

Annual Report of the Independent Review Committee of the Horizons ETFs Group of Funds

February 25, 2013

IRC Annual Report to Securityholders in the Horizons Exchange Traded Funds (the “Funds”) as listed at the end of this report

Dear Securityholder,

In accordance with National Instrument 81-107 *Independent Review Committee for Investment Funds* (“NI 81-107” or the “Instrument”), the Horizons Group of Companies (the “Manager”) established an Independent Review Committee (the “Committee” or “IRC”) for the Funds in April 2007. As a result of a change in control of the Manager, a new IRC was appointed by the Manager on November 15, 2011. The IRC has functioned in accordance with the applicable securities laws and is composed of three individuals, each of whom is independent of the Funds, the Manager and “each entity related to the Manager” (as such term is defined in the Instrument).

Accordingly the IRC is pleased to publish its annual report to securityholders, covering the period from January 1, 2012 to December 31, 2012 (“the Reporting Period”).

Mandate of the IRC

In accordance with the Instrument, the mandate of the IRC is to consider and provide recommendations to the Manager on conflicts of interest to which the Manager may be subject when managing the Funds. The Manager is required under the Instrument to identify potential conflicts of interest inherent in its management of the Funds, to develop written policies and procedures guiding its management of those conflicts, and to request input from the IRC on those written policies and procedures, referred to as the Conflict of Interest Matters Manual.

When a conflict matter arises, the Manager must refer its proposed course of action in respect of such conflict to the IRC for its review. While certain matters require the IRC’s prior approval, in most cases the IRC will provide a recommendation to the Manager as to whether or not, in the opinion of the IRC, the Manager’s proposed action provides a fair and reasonable result for the Funds. For recurring conflict of interest matters, the IRC can provide the Manager with Standing Instructions (“SIs”) that enable the Manager to proceed with certain matters without having to refer them to the IRC each time for approval, providing the Manager deals with the conflicts in accordance with the SIs.

The IRC is empowered to represent the best interest of the Funds in any matter where the Manager has referred a conflict of interest matter to it. In those cases, the IRC has sought to ensure that the Manager’s proposed course of action represents a fair and reasonable result for the Funds.

The IRC has engaged Independent Review Inc. to assist it in its duties in accordance with the provisions of the Instrument and the IRC’s written charter, to provide certain administrative and record keeping functions, and to act as the IRC’s independent Secretariat.

Composition of the IRC

The current members of the IRC, and their principal occupations, are as follows:

<i>Name and Municipality of Residence</i>	<i>Principal Occupation</i>	<i>Term of Office</i>
Chair: R. Warren Law, Toronto, Ontario	Financial Services Lawyer	Appointed November 15, 2011. Term: Three years from November 15, 2012
Michael Gratch, Thornhill, Ontario	Portfolio Manager	Appointed November 15, 2011. Term: Two years from November 15, 2012
Sue Fawcett, Calgary, Alberta	Financial Consultant	Appointed November 15, 2011. Term: One year from November 15, 2012

Warren Law was re-appointed on November 8, 2012 for a period of three years with effect from November 15, 2012.

Michael Gratch was re-appointed on November 8, 2012 for a period of two years with effect from November 15, 2012.

Sue Fawcett was re-appointed on November 8, 2012 for a period of one year with effect from November 15, 2012.

There were no other changes in the composition of the IRC during the Reporting Period.

Warren Law serves as a member of Independent Review Committee for Investment funds that are reporting issuers managed by Elliott & Page Limited.

Compensation and Indemnification

Review of Compensation

At least annually, the IRC reviews its compensation, giving consideration to the following:

- the nature and extent of the workload of each member of the IRC, including the commitment of time and energy expected from each member;
- the number of meetings required by the IRC, including special meetings to consider conflict issues brought to the committee;
- industry best practices, including industry averages and surveys on IRC compensation; and
- the complexity of the conflict issues brought to the IRC.

Members' Fees

In aggregate, the IRC members were paid \$17,500 in 2012 for the Reporting Period, plus applicable taxes.

Indemnities Granted

The Funds and the Manager have provided each IRC Member with a contractual indemnity in keeping with NI 81-107. No payments were paid to the IRC Members pursuant to this indemnity by the Funds or the Manager during the Reporting Period.

Disclosure of IRC Members' Holdings

As at December 31, 2012, the IRC Members did not beneficially own, directly or indirectly:

- any units in any of the Funds;
- any interests in the Manager; or
- any interests in a company or person that provides services to the Manager or any Fund.

Recommendations and Approvals

There were no recommendations or approvals requested by the Manager during the Reporting Period.

Standing Instructions Approved

The IRC has approved eight Standing Instructions, which constitute a written approval or recommendation from the IRC that permits the Manager to proceed with the specific action(s) set out in the SIs on an ongoing basis, without having to refer the conflict of interest matter or its proposed action to the IRC, provided that the Manager complies with the terms and conditions of the SI. In each case, the SI required the Manager to comply with its related policy and procedures and to report periodically to the IRC. The Manager relied on Numbers 1, 2, 4, 5, 6 and 7 of the below SIs during the Reporting Period.

Standing Instruction Number 1: *Allocating Operating Expenses to the Funds*

Standing Instruction Number 2: *Transactions in Debt Securities of Related Issuers*

Standing Instruction Number 3: *Related Dealer Underwritings*

Standing Instruction Number 4: *Transactions in Exchange Listed Securities of Related Issuers*

Standing Instruction Number 5: *Use of National Bank of Canada and/or its Affiliates as Executing Broker and/or Derivatives Counterparty*

Standing Instruction Number 6: *Use of National Bank of Canada and/or its Affiliates as Derivatives Counterparty*

Standing Instruction Number 7: *Use of Index Funds as Collateral*

Standing Instruction Number 8: *Ownership of Index Funds Following Settlement of Prepaid Share Basket Forwards*

Manager's Report on its Standing Instruction

In accordance with the Instrument, the Manager provided a written report to the IRC describing its reliance on the SIs during the Reporting Period.

Yours truly,

Warren Law, Chair

This report is available on the Manager's website at www.horizonsetfs.com or you may request a copy, at no cost to you, by contacting Horizons Exchange Traded Funds at 416.933.5745 or Toll Free at 1.866.641.5739, or by email at info@horizonsetfs.com. This document and other information about Horizons Exchange Traded Funds are available on www.sedar.com.

Funds served by the IRC during the Reporting Period

Closed-End Funds (not listed on a stock exchange)

Tactical Global Bond ETF Fund (Bottom Fund)
 Gold Yield Trust (Bottom Fund)
 HAP Silver Yield Fund (Bottom Fund)
 HAP Crude Oil Yield Fund (Bottom Fund)
 HAP Natural Gas Yield Fund (Bottom Fund)
 HAP Managed Futures Fund (Bottom Fund)
 HAP Nexus Hedge Fund Replication Trust (Bottom Fund)

ETFs (Open-end Mutual Fund Trusts listed on the TSX)

Horizons Gartman ETF
 Horizons Seasonal Rotation ETF
 Horizons Active Cdn Dividend ETF
 Horizons Active North American Value ETF
 Horizons Active North American Growth ETF
 Horizons S&P/TSX 60 130/30™ Index ETF
 Horizons S&P/TSX 60 Equal Weight Index ETF
 Horizons Auspice Managed Futures Index ETF
 Horizons Active Global Dividend ETF
 Horizons Active Balanced ETF
 Horizons Active Corporate Bond ETF
 Horizons Active Income Plus ETF
 Horizons Active Preferred Share ETF
 Horizons Active Floating Rate Bond ETF
 Horizons Active US Floating Rate Bond (USD) ETF
 Horizons Active High Yield Bond ETF
 Horizons Active Cdn Bond ETF
 Horizons Active Emerging Markets Dividend ETF
 Horizons Enhanced Income Equity ETF
 Horizons Enhanced Income Energy ETF
 Horizons Enhanced Income Financials ETF
 Horizons Enhanced Income Gold Producers ETF
 Horizons Enhanced Income US Equity (USD) ETF
 Horizons Enhanced Income International Equity ETF
 Horizons Enhanced US Equity Income ETF*
 Horizons Active Advantage Yield ETF
 Horizons Crude Oil Yield ETF
 Horizons Natural Gas Yield ETF
 Horizons Silver Yield ETF
 Horizons Gold Yield ETF*
 Horizons Morningstar Hedge Fund Index ETF
 Horizons Universa Canadian Black Swan ETF
 Horizons Universa US Black Swan ETF

Horizons BetaPro S&P/TSX 60™ Bear Plus ETF
 Horizons BetaPro S&P/TSX 60™ Bull Plus ETF
 Horizons BetaPro S&P/TSX Capped Energy™ Bear Plus ETF
 Horizons BetaPro S&P/TSX Capped Energy™ Bull Plus ETF
 Horizons BetaPro S&P/TSX Capped Financials™ Bear Plus ETF
 Horizons BetaPro S&P/TSX Capped Financials™ Bull Plus ETF
 Horizons BetaPro S&P/TSX Global Gold™ Bear Plus ETF
 Horizons BetaPro S&P/TSX Global Gold™ Bull Plus ETF
 Horizons BetaPro NYMEX® Natural Gas Bull Plus ETF
 Horizons BetaPro NYMEX® Natural Gas Bear Plus ETF
 Horizons BetaPro NYMEX® Natural Gas Inverse ETF**
 Horizons BetaPro NYMEX® Long Natural Gas/Short Crude Oil Spread ETF**
 Horizons BetaPro NYMEX® Long Crude Oil/Short Natural Gas Spread ETF**
 Horizons BetaPro NYMEX® Crude Oil Bull Plus ETF
 Horizons BetaPro NYMEX® Crude Oil Bear Plus ETF
 Horizons BetaPro NYMEX® Crude Oil Inverse ETF**
 Horizons BetaPro COMEX® Gold Bullion Bull Plus ETF
 Horizons BetaPro COMEX® Gold Bullion Bear Plus ETF
 Horizons BetaPro S&P/TSX Global Base Metals™ Bull Plus ETF
 Horizons BetaPro S&P/TSX Global Base Metals™ Bear Plus ETF
 Horizons BetaPro S&P 500® Bull Plus ETF
 Horizons BetaPro S&P 500® Bear Plus ETF
 Horizons BetaPro NASDAQ-100® Bull Plus ETF
 Horizons BetaPro NASDAQ-100® Bear Plus ETF
 Horizons BetaPro MSCI® Emerging Markets Bull Plus ETF
 Horizons BetaPro MSCI® Emerging Markets Bear Plus ETF
 Horizons BetaPro US Dollar Bull Plus ETF
 Horizons BetaPro US Dollar Bear Plus ETF
 Horizons BetaPro US 30-Year Bond Bear Plus ETF
 Horizons BetaPro US 30-Year Bond Bear Plus ETF***
 Horizons BetaPro S&P/TSX 60™ Inverse ETF
 Horizons BetaPro S&P/TSX Capped Financials™ Inverse ETF
 Horizons BetaPro S&P/TSX Capped Energy™ Inverse ETF
 Horizons BetaPro S&P/TSX Global Gold™ Inverse ETF
 Horizons BetaPro COMEX® Silver Bull Plus ETF
 Horizons BetaPro COMEX® Silver Bear Plus ETF
 Horizons BetaPro COMEX® Silver Inverse ETF***
 Horizons BetaPro COMEX® Long Gold/Short Silver Spread ETF***
 Horizons BetaPro COMEX® Long Silver/Short Gold Spread ETF***
 Horizons COMEX® Gold ETF
 Horizons COMEX® Silver ETF
 Horizons NYMEX® Crude Oil ETF
 Horizons NYMEX® Natural Gas ETF
 Horizons BetaPro S&P 500® Inverse ETF
 Horizons BetaPro COMEX® Copper Bull Plus ETF
 Horizons BetaPro COMEX® Copper Bear Plus ETF
 Horizons S&P/TSX 60™ Index ETF
 Horizons S&P 500® Index (C\$Hedged) ETF
 Horizons BetaPro S&P 500 VIX Short-Term Futures™ ETF
 Horizons BetaPro S&P 500 VIX Short-Term Futures™ Bull Plus ETF

Horizons BetaPro S&P 500 VIX Short-Term Futures™ Inverse ETF
Horizons COMEX® Copper ETF
Horizons U.S. Dollar Currency ETF
Horizons Australian Dollar Currency ETF

*These funds have converted from closed-end funds into open-ended exchange traded funds after close of business on February 27, 2012 (Horizons Gold Yield ETF formerly known as Horizons Gold Yield Fund) and August 31, 2012 (Horizons Enhanced US Equity Income ETF formerly known as Horizons Enhanced U.S. Equity Income Fund)

**These funds were terminated on the close of business October 12, 2012

***These funds were terminated on the close of business June 26, 2012