corporate matters for the foreseeable future, including the election of directors as well as with respect to decisions regarding amendment of our share capital, creating and issuing additional classes of shares, making significant acquisitions, selling significant assets or parts of our business, merging with other companies and undertaking other significant transactions. As a result, holders of Class B multiple voting shares have the ability to influence many matters affecting us and actions may be taken that our Class A subordinate voting shareholders may not view as beneficial. The market price of our Class A subordinate voting shares could be adversely affected due to the significant influence and voting power of the holders of Class B multiple voting shares. Additionally, the significant voting interest of holders of Class B multiple voting shares may discourage transactions involving a change of control, including transactions in which an investor, as a holder of the Class A subordinate voting shares, might otherwise receive a premium for the Class A subordinate voting shares over the then-current market price, or discourage competing proposals if a going private transaction is proposed by one or more holders of Class B multiple voting shares.

Future transfers by holders of Class B multiple voting shares will generally result in those shares converting to Class A subordinate voting shares, which will have the effect, over time, of increasing the relative voting power of those holders of Class B multiple voting shares who retain their shares. If, for example, our Chief Executive Officer, Tobias Lütke, who as of February 10, 2017 holds approximately 59.9% of our outstanding Class B multiple voting shares, retains a significant portion of his holdings of Class B multiple voting shares for an extended period of time, he could, in the future, control a significant percentage of the combined voting power of our Class A subordinate voting shares and Class B multiple voting shares. Each of our directors and officers owes a fiduciary duty to Shopify and must act honestly and in good faith with a view to the best interests of Shopify. However, any director and/or officer that is a shareholder, even a controlling shareholder, is entitled to vote his or her shares in his or her own interests, which may not always be in the interests of our shareholders generally.

Our restated articles of incorporation amend certain default rights provided for under the CBCA for holders of Class B multiple voting shares and Class A subordinate voting shares to vote separately as a class for certain types of amendments to our restated articles of incorporation. Specifically, neither the holders of the Class B multiple voting shares nor Class A subordinate voting shares shall be entitled to vote separately as a class upon a proposal to amend our restated articles of incorporation to (1) increase or decrease any maximum number of authorized shares of such class, or increase any maximum number of authorized shares of a class having rights or privileges equal or superior to the shares of such class; or (2) create a new class of shares equal or superior to the shares of such class, which rights are otherwise provided for in paragraphs (a) and (e) of subsection 176(1) of the CBCA. Pursuant to our restated articles of incorporation, neither holders of our Class A subordinate voting shares nor holders of our Class B multiple voting shares are entitled to vote separately as a class on a proposal to amend our restated articles of incorporation to effect an exchange, reclassification or cancellation of all or part of the shares of such class pursuant to Section 176(1)(b) of the CBCA unless such exchange, reclassification or cancellation: (a) affects only the holders of that class; or (b) affects the holders of Class A subordinate voting shares and Class B multiple voting shares differently, on a per share basis, and such holders are not already otherwise entitled to vote separately as a class under applicable law or our restated articles of incorporation in respect of such exchange, reclassification or cancellation.

Pursuant to our restated articles of incorporation, holders of Class A subordinate voting shares and Class B multiple voting shares are treated equally and identically, on a per share basis, in certain change of control transactions that require approval of our shareholders under the CBCA, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of our Class A subordinate voting shares and Class B multiple voting shares, each voting separately as a class.

The market price of our Class A subordinate voting shares may be volatile.

The market price of our Class A subordinate voting shares has fluctuated in the past and we expect it to fluctuate in the future, and it may decline. Since our Class A subordinate voting shares were sold in our initial public offering in May 2015 at a price of $17.00 per share, our share price has ranged from $18.48 through $56.25 through February 10, 2017. We cannot assure you that an active trading market for our Class A subordinate voting shares will be sustained, and we therefore cannot assure you that you will be able to sell your Class A subordinate voting shares when you would like to do so, or that you will obtain your desired price for your shares, and you could lose all or part of your investment. Some of the factors that may cause the market price of our Class A subordinate voting shares to fluctuate include:

- significant volatility in the market price and trading volume of comparable companies;
- actual or anticipated changes or fluctuations in our operating results or in the expectations of market analysts;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- short sales, hedging and other derivative transactions in our shares;
- announcements of technological innovations, new products, strategic alliances or significant agreements by us or by our competitors;
- changes in the prices of our solutions or the prices of our competitors' solutions;
- litigation or regulatory action against us;
- breaches of security or privacy, and the costs associated with any such breaches and remediation;
- investors' general perception of us and the public's reaction to our press releases, our other public announcements and our filings with the SEC and Canadian securities regulators;
- fluctuations in quarterly results;
- publication of research reports or news stories about us, our competitors or our industry, or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- changes in general political, economic, industry and market conditions and trends;
- sales of our Class A subordinate voting shares and Class B multiple voting shares by our directors, executive officers and existing shareholders;
- recruitment or departure of key personnel; and
- the other risk factors described in this section of our AIF.

In addition, the stock markets have historically experienced substantial price and volume fluctuations, particularly in the case of shares of technology companies, and such fluctuations and other broad market and industry factors may harm the market price of our Class A subordinate voting shares. Hence, the price of our Class A subordinate voting shares could fluctuate based upon factors that have little or nothing to do with us, and these fluctuations could materially reduce the share price of our Class A subordinate voting shares regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has been instituted against that company. If we were involved in any similar litigation, we could incur substantial costs, our management's attention and resources could be diverted and it could harm our business, operating results and financial condition.

Sales of substantial amounts of our common shares in the public market, or the perception that these sales may occur, could cause the market price of our shares to decline.

Certain of our shareholders have certain rights to require us to file registration statements in the United States or prospectuses in Canada covering their shares or to include their shares in registration statements or prospectuses that we may file for ourselves or on behalf of other shareholders.

Further, we cannot predict the size of future issuances of our Class A subordinate voting shares or the effect, if any, that future issuances and sales of our Class A subordinate voting shares will have on the market price of our Class A subordinate voting shares. Sales of substantial amounts of our shares, or the perception that such sales could occur, may adversely affect prevailing market prices for our Class A subordinate voting shares.

Risks associated with our internal controls over financial reporting

Any failure of our internal controls could have an adverse effect on our stated results of operations and harm our reputation. As a result, we may experience higher than anticipated operating expenses, as well as higher independent auditor fees during and after the implementation of these changes. If we are unable to implement any of the required changes to our internal control over financial reporting effectively or efficiently or are required to do so earlier than anticipated, it could adversely affect our operations, financial reporting and results of operations. If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be adversely impacted.

We incur increased costs and regulatory burden and devote substantial management time as a result of being a public company.

As a public company, we incur increased legal, accounting and other costs not incurred as a private company. We are subject to, among other things, the Exchange Act, the rules and regulations of the Canadian Securities Administrators, the corporate governance requirements found in the Sarbanes-Oxley Act and related rules and regulations of the SEC, the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as the rules and regulations implemented by the New York Stock Exchange, or NYSE, and the Toronto Stock Exchange, or TSX. Compliance with these requirements has increased our legal and financial compliance costs and makes some activities more time consuming and costly. In addition, our management and other personnel need to divert attention from operational and other business matters to devote substantial time to these public company requirements. We have made, and will continue to make, changes to our financial management control systems and other areas to manage our obligations as a public company, including corporate governance, corporate controls, disclosure controls and procedures and financial reporting and accounting systems. However, we cannot assure you that these and other measures that we might take will be sufficient to allow us to satisfy our obligations as a public company on a timely basis.

Because we do not expect to pay any dividends on our Class A subordinate voting shares for the foreseeable future, investors may never receive a return on their investment.

We have never declared or paid any dividends on our securities. We do not have any present intention to pay cash dividends on our Class A subordinate voting shares and we do not anticipate paying any cash dividends on our Class A subordinate voting shares in the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

As a foreign private issuer, we are subject to different U.S. securities laws and rules than a domestic U.S. issuer, which may limit the information publicly available to our shareholders.

We are a "foreign private issuer," as such term is defined in Rule 405 under the Securities Act, and are not subject to the same requirements that are imposed upon U.S. domestic issuers by the SEC. Under the Exchange Act, we are subject to reporting obligations that, in certain respects, are less detailed and less frequent than those of U.S. domestic reporting companies. As a result, we do not file the same reports that a U.S. domestic issuer would file with the SEC, although we are required to file or furnish to the SEC the continuous disclosure documents that we are required to file in Canada under Canadian securities laws. In addition, our officers, directors, and principal shareholders are exempt from the reporting and "short swing" profit recovery provisions of Section 16 of the Exchange Act. Therefore, our shareholders may not know on as timely a basis when our officers, directors and principal shareholders purchase or sell shares, as the reporting deadlines under the corresponding Canadian insider reporting requirements are longer.

As a foreign private issuer, we are exempt from the rules and regulations under the Exchange Act related to the furnishing and content of proxy statements. We are also exempt from Regulation FD, which prohibits issuers from making selective disclosures of material non-public information. While we will comply with the corresponding requirements relating to proxy statements and disclosure of material non-public information under Canadian securities laws, these requirements differ from those under the Exchange Act and Regulation FD and shareholders should not expect to receive the same information at the same time as such information is provided by U.S. domestic companies. In addition, we are not required under the Exchange Act to file annual and quarterly reports with the SEC as promptly as U.S. domestic companies whose securities are registered under the Exchange Act.

In addition, as a foreign private issuer, we have the option to follow certain Canadian corporate governance practices, except to the extent that such laws would be contrary to U.S. securities laws, and provided that we disclose the requirements we are not following and describe the Canadian practices we follow instead. We currently rely on this exemption with respect to requirements regarding the quorum for any meeting of our shareholders. We may in the future elect to follow home country practices in Canada with regard to other matters. As a result, our shareholders may not have the same protections afforded to shareholders of U.S. domestic companies that are subject to all corporate governance requirements.

We may lose foreign private issuer status in the future, which could result in significant additional costs and expenses to us.

We may in the future lose our foreign private issuer status if a majority of our shares are held in the United States and we fail to meet the additional requirements necessary to avoid loss of foreign private issuer status, such as if: (1) a majority of our directors or executive officers are U.S. citizens or residents; (2) a majority of our assets are located in the United States; or (3) our business is administered principally in the United States. Although we have elected to comply with certain U.S. regulatory provisions, our loss of foreign private issuer status would make such compliance mandatory. The regulatory and compliance costs to us under securities laws as a U.S. domestic issuer will be significantly more than the costs incurred as a Canadian foreign private issuer. If we were not a foreign private issuer, we would not be eligible to use foreign issuer forms and would be required to file periodic and current reports and registration statements on U.S. domestic issuer forms with the SEC, which are generally more detailed and extensive than the forms available to a foreign private issuer. In addition, we may lose our ability to rely upon exemptions from certain corporate governance requirements on U.S. stock exchanges that are available to foreign private issuers.

Provisions of Canadian law may delay, prevent or make undesirable an acquisition of all or a significant portion of our shares or assets.

The *Investment Canada Act* (Canada) subjects an acquisition of control of us by a non-Canadian to government review if the value of our assets as calculated pursuant to the legislation exceeds a threshold amount. A reviewable acquisition may not proceed unless the relevant Minister is satisfied that the investment is likely to be of net benefit to Canada. This could prevent or delay a change of control and may eliminate or limit strategic opportunities for shareholders to sell their Class A subordinate voting shares.

It may be difficult to enforce civil liabilities in Canada under U.S. securities laws.

We were incorporated in Canada, and our corporate headquarters are located in Canada. A majority of our directors and executive officers and certain of the experts named in our Annual Report reside or are based principally in Canada and the majority of our assets and all or a substantial portion of the assets of these persons is located outside the United States. It may be difficult for investors who reside in the United States to effect service of process upon these persons in the United States, or to enforce a U.S. court judgment predicated upon the civil liability provisions of the U.S. federal securities laws against us or any of these persons. There is substantial doubt whether an action could be brought in Canada in the first instance predicated solely upon U.S. federal securities laws. Canadian courts may refuse to hear a claim based on an alleged violation of U.S. securities laws against us or these persons on the grounds that Canada is not the most appropriate forum in which to bring such a claim. Even if a Canadian court agrees to hear a claim, it may determine that Canadian law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Canadian law.

Our by-laws provide that any derivative actions, actions relating to breach of fiduciary duties and other matters relating to our internal affairs will be required to be litigated in Canada, which could limit investors' ability to obtain a favorable judicial forum for disputes with us.

We have adopted a forum selection by-law that provides that, unless we consent in writing to the selection of an alternative forum, the Superior Court of Justice of the Province of Ontario, Canada and appellate Courts therefrom (or, failing such Court, any other "court" as defined in the CBCA having jurisdiction, and the appellate Courts therefrom), will be the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf; (2) any action or proceeding asserting a breach of fiduciary duty owed by any of our directors, officers or other employees to us; (3) any action or proceeding asserting a claim arising pursuant to any provision of the CBCA or our restated articles or by-laws; or (4) any action or proceeding asserting a claim otherwise related to our "affairs" (as defined in the CBCA). Our forum selection by-law also provides that our securityholders are deemed to have consented to personal jurisdiction in the Province of Ontario and to service of process on their counsel in any foreign action initiated in violation of our by-law. Therefore, it may not be possible for securityholders to litigate any action relating to the foregoing matters outside of the Province of Ontario.

Our forum selection by-law seeks to reduce litigation costs and increase outcome predictability by requiring derivative actions and other matters relating to our affairs to be litigated in a single forum. While forum selection clauses in corporate charters and by-laws are becoming more commonplace for public companies in the United States and have been upheld by courts in certain states, they are untested in Canada. It is possible that the validity of our forum selection by-law could be challenged and that a court could rule that such by-law is inapplicable or unenforceable. If a court were to find our forum selection by-law inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions and we may not obtain the benefits of limiting jurisdiction to the courts selected.

Provisions of our charter documents and certain Canadian legislation could delay or deter a change of control, limit attempts by our shareholders to replace or remove our current senior management and affect the market price of our Class A subordinate voting shares.

Our restated articles of incorporation authorize our board of directors to issue an unlimited number of preferred shares without shareholder approval and to determine the rights, privileges, restrictions and conditions granted to or imposed on any unissued series of preferred shares. Those rights may be superior to those of our Class A subordinate voting shares and Class B multiple voting shares. For example, preferred shares may rank prior to Class A subordinate voting shares and Class B multiple voting shares as to dividend rights, liquidation preferences or both, may have full or limited voting rights and may be convertible into Class A subordinate voting shares or Class B multiple voting shares. If we were to issue a significant number of preferred shares, these issuances could deter or delay an attempted acquisition of us or make the removal of management more difficult, particularly in the event that we issue preferred shares with special voting rights. Issuances of preferred shares, or the perception that such issuances may occur, could cause the trading price of our Class A subordinate voting shares to drop.

In addition, provisions in the CBCA and in our restated articles of incorporation and by-laws may have the effect of delaying or preventing changes in our senior management, including provisions that:

- require that any action to be taken by our shareholders be effected at a duly called annual or special meeting and not by written consent;
- establish an advance notice procedure for shareholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors; and
- require the approval of a two-thirds majority of the votes cast by shareholders present in person or by proxy in order to amend certain provisions of our restated articles of incorporation, including, in some circumstances, by separate class votes of holders of our Class A subordinate voting shares and Class B multiple voting shares.

These provisions may frustrate or prevent any attempts by our shareholders to launch a proxy contest or replace or remove our current senior management by making it more difficult for shareholders to replace members of our board of directors, which is responsible for appointing the members of our senior management. Any of these provisions could have the effect of delaying, preventing or deferring a change in control which could limit the opportunity for our Class A subordinate voting shareholders to receive a premium for their Class A subordinate voting shares, and could also affect the price that investors are willing to pay for Class A subordinate voting shares.

Our constating documents permit us to issue an unlimited number of Class A subordinate voting shares and Class B multiple voting shares.

Our restated articles of incorporation permit us to issue an unlimited number of Class A subordinate voting shares and Class B multiple voting shares. We anticipate that we will, from time to time, issue additional Class A subordinate voting shares in the future. Subject to the requirements of the NYSE and the TSX, we will not be required to obtain the approval of shareholders for the issuance of additional Class A subordinate voting shares. Although the rules of the TSX generally prohibit us from issuing additional Class B multiple voting shares, there may be certain circumstances where additional Class B multiple voting shares may be issued, including upon receiving shareholder approval and pursuant to the exercise of stock options under our fourth amended and restated option plan (the "Legacy Option Plan") that were granted prior to our initial public offering. Any further issuances of Class A subordinate voting shares or Class B multiple voting shares will result in immediate dilution to existing shareholders and may have an adverse effect on the value of their shareholdings. Additionally, any further issuances of Class B multiple voting shares may significantly lessen the combined voting power of our Class A subordinate voting shares due to the 10-to-1 voting ratio between our Class B multiple voting shares and Class A subordinate voting shares.

DIVIDENDS AND DISTRIBUTIONS

We have, to date, not declared or paid any dividends or distributions on our securities. We currently intend to retain any future earnings to fund the development and growth of our business and we do not currently anticipate paying dividends. Any determination to pay dividends to holders of shares in the future will be at the discretion of our board of directors and will depend on many factors, including our financial condition, earnings, legal requirements and other factors as the board of directors deems relevant. In addition, our outstanding credit agreements limit our ability to pay dividends and we may in the future become subject to debt instruments or other agreements that further limit our ability to pay dividends.

CAPITAL STRUCTURE

General

The following is a description of the material terms of our Class A subordinate voting shares, our Class B multiple voting shares, and our preferred shares, as set forth in our restated articles of incorporation.

Our authorized share capital consists of an unlimited number of Class A subordinate voting shares of which 77,218,483 were issued and outstanding as of February 10, 2017, an unlimited number of Class B multiple voting shares of which 12,505,930 were issued and outstanding as of February 10, 2017, and an unlimited number of preferred shares, issuable in series, none of which are issued and outstanding. Although the rules of the TSX generally prohibit us from issuing additional Class B multiple voting shares, there may be certain circumstances where additional Class B multiple voting shares may be issued, including upon receiving shareholder approval and pursuant to the exercise of stock options under our legacy stock option plan that were granted prior to our initial public offering.

The Class A subordinate voting shares are "restricted securities" within the meaning of such term under applicable Canadian securities laws.

Shares

Except as described herein, the Class A subordinate voting shares and the Class B multiple voting shares have the same rights, are equal in all respects and are treated by Shopify as if they were one class of shares.

Rank

The Class A subordinate voting shares and Class B multiple voting shares rank *pari passu* with respect to the payment of dividends, return of capital and distribution of assets in the event of the liquidation, dissolution or winding up of the Company. In the event of the liquidation, dissolution or winding-up of the Company or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs, whether voluntarily or involuntarily, the holders of Class A subordinate voting shares and the holders of Class B multiple voting shares are entitled to participate equally in the remaining property and assets of the Company available for distribution to the holders of shares, without preference or distinction among or between the Class A subordinate voting shares and the Class B multiple voting shares, subject to the rights of the holders of any preferred shares.

Dividends

The holders of outstanding Class A subordinate voting shares and Class B multiple voting shares are entitled to receive dividends on a share for share basis at such times and in such amounts and form as our board of directors may from time to time determine, but subject to the rights of the holders of any preferred shares, without preference or distinction among or between the Class A subordinate voting shares and the Class B multiple voting shares. We are permitted to pay dividends unless there are reasonable grounds for believing that: (i) we are, or would after such payment be, unable to pay our liabilities as they become due; or (ii) the realizable value of our assets would, as a result of such payment, be less than the aggregate of our liabilities and stated capital of all classes of shares. In the event of a payment of a dividend in the form of shares, Class A subordinate voting shares shall be distributed with respect to outstanding Class A subordinate voting shares and Class B multiple voting shares shall be distributed with respect to outstanding Class B multiple voting shares, unless otherwise determined by our board.

Voting Rights

Under our restated articles of incorporation, each Class A subordinate voting share is entitled to one vote per share and each Class B multiple voting share is entitled to 10 votes per share. Our Class A subordinate voting shares currently collectively represent 86.1% of our total issued and outstanding shares and 38.2% of the voting power attached to all of our issued and outstanding shares and the Class B multiple voting shares currently collectively represent 13.9% of our total issued and outstanding shares and 61.8% of the voting power attached to all of our issued and outstanding shares.

Conversion

The Class A subordinate voting shares are not convertible into any other class of shares. Each outstanding Class B multiple voting share may at any time, at the option of the holder, be converted into one Class A subordinate voting share. Upon the first date that a Class B multiple voting share is Transferred (as defined below) by a holder of Class B multiple voting shares, other than to a Permitted Holder (as defined below) or from any such Permitted Holder back to such holder of Class B multiple voting shares and/or any other Permitted Holder of such holder of Class B multiple voting shares, the holder thereof, without any further action, shall automatically be deemed to have exercised his, her or its rights to convert such Class B multiple voting share into a fully paid and non-assessable Class A subordinate voting share, on a share for share basis.

In addition, all Class B multiple voting shares will convert automatically into Class A subordinate voting shares on the date on which the outstanding Class B multiple voting shares represent less than 5% of the aggregate number of outstanding Class A subordinate voting shares and Class B multiple voting shares as a group.

For the purposes of the foregoing:

"Affiliate" means, with respect to any specified Person, any other Person which directly or indirectly through one or more intermediaries controls, is controlled by, or is under common control with such specified Person;

"Members of the Immediate Family" means with respect to any individual, each parent (whether by birth or adoption), spouse, or child or other descendants (whether by birth or adoption) of such individual, each spouse of any of the aforementioned Persons, each trust created solely for the benefit of such individual and/or one or more of the aforementioned Persons, and each legal representative of such individual or of any aforementioned Persons (including without limitation a tutor, curator, mandatary due to incapacity, custodian, guardian or testamentary executor), acting in such capacity under the authority of the law, an order from a competent tribunal, a will or a mandate in case of incapacity or similar instrument. For the purposes of this definition, a Person shall be considered the spouse of an individual if such Person is legally married to such individual, lives in a civil union with such individual or is the common law partner (as defined in the *Income Tax Act* (Canada) as amended from time to time) of such individual. A Person who was the spouse of an individual within the meaning of this paragraph immediately before the death of such individual shall continue to be considered a spouse of such individual after the death of such individual;

"Permitted Holders" means, in respect of a holder of Class B multiple voting shares that is an individual, the Members of the Immediate Family of such individual and any Person controlled, directly or indirectly, by any such holder, and in respect of a holder of Class B multiple voting shares that is not an individual, an Affiliate of that holder;

"Person" means any individual, partnership, corporation, company, association, trust, joint venture or limited liability company;

"Transfer" of a Class B multiple voting share shall mean any sale, assignment, transfer, conveyance, hypothecation or other transfer or disposition of such share or any legal or beneficial interest in such share, whether or not for value and whether voluntary or involuntary or by operation of law. A "Transfer" shall also include, without limitation, (1) a transfer of a Class B multiple voting share to a broker or other nominee (regardless of whether or not there is a corresponding change in beneficial ownership) or (2) the transfer of, or entering into a binding agreement with respect to, Voting Control over a Class B multiple voting share by proxy or otherwise, provided, however, that the following shall not be considered a "Transfer": (a) the grant of a proxy to our officers or directors at the request of our board of directors in connection with actions to be taken at an annual or special meeting of shareholders; or (b) the pledge of a Class B multiple voting share that creates a mere security interest in such share pursuant to a bona fide loan or indebtedness transaction so long as the holder of the Class B multiple voting share continues to exercise Voting Control over such pledged shares; provided, however, that a foreclosure on such Class B multiple voting share or other similar action by the pledgee shall constitute a "Transfer";

"Voting Control" with respect to a Class B multiple voting share means the exclusive power (whether directly or indirectly) to vote or direct the voting of such Class B multiple voting share by proxy, voting agreement or otherwise.

A Person is "controlled" by another Person or other Persons if: (1) in the case of a company or other body corporate wherever or however incorporated: (A) securities entitled to vote in the election of directors carrying in the aggregate at least a majority of the votes for the election of directors and representing in the aggregate at least a majority of the participating (equity) securities are held, other than by way of security only, directly or indirectly, by or solely for the benefit of the other Person or Persons; and (B) the votes carried in the aggregate by such securities are entitled, if exercised, to elect a majority of the board of directors of such company or other body corporate; or (2) in the case of a Person that is not a company or other body corporate, at least a majority of the participating (equity) and voting interests of such Person are held, directly or indirectly, by or solely for the benefit of the other Person or Persons; and "controls", "controlling" and "under common control with" shall be interpreted accordingly.

Subdivision or Consolidation

No subdivision or consolidation of the Class A subordinate voting shares or the Class B multiple voting shares may be carried out unless, at the same time, the Class B multiple voting shares or the Class A subordinate voting shares, as the case may be, are subdivided or consolidated in the same manner and on the same basis.

Certain Class Votes

Except as required by the CBCA, applicable securities laws or our restated articles of incorporation, holders of Class A subordinate voting shares and Class B multiple voting shares will vote together on all matters subject to a vote of holders of both those classes of shares as if they were one class of shares. Under the CBCA, certain types of amendments to our restated articles of incorporation are subject to approval by special resolution of the holders of our classes of shares voting separately as a class, including amendments to:

- change the rights, privileges, restrictions or conditions attached to the shares of that class;
- increase the rights or privileges of any class of shares having rights or privileges equal or superior to the shares of that class; and
- make any class of shares having rights or privileges inferior to the shares of such class equal or superior to the shares of that class.

Without limiting other rights at law of any holders of Class A subordinate voting shares or Class B multiple voting shares to vote separately as a class, neither the holders of the Class A subordinate voting shares nor the holders of the Class B multiple voting shares shall be entitled to vote separately as a class upon a proposal to amend our restated articles of incorporation in the case of an amendment to (1) increase or decrease any maximum number of authorized shares of such class, or increase any maximum number of authorized shares of a class having rights or privileges equal or superior to the shares of such class; or (2) create a new class of shares equal or superior to the shares of such class, which rights are otherwise provided for in paragraphs (a) and (e) of subsection 176(1) of the CBCA. Pursuant to our restated articles of incorporation, neither holders of our Class A subordinate voting shares nor holders of our Class B multiple voting shares will be entitled to vote separately as a class on a proposal to amend our restated articles of incorporation to effect an exchange, reclassification or cancellation of all or part of the shares of such class pursuant to Section 176(1)(b) of the CBCA unless such exchange, reclassification or cancellation: (a) affects only the holders of that class; or (b) affects the holders of Class A subordinate voting shares and Class B multiple voting shares differently, on a per share basis, and such holders are not already otherwise entitled to vote separately as a class under applicable law or our restated articles of incorporation in respect of such exchange, reclassification or cancellation.

Pursuant to our restated articles of incorporation, holders of Class A subordinate voting shares and Class B multiple voting shares will be treated equally and identically, on a per share basis, in certain change of control transactions that require approval of our shareholders under the CBCA, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of our Class A subordinate voting shares and Class B multiple voting shares, each voting separately as a class.

Take-Over Bid Protection

Under applicable Canadian law, an offer to purchase Class B multiple voting shares would not necessarily require that an offer be made to purchase Class A subordinate voting shares. In accordance with the rules of the TSX designed to ensure that, in the event of a take-over bid, the holders of Class A subordinate voting shares will be entitled to participate on an equal footing with holders of Class B multiple voting shares, upon the completion of our initial public offering the holders of over 80% of the then outstanding Class B multiple voting shares entered into a customary coattail agreement with Shopify and a trustee, which we refer to as the Coattail Agreement. The Coattail Agreement contains provisions customary for dual class, TSX listed corporations designed to prevent transactions that otherwise would deprive the holders of Class A subordinate voting shares of rights under the take-over bid provisions of applicable Canadian securities legislation to which they would have been entitled if the Class B multiple voting shares had been Class A subordinate voting shares.

The undertakings in the Coattail Agreement will not apply to prevent a sale of Class B multiple voting shares by a holder of Class B multiple voting shares party to the Coattail Agreement if concurrently an offer is made to purchase Class A subordinate voting shares that:

(a) offers a price per Class A subordinate voting share at least as high as the highest price per share paid or required to be paid pursuant to the take-over bid for the Class B multiple voting shares;
(b) provides that the percentage of outstanding Class A subordinate voting shares to be taken up (exclusive of shares owned immediately prior to the offer by the offeror or persons acting jointly or in concert with the offeror) is at least as high as the percentage of outstanding Class B multiple voting shares to be sold (exclusive of Class B multiple voting shares owned immediately prior to the offer by the offeror and persons acting jointly or in concert with the offeror);
(c) has no condition attached other than the right not to take up and pay for Class A subordinate voting shares tendered if no shares are purchased pursuant to the offer for Class B multiple voting shares; and
(d) is in all other material respects identical to the offer for Class B multiple voting shares.

In addition, the Coattail Agreement will not prevent the sale of Class B multiple voting shares by a holder thereof to a Permitted Holder, provided such sale does not or would not constitute a take-over bid or, if so, is exempt or would be exempt from the formal bid requirements (as defined in applicable securities legislation). The conversion of Class B multiple voting shares into Class A subordinate voting shares, shall not, in of itself constitute a sale of Class B multiple voting shares for the purposes of the Coattail Agreement.

Under the Coattail Agreement, any sale of Class B multiple voting shares (including a transfer to a pledgee as security) by a holder of Class B multiple voting shares party to the Coattail Agreement will be conditional upon the transferee or pledgee becoming a party to the Coattail Agreement, to the extent such transferred Class B multiple voting shares are not automatically converted into Class A subordinate voting shares in accordance with our restated articles of incorporation.

The Coattail Agreement contains provisions for authorizing action by the trustee to enforce the rights under the Coattail Agreement on behalf of the holders of the Class A subordinate voting shares. The obligation of the trustee to take such action will be conditional on Shopify or holders of the Class A subordinate voting shares providing such funds and indemnity as the trustee may require. No holder of Class A subordinate voting shares will have the right, other than through the trustee, to institute any action or proceeding or to exercise any other remedy to enforce any rights arising under the Coattail Agreement unless the trustee fails to act on a request authorized by holders of not less than 10% of the outstanding Class A subordinate voting shares and reasonable funds and indemnity have been provided to the trustee.

The Coattail Agreement provides that it may not be amended, and no provision thereof may be waived, unless, prior to giving effect to such amendment or waiver, the following have been obtained: (a) the consent of the TSX and any other applicable securities regulatory authority in Canada and (b) the approval of at least 66 2/3% of the votes cast by holders of Class A subordinate voting shares represented at a meeting duly called for the purpose of considering such amendment or waiver, excluding votes attached to Class A subordinate voting shares held directly or indirectly by holders of Class B multiple voting shares, their affiliates and related parties and any persons who have an agreement to purchase Class B multiple voting shares on terms which would constitute a sale for purposes of the Coattail Agreement other than as permitted thereby.

No provision of the Coattail Agreement will limit the rights of any holders of Class A subordinate voting shares under applicable law.

Preferred Shares

We are 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 our 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, and will not be entitled to vote separately as a class upon a proposal to amend our restated articles of incorporation in the case of an amendment of the kind referred to in paragraph (a), (b) or (e) of subsection 176(1) of the CBCA. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of the company, whether voluntary or involuntary, the preferred shares are entitled to preference over the Class A subordinate voting shares, Class B multiple voting shares and any other shares ranking junior to the preferred shares from time to time and may also be given such other preferences over Class A subordinate voting shares, Class B multiple voting shares and any other shares ranking junior to the preferred shares as may be determined at the time of creation of such series.

The issuance of preferred shares and the terms selected by our board of directors could decrease the amount of earnings and assets available for distribution to holders of our Class A subordinate voting shares and Class B multiple voting shares or adversely affect the rights and powers, including the voting rights, of the holders of our Class A subordinate voting shares and Class B multiple voting shares without any further vote or action by the holders of our Class A subordinate voting shares and Class B multiple voting shares. The issuance of preferred shares, or the issuance of rights to purchase preferred shares, could make it more difficult for a third-party to acquire a majority of our outstanding voting shares and thereby have the effect of delaying, deferring or preventing a change of control of us or an unsolicited acquisition proposal or of making the removal of management more difficult. Additionally, the issuance of preferred shares may have the effect of decreasing the market price of our Class A subordinate voting shares.

We have no current intention to issue any preferred shares.

Registration Rights

Our Third Amended and Restated Investors’ Rights Agreement (the "Registration Rights Agreement"), provides certain holders of our Class B multiple voting shares with registration rights in respect of (i) the Class A subordinate voting shares issuable or issued upon conversion of the Class B multiple voting shares held by such holders, (ii) any Class A subordinate voting shares held by such holders or any Class A subordinate voting shares issued or issuable upon conversion or exercise of any other securities issued by us and held by such holders; and (iii) any Class A subordinate voting shares issued as, or issuable upon conversion or exercise of any other securities issued as, a dividend or other distribution with respect to, or in exchange for or in replacement of, the shares referenced in clauses (i) and (ii) above. We refer to these Class A subordinate voting shares as "registrable securities".

We will pay the expenses, other than underwriting discounts, selling commissions and share transfer taxes incurred in connection with the registration, filing or qualification of registrable securities in accordance with the terms of the Registration Rights Agreement.

The registration rights provided for in the Registration Rights Agreement will expire with respect to any particular holder at such time that such holder (i) can sell all of its registrable securities under Rule 144(b)(1)(i) under the Securities Act or (ii) holds less than 1% of the outstanding Class A subordinate voting shares and Class B multiple voting shares, in the aggregate, and can sell its registrable securities during any three month period under Rule 144 of the Securities Act.

MARKET FOR SECURITIES

Trading Price and Volume

Our Class A subordinate voting shares are listed for trading on the Toronto Stock Exchange (TSX) and on the New York Stock Exchange (NYSE) under the trading symbol "SHOP". The following table sets forth the price ranges and volumes of Class A subordinate voting shares traded on the TSX and NYSE for each month of 2016.

	NYSE (US$)				TSX (CAD$)		
2016	**High**	**Low**	**Volume**		**High**	**Low**	**Volume**
January	26.50	18.48	9,667,163		36.82	26.84	834,477
February	24.81	18.58	17,949,337		34.26	25.85	1,505,155
March	28.78	22.01	15,506,080		37.55	29.90	1,253,768
April	32.39	27.57	9,942,563		40.99	36.20	815,274
May	31.88	24.96	15,258,893		39.80	33.49	1,949,257
June	31.51	26.35	16,641,492		41.00	34.45	1,701,602
July	34.76	30.00	17,780,900		45.52	39.15	936,032
August	43.62	32.85	33,880,718		56.30	42.94	2,360,630
September	45.20	39.78	17,539,361		59.03	52.22	1,902,606
October	45.00	40.15	10,731,788		59.13	53.31	1,548,491
November	45.45	37.74	22,120,947		60.93	50.84	2,118,013
December	44.24	38.69	14,171,266		60.00	51.46	2,035,617

Our Class B multiple voting shares are not listed for trading or quoted on any exchange or market; however, as described further above, at any time, at the option of the holder, Class B multiple voting shares can be converted into Class A subordinate voting shares on a one-for-one basis.

Our authorized share capital consists of an unlimited number of Class A subordinate voting shares of which 77,030,952 were issued and outstanding as of December 31, 2016, an unlimited number of Class B multiple voting shares of which 12,374,528 were issued and outstanding as of December 31, 2016, and an unlimited number of preferred shares, issuable in series, none of which are issued and outstanding.

Prior Sales

In 2016, 3,002,719 class B multiple voting shares were issued as a result of the exercise of options granted under our Legacy Option Plan, at a weighted average exercise price of US$1.12 per share.

DIRECTORS AND OFFICERS

Officers

Executive officers are appointed by the board of directors to serve, subject to the discretion of the board of directors, until their successors are appointed.

Tobias Lütke
Ontario, Canada
Tobias Lütke co-founded Shopify in September 2004. Mr. Lütke has served as our Chief Executive Officer since April 2008. Prior to that, Mr. Lütke acted as our Chief Technology Officer between September 2004 and April 2008. Mr. Lütke worked on the core team of the Ruby on Rails framework and has created many popular open source libraries such as Active Merchant. Mr. Lütke also serves as Chair of our Board of Directors.

Daniel Weinand
Ontario, Canada
Daniel Weinand joined Shopify in August 2005 and co-founded the Shopify platform that launched in 2006. He has been our Chief Creative Officer since February 2017, and previously to that acted as our Chief Design Officer since 2008 and our Chief Culture Officer since 2012. Prior to joining Shopify, Mr. Weinand was a freelance web designer for private and corporate clients. Mr. Weinand studied Computer Science and Music at the University of Dortmund in Germany.

Harley Finkelstein
Ontario, Canada
Harley Finkelstein is the Chief Operating Officer at Shopify and has been with the company since 2010. Prior to his current role, Harley founded numerous startups and ecommerce companies. He currently serves on the board of the C100 , a non-profit organization that supports Canadian technology entrepreneurship through mentorship, partnership and investment, and is an advisor to Felicis Ventures. Harley holds a Bachelor degree in Economics from Concordia University and a J.D./M.B.A. joint degree in Law and Business from the University of Ottawa.

Russell Jones
Ontario, Canada
Russell Jones has been our Chief Financial Officer since March 2011. Prior to his appointment at Shopify, Mr. Jones served as Chief Financial Officer to both BDNA Corporation from September 2009 to August 2010 and to Xambala Incorporated from September 2007 to February 2011. Between March 2002 and August 2007, Mr. Jones co-founded CFO4Results, which provided interim Chief Financial Officer, business and operational support services to a number of early to mid-stage technology companies. He has also held senior financial roles with Mitel Corporation, Newbridge Networks and Watchfire. Mr. Jones holds a Bachelor of Commerce (Honors) degree from Carleton University and is a CPA, CA.

Craig Miller
Ontario, Canada
Craig Miller joined Shopify in September 2011 and has been our Chief Product Officer since February 2017. Previous to that Craig acted as our Chief Marketing Officer and VP Marketing. In his current role, he oversees the Product, User Experience, Growth, Marketing, and Communications teams at the Company. Mr. Miller previously held several product and marketing roles at Kijiji, an eBay Company, between 2006 and 2011.

Mr. Miller holds a Bachelor degree in Electrical Engineering from McGill University.

Joseph Frasca
Ontario, Canada
Joseph Frasca is the Senior Vice President, General Counsel and Secretary at Shopify and has been with the company since May 2014. Prior to his appointment at Shopify, Mr. Frasca was Senior Corporate Counsel at EMC Corporation between May 2011 and May 2014 and Corporate Counsel at EMC Corporation between January 2008 and May 2011. Mr. Frasca also worked in private practice as an Associate at Skadden, Arps, Slate, Meagher & Flom LLP from 2004 to 2008. Mr. Frasca holds a J.D. from Boston University School of Law, a Master of Arts in Law and Diplomacy from The Fletcher School at Tufts University and a B.S. in Russian Language and Linguistics from Georgetown University. Mr. Frasca is a member of the Society of Corporate Secretaries & Governance Professionals sitting on the Securities Law Committee.

Brittany Forsyth
Ontario, Canada
Brittany Forsyth is the Senior Vice President of Human Relations at Shopify and has been in this role since 2014. She has been with the company since 2010 and previously served as the Director of HR. Ms. Forsyth is involved with a number of human resources organizations across North America. Prior to joining Shopify, Ms. Forsyth obtained a Bachelor of Commerce degree at Carleton University.

Jean-Michel Lemieux
Ontario, Canada
Jean-Michel Lemieux is the Senior Vice President of Engineering at Shopify and joined the company in 2015. Prior to joining Shopify, he served as the Vice President of Engineering at Atlassian and as the Chief Architect for Rational Team Concert, a division of IBM. Jean-Michel co-authored the book, Eclipse Rich Client Platform and has filed two U.S. patents on software configuration management. Jean-Michel holds a Bachelor’s degree in Computer Science from the University of Ottawa.

David Lennie
Ontario, Canada
David Lennie is Senior Vice President of Data and Analytics at Shopify and joined the company in 2015. Prior to joining Shopify, David served as the Senior Vice President of Analytics at LearnVest and Director of Data Science and Engineering at Netflix. He brings a wealth of experience and knowledge in building data teams, warehouses, and analytics systems. David holds an M.B.A. from The Wharton School at the University of Pennsylvania and a Bachelor of Science degree from Northwestern University.

Toby Shannan
Ontario, Canada
Toby Shannan is the Senior Vice President of Support at Shopify and has been with the company since 2010. In his current role, he oversees the customer service strategy for Shopify. Between November 2007 and May 2010, Mr. Shannan co-founded and acted as Chief Executive Officer of Social Fabric, a personal genomics company. Prior to that, Mr. Shannan acted as Vice President of Sales and Marketing at DNA Genotek from October 2003 to October 2007.

Directors

Our directors are either elected annually by the shareholders at the annual meeting of shareholders or, subject to our restated articles of incorporation and applicable law, appointed by our board of directors between annual meetings. Each director holds office until the close of the next annual meeting of our shareholders or until he or she ceases to be a director by operation of law, or until his or her removal or resignation becomes effective. In addition to Mr. Tobias Lütke, a director since 2004 who serves chair of the board as well as CEO, the Company's directors are as follows:

Robert Ashe
Ontario, Canada
Robert Ashe has served as a member of our board of directors since December 2014. Over 24 years, Mr. Ashe held a variety of positions with increasing responsibility at Cognos Incorporated, a business intelligence and performance management software company. Mr. Ashe ultimately served as Chief Executive Officer of Cognos Incorporated from 2005 to 2008 before the company was acquired by IBM. Mr. Ashe remained with IBM as a general manager of business analytics from 2008 to 2012. Mr. Ashe currently serves on the board of directors of Halogen Software (TSX), Servicesource International (NASDAQ Stock Exchange, or NASDAQ) and MSCI Inc. (NYSE). Mr. Ashe holds a Bachelor of Commerce from the University of Ottawa and is a Fellow of the Institute of Chartered Accountants of Ontario.

Steven Collins
Florida, United States
Steven Collins has served as a member of our board of directors since June 2014. Mr. Collins served as the Executive Vice President and Chief Financial Officer of ExactTarget Inc., a cross-channel digital marketing company, from 2011 to 2014. Prior to that, Mr. Collins held the position of Senior Vice President and Chief Financial Officer of NAVTEQ Corporation, a digital mapping company; Mr. Collins was with NAVTEQ Corporation from 2003 through 2011 and served as the Vice President of Finance and the Senior Vice President of Finance & Accounting prior to being named Chief Financial Officer. Mr. Collins currently serves on the board of directors of Instructure (NYSE) and a number of privately held companies. Mr. Collins holds a B.S. degree in Industrial Engineering from Iowa State University and an M.B.A. from the Wharton School of the University of Pennsylvania.

Gail Goodman
Massachusetts, United States
Gail Goodman has served as a member of our board of directors since November 2016. Ms. Goodman most recently served as President and Chief Executive Officer of Constant Contact, a software company providing small businesses with online marketing tools to grow their businesses, for over 16 years. Over that time Ms. Goodman served as a director and chairwoman of the board and led Constant Contact through its initial public offering and for eight years as a publicly traded company, until its acquisition by Endurance International Group Holdings, Inc. (NASDAQ) in February 2016. Ms. Goodman holds a B.A. from the University of Pennsylvania and an M.B.A. from The Tuck School of Business at Dartmouth College. Ms. Goodman currently serves on the board of directors of MINDBODY, Inc. (NASDAQ), a provider of cloud-based business management software for the wellness services industry.

Jeremy Levine
New York, United States
Jeremy Levine has served as a member of our board of directors since February 2011. Since January 2007, Mr. Levine has been a Partner at Bessemer Venture Partners, a venture capital firm he joined in May 2001. Mr. Levine currently serves on the board of directors of Yelp Inc. (NYSE), a local directory and user review service, on the board of directors of MINDBODY, Inc. (NASDAQ), a provider of cloud-based business management software for the wellness services industry, and a number of privately held companies. Mr. Levine holds a B.S. degree in Computer Science from Duke University.

John Phillips
Ontario, Canada
John Phillips has served as a member of our board of directors since April 30, 2010. Mr. Phillips has worked with Klister Credit Corp., an investment and consulting company, and is currently its Chief Executive Officer, a position he has held since 1993. Mr. Phillips had a career in the legal profession working in private practice at Blake, Cassels & Graydon LLP for 20 years and as general counsel at Clearnet Communications Inc. for nearly six years. Mr. Phillips currently serves on the board of directors of a number of privately held companies and gained experience serving on the board of directors of Redknee Solutions Inc., a public company. Mr. Phillips received a B.A. from Trinity College, University of Toronto and an L.L.B./J.D. from the Faculty of Law, University of Toronto.

Board Committees

Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Robert Ashe	Member	Chair	
Steven Collins	Chair		
Gail Goodman	Member	Member	
Jeremy Levine			Member
John Phillips	Member	Member	Chair
Tobias Lütke			

Audit Committee

Our audit committee is comprised of Robert Ashe, Steven Collins, Gail Goodman and John Phillips, and is chaired by Mr. Collins. Our board of directors has determined that each of these directors meets the independence requirements, including the heightened independence standards for members of the audit committee, of the NYSE, the SEC and National Instrument 52-110 - Audit Committees ("NI 52-110"). Our board of directors has determined that each of the members of the audit committee is "financially literate" within the meaning of the NYSE rules and NI 52-110. Mr. Collins has been identified as an audit committee financial expert as defined by the SEC rules. Mr. Collins currently serves as chair of the audit committee of Instructure, Inc. (NYSE). Mr. Ashe currently serves on the audit committees of three public companies: Halogen Software (TSX), ServiceSource International (NASDAQ) and MSCI Inc. (NYSE). Our board of directors has determined that Mr. Ashe's simultaneous service on those audit committees does not impair his ability to effectively serve on our audit committee. For a description of the education and experience of each member of the audit committee, see "Directors", above.

Our board of directors has established a written charter setting forth the purpose, composition, authority and responsibility of the audit committee, consistent with the rules of the NYSE, the SEC and NI 52-110. A copy of the Audit Committee Charter is appended to this AIF as Exhibit A.

The principal purpose of our audit committee is to assist our board of directors in discharging its oversight of:

- the quality and integrity of our financial statements and related information;
- the independence, qualifications, appointment and performance of our external auditor;
- our disclosure controls and procedures, internal control over financial reporting and management's responsibility for assessing and reporting on the effectiveness of such controls;

- our compliance with applicable legal and regulatory requirements; and
- our enterprise risk management processes.

At least annually, the audit committee will review and confirm the independence of the auditor by obtaining statements from the independent auditor describing all relationships or services that may affect their independence and objectivity, and the committee will take appropriate actions to oversee our auditor.

Our audit committee has access to all of our books, records, facilities and personnel and may request any information about us as it may deem appropriate. It also has the authority in its sole discretion and at our expense, to retain and set the compensation of outside legal, accounting or other advisors as necessary to assist in the performance of its duties and responsibilities.

Our audit committee also reviews our policies and procedures for reviewing and approving or ratifying related-party transactions, and it is responsible for reviewing and approving or ratifying all related-party transactions.

Audit Committee Pre-Approval Policies and Procedures

From time to time, management recommends to and requests approval from the Audit Committee for audit and non-audit services to be provided by the Company's auditors. The Audit Committee considers such requests on a quarterly basis, and if acceptable, pre-approves such audit and non-audit services. During such deliberations, the Audit Committee assesses, among other factors, whether the services requested would be considered "prohibited services" as contemplated by the SEC, and whether the services requested and the fees related to such services could impair the independence of the Company's auditors.

The Audit Committee considered and agreed that the fees paid to the Company's auditors in the years ended December 31, 2016 and 2015 are compatible with maintaining the independence of the Company's auditors. The Audit Committee determined that, in order to ensure the continued independence of the auditors, only limited non-audit services will be provided to the Company by PricewaterhouseCoopers LLP.

Since the implementation of the Audit Committee pre-approval process in November 2015, all audit and non-audit services rendered by our auditors have been pre-approved by the Audit Committee.

Auditor Service Fees

The aggregate amounts paid or accrued by the Company with respect to fees payable to PricewaterhouseCoopers LLP, the auditors of the Company, for audit (including separate audits of wholly-owned and non-wholly owned entities, financings, regulatory reporting requirements and SOX related services), audit-related, tax and other services in the years ended December 31, 2016 and 2015 were as follows:

	Fiscal 2016	Fiscal 2015
	$	$
	(in thousands)	
Audit Fees	542	802
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	2	7
Total	544	809

Audit fees relate to the audit of our annual consolidated financial statements, the review of our quarterly condensed consolidated financial statements and services in connection with our registration statements related to our initial public offering and our follow-on public offering.

Audit-related fees consist of aggregate fees for accounting consultations and other services that were reasonably related to the performance of audits or reviews of our consolidated financial statements and were not reported above under "Audit Fees".

Tax fees relate to assistance with tax compliance, expatriate tax return preparation, tax planning and various tax advisory services.

Other fees are any additional amounts for products and services provided by the principal accountants other than the services reported above under "Audit Fees", "Audit-Related Fees" and "Tax Fees".

Ownership of Securities

As a group, our directors and executive officers beneficially own, or control or direct, directly or indirectly, a total of 2,127,167 Class A subordinate voting shares and 11,861,376 Class B multiple voting shares, representing 2.8% of the Class A subordinate voting shares and 94.8% of the Class B multiple voting shares outstanding and 59.7% of the voting power attached to all of our issued and outstanding shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of Shopify, no director or executive officer of Shopify (a) is at the date hereof or has been, in the last 10 years before the date hereof, a director, chief executive officer (CEO) or chief financial officer (CFO) of any company, including Shopify, that (i) was subject to a cease trade order, similar order or an order that denied the relevant company access to any exemptions under securities legislation, for a period of more than 30 consecutive days (an "Order") that was issued while the director or executive officer was acting in that capacity; or, (ii) was subject to an Order that was issued after the director or executive officer ceased to be a director, CEO or CFO and which resulted from an event that occurred while that person was acting in the capacity as director, CEO or CFO.

To the knowledge of Shopify, no director or executive officer of Shopify, and no shareholder holding a sufficient number of securities of Shopify to affect materially the control of Shopify, (i) is at the date hereof or has been in the 10 years before the date hereof, a director or executive officer of a company, including Shopify that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets, or (ii) has, within the last 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Conflicts of Interest

To the Company's knowledge, there are no existing or potentially material conflicts of interest between the Company or a subsidiary of the Company and any director or officer of the Company or of a subsidiary of the Company.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

We are involved in legal proceedings, as well as demands, claims and threatened litigation, that arise in the normal course of our business. In particular, as is common in our industry, we have received notices alleging that we infringe patents belonging to various third parties. These notices are dealt with in accordance with our internal procedures, which include assessing the merits of each notice and seeking, where appropriate, a business resolution. Where a business resolution cannot be reached, litigation may be necessary. The ultimate outcome of any litigation is uncertain, and regardless of outcome, litigation can have an adverse impact on our business because of defense costs, negative publicity, diversion of management resources and other factors. Our failure to obtain any necessary license or other rights on commercially reasonable terms, or otherwise, or litigation arising out of intellectual property claims could materially adversely affect our business. As of the date of this AIF, we are not party to any litigation that we believe is material to our business.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of Shopify, and to the knowledge of the directors and executive officers of Shopify, (i) no person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10 percent of Shopify's voting shares, (ii) nor any of such persons' or companies' associates or affiliates, (iii) nor any associates or affiliates of any director of executive officer of Shopify, has had a material interest, direct or indirect, that has materially affected or is reasonably expected to materially affect the Company within the three most recently completed financial years or during the current financial year.

TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar for our Class A subordinate voting shares in the United States is Computershare Trust Company, N.A. at its principal office in Canton, Massachusetts, and in Canada is Computershare Investor Services Inc. at its principal office in Toronto, Ontario.

MATERIAL CONTRACTS

The following are the only material contracts, other than those contracts entered into in the ordinary course of business, which have been entered into by the Company within the most recently completed fiscal year, or were entered into before the most recently completed fiscal year and are still in effect, deemed to be material:

- Coattail Agreement dated as of May 27, 2015, in connection with our Class B Multiple Voting Shares
- Third Amended and Restated Investors' Rights Agreement dated May 27, 2015
- Payment Services Provider Agreement, dated July 22, 2013, between Stripe, Inc. and Shopify Payments (USA) Inc. and the addendum to Payment Services Provider Agreement for Canada, dated July 22, 2013, among Stripe, Inc., Shopify Payments (USA) Inc. and Shopify Payments (Canada) Inc.

Copies of the above material agreements may be inspected during ordinary business hours at our principal executive offices located at 150 Elgin Street, 8th Floor, Ottawa, Canada, K2P 1L4 or may be viewed at the website maintained by the SEC at http://www.sec.gov or the website maintained by the Canadian Securities Administrators at http://www.sedar.com.

INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP are the auditors of Shopify and are independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information about Shopify is available on our website at www.shopify.com, on t he website maintained by the SEC at www.sec.gov or the website maintained by the Canadian Securities Administrators at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans will be contained in our management information circular that will be filed in connection with our next annual meeting of shareholders. Once filed, the circular will be available on our website at www.shopify.com, or at www.sec.gov or www.sedar.com.

Additional financial information is provided in our consolidated financial statements and MD&A for the fiscal year ended December 31, 2016, available on our website at www.shopify.com, or at www.sec.gov or www.sedar.com.

We are a "foreign private issuer" as such term is defined in Rule 405 under the U.S. Securities Act of 1933, as amended, and are not subject to the same requirements that are imposed upon U.S. domestic issuers by the SEC. Under the U.S. Securities Exchange Act of 1934, as amended, we are subject to reporting obligations that, in certain respects, are less detailed and less frequent than those of U.S. domestic reporting companies. As a result, we do not file the same reports that a U.S. domestic issuer would file with the SEC, although we are required to file or furnish to the SEC the continuous disclosure documents that we are required to file in Canada under Canadian securities laws.

We will provide without charge to each person, including any beneficial owner, on the written or oral request of such person, a copy of any or all documents referred to above which have been or may be incorporated by reference in this Annual Information Form or our Annual Report on Form 40-F for the year ended December 31, 2016 (not including exhibits to such incorporated reports that are not specifically incorporated by reference into such reports). Requests for such copies should be directed to us via email to IR@shopify.com, by calling 1 (888) 746-7439, or by writing to Investor Relations, Shopify Inc., 150 Elgin Street, 8th Floor, Ottawa, ON, K2P 1L4, Canada.

EXHIBIT A
SHOPIFY INC.
AUDIT COMMITTEE CHARTER

This Audit Committee Charter (“ **Charter** ”) has been adopted by the Board of Directors (“ **Board** ”) of Shopify Inc. (“ **Company** ”) and sets forth the purpose, composition, authority and responsibility of the Audit Committee (“ **Committee** ”) of the Board.

I. Purpose

The Committee’s purpose is to assist the Board in its oversight of:

- the quality and integrity of the Company’s financial statements and related information;
- the independence, qualifications, appointment and performance of the Company’s external auditor (“ **external auditor** ”);
- the Company’s disclosure controls and procedures, internal controls over financial reporting, and management’s responsibility for assessing and reporting on the effectiveness of such controls;
- the Company’s compliance with applicable legal and regulatory requirements; and
- the Company’s enterprise risk management processes.

II. Access to Information and Authority

In carrying out its duties and responsibilities, the Committee shall have the authority to:

- communicate directly with the external auditors and to meet with and seek any information it requires from employees, officers, directors, or external parties;
- investigate any matter relating to the Company’s accounting, auditing, internal control or financial reporting practices or anything else within its scope of responsibility;
- obtain full access to all Company books, records, facilities and personnel; and
- at its sole discretion and at the Company’s expense, retain and set the compensation of outside legal, accounting, or other advisors, as necessary to assist in the performance of its duties and responsibilities.

The Company will provide appropriate funding, as determined by the Committee, for compensation to the external auditor, to any advisors that the Committee chooses to engage, and for payment of ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

III. Composition and meetings

The Board shall elect annually from among its members the Committee, which shall be composed of three or more directors as determined by the Board, each of whom shall meet all applicable standards of independence and financial literacy under applicable laws, regulations and rules, which determination of independence will be made by the Board. At least one member shall be designated as an “audit committee financial expert” as defined by applicable legislation and regulation, including within the meaning of Section 407 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder by the SEC.

The Board may remove members of the Committee at any time, with or without cause.

The Chair shall be designated by the Board; *provided* , that if the Board does not so designate a Chair, the Committee shall choose one of its members to be its Chair by majority vote. The Chair shall have the duties and responsibilities set out in Section VI.

The Committee will meet at least quarterly, or more frequently as circumstances dictate. The Committee shall be convened whenever requested by external auditors or any member of the Committee or otherwise as required by law. The external auditors shall be entitled to receive notice of every meeting of the Committee and to attend and be heard at all such meetings. The Committee shall periodically meet separately with management and the external auditors in executive sessions. In addition, the Committee shall periodically meet with the external auditors and management to discuss the annual audited financial statements and quarterly financial statements, including the Company's disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations". Subject to applicable law and exchange requirements, the Committee and the Chair may invite any director, executive, employee, or such other person as it deems appropriate to attend and participate in any portion of any Committee meeting, and may exclude from all or any portion of its meetings any person it deems appropriate in order to carry out its responsibilities. The Committee will also meet before or after each regularly scheduled meeting *in camera* . Meetings may be held in person or by tele- or video-conference. The Committee may also act by unanimous written consent, whether given in writing or electronically, in lieu of a meeting.

Unless otherwise determined from time to time by resolution of the Board, a majority of members of the Committee shall constitute a quorum for the transaction of business at a meeting. For any meeting(s) at which the Committee Chair is absent, the Chair of the meeting shall be the person present who shall be decided upon by all members present. At a meeting, any question shall be decided by a majority of the votes cast by members of the Committee, except where only two members are present, in which case any question shall be decided unanimously. Unless otherwise determined by resolution of the Board, the Corporate Secretary of the Company or his/her delegate shall be the Secretary of the Committee. The Committee will maintain written minutes of its meetings and copies of written consents. The Committee shall report regularly to the Board.

I. Responsibilities and Duties of the Committee

In addition to such other duties as may from time to time be expressly assigned to the Committee by the Board, the Committee shall have the following responsibilities and duties:

Financial Reporting

1. Prepare an audit committee report, if required, to be included in the Company's annual proxy statement.

2. Prior to their public disclosure, review and discuss with management and, if applicable, the external auditor:

   - the Company's annual financial statements and the related Management's Discussion and Analysis (" **MD&A** "), including the discussion of critical accounting estimates included therein and, if appropriate, recommend to the Board the approval, filing and disclosure of such information;
   - the Company's quarterly unaudited financial statements and associated MD&A, including the discussion of critical accounting estimates included therein and, if appropriate, approve the filing and disclosure of such information;

- the Company’s earnings press releases, including any pro forma or non-GAAP information included therein and, if appropriate, recommend to the Board their approval, filing and disclosure;
- the type and presentation of financial information and earnings guidance provided to analysts, ratings agencies and others;
- to the extent they include financial information extracted or derived from the Company’s financial statements, other public reports or filings by the Company, including the Company’s annual information and proxy statements, approve such information, or where appropriate recommend to the board their approval; and
- internal controls (or summaries thereof) and the integrity of the financial reporting and related attestations by the external auditors of the Company’s internal controls over financial reporting.

External Auditor

3. Review, report and approve of, or where appropriate provide recommendations to the Board as to, the appointment, term, compensation and review of engagement, removal, independence, audit plan (including the timing and scope of the audit), estimated and actual fees and contractual arrangements of the external auditor. The external auditor will report directly to the Committee and the Committee will oversee the work performed by the external auditor and the resolution of disagreements between management and the external auditor if they arise, taking into account where appropriate the opinions of management.

4. Review the external auditors’ management letters and management’s responses to such letters.

5. At least annually, the Committee shall assess the external auditor’s independence. The Committee shall obtain and review a report by the external auditor describing all relationships between the external auditor and the Company, including the written disclosures and the letter from the external auditor required by applicable requirements. The Committee shall review any disclosed relationships or services that may affect the independence and objectivity of the auditor and take appropriate actions to oversee the external auditor.

6. Review and preapprove (which may be pursuant to preapproval policies and procedures) all audit and non-audit services to be provided by the external auditor. Delegate, if deemed appropriate, authority to one or more members of the Committee to grant preapprovals of audit and non-audit services, provided that any such approvals be presented to the Committee at its next scheduled meeting. Consider whether the auditor’s provision of permissible non-audit services is compatible with the auditor’s independence.

7. Discuss with the external auditor and management any matters required to be discussed in accordance with applicable Public Company Accounting Oversight Board (“ **PCAOB** ”) standards.

8. Meet periodically with the external auditor in the absence of management. Review with the external auditor any audit problems or difficulties the external auditor encountered in the course of the audit work and management’s response, including any restrictions on the scope of the external auditor’s activities or access to requested information and any significant disagreements with management.

9. Review and discuss the reports required to be made by the external auditor regarding:
   - critical accounting policies and practices;
   - material selections of accounting policies when there is a choice of policies available under GAAP that have been discussed with management, including the ramifications of the use of such alternative treatment, and the treatment preferred by the external auditor;
   - other material written communications between the external auditor and management; and,
   - any other matters required to be communicated to the Committee by applicable rules and regulations.

10. At least annually, obtain and review a report by the external auditor describing:
   - the external auditor's internal quality-control procedures;
   - any material issues raised by the most recent internal quality-control review or peer review, or by any inquiry or investigation by governmental or professional authorities within the preceding five years with respect to independent audits carried out by the external auditor, and any steps taken to deal with such issues; and,
   - all relationships between the external auditor and the Company, addressing the matters set forth in PCAOB Rule 3526. This report should be used to evaluate the external auditor's qualifications, performance, and independence. Further, the Committee will review the experience and qualifications of the lead partner each year and determine that all partner rotation requirements, as promulgated by applicable rules and regulations, are executed. The Committee will also consider whether there should be rotation of the external auditor itself. The Committee will present its conclusions to the Board.

11. Set policies, consistent with governing laws and regulations, for the hiring of current or former personnel of the external auditor.

Financial Reporting Processes, Accounting Policies and Internal Controls

12. Review and discuss with management and the external auditor, and monitor, report and where appropriate, provide recommendations to the Board on:

   - the adequacy and effectiveness of the Company's system of internal controls over financial reporting, including any significant deficiencies and significant changes in internal controls;
   - the integrity of the Company's external financial reporting processes;
   - the Company's disclosure controls and procedures, including any significant deficiencies in or material non-compliance with, such controls and procedures; and
   - the relationship of the Committee with other committees of the Board and management.

13. Understand the scope of the external auditors' review of internal control over financial reporting and obtain reports on significant findings and recommendations, together with management responses.

14. Review and discuss with the Company's Chief Executive Officer (" **CEO** ") and Chief Financial Officer (" **CFO** ") the process for the certifications to be provided and receive and review any disclosure from the Company's CEO and CFO made in connection with the required certifications of the Company's quarterly and annual reports filed, including: a) any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize, and report financial data; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.

15. Review major issues and analyses prepared by management and/or the external auditor regarding accounting principles and financial reporting issues and judgments made in connection with the preparation of financial statements, including any significant changes in the Company's selection or application of accounting principles, the effect of alternative GAAP methods on the financial statements, complex or unusual transactions and highly judgmental areas, such as the presentation and impact of significant risks and uncertainties and key estimates and judgments of management that may be material to financial reporting, the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company, and major issues as to the adequacy of the Company's internal controls, and any special audit steps adopted in light of material control deficiencies.

16. Review the Company's policies and procedures for reviewing and approving or ratifying related-party transactions. Review and approve or ratify all related-party transactions.

17. Establish and oversee procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, including procedures for confidential, anonymous submissions by employees regarding questionable accounting or auditing matters.

18. Meet periodically with management in the absence of the external auditor.

19. Consider the risk of management's ability to override the Company's internal controls.

Ethical and Legal Compliance and Risk Management

20. Review, with the Company's counsel, legal compliance and legal matters that could have a significant impact on the Company's financial statements. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of non-compliance. Receive and review periodic reports from the Company with respect to the Company's pending or threatened material litigation. Review the appropriateness of the disclosure thereof in the documents reviewed by the Committee. Review, with Company's counsel, on a regular basis, any reports of whistleblowing, including any reports made to the Anonymous Helpline.

21. Discuss the Company's policies with respect to risk assessment and risk management, the Company's insurance coverage, as well as the Company's major financial risk exposures and the steps management has undertaken to control them.

22. Review the Company's compliance with internal policies and the Company's progress in remedying any material deficiencies that could have a significant impact on the Company.

23. Review the findings of any examinations by regulatory agencies, and any external auditors observations made regarding those findings.

Other Responsibilities

24. Report regularly to the Board regarding the execution of the Committee's duties and responsibilities, activities, any issues encountered, and related recommendations.

25. Institute and oversee special investigations as needed.

26. Perform any other activities consistent with this Charter, the Company's by-laws, and governing laws that the Board or Committee determines are necessary or appropriate.

II. Delegation of Authority

The Committee may form subcommittees for any purpose that the Committee deems appropriate and may delegate to such subcommittees such power and authority as the Committee deems appropriate; *provided, however,* that no subcommittee shall consist of fewer than two members; and *provided further* that the Committee shall not delegate to a subcommittee any power or authority required by any law, regulation or listing standard to be exercised by the Committee as a whole.

III. Responsibilities and Duties of the Chair

The Chair shall have the following responsibilities and duties:

- chair meetings of the Committee;

- in consultation with the Board Chair and the Corporate Secretary, determine the frequency, dates and locations of meetings of the Committee;

- in consultation with the CEO, the CFO, the Corporate Secretary and others as required, review the annual work plan and the meeting agendas to ensure all required business is brought before the Committee;

- in consultation with the Board Chair, ensure that all items requiring the Committee's approval are appropriately tabled;

- report to the Board on the matters reviewed by, and on any decisions or recommendations of, the Committee at the next meeting of the Board following any meeting of the Committee; and

- carry out any other or special assignments or any functions as may be requested by the Board.

IV. Limitation on Committee's Duties

The Committee shall discharge its responsibilities, and shall assess the information provided by the Company's management and the external auditor, in accordance with its business judgment. Members of the Committee are not full-time employees of the Company and are not, and do not represent themselves to be, professional accountants or auditors. The authority and responsibilities set forth in this Charter do not reflect or create any duty or obligation of the Committee to (i) plan or conduct any audits, (ii) determine or certify that the Company's financial statements are complete, accurate, fairly presented or in accordance with generally accepted accounting principles or applicable law, (iii) guarantee the external auditor's reports, or (iv) provide any expert or special assurance as to the Company's internal controls or management of risk. Members of the Committee are entitled to rely, absent knowledge to the contrary, on the integrity of the persons and organizations from whom they receive information, the accuracy and completeness of the information provided, and representations made by management as to any audit or non-audit services provided by the external auditor.

Nothing in this Charter is intended or may be construed as imposing on any member of the Committee or the Board a standard of care or diligence that is in any way more onerous or extensive than the standard to which the directors are subject under applicable law. This Charter is not intended to change or interpret the amended articles of incorporation or by-laws of the Company or any federal, provincial, state or exchange law, regulation or rule to which the Company is subject, and this Charter should be interpreted in a manner consistent with all such applicable laws, regulations and rules . The Board may, from time to time, permit departures from the terms hereof, either prospectively or retrospectively, and no provision contained herein is intended to give rise to civil liability to securityholders of the Company or other liability whatsoever.

Any action that may or is to be taken by the Committee may, to the extent permitted by law or regulation, be taken directly by the Board.

V. **Evaluation of Committee**

The Committee shall, on an annual basis, review and evaluate its performance. In conducting this review, the Committee shall address such matters that the Committee considers relevant to its performance and evaluate whether this Charter appropriately addresses the matters that are or should be within its scope. The review and evaluation shall be conducted in such a manner as the Committee deems appropriate.

The Committee shall deliver to the Board a report, which may be oral, setting forth the results of its review and evaluation, including any recommended changes to this Charter and any recommended changes to the Company's or the Board's policies or procedures, as it deems necessary or appropriate.

Approved by the Board May 5, 2015, effective as of the Company's initial public offering

* * * * *

EXHIBIT 1.2

Consolidated Financial Statements
December 31, 2016

Independent Auditor’s Report

To the Shareholders of
Shopify Inc.

We have completed an integrated audit of Shopify Inc. and its subsidiaries' 2016 consolidated financial statements and their internal control over financial reporting as at December 31, 2016 and an audit of their 2015 consolidated financial statements. Our opinions, based on our audits, are presented below.

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of Shopify Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2016 and 2015 and the consolidated statements of operations and comprehensive loss, of changes in shareholders’ equity, and of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management’s responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits as at December 31, 2016 and 2015 and for the years then ended in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Shopify Inc. and its subsidiaries as at December 31, 2016 and 2015 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on internal control over financial reporting
We have also audited Shopify Inc. and its subsidiaries’ internal control over financial reporting as at December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management’s responsibility for internal control over financial reporting
Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting which is in Management's Discussion and Analysis.

Auditor's responsibility

Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the company's internal control over financial reporting.

Definition of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations

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

Opinion

In our opinion, Shopify Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as at December 31, 2016, based on criteria established in Internal Control-Integrated Framework (2013) issued by COSO.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Ottawa, Ontario, Canada
February 14, 2017

Shopify Inc.
Consolidated Balance Sheets
Expressed in US $000's except share amounts

		As at	
		December 31, 2016	**December 31, 2015**
	Note	**$**	**$**
Assets			
Current assets			
Cash and cash equivalents	*4*	84,013	110,070
Marketable securities	*5*	308,401	80,103
Trade and other receivables	*6*	9,599	6,089
Merchant cash advances receivable, net	*3*	11,896	—
Other current assets	*7*	8,989	6,203
		422,898	202,465
Long term assets			
Property and equipment	*8*	45,719	33,048
Intangible assets	*9*	6,437	5,826
Goodwill	*10*	15,504	2,373
		67,660	41,247
Total assets		490,558	243,712
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	*11*	45,057	23,689
Current portion of deferred revenue		20,164	12,726
Current portion of lease incentives	*12*	1,311	822
		66,532	37,237
Long term liabilities			
Deferred revenue		922	661
Lease incentives	*12*	12,628	10,497
		13,550	11,158
Commitments and contingencies	*14*		
Shareholders' equity			
Common stock, unlimited Class A subordinate voting shares authorized, 77,030,952 and 56,877,089 issued and outstanding; unlimited Class B multiple voting shares authorized, 12,374,528 and 23,212,769 issued and outstanding	*15*	468,494	231,452
Additional paid-in capital		27,009	11,719
Accumulated other comprehensive loss	*16*	(1,818)	—
Accumulated deficit		(83,209)	(47,854)
Total shareholders' equity		410,476	195,317
Total liabilities and shareholders' equity		490,558	243,712

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

On Behalf of the Board:

" *Tobias Lütke* "
Tobias Lütke
Chairman, Board of Directors

" *Steven Collins* "
Steven Collins
Chairman, Audit Committee

Shopify Inc.
Consolidated Statements of Operations and Comprehensive Loss
Expressed in US $000's, except share and per share amounts

		Years ended	
		December 31, 2016	December 31, 2015
	Note	$	$
Revenues			
Subscription solutions	*19*	188,606	111,979
Merchant solutions	*19*	200,724	93,254
		389,330	205,233
Cost of revenues			
Subscription solutions		39,478	24,531
Merchant solutions		140,357	67,447
		179,835	91,978
Gross profit		209,495	113,255
Operating expenses			
Sales and marketing		129,214	70,374
Research and development		74,336	39,722
General and administrative		43,110	20,915
Total operating expenses		246,660	131,011
Loss from operations		(37,165)	(17,756)
Other income (expense)			
Interest income, net		1,536	200
Foreign exchange gain (loss)		274	(1,234)
		1,810	(1,034)
Net loss		(35,355)	(18,790)
Other comprehensive loss, net of tax			
Unrealized loss on cash flow hedges	*16*	(1,818)	—
Comprehensive loss		(37,173)	(18,790)
Basic and diluted net loss per share attributable to shareholders	*17*	$ (0.42)	$ (0.30)
Weighted average shares used to compute basic and diluted net loss per share attributable to shareholders	*17*	83,988,597	61,716,065

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

Shopify Inc.
Statements of Changes in Shareholders' Equity
Expressed in US $000's except share amounts

		Convertible Preferred Shares		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Note	Shares	Amount $	Shares	Amount $	$	$	$	$
As at December 31, 2014		**27,159,277**	**87,056**	**39,310,446**	**4,055**	**5,685**	**—**	**(29,064)**	**67,732**
Exercise of stock options		—	—	4,665,059	3,737	(2,133)	—	—	1,604
Stock-based compensation		—	—	—	—	8,167	—	—	8,167
Vesting of restricted shares		—	—	100,076	353	—	—	—	353
Issuance of Class A subordinate voting shares upon initial public offering, net of offering costs of $14,284	*1*	—	—	8,855,000	136,251	—	—	—	136,251
Conversion of preferred shares to Class B multiple voting shares		(27,159,277)	(87,056)	27,159,277	87,056	—	—	—	—
Net loss and comprehensive loss for the year		—	—	—	—	—	—	(18,790)	(18,790)
As at December 31, 2015		**—**	**—**	**80,089,858**	**231,452**	**11,719**	**—**	**(47,854)**	**195,317**
Exercise of stock options		—	—	3,037,644	9,077	(4,915)	—	—	4,162
Stock-based compensation		—	—	—	—	23,545	—	—	23,545
Vesting of restricted share units				104,740	3,340	(3,340)	—	—	—
Vesting of restricted shares		—	—	48,238	202	—	—	—	202
Issuance of Class A subordinate voting shares, net of offering costs of $9,859	*1*	—	—	6,125,000	224,423	—	—	—	224,423
Net loss and comprehensive loss for the year		—	—	—	—	—	(1,818)	(35,355)	(37,173)
As at December 31, 2016		**—**	**—**	**89,405,480**	**468,494**	**27,009**	**(1,818)**	**(83,209)**	**410,476**

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

Shopify Inc.
Consolidated Statements of Cash Flows
Expressed in US $000's

		Years ended	
		December 31, 2016	December 31, 2015
	Note	$	$
Cash flows from operating activities			
Net loss for the year		(35,355)	(18,790)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization and depreciation		13,967	7,236
Stock-based compensation		22,896	7,805
Vesting of restricted shares		202	353
Unrealized foreign exchange (gain) loss		(969)	1,828
Changes in operating assets and liabilities:			
Trade and other receivables		(2,356)	1,176
Merchant cash advances receivable, net		(11,896)	—
Other current assets		(2,604)	(4,708)
Accounts payable and accrued liabilities		19,813	11,097
Deferred revenue		7,699	6,218
Lease incentives	*12*	2,620	3,541
Net cash provided by operating activities		14,017	15,756
Cash flows from investing activities			
Purchase of marketable securities		(369,208)	(111,154)
Maturity of marketable securities		139,872	48,350
Acquisitions of property and equipment		(23,773)	(16,525)
Acquisitions of intangible assets		(2,463)	(4,511)
Acquisition of businesses, net of cash acquired	*20*	(14,114)	—
Net cash used in investing activities		(269,686)	(83,840)
Cash flows from financing activities			
Proceeds from initial public offering, net of issuance costs	*1*	—	136,251
Proceeds from the exercise of stock options	*1*	4,162	1,604
Proceeds from follow-on public offering, net of issuance costs		224,423	—
Net cash provided by financing activities		228,585	137,855
Effect of foreign exchange on cash and cash equivalents		1,027	(1,654)
Net increase (decrease) in cash and cash equivalents		(26,057)	68,117
Cash and cash equivalents – Beginning of Year		110,070	41,953
Cash and cash equivalents – End of Year		84,013	110,070
Non-cash investing activities:			
Acquired property and equipment remaining unpaid		587	1,295
Capitalized stock-based compensation		649	362

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

1. Nature of Business

Shopify Inc. (“Shopify” or the “Company”) was incorporated as a Canadian corporation on September 28, 2004. The Company’s mission is to make commerce better for everyone. The Company provides the leading cloud-based, multi-channel commerce platform designed for small and medium-sized businesses. Using a single interface, the Company’s merchants can design, set up and manage their business across multiple sales channels, including web and mobile storefronts, social media storefronts, marketplaces and physical retail locations. The Company’s 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 and leverage analytics and reporting. The Company’s platform is engineered to enterprise-level standards and functionality while being designed for simplicity.

The Company’s headquarters and principal place of business are in Ottawa, Canada.

Public Offerings

In May 2015, the Company completed its initial public offering, or IPO, in which it issued and sold 8,855,000 Class A subordinate voting shares at a public offering price of $17.00 per share, including the 1,155,000 Class A subordinate voting shares purchased by the underwriters pursuant to the exercise of the over-allotment option. The Company received net proceeds of $136,251 after deducting underwriting discounts and commissions of $10,537 and other offering expenses of $3,747 . Immediately prior to consummation of the IPO, all of the then-outstanding common shares were redesignated as an aggregate of 39,780,952 Class B multiple voting shares, and upon consummation of the IPO, all of the then-outstanding convertible preferred stock automatically converted into an aggregate of 27,159,277 Class B multiple voting shares.

In August 2016, the Company completed a follow-on public offering, in which it issued and sold 8,625,000 Class A subordinate voting shares at a public offering price of $ 38.25 per share (including the 1,125,000 Class A subordinate voting shares purchased by the underwriters pursuant to the exercise of the over-allotment option), and a secondary offering of 2,500,000 Class A subordinate voting shares which were sold by certain of our shareholders. The Company received net proceeds of $ 224,423 after deducting underwriting discounts and commissions of $ 8,786 and other offering expenses of $1,073 .

2. Basis of Presentation and Consolidation

These consolidated financial statements include the accounts of the Company and its directly and indirectly wholly owned subsidiaries: Shopify Payments (Canada) Inc., incorporated in Canada; Shopify International Limited, incorporated in Ireland; Shopify (Australia) Pty Ltd., incorporated in Australia; Shopify Capital Inc., incorporated in the state of Virginia in the United States; and the following United States subsidiaries each incorporated in Delaware: Shopify (USA) Inc., formerly Kit CRM Inc., Shopify Payments (USA) Inc., Shopify Data Processing (USA) Inc. and Shopify Holdings (USA) Inc. All intercompany accounts and transactions have been eliminated upon consolidation.

These 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.

Change in Accounting Policy

In the fourth quarter of fiscal 2016, the Company changed its accounting policy for presenting chargebacks related to Shopify Payments. Historically, the Company classified chargebacks related to Shopify Payments in merchant solutions cost of revenues. The Company's new policy is to classify chargebacks related to Shopify Payments in general and administrative expenses. Management has determined that the new policy is preferable as it more appropriately classifies chargebacks related to Shopify Payments based on the nature of the underlying transaction. The Consolidated Statement of Operations and Comprehensive Loss for the year ended December 31, 2015 has been reclassified to reflect this change in accounting policy. The impact of this reclassification was an increase of $2,184 to general and administrative expenses for fiscal 2015 and a corresponding decrease to cost of merchant solutions revenues in the same period. The reclassification did not have an impact on the Company's net income, earnings per share, Consolidated Balance Sheets, or Consolidated Statements of Cash Flows for any of the periods presented.

3. Significant Accounting Policies

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 items that are subject to estimation and assumptions include: estimates related to contingencies and refundable tax credits; provision for uncollectable receivables related to merchant cash advances and chargebacks on Shopify Payments transactions that are unrecoverable from merchants; recoverability of deferred tax assets; fair values of assets and liabilities acquired in business combinations; fair value of acquired intangible assets and goodwill; capitalization of software development costs; estimated useful lives of property and equipment and intangible assets; estimates relating to the recoverability of lease inducements; and assumptions used when employing the Black-Scholes valuation model to estimate the fair value of shares and stock-based awards. Actual results may differ from the estimates made by management.

Revenue Recognition

The Company’s sources of revenue consist of subscription solutions and merchant solutions. Arrangements with merchants do not provide the merchants with the right to take possession of the software supporting the Company’s hosting platform at any time and are therefore accounted for as service contracts. The Company’s subscription service contracts do not provide for refunds or any other rights of return to merchants in the event of cancellations.

The Company recognizes revenue when all of the following criteria are met:

- There is persuasive evidence of an arrangement;
- The services have been or are being provided to the merchant;
- The amount of fees to be paid by the merchant is fixed or determinable; and
- The collection is reasonably assured.

The Company follows the guidance provided in ASC 605-45, Principal Agent Considerations for determining whether the Company should recognize revenue based on the gross amount billed to a merchant or the net amount retained. This determination is a matter of judgment that depends on the facts and circumstances of each arrangement. The Company recognizes revenue from Shopify Shipping and the sales of Apps on a net basis as it has been determined that the Company is the agent in the arrangement with merchants. All other revenue is reported on a gross basis, as the Company has determined it is the principal in the arrangement, in that it is the primary obligor for providing services and assumes the risk of any loss or changes in costs.

Sales taxes collected from merchants and remitted to government authorities are excluded from revenue.

The Company's arrangements can include multiple elements, which may consist of some or all of the Company's subscription solutions. When multiple-element arrangements exist, the Company evaluates whether these individual deliverables should be accounted for as separate units of accounting or one single unit of accounting. In order to treat deliverables in a multiple-element arrangement as separate units of accounting, the delivered item or items must have standalone value upon delivery. A delivered item has standalone value to the customer when either (1) any vendor sells that item separately or (2) the customer could resell that item on a standalone basis. Each of the Company's subscription solutions have standalone value, as the solutions are sold separately. Accordingly, the Company considers the separate units of accounting in multiple deliverable arrangements to be the subscription fees, themes, apps and domain names. When multiple deliverables included in an arrangement are separable into different units of accounting, the arrangement consideration is allocated to the identified separate units of accounting based on their relative selling price. Multiple-element arrangement accounting guidance provides a hierarchy to use when determining the relative selling price for each unit of accounting. Vendor-specific objective evidence (VSOE) of selling price, based on the price at which the item is regularly sold by the vendor on a standalone basis, should be used if it exists. If VSOE of selling price is not available, third-party evidence (TPE) of selling price is used to establish the selling price if it exists. The Company has not established VSOE for its subscription solutions due to lack of pricing consistency, the introduction of new services and other factors. The Company has also concluded that TPE of selling price is not a practical alternative due to differences in the Company's service offerings compared to other parties and the availability of relevant third-party pricing information. Accordingly, the Company uses its best estimate of selling price (BESP) to determine the relative selling price for our subscription solutions.

The Company determined BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration for our subscription solutions include discounting practices, the size and volume of our transactions, the customer demographic, the geographic area where services are sold, price lists, our go-to-market strategy, historical standalone sales and contract prices. The determination of BESP is made through consultation with and approval by our management, taking into consideration our go-to-market strategy. As the Company's go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes in relative selling prices.

Subscription Solutions

Subscription revenue is recognized on a ratable basis over the contractual term. The terms range from monthly, annual or multi-year subscription terms. Revenue recognition begins on the date that the Company’s service is made available to the merchant. Payments received in advance of services being rendered are recorded as deferred revenue and recognized on a ratable basis over the requisite service period. The Company earns revenue based on the services it delivers either directly to its merchants or indirectly through resellers.

The Company also sells separately priced Themes and Apps to merchants for which revenue is recognized at the time of the sale. The right to use domain names is also sold separately and is recognized on a ratable basis over the contractual term, which is generally an annual term. Revenue from Themes, as well as Apps and Domains have been classified within Subscription solutions on the basis that they are typically sold at the time the merchant enters into the subscription services arrangement or because they are charged on a recurring basis.

Merchant Solutions

The Company generates the majority of its merchant solutions revenue from fees that it charges merchants on their customer orders processed through Shopify Payments. The Company also derives merchant solutions revenue relating to Shopify Shipping, other transaction services and referral fees, as well as from the sale of Point-of-Sale (POS) hardware. For the sale of POS hardware, revenue is recognized when title passes to the merchant, in accordance with the shipping terms. Revenues earned from Shopify Payments, Shopify Shipping, other transaction services, and referral fees are recognized at the time of the transaction.

The Company offers Shopify Capital, a merchant cash advance (MCA) program to eligible merchants. The Company applies underwriting criteria prior to purchasing the eligible merchant's future receivables to help ensure collectability. Under Shopify Capital, the Company purchases a designated amount of future receivables at a discount. The purchase price is paid to the merchant at the time the MCA is entered into, and the merchant remits a fixed percentage of their daily sales until the outstanding balance has been fully remitted. As cash remittances are collected by the Company, a portion is recognized ratably as a reduction to the merchant's receivable balance, and a portion, which is related to the discount, is recognized ratably as merchant solutions revenue.

Cost of Revenues

The Company’s cost of revenues consists of payments for Themes and Domain registration, credit card fees, hosting infrastructure costs, an allocation of costs incurred by both the operations and support functions, and amortization of capitalized software development costs. In addition, included in the cost of merchant solutions are costs associated with credit card processing, and the cost of POS hardware.

Software Development Costs

Research and development costs are generally expensed as incurred. These costs primarily consist of personnel and related expenses, contractor and consultant fees, stock-based compensation, and corporate overhead allocations, including depreciation.

The Company capitalizes certain development costs incurred in connection with its internal use software. These capitalized costs are related to the development of its software platform that is hosted by the Company and accessed by its merchants on a subscription basis as well as material internal infrastructure software. Costs incurred in the preliminary stages of development are expensed as incurred. The Company capitalizes all direct and incremental costs incurred during the application phase, until such time when the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing.

The Company also capitalizes costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional features and functionality. Capitalized costs are recorded as part of intangible assets in the consolidated balance sheets and are amortized on a straight-line basis over their estimated useful lives of two or three years. Maintenance costs are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs included in sales and marketing expenses during the years ended December 31, 2016 and 2015 were $ 58,348 and $ 37,989 respectively.

Operating Leases

The total payments and costs associated with operating leases, including leases that contain lease inducements and uneven payments, are aggregated and amortized on a straight-line basis over the initial lease term of each respective agreement.

Stock-Based Compensation

The accounting for stock-based awards is based on the fair value of the award measured at the grant date. Accordingly, stock-based compensation cost is recognized in the Consolidated Statements of Operations and Comprehensive Loss as an operating expense over the requisite service period.

The fair value of stock options is determined using the Black-Scholes option-pricing model, single option approach. An estimate of forfeitures is applied when determining compensation expense. The Company determines the fair value of stock option awards on the date of grant using assumptions regarding expected term, share price volatility over the expected term of the awards, risk-free interest rate, and dividend rate. All shares issued under the Company's Fourth Amended and Restated Stock Option Plan (the "Legacy Option Plan") and the new Stock Option Plan (the "Stock Option Plan") are from treasury.

The fair value of restricted share units (RSUs) is measured using the fair value of the Company's shares as if the RSUs were vested and issued on the grant date. An estimate of forfeitures is applied when determining compensation expense. All shares issued under the Company's Long Term Incentive Plan (LTIP) are from treasury.

Income Taxes

Deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not to be realized.

The Company evaluates tax positions taken or expected to be taken in the course of preparing tax returns to determine whether the tax positions have met a “more-likely-than-not” threshold of being sustained by the applicable tax authority. Tax benefits related to tax positions not deemed to meet the “more-likely-than-not” threshold are not permitted to be recognized in the consolidated financial statements. The Company classifies accrued interest and penalties related to liabilities for income taxes in income tax expense.

Earnings Per Share

Basic earnings per share are calculated by dividing net earnings attributable to common equity holders of the Company by the weighted average number of shares of common stock outstanding during the year.

Diluted earnings per share are calculated by dividing net earnings attributable to common equity holders of the Company by the weighted average number of shares of common stock outstanding during the year, plus the effect of dilutive potential common stock outstanding during the year. This method requires that diluted earnings per share be calculated (using the treasury stock method) as if all dilutive potential common stock had been exercised at the latest of the beginning of the year or on the date of issuance, as the case may be, and that the funds obtained thereby (plus an amount equivalent to the unamortized portion of related stock-based compensation costs) be used to purchase common stock of the Company at the average fair value of the common stock during the year.

Foreign Currency Transactions

The functional and reporting currency of the Company and its subsidiaries is the United States dollar. Monetary assets and liabilities denominated in foreign currencies are re-measured to United States dollars using the exchange rates at the consolidated balance sheet dates. Non-monetary assets and liabilities denominated in foreign currencies are measured in United States dollars using historical exchange rates. Revenues and expenses are measured using the actual exchange rates prevailing on the dates of the transactions. Gains and losses resulting from re-measurement are recorded in the Company’s Consolidated Statements of Operations and Comprehensive Loss as Foreign exchange gain (loss), with the exception of foreign exchange forward contracts used for hedging which are recognized in Other Comprehensive Loss.

Cash and Cash Equivalents

The Company considers all short term highly liquid investments purchased with original maturities at their acquisition date of three months or less to be cash equivalents.

Marketable Securities

The Company’s marketable securities consist of U.S federal agency bonds, U.S. term deposits, corporate bonds and commercial paper, and mature within 12 months from the date of purchase. Marketable securities are classified as held-to-maturity at the time of purchase and this classification is re-evaluated as of each consolidated balance sheet date. Held-to-maturity securities represent those securities that the Company has both the intent and ability to hold to maturity and are carried at amortized cost, which approximates their fair market value. Interest on these securities, as well as amortization/accretion of premiums/discounts, are included in interest income. All investments are assessed as to whether any unrealized loss positions are other than temporarily impaired. Impairments are considered other than temporary if they are related to deterioration in credit risk or if it is likely the Company will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value determined to be other than temporary are determined based on the specific identification method and are reported in other income (expense) in the Consolidated Statements of Operations and Comprehensive Loss.

Fair Value Measurements

The carrying amounts for cash and cash equivalents, marketable securities, trade and other receivables, merchant cash advances receivable, trade accounts payable and accruals, and employee related accruals approximate fair value due to the short-term maturities of these instruments.

The Company measures the fair value of its financial assets and liabilities using a fair value hierarchy. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Inventory

The Company holds inventory related to its POS hardware. Inventories are stated at the lower of cost or net realizable value. Inventories are written down for estimated obsolescence equal to the difference between inventory cost and estimated net realizable value based on a combination of historical usage and assumptions based on expected usage related to estimated future merchant and market demands. The Company utilizes the first-in, first-out (FIFO) method for determining the cost of inventories.

Derivatives and Hedging

The majority of the Company's derivative products are foreign exchange forward contracts which are designated as cash flow hedges consisting of foreign currency forecasted revenue, cost of revenue and operating expenses. By their nature, derivative financial instruments involve risk, including the credit risk of non-performance by counter parties. The Company may hold foreign exchange forward contracts to mitigate the risk of future foreign exchange rate volatility related to future Canadian dollar (CAD) denominated costs and current and future obligations.

The Company's foreign currency forward contracts generally have maturities of twelve months or less. The critical terms match method is used when the key terms of the hedging instrument and that of the hedged item are aligned; therefore, the changes in fair value of the forward contracts are recorded in accumulated other comprehensive loss (AOCL). The effective portion of the gain or loss on each forward contract is reported as a component of AOCL and reclassified into earnings to either revenue, cost of revenue, or operating expense in the same period, or periods, during which the hedged transaction affects earnings. The ineffective portion of the gains or losses, if any, is recorded immediately in other income (expense).

For hedges that do not qualify for the critical terms match method of accounting, a formal assessment is performed to verify that derivatives used in hedging transactions continue to be highly effective in offsetting the changes in fair value or cash flows of the hedged item. Hedge accounting is discontinued if a derivative ceases to be highly effective, matures, is terminated or sold, if a hedged forecasted transaction is no longer probable of occurring, or if the Company removes the derivative's hedge designation. For discontinued cash flow hedges, the accumulated gain or loss on the derivative remains in AOCL and is reclassified into earnings in the period in which the previously hedged forecasted transaction impacts earnings or is no longer probable of occurring.

In addition, the Company has a master netting agreement with each of the Company's counterparties, which permits net settlement of multiple, separate derivative contracts with a single payment. The Company presents its derivative instruments on a net basis in the consolidated financial statements.

Provision for Uncollectable Receivables Related to MCAs

Merchant cash advance receivables represents the aggregate amount of MCA related receivables owed by merchants as of the consolidated balance sheet date, net of an allowance for uncollectable amounts. The Company estimates the allowance based on an assessment of various factors, including historical trends, merchants' gross merchandise volume, and other factors that may affect the merchants' ability to make future payments on the receivables. Additions to the allowance are reflected in current operating results, while charges against the allowance are made when losses are incurred. These additions are classified within general and administrative expenses on the Consolidated Statements of Operations and Comprehensive Loss. Recoveries are reflected as a reduction in the allowance for uncollectable receivables related to MCAs when the recovery occurs. Based on management's assessment, as at December 31, 2016 the Company had an allowance for uncollectable receivables of $1,028 (December 31, 2015 - nil).

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Computer equipment is depreciated over three years while office furniture and equipment are depreciated over four years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of their associated leases, which range from three to thirteen years.

The carrying values of property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. The determination of whether any impairment exists includes a comparison of estimated undiscounted future cash flows anticipated to be generated over the remaining life of the asset to the net carrying value of the asset. If the estimated undiscounted future cash flows associated with the asset are less than the carrying value, an impairment loss will be recorded based on the estimated fair value.

Intangible Assets

Intangible assets are stated at cost, less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the related assets. Purchased software, other intangible assets, acquired intangibles, and capitalized software development costs are amortized into cost of revenues over a two or three year period, depending on the nature of the asset.

The carrying values of intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. The determination of whether any impairment exists includes a comparison of estimated undiscounted future cash flows anticipated to be generated over the remaining life of the asset to the net carrying value of the asset. If the estimated undiscounted future cash flows associated with the asset are less than the carrying value, an impairment loss will be recorded based on the estimated fair value.

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of net assets of a business acquired in a business combination. Goodwill is not amortized, but instead tested for impairment at least annually in the fourth quarter of each year. Should certain events or indicators of impairment occur between annual impairment tests, the Company will perform the impairment test as those events or indicators occur. Examples of such events or circumstances include the following: a significant decline in the Company's expected future cash flows; a sustained, significant decline in the Company's fair value; a significant adverse change in the business climate; and slower growth rates.

Goodwill is tested for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. The qualitative assessment considers the following factors: macroeconomic conditions, industry and market considerations, cost factors, overall company financial performance, events affecting the reporting unit, and changes in the Company's fair value. If the reporting unit does not pass the qualitative assessment, the Company carries out a two-step test for impairment of goodwill. The first step of the test compares the fair value of the reporting unit with the carrying value of its net assets. If the fair value of the reporting unit is greater than its carrying value, no impairment results. If the fair value of the reporting unit is less than its carrying value, the Company performs the second step of the test for impairment of goodwill. During the second step of the test, the Company compares the implied fair value of the reporting unit's goodwill with the carrying value of that goodwill. If the implied fair value of goodwill is less than the carrying value, an impairment charge would be recorded in the Consolidated Statements of Operations and Comprehensive Loss. The Company has one reporting unit and evaluates goodwill for impairment at the entity level.

Business Combinations

The Company follows the acquisition method to account for business combinations in accordance with ASC 805, Business Combinations. The acquisition method of accounting requires that assets acquired and liabilities assumed be recorded at their fair values on the date of a business acquisition. The excess of the purchase price over the estimated fair value is recorded as goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments would be recorded on the consolidated statements of operations and comprehensive loss.

Segment Information

The Company's chief operating decision maker (CODM) is a function comprised of two executives, specifically the Chief Executive Officer and the Chief Financial Officer. The CODM is the highest level of management responsible for assessing Shopify's overall performance, and making operational decisions such as resource allocations related to operations, product prioritization, and delegations of authority. Management has determined that the Company operates in a single operating and reportable segment.

Concentration of Credit Risk

The Company's cash and cash equivalents, marketable securities, trade and other receivables, merchant cash advances receivable, and foreign exchange forward contracts 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 forward contracts 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 receivable. Trade and other receivables and merchant cash advances 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 merchant cash advances offered by Shopify

Capital. There are no receivables from individual merchants accounting for 10% or more of revenues or receivables.

Interest Rate Risk

Certain of the Company's cash, cash equivalents and marketable securities earn interest. The Company's trade and other receivables, accounts payable and accrued liabilities and lease liabilities do not bear interest. 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 CAD and the USD. The Company is exposed to foreign exchange fluctuations on the revaluation of foreign currency assets and liabilities. The Company may use 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.

Accounting Pronouncements Adopted in the Year

In May 2015, the Financial Accounting Standards Board issued ASU 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent)", which amends ASC 820, Fair Value Measurement. The standard removes the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value per share practical expedient and removes certain related disclosure requirements. The amendment was effective for interim and annual periods beginning after December 15, 2015. The adoption of this standard eliminated the requirement to disclose investments measured at Net Asset Value per Share in the fair value hierarchy table.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-9 "Revenue from Contracts with Customers." The new accounting standards update requires an entity to apply a five step model to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, as well as a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In March 2016, the Financial Accounting Standards Board issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", updating the implementation guidance on principal versus agent considerations in the new revenue recognition standard. This update clarifies that an entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. The update also includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. In May 2016, the FASB issued ASU 2016-12, "Narrow-Scope Improvements and Practical Expedients", which provides clarification on how to assess collectability, present sales taxes, treat non-cash consideration, and account for completed and modified contracts at the time of transition. ASU 2016-12 also clarifies that an entity retrospectively applying the guidance in Topic 606 is not required to disclose the effect of the accounting change in the period of adoption. All accounting standard updates become effective for reporting periods beginning after December 15, 2017. Early adoption is permitted starting January 1, 2017. The Company continues to assess the impact of the adoption on revenue recognition, but believes that as a result of adoption, the Company may capitalize sales commissions and expense on a straight-line basis over the term of identifiable contracts. The Company plans to adopt this standard effective January 1, 2018 using the full retrospective approach.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, "Leases", 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. A modified retrospective transition approach is required for operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The standard is effective for annual periods beginning after December 15, 2018. Early adoption is permitted. The Company believes that this standard will have a material impact on its consolidated balance sheets and continues to assess the impact of the adoption of this standard on the statement of operations and comprehensive loss.

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

In March 2016, the Financial Accounting Standards Board issued ASU No. 2016-09 "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting", which simplifies the accounting for stock based compensation, including forfeitures and the classification of employee taxes paid on the statement of cash flows. The standard is effective for annual periods beginning after December 15, 2016. The Company does not expect this standard to have a material impact on its consolidated financial statements because under this standard the Company will continue to account for forfeitures based on the estimated forfeiture rate.

4. Cash and Cash Equivalents

As at December 31, 2016 and 2015 , the Company's cash and cash equivalents balance was $ 84,013 and $ 110,070 . These balances included $54,522 and $80,914 , respectively, of money market funds and term deposits. As at December 31, 2016 , the Company had $ 1,000 CAD of restricted cash which was pledged as collateral against the Company's leases (December 31, 2015 - $1,000 CAD).

5. Financial Instruments

As at December 31, 2016 , the Company's financial instruments, measured at fair value on a recurring and non-recurring basis, were as follows:

	Amount at Fair Value	Fair Value Measurements Using		
	$	Level 1 $	Level 2 $	Level 3 $
Assets:				
Cash equivalents:				
Corporate bonds	9,994	—	9,994	—
Marketable securities:				
U.S. term deposits	46,385	46,385	—	—
U.S. federal bonds	70,667	70,667	—	—
Corporate bonds	191,345	—	191,345	—
Derivatives:				
Foreign exchange forward contracts	(1,818)	—	(1,818)	—

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

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

As at December 31, 2015 , the Company's financial instruments, measured at fair value on a recurring and non-recurring basis, were as follows:

	Amount at Fair Value $	Fair Value Measurements Using		
		Level 1 $	Level 2 $	Level 3 $
Assets:				
Cash equivalents:				
U.S. term deposits	21,259	21,259	—	—
Marketable securities				
U.S. federal bonds	35,970	35,970	—	—
Corporate bonds	44,028	—	44,028	—

As at December 31, 2016 the Company held foreign exchange forward contracts to convert USD into CAD, with a total notional value of $104,344 (December 31, 2015 - nil), 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. There were no transfers between Levels 1, 2 and 3 during the years ended December 31, 2016 and 2015 .

Derivative Instruments and Hedging

In March 2016, the Company implemented a hedging program to mitigate the impact of foreign currency fluctuations on future cash flows and earnings. The Company entered into foreign exchange forward contracts with certain financial institutions and designated those hedges as cash flow hedges. As of December 31, 2016 , $1,818 of unrealized losses related to the effective portion of changes in the fair value of foreign exchange forward contracts designated as cash flow hedges were included in accumulated other comprehensive loss and other current assets. This amount is expected to be reclassified into earning over the next twelve months. In the year ended December 31, 2016 , $475 of realized losses related to the maturity of foreign exchange forward contracts designated as cash flow hedges were included in operating expenses. Under the current hedging program, the Company is hedging cash flows associated with payroll and facility costs.

6. Trade and Other Receivables

	2016 $	2015 $
Unbilled revenues	4,095	1,075
Refundable tax credits	1,514	754
Leasehold incentives receivable	1,452	1,554
Other receivables	1,062	433
Trade receivables	1,016	1,701
Sales tax receivable	460	572
	9,599	6,089

Unbilled revenues represent amounts not yet billed to merchants related to transaction fee and shipping charges, as at the consolidated balance sheet date.

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

7. Other Current Assets

	2016 $	2015 $
Prepaid expenses	5,347	3,264
Deposits	3,079	1,389
POS hardware	522	1,550
Other	41	—
	8,989	6,203

8. Property and Equipment

	2016		
	Cost $	Accumulated depreciation $	Net book value $
Leasehold improvements	32,816	5,521	27,295
Computer equipment	25,572	10,888	14,684
Office furniture and equipment	5,987	2,247	3,740
	64,375	18,656	45,719

	2015		
	Cost $	Accumulated depreciation $	Net book value $
Leasehold improvements	23,225	2,057	21,168
Computer equipment	14,508	5,630	8,878
Office furniture and equipment	4,100	1,098	3,002
	41,833	8,785	33,048

The following table illustrates the classification of depreciation in the Consolidated Statements of Operations and Comprehensive Loss.

	2016 $	2015 $
Cost of revenues	5,329	3,086
Sales and marketing	2,320	1,040
Research and development	1,920	1,191
General and administrative	822	408
	10,391	5,725

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

9. Intangible Assets

	2016		
	Cost $	Accumulated amortization $	Net book value $
Software development costs	6,750	2,557	4,193
Purchased software	3,689	2,442	1,247
Acquired intangibles	1,071	250	821
Domain names	569	393	176
	12,079	5,642	6,437

	2015		
	Cost $	Accumulated amortization $	Net book value $
Software development costs	4,238	1,143	3,095
Purchased software	3,668	1,242	2,426
Domain names	540	235	305
	8,446	2,620	5,826

Internal software development costs of $3,063 and $2,313 were capitalized during the years ended December 31, 2016 and 2015 , respectively, and are included in Intangible assets in the accompanying Consolidated Balance Sheets. Amortization expense related to the capitalized internally developed software was $1,414 and $698 for the years ended December 31, 2016 and 2015 , respectively, and is included in cost of revenues and general and administrative expenses in the accompanying consolidated statements of operations and comprehensive loss.

The following table illustrates the classification of amortization expense related to intangible assets in the consolidated statements of operations and comprehensive loss.

	2016 $	2015 $
Cost of revenues	1,305	750
Sales and marketing	939	186
Research and development	601	465
General and administrative	731	110
	3,576	1,511

Estimated future amortization expense related to intangible assets, as at December 31, 2016 is as follows.

Fiscal Year	Amount $
2017	3,652
2018	2,320
2019	465
Total	6,437

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

10. Goodwill

The Company’s goodwill was recognized upon the acquisitions of various companies including, but not limited to, Kit CRM Inc., and Boltmade, Inc., which were both acquired during the year ended December 31, 2016 . Goodwill is attributable to the Company’s single reporting unit.

During the fourth quarter of fiscal 2016 , the Company completed its annual impairment test of goodwill. The Company exercised its unconditional option to bypass the qualitative assessment pursuant to ASC 350, Intangibles - Goodwill and Other, and perform a quantitative analysis. The Company determined that the consolidated business is represented by a single reporting unit and concluded that the estimated fair value of the reporting unit was greater than its carrying amount. As a result, the second step of the two-step goodwill impairment test was not required.

No goodwill impairment was recognized in the years ended December 31, 2016 and 2015 .

The changes in the carrying amount of goodwill for the years ended December 31, 2016 and 2015 are as follows.

	2016 $	2015 $
Balance, beginning of the year	2,373	2,373
Acquisition of Kit CRM Inc.	6,929	—
Acquisition of Boltmade, Inc.	5,450	—
Other Acquisitions	752	—
Balance, end of the year	15,504	2,373

11. Accounts Payable and Accrued Liabilities

	2016 $	2015 $
Trade accounts payable and trade accruals	34,319	18,453
Employee related accruals	3,969	1,150
Other payables and accrued liabilities	2,593	1,697
Foreign exchange forward contracts	1,818	—
Accrued payroll taxes related to exercised stock options	1,611	1,584
Accrued sales tax	747	805
	45,057	23,689

12. Lease Incentives

The Company leases space for its offices. The Company’s principal lease is for its head office, which is located at 150 Elgin Street in Ottawa, Canada. This lease covers a period of twelve years, ten months that began on March 1, 2014. The lease includes an option to renew for a further five years . The Company received leasehold incentives in the form of rent-free periods and fit-up allowances. The lease agreement also includes scheduled rent increases that are not dependent on future events and therefore the lease payments are being accounted for on a straight-line basis over the entire term of the lease.

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

The Company also maintains offices in Toronto, Montreal, Kitchener-Waterloo, and San Francisco. In all locations, the Company received leasehold incentives in the form of rent-free periods and fit-up allowances. The lease agreements also include scheduled rent increases that are not dependent on future events and therefore the lease payments are being accounted for on a straight-line basis over the entire term of the lease.

The following table represents the details of the Company's lease incentives balance as of December 31, 2016 and 2015 .

	2016 $	2015 $
Lease incentives	13,939	11,177
Other lease liabilities	—	142
	13,939	11,319
Less: current portion	1,311	822
Long term portion	12,628	10,497

13. Credit Facilities

In March 2015, the Company entered into a credit facility with Silicon Valley Bank, which provides for a $25,000 revolving line of credit bearing interest at the U.S. prime rate, as published by the Wall Street Journal plus or minus 25 basis points per annum, dependent on the Company's adjusted quick ratio. As at December 31, 2016 the effective rate was 3.50% , no amounts have been drawn under this credit facility, and the Company is in compliance with all of the covenants contained therein. The credit facility was renewed on March 11, 2016, has a maturity date of March 10, 2017, and is collateralized by substantially all of the Company's assets, but excluding the Company's intellectual property, which is subject to a negative pledge.

14. Commitments and Contingencies

Operating Leases

The Company leases space for its offices in Ottawa, Toronto and Kitchener-Waterloo, Ontario, Canada, Montreal, Quebec, Canada, and San Francisco, California, United States. Rent expense was $8,593 and $6,446 for the years ended December 31, 2016 and 2015 , respectively.

Amounts of minimum future annual rental payments under non-cancellable operating leases in each of the next five years and thereafter are as follows:

Fiscal Year	Amount $
2017	10,444
2018	12,537
2019	16,601
2020	16,723
2021	16,356
Thereafter	91,794
Total future minimum lease payments	164,455

Litigation and Loss Contingencies

The Company accrues estimates 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 incident 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 operation, or cash flows.

15. Shareholders' Equity

Convertible Preferred Shares

Upon the completion of the Company's IPO in May 2015, all of the then outstanding convertible preferred shares were converted into 27,159,277 Class B multiple voting shares.

Common Stock Authorized

Immediately prior to the completion of the Company's IPO, in May 2015, all of the then outstanding 39,780,952 common shares were redesignated as Class B multiple voting shares. 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 A subordinate voting shares are not convertible into any other class of shares, including Class B multiple voting shares. 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. In addition, Class B multiple voting shares will 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.

Stock-Based Compensation

In 2008, the Board of Directors adopted and the Company's shareholders approved the Legacy Stock Option Plan ("the Legacy Option Plan"). Immediately prior to the completion of the Company's May 2015 IPO, and in connection with the closing of the offering, each option outstanding under the Legacy Option Plan became exercisable for one Class B multiple voting share. Following the closing of the Company's IPO, no further awards were made under the Legacy Option Plan. The Legacy Option Plan continues to govern awards granted thereunder.

The Company's Board of Directors and shareholders approved a new stock option plan ("Stock Option Plan") as well as a LTIP, each of which became effective upon the closing of the Company's IPO on May 27, 2015. The Stock Option Plan allows for the grant of options to the Company's officers, directors, employees and consultants. All options granted under the Stock Option Plan will have an exercise price determined and approved by the Company's Board of Directors at the time of grant, which shall not be less than the market price of the Class A subordinate voting shares at such time. For purposes of the Stock Option Plan, the market price of the Class A subordinate voting shares shall be the volume weighted average trading price of the Class A subordinate voting shares on the NYSE for the five trading days ending on the last trading day before the day on which the option is granted. Options granted under the Stock Option Plan are exercisable for Class A subordinate voting shares. Both the vesting period and term of the options in the Stock Option Plan are determined by the Board of Directors at the time of grant. The majority of grants outstanding under both the Stock Option Plan and the Legacy Option Plan have been approved with a four year vesting schedule with 25% vesting after one year and the remainder vesting evenly over the remaining 36 months.

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

The LTIP provides for the grant of share units, or LTIP Units, consisting of RSUs, performance share units (PSUs), and deferred share units (DSUs). Each LTIP Unit represents the right to receive one Class A subordinate voting share in accordance with the terms of the LTIP. Unless otherwise approved by the Board of Directors, RSUs will vest as to 1/3 each on the first, second and third anniversary dates of the date of grant. To date, all RSU grants have been approved with a four year vesting schedule with 25% vesting after one year and the remainder vesting evenly over the remaining 36 months. A PSU participant's grant agreement will describe the performance criteria established by the Company's Board of Directors that must be achieved for PSUs to vest to the PSU participant, provided the participant is continuously employed by or in the Company's service or the service or employment of any of the Company's affiliates from the date of grant until such PSU vesting date. DSUs will be granted solely to directors of the Company, at their option, in lieu of their Board retainer fees. DSUs will vest upon a director ceasing to act as a director. As at the consolidated balance sheet date there have been nil PSUs or DSUs granted.

The maximum number of Class A subordinate voting shares reserved for issuance, in the aggregate, under the Company's Stock Option Plan and the LTIP was initially equal to 3,743,692 Class A subordinate voting shares. The number of Class A subordinate voting shares available for issuance, in the aggregate, under the Stock Option Plan and the LTIP will be automatically increased on January 1st of each year, beginning on January 1, 2016 and ending on January 1, 2026, in an amount equal to 5% of the aggregate number of outstanding Class A subordinate voting shares and Class B multiple voting shares on December 31st of the preceding calendar year. As at January 1, 2017 there were 7,486,274 shares available for issuance under the Company's Stock Option Plan and LTIP.

The following table summarizes the stock option and RSU award activities under the Company's share-based compensation plans for the years ended December 31, 2016 and 2015 :

	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, 2014	15,031,388	1.31	7.16	73,642	—	—	—
Stock options granted	1,259,025	22.16	—	—	12.16	—	—
Stock options exercised	(4,665,059)	0.34	—	—	—	—	—
Stock options forfeited	(421,328)	12.04	—	—	—	—	—
RSUs granted	—	—	—	—	—	503,701	32.01
RSUs settled	—	—	—	—	—	—	—
RSUs forfeited	—	—	—	—	—	(75,135)	30.95
December 31, 2015	11,204,026	3.65	6.99	248,119	—	428,566	32.19
Stock options granted	2,021,723	31.73	—	—	16.13	—	—
Stock options exercised	(3,037,644)	1.37	—	—	—	—	—
Stock options forfeited	(288,712)	15.62	—	—	—	—	—
RSUs granted	—	—	—	—	—	2,116,701	29.60
RSUs settled	—	—	—	—	—	(104,740)	32.46
RSUs forfeited	—	—	—	—	—	(79,710)	28.90
December 31, 2016	9,899,393	9.74	6.78	328,003	—	2,360,817	29.97
Stock options exercisable as of December 31, 2016	5,874,176	2.27	5.50	238,470			

(1) As at December 31, 2016 , 7,383,036 of the outstanding stock options were granted under the Company's Legacy Option Plan and are exercisable for Class B multiple voting shares, and 2,516,357 of the outstanding stock options were granted under the Company's Stock Option 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 common stock as of December 31, 2016 and December 31, 2015 .

The total intrinsic value of stock options exercised during the years ended December 31, 2016 and 2015 was $92,873 and $122,544 , respectively. The Aggregate intrinsic value of options exercised is calculated as the difference between the exercise price of the underlying stock option awards and the market value on the date of exercise.

As of December 31, 2016 and 2015 , there was $ 94,112 and $34,572 , respectively, of remaining unamortized compensation cost related to unvested stock options and RSUs granted to the Company’s employees. This cost will be recognized over an estimated weighted-average remaining period of 3.23 years. Total unamortized compensation cost will be adjusted for future changes in estimated forfeitures.

Share-Based Compensation Expense

All share-based awards are measured based on the grant date fair value of the awards and recognized in the Consolidated Statements of Operations and Comprehensive Loss over the period during which the employee is required to perform services in exchange for the award (generally the vesting period of the award).

The Company estimates the fair value of stock options granted using the Black-Scholes option valuation model, which requires assumptions, including the fair value of our underlying common stock, expected term, expected volatility, risk-free interest rate and dividend yield of the Company's common stock. These estimates involve inherent uncertainties and the application of management’s judgment. If factors change and different assumptions are used, share-based compensation expense could be materially different in the future.

These assumptions are estimated as follows:

- *Fair Value of Common Stock.* The Company uses the Volume Weighted Average Price for its common stock as reported on the New York Stock Exchange.

- *Expected Term.* The Company determines the expected term based on the average period the stock options are expected to remain outstanding. The Company bases the expected term assumptions on its historical behavior combined with estimates of post-vesting holding period.

- *Expected Volatility.* The Company determines the price volatility factor based on a weighted combination of the Company's historical volatility and the historical volatility of publicly traded industry peers. To determine its peer group of companies, the Company considers public companies in the technology industry and selects those that are similar to us in size, stage of life cycle, and financial leverage. The Company intends to continue to consistently apply this methodology using the same or similar public companies until a sufficient amount of historical information regarding the volatility of its own common stock price becomes available, or unless circumstances change such that the identified companies are no longer similar, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.

- *Risk-Free Interest Rate.* The Company bases the risk-free interest rate used in the Black-Scholes valuation model on the yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term of the stock options for each stock option group.

- *Expected Dividend.* The Company has not paid and does not anticipate paying any cash dividends in the foreseeable future and, therefore, uses an expected dividend yield of zero in the option pricing model.

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

The assumptions used to estimate the fair value of stock options granted to employees are as follows:

	2016	2015
Expected volatility	59.1%	64.3%
Risk free interest rate	1.32%	1.62%
Dividend yield	Nil	Nil
Average expected life	5.07	5.26

In addition to the assumptions used in the Black-Scholes option valuation model, the Company must also estimate a forfeiture rate to calculate the share-based compensation expense for our awards. The Company's forfeiture rate is based on an analysis of its actual forfeitures. The Company will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover, and other factors. Changes in the estimated forfeiture rate can have a significant impact on share-based compensation expense as the cumulative effect of adjusting the rate is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher/lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase/decrease to the share-based compensation expense recognized in the consolidated financial statements.

The following table illustrates the classification of stock-based compensation in the Consolidated Statements of Operations and Comprehensive Loss, which includes both stock-based compensation and restricted share-based compensation expense.

	Years ended	
	December 31, 2016	December 31, 2015
	$	$
Cost of revenues	629	282
Sales and marketing	3,951	1,099
Research and development	14,318	4,509
General and administrative	4,200	2,268
	23,098	8,158

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

16. Changes in Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss, which is reported as a component of shareholders’ equity, for the years ended December 31, 2016 and 2015 :

	Gains and Losses on Cash Flow Hedges (all amounts net of tax)	
	2016	**2015**
	$	**$**
Balance, beginning of the year	—	—
Other comprehensive loss before reclassifications	(2,293)	—
Amounts reclassified from accumulated other comprehensive loss	475	—
Net current-period other comprehensive loss	(1,818)	—
Balance, end of the year	(1,818)	—

17. Earnings per Share

The Company applies the two-class method to calculate its basic and diluted net 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.

	Years ended	
	December 31, 2016	**December 31, 2015**
Basic and diluted weighted average number of shares outstanding	83,988,597	61,716,065
The following items have been excluded from the diluted weighted average number of shares outstanding because they are anti-dilutive:		
Stock options	9,899,393	11,204,026
Restricted share units	2,360,817	428,566
Restricted shares	—	48,238
	12,260,210	11,680,830

In the years ended December 31, 2016 and 2015 , the Company was in a loss position and therefore diluted loss per share is equal to basic loss per share.

18. Income Taxes

The reconciliation of the expected provision for income tax recovery/expense to the actual provision for income tax recovery/expense reported in the Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2016 and 2015 is as follows:

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

	2016 $	2015 $
Comprehensive loss	(37,173)	(18,790)
Expected income tax expense at Canadian statutory income tax rate of 26.51% (2015-26.51%)	(9,856)	(4,980)
Permanent differences	5,099	1,333
Share issuance costs	(2,965)	(3,734)
Other items	(39)	(8)
Foreign tax rate differential	(664)	(44)
Increase in valuation allowance	8,425	7,433
Provision for income tax (recovery) expense	—	—

During the years ended December 31, 2016 and 2015 , the loss before income taxes includes foreign income (loss) of $(1,791) and $234 , respectively.

The significant components of the Company’s deferred income tax assets and liabilities as of December 31, 2016 and 2015 are as follows:

	2016 $	2015 $
Deferred tax assets		
Temporary differences on capital and intangible assets	2,596	415
Tax loss carryforwards	4,936	3,799
SR&ED expenditure carryforwards	3,363	1,687
Stock based compensation expense	689	—
Share issuance costs	4,662	3,345
Investment tax credits	2,766	1,253
Lease accruals and reserves	4,827	4,316
Total deferred tax assets	23,839	14,815
Valuation allowance	(22,436)	(14,011)
	1,403	804
Deferred tax liabilities		
Capitalized software development costs	1,403	804
Total deferred tax liabilities	1,403	804
Net deferred tax asset	—	—

The Company has determined that it is not more likely than not that it will realize any of its deferred tax assets, and therefore a full valuation allowance has been established against the total deferred tax assets.

The Company does no t have any unrecognized tax benefits.

The Company's accounting policy is to recognize interest and penalties related to uncertain tax positions as a component of income tax expense. In the years ended December 31, 2016 and 2015 , there was no interest or penalties related to uncertain tax positions.

The Company and its Canadian subsidiaries file federal and provincial income tax returns in Canada. The Company and its U.S. subsidiaries file federal and state income tax returns in the U.S. and its other foreign subsidiaries file income tax returns in their respective foreign jurisdictions. The Company remains subject to audit by the relevant tax authorities for the years ended 2011 through 2016 .

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

During the year ended December 31, 2016 , the Company was subject to a corporate income tax audit by the Canadian Revenue Agency (CRA) for tax years ending December 31, 2012 , 2013 , and 2014 . The Company is subject to the possibility of penalty and interest amounts arising from the outcome of the CRA audit which remains open as of December 31, 2016 . As of December 31, 2016 , the Company believes that interest and penalties resulting from the CRA audit are reasonably estimable but not probable. As a result, the Company has not recorded a contingent liability related to the CRA audit.

The Company estimates SR&ED expenditures and claims investment tax credits for income tax purposes based on management's interpretation of the applicable legislation in the *Income Tax Act* ("the Act") and related provincial legislation. These claims are subject to audit by the tax authorities. In the opinion of management, the treatment of research and development expenditures for income tax purposes is appropriate. Any difference between recorded refundable tax credits and amounts ultimately received is recorded when the amount becomes known. As of December 31, 2016 and 2015 , the Company had unused non-capital tax losses of approximately $17,728 and $14,264 respectively, a SR&ED expenditure pool totaling $12,683 and $6,364 respectively, and investment tax credits of $3,435 and $1,486 respectively, that are due to expire as follows.

	Non-Capital Losses $	**SR&ED Expenditures $**	**Investment Tax Credits $**
2032	13	—	394
2033	11,323	—	197
2034	825	—	563
2035	912	—	557
2036	4,655	—	1,724
Indefinite	—	12,683	—
	17,728	12,683	3,435

19. Segment and Geographical Information

The Company has determined that it operates in a single operating and reportable segment.

The following table presents total external revenues by geographic location, based on the location of the Company's merchants.

	2016		**2015**	
	Amount $	**%**	**Amount $**	**%**
Canada	26,893	6.9%	14,691	7.2%
United States	284,095	72.9%	144,748	70.5%
United Kingdom	25,958	6.7%	15,436	7.5%
Australia	18,163	4.7%	10,531	5.1%
Rest of World	34,221	8.8%	19,827	9.7%
	389,330	100.0%	205,233	100.0%

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

The following table presents the total net book value the Company’s long-lived physical assets by geographic location.

	2016		2015	
	Amount $	%	Amount $	%
Canada	33,863	74.1%	25,886	78.3%
United States	11,689	25.5%	7,162	21.7%
Rest of World	167	0.4%	—	—%
	45,719	100.0%	33,048	100.0%

20. Business Acquisitions

Kit CRM Inc.

On April 18, 2016, the Company completed the acquisition of Kit CRM Inc. (Kit), a virtual marketing assistant that leverages messaging to help businesses market their online stores. The Company acquired 100 percent of the outstanding shares of Kit in exchange for cash consideration of $8,254 . The transaction was accounted for as a business combination. The operations of Kit have been consolidated into the Company's results as of the acquisition date, and the amount of Kit’s revenue and losses included in the Company’s Consolidated Statement of Operations and Comprehensive Loss for the year ended December 31, 2016 are immaterial.

The following table summarizes the consideration paid for Kit and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

	2016
	Amount $
Cash consideration	8,254
Estimated fair value of identifiable assets acquired and liabilities assumed:	
Acquired technology	1,071
Net closing working capital	254
Goodwill	6,929

The acquired technology, the Kit app, which was valued at $1,071 using a discounted cash flows methodology, is being amortized over 2 years . Goodwill from the Kit acquisition is primarily attributable to expected synergies as the Company supports the growing trend towards conversational commerce, supporting the continued growth of gross merchants’ volume by enhancing the Company’s merchants’ marketing capabilities, and the acquisition of an assembled workforce. No ne of the goodwill recognized is expected to be deductible for income tax purposes.

Boltmade, Inc.

On October 3, 2016, the Company completed the acquisition of Boltmade, Inc. (Boltmade), a product design and development consultancy firm based in Waterloo, Ontario. The Company acquired 100 percent of the outstanding shares of Boltmade in exchange for cash consideration of $6,015 . The transaction was accounted for as a business combination. The operations of Boltmade have been consolidated into the Company's results as of the acquisition date, and the amount of Boltmade’s revenue and losses included in the Company’s Consolidated Statement of Operations and Comprehensive Loss for the year ended December 31, 2016 are immaterial.

The following table summarizes the consideration paid for Boltmade and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

	Amount
	$
Cash consideration	6,015
Estimated fair value of identifiable assets acquired and liabilities assumed:	
Net tangible assets acquired	50
Net closing working capital	515
Goodwill	5,450

Goodwill from the Boltmade acquisition is primarily attributable to the incremental income that is expected to be generated by the Company as a result of acquiring the Boltmade assembled workforce, which is expected to deliver synergies in web and mobile development by providing an immediate pool of talent to execute on the Shopify Plus product roadmap. No ne of the goodwill recognized is expected to be deductible for income tax purposes.

21. Comparative Figures

Certain comparative figures have been reclassified in order to conform to the current year presentation.

EXHIBIT 1.3

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 14, 2017

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 fourth quarter and the fiscal years ending December 31, 2016, 2015 and 2014, and our financial position as of December 31, 2016. You should read this MD&A together with our audited consolidated financial statements and the accompanying notes for the fiscal years ended December 31, 2016, 2015 and 2014. Additional information regarding Shopify, including our 2016 annual information form and our annual report on Form 40-F for the year ended December 31, 2016, is available on our website at www.shopify.com, or at www.sedar.com and www.sec.gov.

Our audited 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 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 fiscal year with 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:

- our revenue growth objectives and expectations about future profitability;
- the achievement of advances in, and expansion of, our platform and our solutions;
- the intended growth of our business and making acquisitions and investments, and our expectation that such acquisitions and investments will help drive our growth;
- our ability to generate revenue while controlling costs and expenses;
- our ability to increase sales to our merchants;

- our belief that our business may become more seasonal in the future, and that historical patterns may not be a reliable indicator of our future performance;
- our expectation that the cost of subscription solutions will increase;
- our expectation that the cost of merchant solutions will increase;
- our expectation that our gross margin percentage on subscription solutions will fluctuate modestly;
- our expectation that our gross margin percentage on merchant solutions may increase over time;
- our expectation that our additional higher-margin merchant solutions offerings, such as Shopify Shipping and Shopify Capital, will become a larger component of our merchant solutions revenue;
- our expectation that we will continue to expand Shopify Payments internationally;
- our plan to continue to expand sales and marketing efforts, including adding outbound sales personnel and expanding our marketing activities;
- our expectation that sales and marketing expenses will increase, but over time will decrease as a percentage of total revenues;
- our expectation that research and development expenses will increase, but over time will decrease as a percentage of total revenues;
- our expectation that general and administrative expenses will increase, but over time may decrease as a percentage of total revenues;
- our belief that we have sufficient liquidity to meet our current and planned financial obligations; and
- our expectations regarding potential contingent obligations.

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 belief that monthly recurring revenue ("MRR") is most closely correlated with the long-term value of our merchant relationships;
- our ability to expand our merchant base;
- our growth rate, subscription renewal activity, the timing and extent of spending to support development of our platform and expansion of sales and marketing activities;
- our ability to retain merchants as they grow their businesses on our platform;
- our ability to increase sales and revenues from both new and existing merchants;
- assumptions about the growth of our merchants' revenues;
- our ability to reach economies of scale;
- our ability to reach profitability;
- our ability to offer more sales channels that can connect to the platform;
- our ability to develop new solutions to extend the functionality of our platform;
- assumptions as to the mix of subscription plans that our merchants select;
- assumptions as to the timing of infrastructure expansion projects;
- our ability to predict future commerce trends and technology;
- our ability to enhance our ecosystem and partner programs;
- our ability to provide a high level of merchant service and support;
- our ability to hire, retain and motivate qualified personnel;
- our ability to develop processes, systems and controls to enable our internal support functions to scale with the growth of our business;
- our expectations on future costs of compliance associated with being a public company;
- our belief that our investments in marketing initiatives will continue to be effective in growing the number of merchants using our platform;
- our belief that our investments will increase our revenue base, improve the retention of this base and strengthen our ability to increase sales to our merchants;
- our belief that our merchant solutions make it easier for merchants to start a business and grow on our platform;
- our assumptions regarding the principal competitive factors in our market;
- our future expenses and financing requirements;

- our ability to protect against currency, interest rate, concentration of credit and inflation risks;
- our critical accounting policies and estimates; and
- our ability to obtain sufficient space for our growing employee base.

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, 2016 and elsewhere in this MD&A, including but not limited to risks relating to:

- our rapid growth and managing our growth;
- our history of losses and our potential inability to achieve profitability;
- our limited operating history in new and developing markets;
- our ability to innovate;
- a denial of service attack or security breach;
- payments processed through Shopify Payments;
- our reliance on third party suppliers to provide the technology we offer through Shopify Payments and Shopify Shipping, and our reliance on a single supplier for Shopify Payments;
- the security of personally identifiable information we store relating to merchants and their customers;
- 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;
- the limited number of data centers we use;
- 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 customers;
- 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 potential inability to hire, retain and motivate qualified personnel;
- our dependence on the continued services and performance of our senior management and other key employees;
- activities of merchants or the content of their shops;
- seasonal fluctuations;
- international sales and the use of our platform in various countries;
- 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;
- our potential inability to compete successfully against current and future competitors;
- our pricing decisions for our solutions;
- acquisitions and investments;
- 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;
- being required to collect federal, state and local business taxes and sales and use taxes in additional jurisdictions or for past sales;
- our tax loss carryforwards;

- our dependence upon consumers' and merchants' access to, and willingness to use, the internet for commerce;
- challenges in expanding into new geographic regions;
- Shopify Capital and offering merchant cash advances;
- 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 provides the leading cloud-based, multi-channel commerce platform designed for small and medium-sized businesses. 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. As the number of channels over which merchants transact continues to expand, the importance of a multi-channel platform that is both fully integrated and easy to use increases. 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 and leverage analytics and reporting all from one integrated back office.

Commerce transacted over mobile devices continues to grow more rapidly than desktop transactions. For several years Shopify has focused on enabling mobile commerce and our merchants are now able to offer their customers the ability to quickly and securely check out by using Apple Pay, and in the future Android Pay, on the web. Using Shopify Mobile, merchants have the ability to set-up, track, and manage their business on the go.

The Shopify platform has been engineered to enterprise-level standards and functionality while being designed for simplicity and ease-of-use. We have also designed our platform with a robust technical infrastructure able to manage large spikes in traffic and with an app ecosystem to integrate additional functionality. 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.

A rich ecosystem of app developers, theme designers and other partners has evolved around the Shopify platform. With approximately 11,000 active partners referring merchants over the last year, we have built a strong, symbiotic relationship with our partners that 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 1,400 apps available in the Shopify App Store. This 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 and retail verticals realize their potential. While our platform can scale to meet the needs of larger merchants, we focus on selling to SMBs. As of December 31, 2016 , we had more than 377,500 merchants from approximately 175 countries using our platform. 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 year ended December 31, 2016 , our platform processed Gross Merchandise Volume ("GMV") of $ 15.4 billion , representing an increase of 99.5% from the year ended December 31, 2015 . A detailed description of this metric is presented below in the section entitled, “Key Performance Indicators.”

Our business has experienced rapid growth. During the year ended December 31, 2016 our total revenue was $389.3 million , an increase of 89.7% versus the year ended December 31, 2015 . 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 year ended December 31, 2016 , subscription solutions revenues accounted for 48.4% of our total revenues (54.6% in the year ended December 31, 2015). We offer a range of plans that increase in price depending on additional features and economic considerations. Our highest-end plan, Shopify Plus, has grown rapidly since its launch in November 2014. Offered at a starting rate that is several times that of our Shopify Advanced plan, Shopify Plus caters to merchants with higher-volume sales and offers additional functionality, scalability and support requirements, including a dedicated Merchant Success Manager. Tesla, Nestle, GE, Red Bull and Kylie Cosmetics are among the approximately 2,500 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 as well as from the sale of themes, apps and the registration of domain names. Our merchants typically enter into monthly subscription agreements. As described in the "Key Components of Results of Operations," the revenue from these agreements is recognized ratably over the relative period 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 $112.0 million in the year ended December 31, 2015 to $188.6 million in the year ended December 31, 2016 , representing an increase of 68.4% . As of December 31, 2016 , MRR totaled $18.5 million , representing an increase of 62.9% relative to MRR at December 31, 2015 . 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 year ended December 31, 2016 , merchant solutions revenues accounted for 51.6% of total revenues (45.4% in the year ended December 31, 2015). 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. Beginning with the launch of Shopify Payments in 2013, we have seen significant growth in the revenues generated from our merchant solutions. In addition to payment processing fees from Shopify Payments, we also generate merchant solutions revenue from transaction fees, Shopify Shipping, Shopify Capital, referral fees from partners, 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 $93.3 million in the year ended December 31, 2015 , to $200.7 million in the year ended December 31, 2016 , representing an increase of 115.2% .

Our business model is driven by our ability to attract new merchants, retain existing merchants and increase sales to both new and existing merchants. The total number of merchants using our platform grew from more than 243,000 as of December 31, 2015 to more than 377,500 as of December 31, 2016 . As at December 31, 2016 , our merchants were geographically dispersed as follows: United States of America, 58%; United Kingdom, 10%; Canada, 7%; Australia, 7%; and the rest of the world, which represents approximately 175 countries, 18%. 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 can connect to the platform, develop new solutions to extend the functionality of our platform, enhance our ecosystem and partner programs, provide a high level of merchant service and support, and hire, retain and motivate qualified personnel. As of December 31, 2016 , Shopify had more than 1,900 employees and consultants.

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. If we are unable to achieve our revenue growth objectives, we may not be able to achieve profitability.

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"), Gross Merchandise Volume ("GMV") and Monthly Billings Retention Rate ("MBRR"). Our key performance indicators may be calculated in a manner different than similar key performance indicators used by other companies.

The following table sets forth the key performance indicators that we use to evaluate our business for the years ended December 31, 2016 and 2015 .

	Years ended December 31,			
	2016		2015	
	(in thousands)			
Monthly Recurring Revenue	$	18,461	$	11,335
Gross Merchandise Volume	$	15,374,166	$	7,706,661
Monthly Billing Retention Rate	over 100%		over 100%	

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 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 $18.5 million of MRR as at December 31, 2016 .

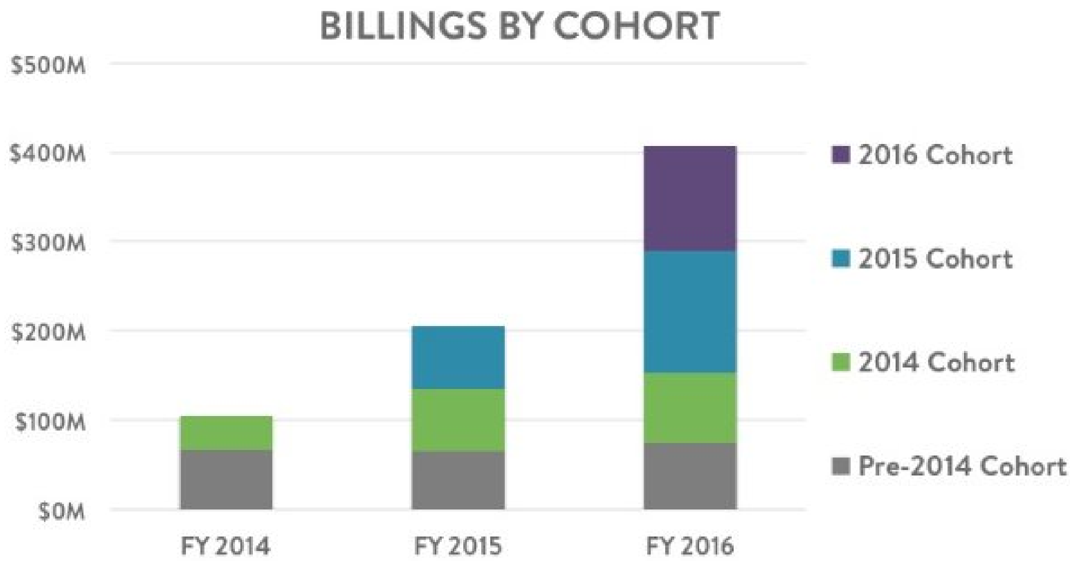
Gross Merchandise Volume

GMV is the total dollar value of orders processed directly 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 processed 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 processed through our platform. For the years ended December 31, 2016 and 2015 , we processed GMV of $15.4 billion and $7.7 billion respectively.

Monthly Billings Retention Rate

MBRR is calculated as of the end of each month by considering the cohort of merchants on the Shopify platform as of the beginning of the month and dividing total billings attributable to this cohort in the then-current month by total billings attributable to this cohort in the immediately preceding month. Billings include billings from subscriptions, recurring apps (net of developer cost), Shopify Payments fees, transaction fees, and Shopify Shipping fees (net of shipping costs). For annual fiscal periods, we report the average MBRR over the preceding 12 months. We use MBRR to evaluate our ability to maintain and expand our relationships with merchants.

To provide a deeper understanding of our merchant economics, the chart below displays the annual billings for merchant cohorts that joined the Shopify platform at different times in our history and demonstrates that a merchant decline within any cohort has been largely offset by increased billings from remaining merchants within that cohort. This shows what we believe to be one of the most powerful drivers of our business model: as our merchants have grown their businesses and become more successful, they have consumed more of our merchant solutions and upgraded to higher subscription plans or purchased additional apps.



Factors Affecting the Comparability of our Results

Change in Revenue Mix

As a result of introducing Shopify Payments, our revenues from merchant solutions and associated costs have 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 merchant solutions are typically lower than on subscription solutions due to the associated third-party costs of providing these solutions. As a result, the introduction of Shopify Payments and the resultant shift in the mix of revenue sources has affected our overall gross margin percentage. More specifically, while our total revenues have increased in recent periods, principally as a result of Shopify Payments, our overall gross margin percentage has decreased in these periods. Although Shopify Payments is inherently a lower gross margin 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. Shopify Payments is also designed to drive higher retention among merchant subscribers.

Seasonality

Our merchant solutions revenues are directionally correlated with the level of GMV that our merchants process through our platform. Our merchants typically process additional GMV during the 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 U.S. dollars, a significant portion of our operating expenses are incurred in Canadian dollars. As a result, our results of operations will be adversely impacted by an increase in the value of the Canadian dollar relative to the U.S. dollar. 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-U.S. dollar based payment processing and other merchant solutions revenues increase.

Key Components of Results of Operations

Revenues

We derive revenues from subscription solutions and merchant solutions.

Subscription Solutions

We principally generate subscription solutions revenues through the sale of subscriptions to our platform. We also generate associated subscription solutions revenues from the sale of themes, apps, and the registration of domain names.

We offer subscription plans with various price points, from entry level plans to Shopify Plus, a plan for merchants with higher-volume sales; and offers additional functionality, scalability and support. Our subscription plans typically have a one-month term, although a small number of our merchants have annual or multi-year subscription terms. Subscription terms automatically renew unless notice of cancellation is provided in advance. Merchants purchase subscription plans directly from us. Subscription fees are paid to us at the start of the applicable subscription period, regardless of the length of the subscription period. As subscription fees are received in advance of providing the related services, we record deferred revenue on our consolidated balance sheet for the unearned revenue and recognize revenue ratably over the related subscription period. These subscription fees are non-refundable.

We also generate additional subscription solutions revenues from merchants that have subscription plans with us through the sale of themes, apps, and the registration of domain names. Revenues from the sale of themes and apps are recognized at the time of the transaction. The right to use domain names is sold separately and is recognized on a ratable basis over the contractual term, which is typically an annual term. Revenues from the sale of apps are recognized net of amounts attributable to the third-party app developers, while revenues from the sale of themes and domains are recognized on a gross basis. Revenues from the sale of themes, apps, and the registration of domain names have been classified within subscription solutions on the basis that they are typically sold at the time the merchant enters into the subscription arrangement or because they are charged on a recurring basis.

Merchant Solutions

We generate merchant solutions revenues from payment processing fees from Shopify Payments, transaction fees, Shopify Shipping, Shopify Capital, referral fees from partners, and sales of POS hardware.

The significant majority of merchant solutions revenues are generated from Shopify Payments. Revenue from processing payments is recognized at the time of the transaction. For Shopify Payments transactions, fees are determined based in part on a percentage of the dollar amount processed plus a per transaction fee, where applicable.

For subscription plans where the merchant does not sign up for Shopify Payments, we typically charge a transaction fee based on a percentage of GMV processed. We bill our merchants for transaction fees at the end of a 30-day billing cycle or when predetermined billing thresholds are surpassed and any fees that have not been billed are accrued as an unbilled receivable at the end of the reporting period.

Shopify Shipping was launched in the United States in September 2015 and in Canada in September 2016, and allows merchants to buy and print shipping labels and track orders directly within the Shopify platform. We bill our merchants when they have purchased shipping labels in excess of predetermined billing thresholds, and any charges that have not been billed are accrued as unbilled receivables at the end of the reporting period. For Shopify Shipping, fees are determined based on the type of labels purchased or the arrangement negotiated with third parties. In the case of the former, we recognize revenue from Shopify Shipping net of shipping costs, as we are the agent in the arrangement with merchants.

Shopify Capital, a merchant cash advance ("MCA") program, was launched in the United States in April 2016 to help eligible merchants secure financing and accelerate the growth of their business by providing access to simple, fast, and convenient working capital. We apply underwriting criteria prior to purchasing the eligible merchant's future receivables to help ensure collectability. Under Shopify Capital, we purchase a designated amount of future receivables at a discount. The purchase price is paid to the merchant at the time the MCA is entered into, and the merchant remits a fixed percentage of their daily sales until the outstanding balance has been remitted. As cash remittances are collected by us, a portion is recognized ratably as a reduction to the merchant's receivable balance, and a portion, which is related to the discount, is recognized ratably as merchant solutions revenue. We have mitigated some of the risks associated with Shopify Capital by entering into an agreement with a third party to insure merchant cash advances offered by Shopify Capital.

We also generate merchant solutions revenues in the form of referral fees from partners to whom we direct business and with whom we have an arrangement in place. Pursuant to terms of the agreements with our partners, these revenues can be recurring or non-recurring. Where the agreement provides for recurring payments to us, we typically earn revenues so long as the merchant that we have referred to the partner continues to use the services of the partner. Non-recurring revenues generally take the form of one-time payments that we receive when we initially refer the merchant to the partner. In either case, we recognize referral revenues when we are entitled to receive payment from the partner pursuant to the terms of the underlying agreement.

In connection with Shopify POS, a sales channel that lets merchants sell their products and accept payments in-person from a mobile device, we sell compatible hardware products which are sourced from third-party vendors. We recognize revenues from the sale of POS hardware when title passes to the merchant in accordance with the shipping terms of the sale.

For a discussion of how we expect seasonal factors to affect our merchant solutions revenue, see “Factors Affecting the Comparability of our Results—Seasonality.”

Cost of Revenues

Cost of Subscription Solutions

Cost of subscription solutions consists primarily of costs associated with hosting infrastructure, billing processing fees and operations and merchant support expenses. Operations and merchant support expenses include costs associated with our data and network infrastructure and personnel-related costs directly associated with operations and merchant support, including salaries, benefits and stock-based compensation, as well as allocated overhead. Overhead associated with facilities, information technology and depreciation is allocated to our cost of revenues and operating expenses based on headcount.

Additionally, cost of subscription solutions includes costs we are required to pay to third-party developers in connection with sales of themes. Our paid themes are primarily designed by third-party developers who earn fees for each theme sold by us. The amount paid to the third-party developer varies depending on whether the developer has agreed to provide ongoing support to the merchant in connection with the merchant’s use of the theme.

Also included as cost of subscription solutions are domain registration fees and amortization of internal use software relating to the capitalized costs associated with the development of the platform and data infrastructure.

We expect that cost of subscription solutions will increase in absolute dollars as we continue to invest in growing our business, and as the number of merchants utilizing the platform increases along with the costs of supporting those merchants. Over time, we expect that our subscription solutions gross margin percentage will fluctuate modestly based on the mix of subscription plans that our merchants select and the timing of expenditures related to infrastructure expansion projects.

Cost of Merchant Solutions

Cost of merchant solutions primarily consists of costs that we incur when transactions are processed using Shopify Payments, such as credit card interchange and network fees (charged by credit card providers such as Visa, MasterCard and American Express) as well as third-party processing fees. Cost of merchant solutions also consists of costs associated with hosting infrastructure and operations and merchant support expenses, including personnel-related costs directly associated with merchant solutions such as salaries, benefits and stock-based compensation, as well as allocated overhead. Overhead associated with facilities, information technology and depreciation is allocated to our cost of revenues and operating expenses based on headcount.

Cost of merchant solutions also includes costs associated with POS hardware, such as the cost of acquiring the hardware inventory, including hardware purchase price, expenses associated with our use of a third-party fulfillment company, shipping and handling and inventory adjustments. Also included within cost of merchant solutions is amortization of internal use software relating to capitalized costs associated with the development of merchant solutions.

We expect that the cost of merchant solutions will increase in absolute dollars in future periods as the number of merchants utilizing these solutions increases and the volume processed also grows. We believe that we may see increases in our gross margin percentage of merchant solutions as additional higher-margin merchant solutions offerings, such as Shopify Shipping and Shopify Capital, become a larger component of our merchant solutions revenue and we continue to expand Shopify Payments internationally.

Operating Expenses

Sales and Marketing

Sales and marketing expenses consist primarily of marketing programs, partner referral payments related to merchant acquisitions, employee-related expenses for marketing, business development and sales, as well as the portion of merchant support required for the onboarding of prospective new merchants. Other costs within sales and marketing include commissions, travel-related expenses and corporate overhead allocations. Costs to acquire merchants are expensed as incurred. We plan to continue to expand sales and marketing efforts to attract new merchants, retain existing merchants and increase revenues from both new and existing merchants. This growth will include adding sales personnel and expanding our marketing activities to continue to generate additional leads and build brand awareness. Over time, we expect sales and marketing expenses will decline as a percentage of total revenues.

Research and Development

Research and development expenses consist primarily of employee-related expenses for product management, product development and product design, contractor and consultant fees and corporate overhead allocations. We continue to focus our research and development efforts on adding new features and solutions, and increasing the functionality and enhancing the ease of use of our platform. While we expect research and development expenses to increase in absolute dollars as we continue to increase the functionality of our platform, over the long term we expect our research and development expenses will decline as a percentage of total revenues.

General and Administrative

General and administrative expenses consist of employee-related expenses for finance and accounting, legal, data analytics, administrative, human resources and IT personnel, professional fees, expected and actual losses related to Shopify Payments and Shopify Capital, other corporate expenses and corporate overhead allocations. We expect that general and administrative expenses will increase on an absolute dollar basis but may decrease as a percentage of total revenues as we focus on processes, systems and controls to enable our internal support functions to scale with the growth of our business. We also anticipate continued increases to general and administrative expenses as we incur the costs of compliance associated with being a public company, including increased accounting and legal expenses.

Other Income (Expenses)

Other income (expenses) consists primarily of transaction gains or losses on foreign currency and interest income net of interest expense.

Results of Operations

The following table sets forth our consolidated statement of operations for the years ended December 31, 2016 , 2015 , and 2014 .

	Years ended December 31,		
	2016	**2015**	**2014**
	(in thousands, except share and per share data)		
Revenues:			
Subscription solutions	$ 188,606	$ 111,979	$ 66,668
Merchant solutions	200,724	93,254	38,350
	389,330	205,233	105,018
Cost of revenues [1] :			
Subscription solutions	39,478	24,531	16,790
Merchant solutions	140,357	67,447	25,620
	179,835	91,978	42,410
Gross profit	209,495	113,255	62,608
Operating expenses:			
Sales and marketing [1]	129,214	70,374	45,929
Research and development [1][2]	74,336	39,722	25,915
General and administrative [1][3]	43,110	20,915	12,379
	246,660	131,011	84,223
Loss from operations	(37,165)	(17,756)	(21,615)
Other income (expense)	1,810	(1,034)	(696)
Net loss	$ (35,355)	$ (18,790)	$ (22,311)
Net loss per share—basic and diluted [4]	$ (0.42)	$ (0.30)	$ (0.57)
Weighted average shares used to compute net loss per share attributable to shareholders	83,988,597	61,716,065	38,940,252

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

	Years ended December 31,		
	2016	**2015**	**2014**
	(in thousands)		
Cost of revenues	$ 718	$ 345	$ 259
Sales and marketing	4,444	1,351	696
Research and development	15,364	6,373	2,776
General and administrative	4,495	2,419	712
	$ 25,021	$ 10,488	$ 4,443

(2) Net of refundable tax credits of nil, $1,058 and $1,295 and for the years ended December 31, 2016, 2015 and 2014, respectively.

(3) Includes sales and use taxes of nil, $566, and $2,182, for the years ended December 31, 2016, 2015 and 2014, respectively.

(4) For the periods preceding our initial public offering, does not give effect to the conversion of Series A, Series B and Series C convertible preferred shares, which occurred upon the consummation of our initial public offering on May 27, 2015.

The following table sets forth our consolidated statement of operations as a percentage of total revenues for the years ended December 31, 2016 , 2015 , and 2014 .

	Years ended December 31,		
	2016	2015	2014
Revenues			
Subscription solutions	48.4 %	54.6 %	63.5 %
Merchant solutions	51.6 %	45.4 %	36.5 %
	100.0 %	100.0 %	100.0 %
Cost of revenues			
Subscription solutions	10.1 %	12.0 %	16.0 %
Merchant solutions	36.1 %	32.9 %	24.4 %
	46.2 %	44.8 %	40.4 %
Gross profit	53.8 %	55.2 %	59.6 %
Operating expenses			
Sales and marketing	33.2 %	34.3 %	43.7 %
Research and development	19.1 %	19.4 %	24.7 %
General and administrative	11.1 %	10.2 %	11.8 %
Total operating expenses	63.4 %	63.8 %	80.2 %
Loss from operations	(9.6)%	(8.7)%	(20.6)%
Other income (expenses)	0.5 %	(0.5)%	(0.7)%
Net loss	(9.1)%	(9.2)%	(21.2)%

The following table sets forth our consolidated revenues by geographic location for the years ended December 31, 2016 , 2015 , and 2014 .

	Years ended December 31,		
	2016	2015	2014
	(in thousands)		
Revenues:			
Canada	$ 26,893	$ 14,691	$ 7,729
United States	284,095	144,748	72,149
United Kingdom	25,958	15,436	7,912
Australia	18,163	10,531	6,420
Rest of World	34,221	19,827	10,808
Total Revenues	$ 389,330	$ 205,233	$ 105,018

The following table sets forth our consolidated revenues by geographic location as a percentage of total revenues for the years ended December 31, 2016 , 2015 , and 2014 .

	Years ended December 31,		
	2016	2015	2014
Revenues:			
Canada	6.9%	7.2%	7.4%
United States	72.9%	70.5%	68.7%
United Kingdom	6.7%	7.5%	7.5%
Australia	4.7%	5.1%	6.1%
Rest of World	8.8%	9.7%	10.3%
Total Revenues	100.0%	100.0%	100.0%

Discussion of the Results of Operations for the years ended December 31, 2016 , 2015 , and 2014 .

Revenues

	Years ended December 31,			2016 vs 2015	2015 vs 2014
	2016	2015	2014	% Change	% Change
	(in thousands, except percentages)				
Revenues:					
Subscription solutions	$ 188,606	$ 111,979	$ 66,668	68.4%	68.0%
Merchant solutions	200,724	93,254	38,350	115.2%	143.2%
	$ 389,330	$ 205,233	$ 105,018	89.7 %	95.4 %
Percentage of revenues:					
Subscription solutions	48.4 %	54.6 %	63.5 %		
Merchant solutions	51.6 %	45.4 %	36.5 %		
Total revenues	100.0 %	100.0 %	100.0 %		

Subscription Solutions

Subscription solutions revenues increased $ 76.6 million , or 68.4% , for the year ended December 31, 2016 compared to the same period in 2015 . Subscription solutions revenues increased $45.3 million, or 68.0%, for the year ended December 31, 2015 compared to the same period in 2014. The increase in both periods was primarily a result of growth in the number of merchants using our platform.

Merchant Solutions

Merchant solutions revenues increased $ 107.5 million , or 115.2% , for the year ended December 31, 2016 compared to the same period in 2015 . The increase in merchant solutions revenues was primarily a result of Shopify Payments revenue growing by $88.4 million in 2016 compared to the same period in 2015 . This increase was a result of an increase in the number of merchants using our platform, expansion into new geographical regions, and an increase in adoption of Shopify Payments by our merchants, each of which drove additional GMV that was processed using Shopify Payments. As at December 31, 2016 Shopify Payments penetration was as follows: United States, 87%; Canada, 87%; United Kingdom, 77%; Australia, 64%; and Ireland, 27%. Additionally, revenue from transaction fees and referral fees from partners increased by $7.9 million and $3.6, respectively, during the year ended December 31, 2016 as a result of the increase in GMV processed through our platform compared to the same period in 2015 . Merchant solutions also includes Shopify Shipping and Shopify Capital, which contributed to the merchant solutions revenue growth of $3.3 million and $2.1 million, respectively, in the year ended December 31, 2016 .

Merchant solutions revenues increased $54.9 million, or 143.2%, for the year ended December 31, 2015 compared to the same period in 2014. The increase in merchant solutions revenues was primarily a result of Shopify Payments revenue growing by $46.8 million in 2015 compared to the same period in 2014.

Cost of Revenues

	Years ended December 31,			2016 vs 2015	2015 vs 2014
	2016	2015	2014	% Change	% Change
			(in thousands, except percentages)		
Cost of revenues:					
Cost of subscription solutions	$ 39,478	$ 24,531	$ 16,790	60.9 %	46.1 %
Cost of merchant solutions	140,357	67,447	25,620	108.1 %	163.3 %
Total cost of revenues	$ 179,835	$ 91,978	$ 42,410	95.5 %	116.9 %
Percentage of revenues:					
Cost of subscription solutions	10.1 %	12.0 %	16.0 %		
Cost of merchant solutions	36.1 %	32.9 %	24.4 %		
	46.2 %	44.8 %	40.4 %		

Cost of Subscription Solutions

Cost of subscription solutions increased $14.9 million , or 60.9% , for the year ended December 31, 2016 compared to the same period in 2015 . The increase was primarily due to an increase in the costs necessary to support a greater number of merchants using our platform, resulting in a $4.6 million increase in employee-related costs, a $3.3 million increase in third-party infrastructure costs, a $2.9 million increase in amortization from our investment in software and hardware relating to our data centers, a $2.1 million increase in credit card fees for processing merchant billings, and a $1.9 million increase in payments to third-party theme developers and domain registration providers. Although cost of subscription solutions increased in terms of dollars, it decreased as a percentage of revenues from 12.0% in 2015 to 10.1% in 2016 . The decrease was principally a result of a decrease in overall support costs which decreased as a percentage of revenue in 2016 as we shifted our support team to more of a remote-based model and from operational efficiencies gained after building out our second data center in 2015 . Additionally, there was a decrease in lower-margin theme revenue as a percentage of total subscription solutions revenue.

Cost of subscription solutions increased $7.7 million, or 46.1%, for the year ended December 31, 2015 compared to the same period in 2014. The increase was primarily due to an increase in the costs necessary to support a greater number of merchants using our platform.

Cost of Merchant Solutions

Cost of merchant solutions increased $72.9 million , or 108.1% , for the year ended December 31, 2016 compared to the same period in 2015 . The increase was primarily due to the increase in GMV processed through Shopify Payments, which resulted in payment processing fees, including interchange fees, increasing for the year ended December 31, 2016 as compared to 2015 . Cost of sales associated with POS hardware also increased by $1.1 million for the year ended December 31, 2016 .

Cost of merchant solutions increased $41.8 million, or 163.3%, for the year ended December 31, 2015 compared to the same period in 2014. The increase was primarily due to the increase in GMV processed through Shopify Payments, which resulted in payment processing fees, including interchange fees, increasing for the year ended December 31, 2015 as compared to the same period in 2014.

Gross Profit

	Years ended December 31,			2016 vs 2015	2015 vs 2014
	2016	2015	2014	% Change	% Change
	(in thousands, except percentages)				
Gross profit	$ 209,495	$ 113,255	$ 62,608	85.0 %	80.9 %
Percentage of total revenues	53.8 %	55.2 %	59.6 %		

Gross profit increased $96.2 million , or 85.0% , for the year ended December 31, 2016 compared to the same period in 2015 . As a percentage of total revenues, gross profit decreased from 55.2% in the year ended December 31, 2015 to 53.8% in the year ended December 31, 2016 , due to the faster growth of merchant solutions revenue compared to subscription solutions revenue. Merchant solutions are intended to complement subscription solutions by providing additional value to our merchants and increasing their use of our platform. The lower gross margin percentage on merchant solutions is primarily due to third-party costs associated with providing payment-processing services such as credit card interchange and network fees charged by credit card providers such as Visa, MasterCard and American Express, as well as third-party processing fees.

Gross profit increased $50.6 million, or 80.9%, for the year ended December 31, 2015 compared to the same period in 2014. As a percentage of total revenues, gross profit decreased from 59.6% in the year ended December 31, 2014 to 55.2% in the year ended December 31, 2015, principally due to the faster growth of merchant solutions revenue compared to subscription solutions revenue.

Operating Expenses

Sales and Marketing

	Years ended December 31,			2016 vs 2015	2015 vs 2014
	2016	2015	2014	% Change	% Change
	(in thousands, except percentages)				
Sales and marketing	$ 129,214	$ 70,374	$ 45,929	83.6 %	53.2 %
Percentage of total revenues	33.2 %	34.3 %	43.7 %		

Sales and marketing expenses increased $58.8 million , or 83.6% , for the year ended December 31, 2016 compared to the same period in 2015 , primarily due to an increase of $29.4 million in marketing programs, such as advertisements on search engines and social media, to support the growth of our business. We believe the strong investment we are making in external marketing programs and internal ones, such as Shopify Unite, the Company's annual Partner and Developer conference, our Build a Business competition, our retail tours, and the Shopify Blog, continue to be effective in growing the number of merchants using our platform. During the year ended December 31, 2016 the total number of merchants increased 62.5% to more than 377,500 . In addition to external marketing spending, employee-related costs, including facilities expense, increased by $26.0 million in the year ended December 31, 2016 , primarily resulting from total sales and marketing headcount growth of 91%. Costs for consulting services increased $2.1 million in the year ended December 31, 2016 . Software license costs also increased by $1.3 million as a result of supporting both the growth in our headcount and the growth of our business as we continue to use new software tools to effectively scale our operations as we enter into various new business activities. Sales and marketing expenses as a percentage of revenue have decreased year over year as revenue from merchant solutions generally requires significantly less marketing expense than Shopify's core subscription business.

Sales and marketing expenses increased $24.4 million, or 53.2%, for the year ended December 31, 2015 compared to the same period in 2014, primarily due to an increase of $15.0 million in marketing programs. In addition to external marketing spending, employee-related costs, including facilities expense, increased by $8.4 million. Software license costs also increased by $0.8 million.

Research and Development

	Years ended December 31,			2016 vs 2015	2015 vs 2014
	2016	2015	2014	% Change	% Change
			(in thousands, except percentages)		
Research and development	$ 74,336	$ 39,722	$ 25,915	87.1 %	53.3 %
Percentage of total revenues	19.1 %	19.4 %	24.7 %		

Research and development expenses increased $34.6 million , or 87.1% , for the year ended December 31, 2016 compared to the same period in 2015 , due to an increase of $30.3 million in employee-related costs (including a $9.0 million increase in stock-based compensation) resulting from the growth in research and development headcount by 63%. Allocated facilities expenses also increased $2.6 million in the year ended December 31, 2016 relative to the year ended December 31, 2015 as a result of the facilities expansion in all of our locations to support the growth in our employee base. Software license costs increased by $1.2 million as a result of the growth of both our business and headcount.

Research and development expenses increased $13.8 million, or 53.3%, for the year ended December 31, 2015 compared to the same period in 2014, due to an increase of $12.4 million in employee-related costs; and allocated facilities expenses increase of $1.4 million; and a software license costs increase of $0.4 million. These increases were offset by increased capitalization of $1.0 million in software development costs versus 2014.

General and Administrative

	Years ended December 31,			2016 vs 2015	2015 vs 2014
	2016	2015	2014	% Change	% Change
			(in thousands, except percentages)		
General and administrative	$ 43,110	$ 20,915	$ 12,379	106.1 %	69.0 %
Percentage of total revenues	11.1 %	10.2 %	11.8 %		

General and administrative expenses increased $22.2 million , or 106.1% , for the year ended December 31, 2016 compared to the same period in 2015 , due to an increase of $11.7 million in employee-related costs, a $5.1 million increase in actual and expected losses associated with Shopify Payments and Shopify Capital, $1.7 million in software license costs, $1.6 million in allocated facilities expense, $1.3 million in professional service fees, and $0.5 million in finance costs, which includes insurance, listing fees, and board expenses. The increase in employee-related costs was associated with higher general and administrative headcount, which, along with the increase in allocated facilities expense and software license costs, was a result of the growth of our business. The increase in professional fees was attributable to higher fees for legal, accounting and tax services, resulting from the increased compliance obligations of being a public company. General and administrative expenses as a percentage of revenue increased year over year as a result of losses associated with the growth in Shopify Payments and Shopify Capital.

General and administrative expenses increased $8.5 million, or 69.0%, for the year ended December 31, 2015 compared to the same period in 2014, due to an increase of $5.3 million in employee-related costs; a $1.4 million increase in actual and expected losses associated with Shopify Payments and Shopify Capital; $0.8 million in allocated facilities expense, $0.7 million in software license costs, $1.0 million in insurance costs and $1.3 million in professional service fees, offset by a decrease of $1.9 million in sales tax expenses.

Other Income (Expenses)

	Years ended December 31,			2016 vs 2015	2015 vs 2014
	2016	2015	2014	% Change	% Change
	(in thousands, except percentages)				
Other income (expenses), net	$ 1,810	$ (1,034)	$ (696)	*	*

* Not a meaningful comparison

In the year ended December 31, 2016 we had other income of $1.8 million compared to other expenses of $1.0 million in the same period in 2015 , a positive change of $2.8 million. In the year ended December 31, 2016 the amount was primarily driven by investment income of $1.5 million, compared to the same period in 2015 when the amount was primarily driven by foreign exchange losses of $1.2 million.

Other expenses increased by $0.3 million in the year ended December 31, 2015 compared to the same period in 2014 . The increase was primarily a result of recognizing $1.2 million of foreign exchange losses due to fluctuations in foreign exchange rates in the year ended December 31, 2015, as compared to $0.8 million in the year ended December 31, 2014.

Profit (Loss)

	Years ended December 31,			2016 vs 2015	2015 vs 2014
	2016	2015	2014	% Change	% Change
	(in thousands, except share and per share data)				
Net loss	$ (35,355)	$ (18,790)	$ (22,311)	*	*
Basic and diluted net loss per share attributable to shareholders	$ (0.42)	$ (0.30)	$ (0.57)		
Weighted average shares used to compute basic and diluted net loss per share attributable to shareholders	83,988,597	61,716,065	38,940,252		

* Not a meaningful comparison

The basic and diluted net loss per share attributable to shareholders for the year ended December 31, 2016 , is not necessarily comparable with the same periods in 2015 or 2014 as a result of our Initial Public Offering (“IPO”) of Class A subordinate voting shares and the conversion of all issued and outstanding convertible preferred shares into Class B multiple voting shares, both of which occurred in May 2015 .

Quarterly Results of Operations

The following table sets forth our results of operations for the three months ended December 31, 2016 and 2015 .

	Three months ended December 31,	
	2016	2015
	(in thousands, except share and per share data)	
Revenues:		
Subscription solutions	$ 56,387	$ 34,608
Merchant solutions	73,996	35,565
	130,383	70,173
Cost of revenues [(1)] :		
Subscription solutions	11,593	7,662
Merchant solutions	50,655	26,044
	62,248	33,706
Gross profit	68,135	36,467
Operating expenses:		
Sales and marketing [(1)]	39,016	22,527
Research and development [(1)]	24,472	13,541
General and administrative [(1)]	13,952	6,918
Total operating expenses	77,440	42,986
Loss from operations	(9,305)	(6,519)
Other income (expense):		
Interest income, net	698	102
Foreign exchange gain (loss)	(260)	110
	438	212
Net loss	$ (8,867)	$ (6,307)
Basic and diluted net loss per share attributable to shareholders	$ (0.10)	$ (0.08)
Weighted average shares used to compute net loss per share attributable to shareholders	89,137,155	77,996,629

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

	Three months ended December 31,	
	2016	2015
	(in thousands)	
Cost of revenues	$ 216	$ 147
Sales and marketing	1,424	670
Research and development	5,462	3,520
General and administrative	1,396	872
	$ 8,498	$ 5,209

Revenues

	Three months ended December 31,		2016 vs. 2015
	2016	2015	% Change
	(in thousands, except percentages)		
Revenues:			
Subscription solutions	$ 56,387	$ 34,608	62.9%
Merchant solutions	73,996	35,565	108.1%
	$ 130,383	$ 70,173	85.8 %
Percentage of revenues:			
Subscription solutions	43.2 %	49.3 %	
Merchant solutions	56.8 %	50.7 %	
Total revenues	100.0 %	100.0 %	

Subscription Solutions

Subscription solutions revenues increased $21.8 million , or 62.9% , for the three months ended December 31, 2016 compared to the same period in 2015 . The year over year increase was primarily a result of growth in MRR which was largely driven by the higher number of merchants using our platform.

Merchant Solutions

Merchant solutions revenues increased $38.4 million , or 108.1% , for the three months ended December 31, 2016 compared to the same period in 2015 . The increase in merchant solutions revenues was primarily a result of Shopify Payments revenue growing in the three months ended December 31, 2016 compared to the same period in 2015 . This increase was a result of an increase in the number of merchants using our platform, expansion into new geographical regions, and an increase in adoption of Shopify Payments by our merchants, which drove additional GMV of $2.2 billion that was processed using Shopify Payments for the three months ended December 31, 2016 . This compares to $1.0 billion in the same period in 2015 .

In addition to the increase in revenue from Shopify Payments, revenue from transaction fees, referral fees from partners, and Shopify Shipping increased during the three months ended December 31, 2016 compared to the same period in 2015 , as a result of the increase in GMV processed through our platform compared to the same period in 2015 . The introduction of Shopify Capital in 2016 resulted in a $1.5 million increase in merchant solutions revenue during the three months ended December 31, 2016 compared to the same period in 2015 .

Cost of Revenues

	Three months ended December 31,		2016 vs. 2015
	2016	2015	% Change
	(in thousands, except percentages)		
Cost of revenues:			
Cost of subscription solutions	$ 11,593	$ 7,662	51.3 %
Cost of merchant solutions	50,655	26,044	94.5 %
Total cost of revenues	$ 62,248	$ 33,706	84.7 %
Percentage of revenues:			
Cost of subscription solutions	8.9 %	10.9 %	
Cost of merchant solutions	38.9 %	37.1 %	
	47.7 %	48.0 %	

Cost of Subscription Solutions

Cost of subscription solutions increased $3.9 million , or 51.3% , for the three months ended December 31, 2016 compared to the same period in 2015 . The increase was primarily due to an increase in the costs necessary to support a greater number of merchants using our platform, resulting in an increase in: employee-related costs, payments to third-party theme developers and domain registration providers, amortization related to our data centers, credit card fees for processing merchant billings and third-party infrastructure costs. Although cost of subscription solutions increased in terms of dollars, it decreased as a percentage of revenues from 10.9% in the three months ended December 31, 2015 to 8.9% in the three months ended December 31, 2016 . The decrease was a result of a decrease in lower-margin theme revenue as a percentage of total subscription solutions revenue; savings on credit card fees for processing merchant billings; and because of continued operational efficiencies as a result of investments we made in our data centers in prior periods.

Cost of Merchant Solutions

Cost of merchant solutions increased $24.6 million , or 94.5% , for the three months ended December 31, 2016 compared to the same period in 2015 . The increase was primarily due to the increase in GMV processed through Shopify Payments, which resulted in higher payment processing fees, including interchange fees, increasing for the three months ended December 31, 2016 as compared to the same period in 2015 .

Gross Profit

	Three months ended December 31,		2016 vs. 2015
	2016	2015	% Change
	(in thousands, except percentages)		
Gross profit	$ 68,135	$ 36,467	86.8 %
Percentage of total revenues	52.3 %	52.0 %	

Gross profit increased $31.7 million , or 86.8% , for the three months ended December 31, 2016 compared to the same period in 2015 . As a percentage of total revenues, gross profit increased from 52.0% in the three months ended December 31, 2015 to 52.3% in the three months ended December 31, 2016 , principally due to higher margins on Shopify Payments versus the same period in 2015 , as well as the introduction and growth of the higher margin merchant solutions products: Shopify Shipping and Shopify Capital. On a stand-alone basis, both subscription solutions and merchant solutions gross margins increased year over year. Merchant solutions are designed to complement subscription solutions by providing additional value to our merchants and increasing their use of our platform.

Operating Expenses

Sales and Marketing

	Three months ended December 31,		2016 vs. 2015
	2016	2015	% Change
	(in thousands, except percentages)		
Sales and marketing	$ 39,016	$ 22,527	73.2 %
Percentage of total revenues	29.9 %	32.1 %	

Sales and marketing expenses increased $16.5 million , or 73.2% , for the three months ended December 31, 2016 compared to the same period in 2015 , due to an increase of $7.2 million in marketing programs, such as advertisements on search engines and social media, to support the growth of our business; an increase of $8.2 million in employee-related costs, including allocated facilities expense ($0.8 million of which related to stock-based compensation and related payroll taxes); and an increase of $0.7 million in consulting services year over year.

Research and Development

	Three months ended December 31,		2016 vs. 2015
	2016	2015	% Change
	(in thousands, except percentages)		
Research and development	$ 24,472	$ 13,541	80.7 %
Percentage of total revenues	18.8 %	19.3 %	

Research and development expenses increased $10.9 million , or 80.7% , for the three months ended December 31, 2016 compared to the same period in 2015 , due to an increase of $9.1 million in employee-related costs ($1.8 million of which related to stock-based compensation and related payroll taxes), a $1.0 million increase in allocated facilities expenses, and an increase in depreciation relating to computer hardware and software of $0.3 million, all as a result of the growth in our employee base. Costs for consulting services also increased by $0.4 million for the three months ended December 31, 2016 compared to the same period in 2015 .

General and Administrative

	Three months ended December 31,		2016 vs. 2015
	2016	2015	% Change
	(in thousands, except percentages)		
General and administrative	$ 13,952	$ 6,918	101.7 %
Percentage of total revenues	10.7 %	9.9 %	

General and administrative expenses increased $7.0 million , or 101.7% , for the three months ended December 31, 2016 compared to the same period in 2015 , due to an increase of $3.4 million in employee-related costs ($0.5 million of which related to stock-based compensation and related payroll taxes), a $2.0 million increase in actual and expected losses associated with Shopify Payments and Shopify Capital, an increase of $0.5 million in allocated facilities expense, an increase of $0.4 million in software license costs, and an increase of $0.3 million in professional service fees.

Other Income (Expenses)

	Three months ended December 31,		2016 vs. 2015
	2016	2015	% Change
	(in thousands, except percentages)		
Other income (expenses), net	$ 438	$ 212	*

* Not a meaningful comparison

In the three months ended December 31, 2016 we had other income of $0.4 million , compared to other income of $0.2 million in the same period in 2015 . In the three months ended December 31, 2016 the amount was driven by a year-over-year increase in interest income of $0.6 million, offset by a year-over-year increase in foreign exchange losses of $0.4 million.

Summary of Quarterly Results

The following table sets forth selected unaudited quarterly results of operations data for each of the eight quarters ended December 31, 2016 . 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 interim unaudited 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							
	Dec 31, 2016	Sep 30, 2016	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	June 30, 2015	Mar 31, 2015
	(in thousands, except per share data)							
Revenues:								
Subscription solutions	$ 56,387	$ 49,839	$ 43,674	$ 38,706	$ 34,608	$ 29,560	$ 25,459	$ 22,352
Merchant solutions	73,996	49,739	42,973	34,016	35,565	23,226	19,467	14,996
	130,383	99,578	86,647	72,722	70,173	52,786	44,926	37,348
Cost of revenues: [1]								
Subscription solutions	$ 11,593	10,555	9,098	8,232	7,662	6,414	5,422	5,033
Merchant solutions	50,655	35,271	30,026	24,405	26,044	17,005	14,068	10,330
	62,248	45,826	39,124	32,637	33,706	23,419	19,490	15,363
Gross profit	68,135	53,752	47,523	40,085	36,467	29,367	25,436	21,985
Operating expenses:								
Sales and marketing [1]	39,016	32,777	29,413	28,008	22,527	18,216	16,091	13,540
Research and development [1]	24,472	19,462	16,732	13,670	13,541	10,068	8,800	7,313
General and administrative [1]	13,952	11,002	10,037	8,119	6,918	5,383	4,006	4,608
Total operating expenses	77,440	63,241	56,182	49,797	42,986	33,667	28,897	25,461
Loss from operations	(9,305)	(9,489)	(8,659)	(9,712)	(6,519)	(4,300)	(3,461)	(3,476)
Other income (expense)	438	369	220	783	212	(357)	165	(1,054)
Net loss	$ (8,867)	$ (9,120)	$ (8,439)	$ (8,929)	$ (6,307)	$ (4,657)	$ (3,296)	$ (4,530)
Basic and diluted net loss per share attributable to shareholders [2]	$ (0.10)	$ (0.11)	$ (0.10)	$ (0.11)	$ (0.08)	$ (0.06)	$ (0.06)	$ (0.12)

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

	Three months ended							
	Dec 31, 2016	Sep 30, 2016	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	June 30, 2015	Mar 31, 2015
	(in thousands)							
Cost of revenues	$ 216	$ 234	$ 152	$ 115	$ 147	$ 67	$ 72	$ 59
Sales and marketing	1,424	1,390	1,025	605	670	325	182	174
Research and development	5,462	4,358	3,255	2,291	3,520	1,248	826	779
General and administrative	1,396	1,301	1,016	781	872	628	491	428
	$ 8,498	$ 7,283	$ 5,448	$ 3,792	$ 5,209	$ 2,268	$ 1,571	$ 1,440

(2) For periods preceding our IPO, does not give effect to the conversion of our Series A, Series B and Series C convertible preferred shares into Class B multiple voting shares, which occurred upon the consummation of our IPO on May 27, 2015.

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 December 31, 2016 .

	Three months ended							
	Dec 31, 2016	Sep 30, 2016	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	June 30, 2015	Mar 31, 2015
Revenues								
Subscription solutions	43.2 %	50.1 %	50.4 %	53.2 %	49.3 %	56.0 %	56.7 %	59.8 %
Merchant solutions	56.8 %	49.9 %	49.6 %	46.8 %	50.7 %	44.0 %	43.3 %	40.2 %
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues								
Subscription solutions	8.9 %	10.5 %	10.5 %	11.3 %	10.9 %	12.2 %	12.1 %	13.5 %
Merchant solutions	38.9 %	35.4 %	34.7 %	33.6 %	37.1 %	32.2 %	31.3 %	27.7 %
	47.7 %	45.9 %	45.2 %	44.9 %	48.0 %	44.4 %	43.4 %	41.1 %
Gross profit	52.3 %	54.0 %	54.8 %	55.1 %	52.0 %	55.6 %	56.6 %	58.9 %
Operating expenses:								
Sales and marketing	29.9 %	32.9 %	33.9 %	38.5 %	32.1 %	34.5 %	35.8 %	36.3 %
Research and development	18.8 %	19.5 %	19.3 %	18.8 %	19.3 %	19.1 %	19.6 %	19.6 %
General and administrative	10.7 %	11.0 %	11.6 %	11.2 %	9.9 %	10.2 %	8.9 %	12.3 %
	59.4 %	63.5 %	64.8 %	68.5 %	61.3 %	63.8 %	64.3 %	68.2 %
Loss from operations	(7.1)%	(9.5)%	(10.0)%	(13.4)%	(9.3)%	(8.1)%	(7.7)%	(9.3)%
Other income (expense)	0.3 %	0.4 %	0.3 %	1.1 %	0.3 %	(0.7)%	0.4 %	(2.8)%
Net loss	(6.8)%	(9.2)%	(9.7)%	(12.3)%	(9.0)%	(8.8)%	(7.3)%	(12.1)%

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 the level of GMV that our merchants process through our platform. Our merchants typically process additional GMV 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

Our quarterly revenue increased sequentially for each of the past eight quarters, primarily due to sales of new subscriptions to our platform as well as the introduction and growth of merchant solutions. We cannot ensure that this pattern of sequential growth in revenue will continue.

Our gross margin percentage has declined over the past eight quarters primarily due to the impact of Shopify Payments. Merchant solutions are designed to complement subscription solutions by providing additional value to our merchants and increasing their use of our platform. As a result, while our total revenues have increased in recent periods as a result of offering Shopify Payments, our cost of revenues has correspondingly increased in these periods. Although merchant solutions generally have a lower gross margin than subscription solutions, we believe that our merchant solutions make it easier for our merchants to start a business and grow on our platform.

Quarterly Operating Expenses Trends

Total operating expenses generally 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

	December 31, 2016	December 31, 2015	December 31, 2014
		(in thousands)	
Cash, cash equivalents and marketable securities	$ 392,414	$ 190,173	$ 59,662
Total assets	490,558	243,712	95,193
Total liabilities	80,082	48,395	27,461
Total non-current liabilities	13,550	11,158	7,687

Total assets increased $246.8 million as at December 31, 2016 compared to December 31, 2015 , principally due to an increase in cash, cash equivalents, and marketable securities as a result of our follow-on public offering in August 2016. Total liabilities increased by $31.7 million, principally as a result of an increase in accounts payable and accrued liabilities of $21.4 million, which was due to an increase in payment processing costs, marketing costs, third-party partner commissions and the growth in sales of our subscription solutions offering which also resulted in an increase of deferred revenue of $7.7 million.

Total assets increased $148.5 million, or 156.0%, as at December 31, 2015 compared to December 31, 2014, principally due to an increase of $130.5 million of cash, cash equivalents, and marketable securities as a result of the proceeds from the IPO and cash provided by operating activities, offset by cash used in investing activities. Additionally, property, equipment and intangible assets increased by $14.4 million as at December 31, 2015 compared to December 31, 2014, due to the expansion and leasehold improvements related to our facilities in Ottawa, Toronto, Waterloo and Montreal as well as capitalized software development costs associated with internal use software and software to support the growth of the business.

Liquidity and Capital Resources

To date, we have financed our operations primarily through the sale of equity securities, raising approximately $456 million, net of issuance costs, from investors.

In March 2015, the Company entered into a credit facility with Silicon Valley Bank, which provides for a $25,000 revolving line of credit bearing interest at the U.S. prime rate, as published by the Wall Street Journal plus or minus 25 basis points per annum, dependent on the Company's adjusted quick ratio. As at December 31, 2016 the effective rate was 3.50% , no amounts have been drawn under this credit facility, and the Company is in compliance with all of the covenants contained therein. The credit facility was renewed on March 11, 2016, has a maturity date of March 10, 2017, and is collateralized by substantially all of the Company’s assets, but excluding the Company’s intellectual property, which is subject to a negative pledge.

In August 2016, we filed a 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 the registration statement allow us to offer and issue the following securities: Class A subordinate voting shares; preferred shares; debt securities; warrants; subscription receipts; and units. The securities may be issued separately or together and the aggregate initial offering price of the securities that may be sold by us during the 25-month period that the prospectus remains effective was initially $500 million. In August 2016, we completed a follow-on public offering of Class A subordinate voting shares for an aggregate amount of $329.9 million which consisted of a treasury offering by us and a secondary offering by certain of our shareholders. The Company received net proceeds of $ 224.4 million from the follow-on public offering.

Our principal cash requirements are for working capital and capital expenditures. Excluding current deferred revenue, working capital at December 31, 2016 was $ 376.5 million . Given the ongoing cash generated from operations and our existing cash and credit facility, we believe there is sufficient liquidity to meet our current and planned financial obligations. 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 and the expansion of sales and marketing activities. 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 $ 202.2 million to $ 392.4 million as at December 31, 2016 from $ 190.2 million as at December 31, 2015 , primarily as a result of the proceeds from a follow-on public offering, offset by cash used in investing activities.

Cash equivalents and marketable securities include money market funds, term deposits, U.S. federal bonds and corporate bonds, all maturing within the 12 months from the date of the Consolidated Balance Sheet.

The following table summarizes our total cash, cash equivalents and marketable securities as at December 31, 2016 and 2015 as well as our operating, investing and financing activities for the years ended December 31, 2016 , and 2015 :

	Years ended December 31,	
	2016	**2015**
	(in thousands)	
Cash, cash equivalents and marketable securities (end of period)	$ 392,414	$ 190,173
Net cash provided by (used in):		
Operating activities	$ 14,017	$ 15,756
Investing activities	(269,686)	(83,840)
Financing activities	228,585	137,855
Effect of foreign exchange on cash and cash equivalents	1,027	(1,654)
Net increase (decrease) in cash and cash equivalents	(26,057)	68,117
Change in marketable securities	228,298	62,394
Net increase in cash, cash equivalents and marketable securities	$ 202,241	$ 130,511

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. 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 employee-related expenditures, marketing programs, third-party payment processing fees, network costs, and leased facilities.

Net cash flows from operating activities for the year ended December 31, 2016 , as compared to the same period of 2015 , decreased by $ 1.7 million primarily as a result of the 2016 introduction of Shopify Capital, which had an $11.9 million impact on operating cash flows, as well as our increased net loss of $35.4 million which was mainly driven by increases in operating expenses as compared to the same period in the prior fiscal year. In the year ended December 31, 2016 , the Company's net loss included non-cash charges of $14.0 million of amortization and depreciation, $22.9 million of stock-based compensation expense, and $ 0.2 million from the vesting of restricted shares. The changes in our operating assets and liabilities, excluding merchant cash advances receivable, resulted in a net source of cash of $25.2 million as compared to $17.3 million in the same period of 2015 . The change in the year ended December 31, 2016 was primarily attributable to: an increase of $19.8 million in accounts payable and accrued liabilities due to an increase in payment processing costs, marketing costs and third-party partner commissions; a $7.7 million increase in deferred revenue due to the growth in sales of our subscription solutions; and a $2.6 million increase of lease incentives related to our facilities in Ottawa, Toronto, Montreal, and Waterloo. All of this was offset by an increase in trade and other receivables of $2.4 million , primarily related to unbilled receivables, and an increase of $2.6 million in other current assets driven primarily by an increase in prepaid expenses and deposits.

Cash Flows From Investing Activities

To date, cash flows used in investing activities have primarily related to the purchase and sale of marketable securities, purchases of computer and hosting equipment, leasehold improvements and furniture and fixtures to support our expanding infrastructure and workforce, as well as software development costs eligible for capitalization.

Net cash used in investing activities in the year ended December 31, 2016 was $ 269.7 million , reflecting net purchases of $229.3 million in marketable securities. Cash used in investing activities also included $ 23.8 million used to purchase property and equipment, which primarily consists of expenditures on leasehold improvements, equipment used in our data centers to support our expanding merchant base and equipment to support our growing workforce. During the year ended December 31, 2016 , we acquired multiple businesses for a total of $14.1 million of cash (net of cash received).

Net cash used in investing activities in the year ended December 31, 2015 was $ 83.8 million , reflecting net purchases of $62.8 million in marketable securities. Cash used in investing activities also included $16.5 million used to purchase property and equipment, which primarily consists of expenditures on leasehold improvements, equipment used in our data centers to support our expanding merchant base and equipment to support our growing workforce.

Cash Flows From Financing Activities

To date, cash flows from financing activities have related to proceeds from private placements, our initial public offering, our follow-on public offering, and exercises of stock options.

Net cash provided by financing activities in the year ended December 31, 2016 was $ 228.6 million driven by the net proceeds of $224.4 million received from our August 2016 follow-on public offering and $4.2 million in 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 $137.9 million for the same period in 2015, which was primarily from our initial public offering from which we had net proceeds of $136.3 million .

Contractual Obligations and Contingencies

Our principal commitments consist of obligations under our credit facility and operating leases for office space. The following table summarizes our contractual obligations as of December 31, 2016 :

	Payments Due by Period				
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
	(in thousands)				
Bank indebtedness	$ —	$ —	$ —	$ —	$ —
Operating lease obligations (1)	10,444	29,138	33,079	91,794	164,455
Total contractual obligations	$ 10,444	$ 29,138	$ 33,079	$ 91,794	$ 164,455

(1) Consists of payment obligations under our office leases in Ottawa, Toronto, Montreal, Kitchener-Waterloo, and San Francisco.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements, other than operating leases (which have been disclosed 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 most of our revenues are denominated in U.S. dollars, a significant portion of our operating expenses are incurred in Canadian dollars. As a result, our results of operations will be adversely impacted by an increase in the value of the Canadian dollar relative to the U.S. dollar. 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-U.S. dollar based payment processing and other merchant solutions revenues increase.

Interest Rate Sensitivity

We had cash, cash equivalents and marketable securities totaling $ 392.4 million as of December 31, 2016 , of which $362.9 million was invested in money market funds, term deposits, and federal and corporate bonds. 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 receivable, and foreign exchange forward contracts 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 forward contracts 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 receivable. Trade and other receivables and merchant cash advances 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 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

All control systems, no matter how well designed, have inherent limitations. Accordingly, even disclosure controls and procedures and internal controls over financial reporting determined to be effective can only provide reasonable assurance of achieving their control objectives with respect to financial statement preparation and presentation.

Disclosure Controls and Procedures

Management of the Company, under the supervision of the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining disclosure controls and procedures (as defined by the United States Securities and Exchange Commission ("SEC") in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") for the Company to ensure that material information relating to the Company, including its consolidated subsidiaries, that is required to be made known to the Chief Executive Officer and Chief Financial Officer by others within the Company and disclosed by the Company in reports filed or submitted by it under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (ii) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

We, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2016 and have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2016 .

Management's Annual Report on Internal Control Over Financial Reporting

Management of the Company, under the supervision of the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with United States generally accepted accounting principles.

We, including the Chief Executive Officer and Chief Financial Officer, have assessed the effectiveness of the Company's internal control over financial reporting in accordance with Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, we, including the Chief Executive Officer and Chief Financial Officer, have determined that the Company's internal control over financial reporting was effective as at December 31, 2016 . Additionally, based on our assessment, we determined that there were no material weaknesses in the Company's internal control over financial reporting as at December 31, 2016 .

The Company's Chief Executive Officer and Chief Financial Officer have certified the Company's annual report on Form 40-F for the year ended December 31, 2016, as required by Section 302 and Section 906 of the United States Sarbanes-Oxley Act of 2002 ("SOX"). The Company is relying on the statutory exemption contained in section 8.1 of National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", 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.

The effectiveness of the Company's internal control over financial reporting as at December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which accompanies our audited consolidated financial statements for the fiscal years ended December 31, 2016 and December 31, 2015.

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2016 , 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. We refer to accounting estimates of this type as critical accounting policies and estimates, which we discuss below.

Revenue Recognition

Our sources of revenue consist of subscription solutions and merchant solutions. Arrangements with merchants do not provide the merchant with the right to take possession of the software supporting our platform at any time and are therefore accounted for as service contracts. Our subscription solutions contracts do not provide for refunds or any other rights of return to merchants in the event of cancellations.

We recognize revenue when all of the following criteria are met:

- there is persuasive evidence of an arrangement;
- the services have been or are being provided to the merchant;
- the amount of fees to be paid by the customer is fixed or determinable; and
- collection is reasonable assured.

We follow the guidance provided in ASC 605-45, Principal Agent Considerations for determining whether we should recognize revenue based on the gross amount billed to a merchant or the net amount retained. This determination is a matter of judgment that depends on the facts and circumstances of each arrangement. We recognize revenue from Shopify Shipping and the sales of apps on a net basis as it has been determined that we are the agent in the arrangement with merchants. All other revenue is reported on a gross basis, as we have determined we are the principal in the arrangement, in that we are the primary obligor for providing services and assume the risk of any loss or changes in costs.

Software Development Costs

Research and development costs are generally expensed as incurred. These costs primarily consist of personnel and related expenses, contractor and consultant fees, stock-based compensation and corporate overhead allocations, including depreciation.

We capitalize certain development costs incurred in connection with our internal use software. These capitalized costs are related to the development of our software platform that we host and which is accessed by our merchants on a subscription basis as well as material internal infrastructure software. Costs incurred in the preliminary stages of development are expensed as incurred. We capitalize all direct and incremental costs incurred during the application phase, until such time as the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing.

We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional features and functionality. Maintenance costs are expensed as incurred. Internal use software is amortized on a straight-line basis over its estimated useful life of two or three years.

Stock-Based Compensation

We have granted stock-based awards, including stock options and restricted shares, to our employees, certain consultants and members of our board of directors. Stock-based compensation is measured based on the fair value of the awards on the grant date and recognized in our Consolidated Statement of Operations and Comprehensive Loss over the period during which the recipient is required to perform services in exchange for the award, generally the vesting period. We estimate the fair value of stock options granted using the Black-Scholes option-pricing model, single option approach. Our option-pricing model requires the input of highly subjective assumptions, including the fair value of the underlying shares, the expected term of the awards, the expected volatility of the price of our shares, risk-free interest rates and the dividend rate. These estimates involve inherent uncertainties and the application of management’s judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

The following weighted-average assumptions were used to determine stock-based compensation expense in the periods presented below:

	2016	**2015**
Expected volatility	59.1%	64.3%
Risk free interest rate	1.32%	1.62%
Dividend yield	Nil	Nil
Average expected life	5.07	5.26

These assumptions are estimated as follows:

- *Fair Value of Common Stock.* The Company uses the Volume Weighted Average Price for its common stock as reported on the New York Stock Exchange.
- *Expected Term.* The Company determines the expected term based on the average period the stock options are expected to remain outstanding. The Company bases the expected term assumptions on its historical behavior combined with estimates of post-vesting holding period.
- *Expected Volatility.* The Company determines the price volatility factor based on a weighted combination of the Company's historical volatility and the historical volatility of publicly traded industry peers. To determine its peer group of companies, the Company considers public companies in the technology industry and selects those that are similar to us in size, stage of life cycle, and financial leverage. The Company intends to continue

to consistently apply this methodology using the same or similar public companies until a sufficient amount of historical information regarding the volatility of its own common stock price becomes available, or unless circumstances change such that the identified companies are no longer similar, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.

- *Risk-Free Interest Rate.* The Company bases the risk-free interest rate used in the Black-Scholes valuation model on the yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term of the stock options for each stock option group.

- *Expected Dividend.* The Company has not paid and does not anticipate paying any cash dividends in the foreseeable future and, therefore, uses an expected dividend yield of zero in the option pricing model.

Recently Issued Accounting Standards not yet Adopted

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-9 “Revenue from Contracts with Customers.” The new accounting standards update requires an entity to apply a five step model to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, as well as a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, timing, and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. In March 2016, the Financial Accounting Standards Board issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”, updating the implementation guidance on principal versus agent considerations in the new revenue recognition standard. This update clarifies that an entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. The update also includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. In May 2016, the FASB issued ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients”, which provides clarification on how to assess collectability, present sales taxes, treat non-cash consideration, and account for completed and modified contracts at the time of transition. ASU 2016-12 also clarifies that an entity retrospectively applying the guidance in Topic 606 is not required to disclose the effect of the accounting change in the period of adoption. All accounting standard updates become effective for reporting periods beginning after December 15, 2017. Early adoption is permitted starting January 1, 2017. The Company continues to assess the impact of the adoption on revenue recognition, but believes that as a result of adoption, the Company may capitalize sales commissions and expense on a straight-line basis over the term of identifiable contracts. The Company plans to adopt this standard effective January 1, 2018 using the full retrospective approach.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, "Leases", 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. A modified retrospective transition approach is required for operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The standard is effective for annual periods beginning after December 15, 2018. Early adoption is permitted. The Company believes that this standard will have a material impact on its consolidated balance sheets and continues to assess the impact of the adoption of this standard on the statement of operations and comprehensive loss.

In March 2016, the Financial Accounting Standards Board issued ASU No. 2016-09 "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting", which simplifies the accounting for stock based compensation, including forfeitures and the classification of employee taxes paid on the statement of cash flows. The standard is effective for annual periods beginning after December 15, 2016. The Company does not expect this standard to have a material impact on its consolidated financial statements because under this standard the Company will continue to account for forfeitures based on the estimated forfeiture rate.

Shares Outstanding

Shopify is a publicly traded company listed on the New York Stock Exchange (NYSE: SHOP) and on the Toronto Stock Exchange (TSX: SH). As of February 10, 2017 there were 77,218,483 Class A subordinate voting shares issued and outstanding, and 12,505,930 Class B multiple voting shares issued and outstanding.

As of February 10, 2017 there were 7,025,922 options outstanding under the Company’s Fourth Amended and Restated Incentive Stock Option Plan, 5,537,340 of which were vested as of such date. Each such option is or will become exercisable for one Class B multiple voting share. As of February 10, 2017 there were 2,480,673 options outstanding under the Company’s Stock Option Plan, 202,792 of which were vested as of such date. Each such option is or will become exercisable for one Class A subordinate voting share.

As of February 10, 2017 there were 2,335,030 RSUs outstanding under the Company’s Long Term Incentive Plan.

EXHIBIT 23.1

Consent of Independent Auditor

We hereby consent to the incorporation by reference in this Annual Report on Form 40-F for the year ended December 31, 2016 of Shopify Inc. of our report dated February 14, 2017, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in the Exhibit incorporated by reference in this Annual Report on Form 40-F.

We also consent to the incorporation by reference in the Registration Statement on Form F-10 (File No. 333-212751) and Form S-8 (File Nos. 333-204568 and 333-211305) of Shopify Inc. of our report dated February 14, 2017 referred to above. We also consent to the reference to us under the heading "Interests of Experts", which appears in the Annual Information Form included in the Exhibit incorporated by reference in this Annual Report on Form 40-F, which is incorporated by reference in such Registration Statement.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Ottawa, Ontario, Canada
February 14, 2017

EXHIBIT 31.1

CERTIFICATION
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Tobias Lütke, certify that:

1. I have reviewed this annual report on Form 40-F of Shopify Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: **February 15, 2017**

/s/ Tobias Lütke

Tobias Lütke
Chief Executive Officer

CERTIFICATION
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Russell Jones, certify that:

1. I have reviewed this annual report on Form 40-F of Shopify Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: **February 15, 2017**

/s/ Russell Jones

Russell Jones
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Shopify Inc. (the "Company") on Form 40-F for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tobias Lütke, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **February 15, 2017**

/s/ Tobias Lütke

Tobias Lütke
Chief Executive Officer

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed "filed" by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Shopify Inc. (the "Company") on Form 40-F for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Russell Jones. Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **February 15, 2017**

/s/ Russell Jones

Russell Jones
Chief Financial Officer

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed "filed" by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section.