



Horizons Enhanced Income International Equity ETF (HEJ, HEJ.A:TSX)



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Contents

MANAGEMENT REPORT OF FUND PERFORMANCE

Management Discussion of Fund Performance	1
Financial Highlights	6
Past Performance	10
Summary of Investment Portfolio	12

MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

Statements of Financial Position	16
Statements of Comprehensive Income	17
Statements of Changes in Financial Position	18
Statements of Cash Flows	19
Schedule of Investments	20
Notes to Financial Statements	24

Letter from the President:

Overall, 2014 was a good year to be an investor and a particularly good year to be a Horizons ETFs investor, as many of our ETFs delivered exceptional performance.

With the end of the U.S. Federal Reserve's quantitative easing program, which has provided a floor for bond prices throughout the past four years, there is a general consensus that both global bond and equity markets will experience more volatility in 2015. Simply staying invested in the market may not be good enough; we believe that investors will have to refine their asset allocation strategies since they will no longer be able to depend on the markets' continuous rise.

In fact, we have already seen some of these challenges occur in the last quarter of 2014. The rout in energy prices and, by extension, energy stocks in the fall of 2014 will likely have far reaching consequences on the Canadian stock market in the year ahead. Similar challenges may be faced in the bond market if interest rates start to rise in 2015. We could see meaningful losses in bond portfolios for the first time in decades. The summation of these forces will mean that investors will have to ensure their stock and bond selections truly meet their needs.

This is why Horizons ETFs offers a suite of ETFs that, we feel, can help investors in making the choices needed to reach their investment goals. We are not only committed to making better ETF products, we are also committed to bettering the overall portfolios of ETF investors in Canada. We look forward to continuing to partner with you in 2015 and growing your investment success.

Thank you,

Howard Atkinson



President
Horizons ETFs Management (Canada) Inc.

MANAGEMENT REPORT OF FUND PERFORMANCE

This annual management report of fund performance for Horizons Enhanced Income International Equity ETF (“Horizons HEJ” or the “ETF”) contains financial highlights and is included with the audited annual financial statements for the investment fund. You may request a copy of the ETF’s unaudited interim or audited annual financial statements, interim or annual management report of fund performance, current proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosures, at no cost, from the ETF’s manager, AlphaPro Management Inc. (“AlphaPro” or the “Manager”), by calling toll free 1-866-641-5739, or locally (416) 933-5745, by writing to us at: 26 Wellington Street East, Suite 700, Toronto ON, M5E 1S2, or by visiting our website at www.horizonsetfs.com or SEDAR at www.sedar.com.

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance, or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements.

Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, and the effects of competition in the geographic and business areas in which the ETF may invest and the risks detailed from time to time in the ETF’s prospectus. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors. We caution that the foregoing list of factors is not exhaustive, and that when relying on forward-looking statements to make decisions with respect to investing in the ETF, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Manager does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

Management Discussion of Fund Performance

Investment Objective and Strategies

The investment objective of Horizons HEJ is to provide unitholders with: (a) exposure to the performance of an equal weighted portfolio of large capitalization international, non-North American, companies; and (b) monthly distributions of dividend and call option income. Horizons HEJ invests primarily in a portfolio of equity and equity related securities of companies that, as at the Constituent Reset Date (*see below*), are amongst the largest by market capitalization and most liquid non-North American based issuers on the Toronto Stock Exchange (“TSX”), New York Stock Exchange (“NYSE”) or NASDAQ Stock Market (“NASDAQ”). To mitigate downside risk and generate income, the ETF’s investment manager actively manages a covered call strategy that generally writes out of the money covered call options on 100% of the portfolio securities. The level of covered call option writing may vary based on market volatility and other factors. Horizons HEJ generally seeks to hedge substantially all of its exposure to the U.S. dollar back to the Canadian dollar.

To achieve its investment objective Horizons HEJ primarily invests in an equal weighted portfolio of large capitalization international, non-North American, companies. Semi-annually, the investment manager selects from the largest and most liquid international, non-North American, companies listed on the TSX, NYSE or NASDAQ and invests Horizons HEJ in each issuer equally (the “Constituent Reset Date”). Horizons HEJ rebalances, on an equal weight basis, the portfolio of constituent securities on each Constituent Reset Date. The number of issuers included in the equal weighted portfolio may change on a Constituent Reset Date. Between Constituent Reset Dates, the allocation between each of these constituent securities will change due to market movement and the investment manager will not re-allocate, include or exclude issuers from Horizons HEJ’s portfolio until its next rebalance date or Constituent Reset Date, other than when, in the opinion of the investment manager, circumstances necessitate a change.

Management Discussion of Fund Performance (continued)

Please refer to the ETF's most recent prospectus for a complete description of Horizons HEJ's investment restrictions.

Risk

The Manager, as a summary for existing investors, is providing the list below of the risks to which an investment in the ETF may be subject. **Prospective investors should read the ETF's most recent prospectus and consider the full description of the risks contained therein before subscribing for units.**

The risks to which an investment in the ETF is subject are listed below and have not changed from the list of risks found in the ETF's most recent prospectus. A full description of each risk listed below may also be found in the most recent prospectus. The most recent prospectus is available at www.horizonsetfs.com or from www.sedar.com, or by contacting AlphaPro Management Inc. directly via the contact information on the back page of this document.

- | | |
|--|---|
| <ul style="list-style-type: none">• Use of options risk• Stock market risk• Specific issuer risk• Legal and regulatory risk• Corresponding net asset value risk• Designated broker/dealer risk• Cease trading of securities risk• Exchange risk• Early closing risk• No assurance of meeting investment objective | <ul style="list-style-type: none">• No guaranteed return• Tax risk• Securities lending, repurchase and reverse repurchase transaction risk• Liability of Unitholders• Reliance on key personnel• Derivatives risk• Foreign currency risk• Foreign stock exchange risk• Suitability of investment in units• Conflicts of interest |
|--|---|

Results of Operations

General Review

For the year ended December 31, 2014 the Class E units and Advisor Class units of the ETF returned -4.03% and -4.79%, respectively, when including distributions paid to unitholders. This compares to the Bank of New York Mellon 100 ADR Index (the "Index"), which returned -5.68% for the same period on a total return basis. The Class E units had an average yield of 7.72% when including distributions of \$0.64, while the Advisor Class units provided an average yield of 6.93% with distributions of \$0.57 for the year. The underlying equity portfolio return, exclusive of the covered call strategy, was -2.51% over the same period.

Market Review

International stocks generally continued to underperform U.S. stocks during 2014, reinforcing a trend already seen in 2013. Renewed concerns about a Greek sovereign debt default caused worry about a wider European crisis and a bigger than expected slowdown in Chinese economic growth have caused global markets to continue underperforming relative to their U.S. counterparts.

The best performers in the underlying portfolio came from the emerging markets financial sector: China Life Insurance Co. Ltd. ADR was up 26.2% and ICICI Bank Ltd., ADR was up 57.7% for the year ended December 31, 2014.

Management Discussion of Fund Performance (continued)

Option Writing Strategy

During each month, options are generally written on up to 100% of the equities in the portfolio of the ETF. The premiums are received from selling call options approximately one(1) standard deviation out-of-the-money. The ETF's monthly distributions are not fixed, but vary as the premiums generated from covered call writing are earned and passed through, and will change with changes in implied volatility and time to option expiration. Distributions also vary based on the dividends received from the securities in the ETF's portfolio during the period.

Rebalancing

The equity positions in the ETF are rebalanced to equal weightings semi-annually with the objective of maintaining a proxy for the global economy ex-North America. Only American Depository Receipts ("ADRs") that are listed on exchanges in North America are eligible for inclusion in the basket. At the time of the latest rebalancing in September 2014, Shire PLC, ADR, Novo Nordisk AS, ADR, LyondellBasell Industries NV, ADR and Telefónica SA, ADR were removed from the portfolio. The rebalancing aligned the portfolio's sector weightings closer to those of the Index. The number of securities in the basket decreased from 35 to 32.

Other Operating Items and Changes in Net Assets Attributable to Holders of Redeemable Units

For the year ended December 31, 2014, the ETF generated gross comprehensive income (loss) from investments and derivatives of (\$348,588). This compares to \$493,570 for the year ended December 31, 2013. The ETF paid management, operating and transaction expenses of \$352,530 (2013 – \$501,788) of which \$69,918 (2013 – \$66,309) was either paid or absorbed by the Manager on behalf of the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

The ETF distributed \$1,083,622 to Class E unitholders and \$122,522 to Advisor Class unitholders during the year (2013 – Class E: \$1,324,414, Advisor Class: \$121,121).

Unitholder Activity

An "ETF" is a stock exchange listed, open-ended, continuously offered fund. All orders to purchase units directly from the ETF must be placed by designated brokers and/or underwriters. On any trading day, a designated broker or an underwriter may place a subscription order for a prescribed number of units ("PNU") or integral multiple PNU. The ETF reserves the absolute right to reject any subscription order placed by a designated broker and/or an underwriter. No fees will be payable by the ETF to a designated broker or an underwriter in connection with the issuance of units. On the issuance of units, the Manager may, at its discretion, charge an administrative fee to an underwriter or designated broker to offset any expenses incurred in issuing the units.

All unitholders of the ETF may exchange the applicable PNU (or an integral multiple thereof) of the ETF on any trading day for a prescribed basket of securities (as determined by the investment manager) and/or cash, subject to the requirement that a minimum PNU be exchanged. The Manager may, in its complete discretion, pay exchange proceeds consisting of cash only in an amount equal to the net asset value of the applicable PNU of the ETF next determined following the receipt of the exchange request. The Manager will, upon receipt of the exchange request, advise the unitholder submitting the request as to whether cash and/or a basket of securities will be delivered to satisfy the request.

Investors are able to trade units of the ETF in the same way as other securities traded on the Toronto Stock Exchange ("TSX"), including by using market orders and limit orders. An investor may buy or sell units of the ETF on the TSX only through a registered broker or dealer in the province or territory where the investor resides. Investors may incur customary brokerage commissions when buying or selling units.

Management Discussion of Fund Performance (continued)

Recent Developments

The following developments are pertinent to the present and future of the ETF.

Adoption of International Financial Reporting Standards

The attached financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These are the ETF’s first annual financial statements prepared in accordance with IFRS, and accordingly, First-time Adoption of International Financial Reporting Standards (“IFRS 1”) has been applied.

Previously, the ETF prepared its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The ETF has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 16 to the financial statements discloses the impact of the transition to IFRS on the ETF’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used previously under Canadian GAAP.

Any mention of total net assets, net assets, net asset value or increase (decrease) in net assets for periods starting on or after January 1, 2013 is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable units as reported under IFRS.

Amalgamation of the Investment Manager

Effective December 30, 2013, Horizons Investment Management Inc. (“Horizons Investment”), the investment manager of the ETF, was amalgamated with its parent (and the parent of the Manager), Horizons ETFs Management (Canada) Inc. (“Horizons Management”) under the *Canada Business Corporations Act* (the “Amalgamation”). Under the Amalgamation, Horizons Investment and Horizons Management merged and carried on as one corporation named Horizons ETFs Management (Canada) Inc., which now serves as the successor investment manager of the ETF (the “Investment Manager”). The Amalgamation did not result in any changes to the day-to-day operations of the ETF. The operations, personnel and responsibilities of the Investment Manager remain unchanged.

Related Party Transactions

Certain services have been provided to the ETF by related parties and those relationships are described below.

Manager, Trustee and Investment Manager

The manager and trustee of the ETF is AlphaPro Management Inc., 26 Wellington Street East, Suite 700, Toronto, Ontario, M5E 1S2, a corporation incorporated under the laws of Ontario specializing in actively managed ETFs. AlphaPro is a subsidiary of Horizons ETFs Management (Canada) Inc. and both entities are members of the Mirae Asset Financial Group. If the ETF invests in the Horizons Management ETFs, Horizons Management may receive management fees in respect of the ETF’s assets invested in such Horizons Management ETFs.

As described in *Recent Developments – Amalgamation of the Investment Manager*, Horizons ETFs Management (Canada) Inc., by virtue of the Amalgamation, is now the investment manager of the ETF. The offices of the Manager and Investment Manager are the same.

Management Discussion of Fund Performance (continued)***Other Related Parties***

An affiliate of National Bank of Canada (“NBC”) and National Bank Financial Inc. (“NBF”) holds an indirect minority interest in the Manager. NBF acts or may act as a designated broker, an underwriter and/or a registered trader (market maker). These relationships may create actual or perceived conflicts of interest which investors should consider in relation to an investment in the ETF. In particular, by virtue of these relationships, NBF may profit from the sale and trading of the ETF’s units. NBF, as market maker of the ETF in the secondary market, may therefore have economic interests which differ from and may be adverse to those of unitholders.

NBF’s potential roles as a designated broker and a dealer of the ETF are not as an underwriter of the ETF in connection with the primary distribution of units under the ETF’s prospectus. NBF was not involved in the preparation of, nor did it perform any review of, the contents of the ETF’s prospectus. NBF and its affiliates may, at present or in the future, engage in business with the ETF, the issuers of securities making up the investment portfolio of the ETF, or with the Manager or any funds sponsored by the Manager or its affiliates, including by making loans, executing brokerage transactions, entering into derivative transactions or providing advisory or agency services. In addition, the relationship between NBF and its affiliates, and the Manager and its affiliates may extend to other activities, such as being part of a distribution syndicate for other funds sponsored by the Manager or its affiliates.

For the years ended December 31, 2014 and 2013, the ETF paid \$2,060 (2013 – \$2,212) to NBF and/or its affiliates in broker commissions on portfolio transactions.

Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance since it effectively began operations on September 13, 2011. This information is derived from the ETF's audited annual financial statements. Please see the front page for information on how you may obtain the ETF's annual or interim financial statements.

The ETF's Net Assets per Unit

Class E		2014	2013	2012	2011
Year					
Net assets, beginning of year ⁽¹⁾	\$	8.63	9.04	9.57	10.00
Increase (decrease) from operations:					
Total revenue		0.27	0.22	0.23	0.07
Total expenses		(0.14)	(0.15)	(0.07)	(0.03)
Realized gains (losses) for the year		0.33	(0.64)	0.45	0.56
Unrealized gains (losses) for the year		(0.78)	0.59	(0.42)	(0.13)
Total increase (decrease) from operations ⁽³⁾		(0.32)	0.02	0.19	0.47
Distributions:					
From net investment income (excluding dividends)		(0.17)	(0.12)	(0.14)	(0.03)
From net realized capital gains		(0.47)	–	(0.60)	(0.71)
From return of capital		–	(0.41)	(0.34)	–
Total annual distributions ⁽⁴⁾		(0.64)	(0.53)	(1.08)	(0.74)
Net assets, end of year ⁽²⁾⁽⁵⁾	\$	7.66	8.63	9.00	9.57

Financial Highlights (continued)

Advisor Class					
Year		2014	2013	2012	2011
Net assets, beginning of year ⁽¹⁾	\$	8.63	9.04	9.57	10.00
Increase (decrease) from operations:					
Total revenue		0.27	0.22	0.24	0.07
Total expenses		(0.20)	(0.22)	(0.14)	(0.05)
Realized gains (losses) for the year		0.33	(0.64)	0.45	0.55
Unrealized gains (losses) for the year		(0.76)	0.67	0.27	0.69
Total increase (decrease) from operations ⁽³⁾		(0.36)	0.03	0.82	1.26
Distributions:					
From net investment income (excluding dividends)		(0.11)	(0.09)	(0.14)	(0.03)
From net realized capital gains		(0.46)	–	(0.56)	(0.68)
From return of capital		–	(0.38)	(0.31)	–
Total annual distributions ⁽⁴⁾		(0.57)	(0.47)	(1.01)	(0.71)
Net assets, end of year ⁽²⁾⁽⁵⁾	\$	7.66	8.63	9.00	9.57

1. This information is derived from the ETF's audited annual financial statements as at December 31 of the years shown. Class E units and Advisor Class units of the ETF have an initial net asset value of \$10.00 as at September 13, 2011. Information from 2014 and 2013 is in accordance with IFRS. Information for years prior to 2013 is reported under Canadian GAAP.
2. Differences may result from a comparison of the fair valuation of securities held by the ETF for financial reporting purposes prior to January 1, 2013 under Canadian GAAP, versus the market value used to determine the net asset value of the ETF for the purchase and redemption of the ETF's units. As a result, the net assets per unit presented in the financial statements may differ from the net asset value per unit presented in these Financial Highlights.
3. Net assets per unit and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.
4. Income, dividend and/or return of capital distributions, if any, are paid in cash, reinvested in additional units of the ETF, or both. Capital gains distributions, if any, may or may not be paid in cash. Non-cash capital gains distributions are reinvested in additional units of the ETF and subsequently consolidated. They are reported as taxable distributions and increase each unitholder's adjusted cost base for their units. Neither the number of units held by the unitholder, nor the net asset per unit of the ETF change as a result of any non-cash capital gains distributions. Distributions classified as return of capital, if any, decrease each unitholder's adjusted cost base for their units.
5. The Financial Highlights are not intended to act as a continuity of the opening and closing net assets per unit.

Financial Highlights (continued)

Ratios and Supplemental Data

Class E					
Year ⁽¹⁾		2014	2013	2012	2011
Total net asset value ⁽²⁾ (000's)	\$	11,602	16,684	26,853	14,929
Number of units outstanding (000's)		1,514	1,934	2,971	1,551
Management expense ratio ⁽³⁾		0.80%	0.80%	0.80%	0.84%
Management expense ratio before waivers or absorptions ⁽⁴⁾		1.23%	1.08%	1.40%	1.70%
Trading expense ratio ⁽⁵⁾		0.59%	0.81%	0.89%	1.45%
Portfolio turnover rate ⁽⁶⁾		159.03%	85.04%	197.30%	90.01%
Net asset value per unit, end of year ⁽²⁾	\$	7.66	8.63	9.04	9.63
Closing market price	\$	7.69	8.62	9.08	9.69

Advisor Class

Year ⁽¹⁾		2014	2013	2012	2011
Total net asset value ⁽²⁾ (000's)	\$	1,543	2,161	2,499	4,573
Number of units outstanding (000's)		201	251	277	475
Management expense ratio ⁽³⁾		1.59%	1.60%	1.57%	1.64%
Management expense ratio before waivers or absorptions ⁽⁴⁾		2.02%	1.86%	2.23%	2.50%
Trading expense ratio ⁽⁵⁾		0.59%	0.81%	0.89%	1.45%
Portfolio turnover rate ⁽⁶⁾		159.03%	85.04%	197.30%	90.01%
Net asset value per unit, end of year ⁽²⁾	\$	7.66	8.63	9.04	9.63
Closing market price	\$	7.67	8.53	9.03	9.78

1. This information is provided as at December 31 of the years shown. Information from 2014 and 2013 is in accordance with IFRS. Information for years prior to 2013 is reported under Canadian GAAP.
2. Differences may result from a comparison of the fair valuation of securities held by the ETF for financial reporting purposes prior to January 1, 2013 under Canadian GAAP, versus the market value used to determine the net asset value of the ETF for the purchase and redemption of the ETF's units. As a result, the net assets per unit presented in the financial statements may differ from the net asset value per unit presented in these Financial Highlights.
3. Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the year. Out of its management fees, the Manager pays for such services to the ETF as investment manager compensation, service fees and marketing.
4. The Manager, at its discretion, may waive and/or absorb a portion of the fees and/or expenses otherwise payable by the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.
5. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.
6. The ETF's portfolio turnover rate indicates how actively its portfolio investments are traded. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of the year. Generally, the higher the ETF's portfolio turnover rate in a year, the greater the trading costs payable by the ETF in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the ETF.

Financial Highlights (continued)

Management Fees

The Manager appoints the Investment Manager and provides, or oversees the provision of, administrative services required by the ETF including, but not limited to: negotiating contracts with certain third-party service providers, such as portfolio managers, custodians, registrars, transfer agents, auditors and printers; authorizing the payment of operating expenses incurred on behalf of the ETF; arranging for the maintenance of accounting records for the ETF; preparing reports to unitholders and to the applicable securities regulatory authorities; calculating the amount and determining the frequency of distributions by the ETF; preparing financial statements, income tax returns and financial and accounting information as required by the ETF; ensuring that unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the ETF complies with all other regulatory requirements, including the continuous disclosure obligations of the ETF under applicable securities laws; administering purchases, redemptions and other transactions in units of the ETF; and dealing and communicating with unitholders of the ETF. The Manager provides office facilities and personnel to carry out these services, if not otherwise furnished by any other service provider to the ETF. The Manager also monitors the investment strategies of the ETF to ensure that the ETF complies with its investment objectives, investment strategies and investment restrictions and practices.

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.65%, plus applicable sales taxes, of the net asset value of the ETF's Class E units and 1.40%, plus applicable sales taxes, of the net asset value of the ETF's Advisor Class units, calculated and accrued daily and payable monthly in arrears.

The Manager, and not the ETF, pays to registered dealers a service fee equal to 0.75% per year of the net asset value of Advisor Class units held by clients of the registered dealer. No service fees are paid to registered dealers in respect of Class E units.

The Investment Manager is compensated for its services out of the management fees without any further cost to the ETF. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

The table below details, in percentage terms, the services received by the ETF from the Manager in consideration of the management fees paid during the year.

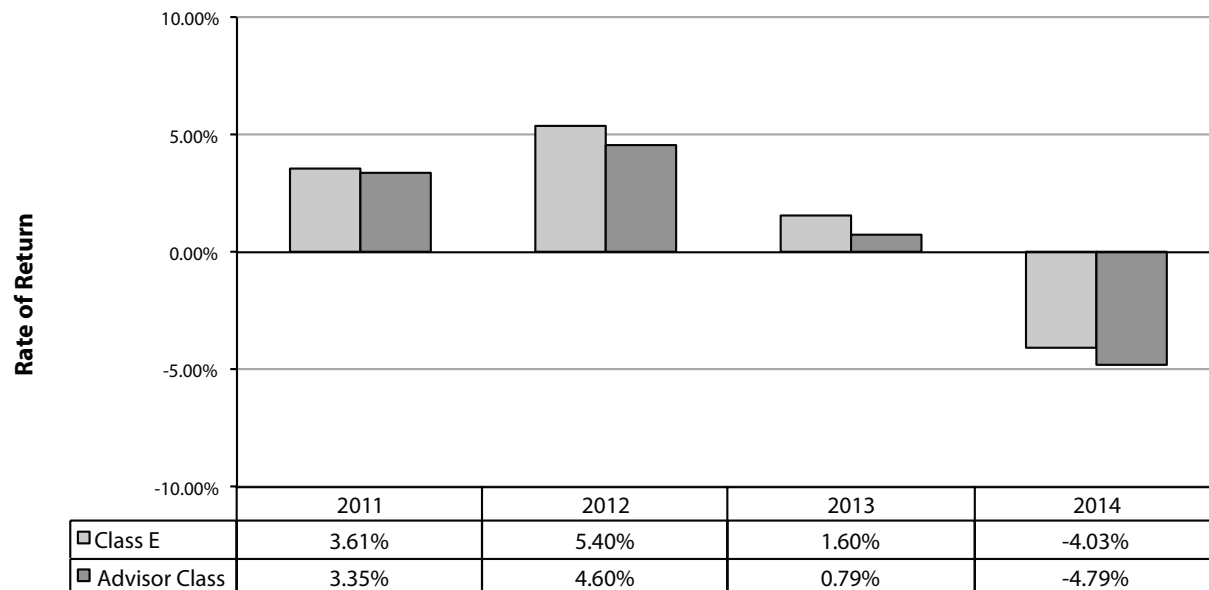
	Portfolio management fees, general administrative costs and profit	Waived/absorbed expenses of the ETF
Marketing		
8%	39%	53%

Past Performance

Commissions, trailing commissions, management fees and expenses all may be associated with an investment in the ETF. Please read the prospectus before investing. The indicated rates of return are the historical total returns including changes in unit value and reinvestment of all distributions, and do not take into account sales, redemptions, distributions or optional charges or income taxes payable by any investor that would have reduced returns. An investment in the ETF is not guaranteed. Its value changes frequently and past performance may not be repeated. The ETF's performance numbers assume that all distributions are reinvested in additional units of the ETF. If you hold this ETF outside of a registered plan, income and capital gains distributions that are paid to you increase your income for tax purposes whether paid to you in cash or reinvested in additional units. The amount of the reinvested taxable distributions is added to the adjusted cost base of the units that you own. This would decrease your capital gain or increase your capital loss when you later redeem from the ETF, thereby ensuring that you are not taxed on this amount again. Please consult your tax advisor regarding your personal tax situation.

Year-by-Year Returns

The following chart shows the ETF's performance for its Class E and Advisor Class units for the periods shown. In percentage terms, the chart shows how much an investment made on the first day of the financial period would have grown or decreased by the last day of the financial period.



Class E units and Advisor Class units of the ETF have an initial net asset value of \$10.00 as at September 13, 2011.

Past Performance (continued)

Annual Compound Returns

The following table shows the ETF's annualized compound total return since inception and for the periods shown ended December 31, 2014 compared with the ETF's applicable benchmark. The table shown is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the ETF or future returns on investments in the ETF.

Period	Class E Return %	Advisor Class Return %	Horizons Enhanced International Equity Basket Total Return Index Return %	BNY Mellon Int'l 100 ADR Index Return %
1 Year	-4.03%	-4.79%	-2.51%	-5.68%
3 Year	0.92%	0.13%	6.35%	8.47%
Since Inception	1.95%	1.15%	6.02%	8.99%

Class E units and Advisor Class units of the ETF have an initial net asset value of \$10.00 as at September 13, 2011.

Summary of Investment Portfolio

As at December 31, 2014

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
Long Positions		
United Kingdom Equities	\$ 3,291,470	25.04%
Japan Equities	1,245,441	9.47%
Switzerland Equities	1,213,697	9.23%
China Equities	986,201	7.50%
Brazil Equities	948,609	7.22%
India Equities	919,001	6.99%
Hong Kong Equities	775,500	5.90%
France Equities	711,481	5.41%
Germany Equities	691,188	5.26%
Israel Equities	493,666	3.76%
Belgium Equities	442,990	3.37%
Mexico Equities	380,786	2.90%
Australia Equities	345,815	2.63%
South Africa Equities	292,668	2.23%
Currency Forward Hedge*	(90,542)	-0.69%
Cash and Cash Equivalents	591,431	4.50%
Other Assets less Liabilities	(32,058)	-0.24%
Short Positions		
Equity Call Options	(63,116)	-0.48%
	\$ 13,144,228	100.00%

Sector Mix	Net Asset Value	% of ETF's Net Asset Value
Long Positions		
Financials	\$ 3,414,823	25.99%
Health Care	1,664,467	12.66%
Energy	1,653,148	12.58%
Consumer Discretionary	1,245,441	9.47%
Telecommunication Services	1,226,834	9.33%
Information Technology	1,224,342	9.31%
Materials	1,044,548	7.95%
Consumer Staples	879,726	6.69%
Industrials	385,184	2.93%
Currency Forward Hedge*	(90,542)	-0.69%
Cash and Cash Equivalents	591,431	4.50%
Other Assets less Liabilities	(32,058)	-0.24%
Short Positions		
Equity Call Options	(63,116)	-0.48%
	\$ 13,144,228	100.00%

*Positions in forward contracts are disclosed as the gain/(loss) that would be realized if the contracts were closed out on the date of this report.

Summary of Investment Portfolio (continued)

As at December 31, 2014

Top 25 Holdings	% of ETF's Net Asset Value
China Life Insurance Co. Ltd., ADR	4.59%
Teva Pharmaceutical Industries Ltd., ADR	3.73%
Sony Corp., ADR	3.61%
Infosys Technologies Ltd., ADR	3.50%
ICICI Bank Ltd., ADR	3.46%
Anheuser-Busch InBev NV, ADR	3.36%
ARM Holdings PLC	3.35%
Diageo PLC, ADR	3.32%
Barclays PLC, ADR	3.27%
Novartis AG, ADR	3.27%
China Mobile Ltd., ADR	3.25%
Vodafone Group PLC, ADR	3.16%
Toyota Motor Corp., ADR	3.09%
Rio Tinto PLC, ADR	3.07%
Credit Suisse Group AG, ADR	3.03%
HSBC Holdings PLC, ADR	3.00%
GlaxoSmithKline PLC, ADR	2.98%
ABB Ltd., ADR	2.93%
America Movil SA de CV, ADR	2.87%
Banco Bradesco SA, ADR	2.87%
Deutsche Bank AG	2.86%
PetroChina Co. Ltd., ADR	2.83%
BP PLC, ADR	2.79%
Itau Unibanco Holding SA, ADR	2.76%
Honda Motor Co. Ltd., ADR	2.75%

The summary of investment portfolio may change due to the ongoing portfolio transactions of the ETF. The most recent financial statements are available at no cost by calling 1-866-641-5739, by writing to us at 26 Wellington Street East, Suite 700, Toronto, Ontario, M5E 1S2, by visiting our website at www.horizonsetfs.com or through SEDAR at www.sedar.com.

MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying audited annual financial statements of Horizons Enhanced Income International Equity ETF (the "ETF") are the responsibility of the manager and trustee to the ETF, AlphaPro Management Inc. (the "Manager"). They have been prepared in accordance with International Financial Reporting Standards using information available and include certain amounts that are based on the Manager's best estimates and judgments.

The Manager has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce relevant, reliable and timely financial information, including the accompanying financial statements.

These financial statements have been approved by the Board of Directors of the Manager and have been audited by KPMG LLP, Chartered Professional Accountants, Licensed Public Accountants, on behalf of unitholders. The independent auditors' report outlines the scope of their audit and their opinion on the financial statements.



Steven J. Hawkins
Director
AlphaPro Management Inc.



Howard Atkinson
Director
AlphaPro Management Inc.

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Horizons Enhanced Income International Equity ETF (the "ETF")

We have audited the accompanying financial statements of the ETF, which comprise the statements of financial position as at December 31, 2014 and 2013, and January 1, 2013, the statements of comprehensive income, changes in financial position and cash flows for the years ended December 31, 2014 and December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the ETF's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ETF's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the ETF as at December 31, 2014 and 2013, and January 1, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.



Chartered Professional Accountants, Licensed Public Accountants
March 13, 2015
Toronto, Canada

Statements of Financial Position

As at December 31, 2014 and 2013 and January 1, 2013

	December 31, 2014	December 31, 2013	January 1, 2013
Assets			
Cash and cash equivalents	\$ 591,431	\$ 1,527,416	\$ 1,943,858
Investments	12,738,513	17,466,133	27,987,787
Amounts receivable relating to accrued income	67,865	70,913	64,484
Amounts receivable relating to portfolio assets sold	21,750	-	-
Derivative assets (note 3)	3,170	50,362	21,649
Total assets	13,422,729	19,114,824	30,017,778
Liabilities			
Accrued expenses	18,381	29,287	21,161
Distribution payable	103,292	91,595	185,588
Derivative liabilities (note 3)	156,828	149,240	458,797
Total liabilities	278,501	270,122	665,546
Total net assets (note 2)	\$ 13,144,228	\$ 18,844,702	\$ 29,352,232
Total net assets, Class E (note 2)	\$ 11,601,569	\$ 16,683,493	\$ 26,852,784
Number of redeemable units outstanding, Class E (note 9)	1,513,761	1,933,574	2,970,924
Total net assets per unit, Class E (note 2)	\$ 7.66	\$ 8.63	\$ 9.04
Total net assets, Advisor Class (note 2)	\$ 1,542,659	\$ 2,161,209	\$ 2,499,448
Number of redeemable units outstanding, Advisor Class (note 9)	201,289	250,498	276,529
Total net assets per unit, Advisor Class (note 2)	\$ 7.66	\$ 8.63	\$ 9.04

(See accompanying notes to financial statements)

Approved on behalf of the Board of Directors of the Manager:



Steven J. Hawkins



Howard Atkinson

Statements of Comprehensive Income

For the Years Ended December 31,

	2014	2013
Income		
Dividend income	\$ 527,094	\$ 605,722
Securities lending income	2,134	2,626
Net realized gain (loss) on sale of investments and derivatives	1,791,029	(235,887)
Net realized loss on foreign exchange	(1,142,665)	(1,519,078)
Net change in unrealized appreciation (depreciation) of investments and derivatives	(1,389,871)	1,613,138
Net change in unrealized appreciation (depreciation) of foreign exchange	(136,309)	27,049
	(348,588)	493,570
Expenses		
Management fees (note 10)	131,620	187,189
Audit fees	8,659	11,133
Independent Review Committee fees	304	208
Custodial fees	1,668	6,608
Legal fees	740	1,028
Securityholder reporting costs	29,457	30,389
Administration fees	41,946	35,852
Listing fees	223	–
Transaction costs	95,842	191,957
Withholding taxes	41,880	37,026
Other expenses	191	398
	352,530	501,788
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(69,918)	(66,309)
	282,612	435,479
Increase (decrease) in net assets for the year (note 2)	\$ (631,200)	\$ 58,091
Increase (decrease) in net assets, Class E (note 2)	\$ (553,162)	\$ 49,881
Increase (decrease) in net assets per unit, Class E (note 2)	(0.32)	0.02
Increase (decrease) in net assets, Advisor Class (note 2)	\$ (78,038)	\$ 8,210
Increase (decrease) in net assets per unit, Advisor Class (note 2)	(0.36)	0.03

(See accompanying notes to financial statements)

Statements of Changes in Financial Position

For the Years Ended December 31,

	2014	2013
Total net assets at the beginning of the year (note 2)	\$ 18,844,702	\$ 29,352,232
Increase (decrease) in net assets (note 2)	(631,200)	58,091
Redeemable unit transactions		
Proceeds from the issuance of securities of the investment fund	387,655	480,092
Aggregate amounts paid on redemption of securities of the investment fund	(4,300,490)	(9,700,255)
Securities issued on reinvestment of distributions	49,705	100,077
Distributions:		
From net investment income	(314,820)	(326,228)
From net realized capital gains	(891,324)	–
Return of capital	–	(1,119,307)
Total net assets at the end of the year (note 2)	\$ 13,144,228	\$ 18,844,702
Total net assets at the beginning of the year, Class E (note 2)	\$ 16,683,493	\$ 26,852,784
Increase (decrease) in net assets, Class E (note 2)	(553,162)	49,881
Redeemable unit transactions		
Proceeds from the issuance of securities of the investment fund	387,655	480,092
Aggregate amounts paid on redemption of securities of the investment fund	(3,875,875)	(9,463,060)
Securities issued on reinvestment of distributions	43,080	88,210
Distributions:		
From net investment income	(290,160)	(302,745)
From net realized capital gains	(793,462)	–
Return of capital	–	(1,021,669)
Total net assets at the end of the year, Class E (note 2)	\$ 11,601,569	\$ 16,683,493
Total net assets at the beginning of the year, Advisor Class (note 2)	\$ 2,161,209	\$ 2,499,448
Increase (decrease) in net assets, Advisor Class (note 2)	(78,038)	8,210
Redeemable unit transactions		
Aggregate amounts paid on redemption of securities of the investment fund	(424,615)	(237,195)
Securities issued on reinvestment of distributions	6,625	11,867
Distributions:		
From net investment income	(24,660)	(23,483)
From net realized capital gains	(97,862)	–
Return of capital	–	(97,638)
Total net assets at the end of the year, Advisor Class (note 2)	\$ 1,542,659	\$ 2,161,209

(See accompanying notes to financial statements)

Statements of Cash Flows

For the Years Ended December 31,

	2014	2013
Cash flows from operating activities:		
Increase (decrease) in net assets for the year (note 2)	\$ (631,200)	\$ 58,091
Adjustments for:		
Net realized loss (gain) on sale of investments and derivatives	(1,791,029)	235,887
Net change in unrealized depreciation (appreciation) of investments and derivatives	1,389,871	(1,613,138)
Net change in unrealized depreciation (appreciation) of foreign exchange	139,127	(24,218)
Purchase of investments	(24,779,282)	(18,705,008)
Proceeds from the sale of investments	29,800,186	30,298,051
Amounts receivable relating to accrued income	3,048	(6,429)
Accrued expenses	(10,906)	8,126
Net cash from operating activities	4,119,815	10,251,362
Cash flows from financing activities:		
Amount received from the issuance of units	387,655	480,092
Amount paid on redemptions of units	(4,300,490)	(9,700,255)
Distributions paid to unitholders	(1,144,742)	(1,439,451)
Net cash used in financing activities	(5,057,577)	(10,659,614)
Net decrease in cash and cash equivalents during the year	(937,762)	(408,252)
Effect of exchange rate fluctuations on cash and cash equivalents	1,777	(8,190)
Cash and cash equivalents at beginning of year	1,527,416	1,943,858
Cash and cash equivalents at end of year	\$ 591,431	\$ 1,527,416

Dividends received, net of withholding taxes	\$ 488,262	\$ 562,267
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(See accompanying notes to financial statements)

Schedule of Investments

As at December 31, 2014

Security	Shares/ Contracts	Average Cost	Fair Value
EQUITIES (96.91%)			
United Kingdom (25.04%)			
ARM Holdings PLC	8,300	\$ 415,319	\$ 445,776
Barclays PLC, ADR	24,900	455,200	433,549
BP PLC, ADR	8,300	444,051	367,019
Diageo PLC, ADR	3,300	446,183	436,736
GlaxoSmithKline PLC, ADR	7,900	451,472	391,669
HSBC Holdings PLC, ADR	7,200	408,447	394,465
Rio Tinto PLC, ADR	7,600	439,766	406,065
Vodafone Group PLC, ADR	10,500	446,096	416,191
		3,506,534	3,291,470
Japan (9.47%)			
Honda Motor Co. Ltd., ADR	10,600	417,671	362,978
Sony Corp., ADR	20,000	400,535	474,904
Toyota Motor Corp., ADR	2,800	285,018	407,559
		1,103,224	1,245,441
Switzerland (9.23%)			
ABB Ltd., ADR	15,700	351,266	385,184
Credit Suisse Group AG, ADR	13,700	384,509	398,571
Novartis AG, ADR	4,000	416,026	429,942
		1,151,801	1,213,697
China (7.50%)			
China Life Insurance Co. Ltd., ADR	9,000	420,255	612,932
PetroChina Co. Ltd., ADR	2,900	414,224	373,269
		834,479	986,201
Brazil (7.22%)			
Banco Bradesco SA, ADR	24,500	407,984	379,975
Itau Unibanco Holding SA, ADR	24,100	406,775	363,708
Petróleo Brasileiro SA, ADR	24,200	390,866	204,926
		1,205,625	948,609
India (6.99%)			
ICICI Bank Ltd., ADR	34,000	369,420	455,532
Infosys Technologies Ltd., ADR	12,700	396,660	463,469
		766,080	919,001
Hong Kong (5.90%)			
China Mobile Ltd., ADR	6,300	432,627	429,857
CNOOC Ltd., ADR	2,200	459,593	345,643
		892,220	775,500

Schedule of Investments (continued)

As at December 31, 2014

Security	Shares/ Contracts	Average Cost	Fair Value
France (5.41%)			
Sanofi SA, ADR	6,600	333,154	349,190
Total SA, ADR	6,100	460,576	362,291
		793,730	711,481
Germany (5.26%)			
Deutsche Bank AG, Registered	10,800	456,319	376,091
SAP SE, ADR	3,900	331,343	315,097
		787,662	691,188
Israel (3.76%)			
Teva Pharmaceutical Industries Ltd., ADR	7,400	488,891	493,666
Belgium (3.37%)			
Anheuser-Busch InBev NV, ADR	3,400	391,789	442,990
Mexico (2.90%)			
America Movil SA de CV, Series 'L', ADR	14,800	367,381	380,786
Australia (2.63%)			
BHP Billiton Ltd., ADR	6,300	461,991	345,815
South Africa (2.23%)			
AngloGold Ashanti Ltd., ADR	29,000	659,393	292,668
TOTAL EQUITIES		13,410,800	12,738,513
DERIVATIVES (-1.17%)			
EQUITY CALL OPTIONS (-0.48%)			
Short Positions (-0.48%)			
ABB Ltd., ADR, January 2015, \$22.00 USD	(33)	(536)	(287)
America Movil SA de CV, Series 'L', ADR, January 2015, \$22.00 USD	(38)	(1,265)	(2,424)
America Movil SA de CV, Series 'L', ADR, January 2015, \$23.00 USD	(38)	(840)	(661)
AngloGold Ashanti Ltd., ADR, January 2015, \$9.00 USD	(116)	(3,229)	(4,710)
AngloGold Ashanti Ltd., ADR, January 2015, \$11.00 USD	(25)	(402)	(145)
Anheuser-Busch InBev NV, ADR, January 2015, \$115.00 USD	(11)	(1,327)	(1,180)
Anheuser-Busch InBev NV, ADR, January 2015, \$120.00 USD	(18)	(1,286)	(574)
ARM Holdings PLC, January 2015, \$47.00 USD	(52)	(5,341)	(4,675)
ARM Holdings PLC, January 2015, \$48.00 USD	(20)	(1,264)	(1,102)
Banco Bradesco SA, ADR, January 2015, \$14.00 USD	(126)	(2,569)	(2,850)
Barclays PLC, ADR, January 2015, \$15.00 USD	(109)	(4,191)	(3,793)

Schedule of Investments (continued)

As at December 31, 2014

Security	Shares/ Contracts	Average Cost	Fair Value
BHP Billiton Ltd., ADR, January 2015, \$50.00 USD	(35)	(2,331)	(1,279)
BP PLC, ADR, January 2015, \$40.00 USD	(27)	(2,303)	(626)
China Life Insurance Co. Ltd., ADR, January 2015, \$57.50 USD	(23)	(1,962)	(7,070)
China Life Insurance Co. Ltd., ADR, January 2015, \$62.50 USD	(23)	(2,100)	(2,001)
China Life Insurance Co. Ltd., ADR, January 2015, \$65.00 USD	(22)	(868)	(1,021)
China Mobile Ltd., ADR, January 2015, \$60.00 USD	(20)	(2,292)	(1,682)
China Mobile Ltd., ADR, January 2015, \$62.50 USD	(15)	(331)	(435)
CNOOC Ltd., ADR, January 2015, \$140.00 USD	(5)	(1,236)	(1,015)
CNOOC Ltd., ADR, January 2015, \$145.00 USD	(5)	(675)	(435)
Credit Suisse Group AG, ADR, January 2015, \$26.00 USD	(34)	(552)	(690)
Credit Suisse Group AG, ADR, January 2015, \$27.00 USD	(26)	(573)	(226)
Deutsche Bank AG, Registered, January 2015, \$32.00 USD	(15)	(419)	(261)
Deutsche Bank AG, Registered, January 2015, \$33.00 USD	(27)	(658)	(157)
Diageo PLC, ADR, January 2015, \$120.00 USD	(14)	(823)	(325)
GlaxoSmithKline PLC, ADR, January 2015, \$45.00 USD	(27)	(783)	(235)
Honda Motor Co. Ltd., ADR, January 2015, \$30.00 USD	(36)	(3,658)	(1,566)
HSBC Holdings PLC, ADR, January 2015, \$49.00 USD	(25)	(725)	(363)
HSBC Holdings PLC, ADR, January 2015, \$50.00 USD	(25)	(1,256)	(203)
ICICI Bank Ltd., ADR, January 2015, \$12.00 USD	(78)	(1,267)	(995)
Infosys Technologies Ltd., ADR, January 2015, \$33.75 USD	(83)	(3,530)	(3,370)
Itau Unibanco Holding SA, ADR, January 2015, \$14.00 USD	(78)	(1,720)	(905)
Novartis AG, ADR, January 2015, \$95.00 USD	(10)	(771)	(638)
Novartis AG, ADR, January 2015, \$100.00 USD	(8)	(176)	(93)
PetroChina Co. Ltd., ADR, January 2015, \$115.00 USD	(8)	(721)	(1,206)
PetroChina Co. Ltd., ADR, January 2015, \$120.00 USD	(4)	(455)	(209)
Petróleo Brasileiro SA, ADR, January 2015, \$7.50 USD	(60)	(1,643)	(2,123)
Petróleo Brasileiro SA, ADR, January 2015, \$8.00 USD	(78)	(1,991)	(1,402)
Rio Tinto PLC, ADR, January 2015, \$47.50 USD	(19)	(1,355)	(1,433)
Rio Tinto PLC, ADR, January 2015, \$50.00 USD	(28)	(740)	(487)
Sanofi SA, ADR, January 2015, \$48.00 USD	(26)	(1,219)	(528)
SAP SE, ADR, January 2015, \$72.50 USD	(19)	(1,400)	(606)
Sony Corp., ADR, January 2015, \$22.00 USD	(87)	(1,176)	(1,009)
Teva Pharmaceutical Industries Ltd., ADR, January 2015, \$59.00 USD	(24)	(1,406)	(1,726)
Teva Pharmaceutical Industries Ltd., ADR, January 2015, \$59.50 USD	(20)	(1,169)	(1,137)
Teva Pharmaceutical Industries Ltd., ADR, January 2015, \$60.00 USD	(9)	(559)	(381)
Total SA, ADR, January 2015, \$52.50 USD	(15)	(931)	(1,088)
Total SA, ADR, January 2015, \$57.50 USD	(20)	(441)	(174)
Toyota Motor Corp., ADR, January 2015, \$130.00 USD	(19)	(2,242)	(1,135)
Vodafone Group PLC, ADR, January 2015, \$37.00 USD	(36)	(1,422)	(480)
		(72,129)	(63,116)

Schedule of Investments (continued)

As at December 31, 2014

Security	Shares/ Contracts	Average Cost	Fair Value
Currency Forwards (-0.69%)			
Currency forward contract to buy US\$1,650,000 for C\$1,916,795 maturing January 8, 2015		-	(2,669)
Currency forward contract to buy C\$14,726,303 for US\$12,770,000 maturing January 8, 2015		-	(87,873)
TOTAL CURRENCY FORWARDS		-	(90,542)
TOTAL DERIVATIVES		(72,129)	(153,658)
Transaction Costs		(11,989)	
TOTAL INVESTMENT PORTFOLIO (95.74%)		\$ 13,326,682	\$ 12,584,855
Cash and cash equivalents (4.50%)			591,431
Other assets less liabilities (-0.24%)			(32,058)
TOTAL NET ASSETS (100.00%) (note 2)			\$ 13,144,228

(See accompanying notes to financial statements)

Notes to Financial Statements

For the Years Ended December 31, 2014 and 2013

1. REPORTING ENTITY

Horizons Enhanced Income International Equity ETF (the “ETF” or “Horizons HEJ”) is an investment trust established under the laws of the Province of Ontario by Declaration of Trust and effectively began operations on September 13, 2011. The address of the ETF’s registered office is: c/o AlphaPro Management Inc., 26 Wellington Street East, Suite 700, Toronto, Ontario, M5E 1S2.

The ETF is offered for sale on a continuous basis by its prospectus in both class E units (“Class E”) and advisor class units (“Advisor Class”) which trade on the Toronto Stock Exchange (“TSX”) under the symbols HEJ and HEJ.A, respectively. Advisors are directly compensated with a service fee on a trailing quarterly basis (the “Service Fee”). The only difference between the Advisor Class and existing Class E units of the ETF is that the Advisor Class charges higher management fees that include the Service Fees paid to the advisor (see note 10). The purchase and sale process for the Advisor Class units is identical to that of any other ETF listed on the TSX. An investor may buy or sell units of the ETF on the TSX only through a registered broker or dealer in the province or territory where the investor resides. Investors are able to trade units of the ETF in the same way as other securities traded on the TSX, including by using market orders and limit orders and may incur customary brokerage commissions when buying or selling units.

The investment objective of Horizons HEJ is to provide unitholders with: (a) exposure to the performance of an equal weighted portfolio of large capitalization international, non-North American, companies; and (b) monthly distributions of dividend and call option income. Horizons HEJ invests primarily in a portfolio of equity and equity related securities of companies that, as at the Constituent Reset Date, are amongst the largest by market capitalization and most liquid non-North American based issuers on the TSX, New York Stock Exchange (“NYSE”) or NASDAQ Stock Market (“NASDAQ”). To mitigate downside risk and generate income, the ETF’s investment manager actively manages a covered call strategy that generally writes out of the money covered call options on 100% of the portfolio securities. The level of covered call option writing may vary based on market volatility and other factors. Horizons HEJ generally seeks to hedge substantially all of its exposure to the U.S. dollar back to the Canadian dollar.

AlphaPro Management Inc. (“AlphaPro” or the “Manager”) is the manager and trustee of the ETF. The Manager had appointed Horizons Investment Management Inc. (“Horizons Investment”), an affiliate of the Manager, to act as the investment manager to the ETF. Effective December 30, 2013, Horizons Investment was amalgamated with its parent (and the parent of the Manager), Horizons ETFs Management (Canada) Inc. (“Horizons Management”) under the *Canada Business Corporations Act* (the “Amalgamation”). Under the Amalgamation, Horizons Investment and Horizons Management merged and carried on as one corporation named Horizons ETFs Management (Canada) Inc., which now serves as the successor investment manager of the ETF (the “Investment Manager”). The Amalgamation did not result in any changes to the day-to-day operations of the ETF. The operations, personnel and responsibilities of the Investment Manager remain unchanged.

The Investment Manager is responsible for implementing the ETF’s investment strategies. The Manager and Investment Manager are both members of the Mirae Asset Financial Group (“Mirae Asset”).

2. BASIS OF PREPARATION

(i) *Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These are the ETF’s first annual financial statements prepared in accordance with IFRS, and accordingly, First-time Adoption of International Financial Reporting Standards (“IFRS 1”) has been applied.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

Previously, the ETF prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The ETF has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 16 discloses the impact of the transition to IFRS on the ETF's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used previously under Canadian GAAP.

Any mention of total net assets, net assets, net asset value or increase (decrease) in net assets for periods starting on or after January 1, 2013 is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable units as reported under IFRS.

These financial statements were authorized for issue on March 13, 2015 by the Board of Directors of the Manager.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss, which are measured at fair value.

(iii) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the ETF's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments**(i) Recognition, initial measurement and classification**

Financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are initially recognized on the trade date, at fair value (see below), with transaction costs recognised in profit or loss. Other financial assets and financial liabilities are recognised on the date on which they are originated at fair value.

The ETF classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss:
 - Held for trading: derivative financial instruments
 - Designated as at fair value through profit or loss: debt securities and equity investments
- Financial assets at amortized cost: All other financial assets are classified as loans and receivables
- Financial liabilities at fair value through profit or loss:
 - Held for trading: derivative financial instruments
- Financial liabilities at amortized cost: all other financial liabilities are classified as other financial liabilities

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

(ii) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the ETF has access at that date. The fair value of a liability reflects its non-performance risk.

Investments are valued at fair value as of the close of business on each day upon which a session of the TSX is held ("Valuation Date") and based on external pricing sources to the extent possible. Investments held that are traded in an active market through recognized public stock exchanges, over-the-counter markets, or through recognized investment dealers, are valued at their closing sale price. However, such prices may be adjusted if a more accurate value can be obtained from recent trading activity or by incorporating other relevant information that may not have been reflected in pricing obtained from external sources. Short-term investments, including notes and money market instruments, are valued at amortized cost which approximates fair value.

Investments held that are not traded in an active market, including some derivative financial instruments, are valued using observable market inputs where possible, on such basis and in such manner as established by the Manager. Derivative financial instruments are recorded in the statements of financial position according to the gain or loss that would be realized if the contracts were closed out on the Valuation Date. Margin deposits, if any, are included in the schedule of investments as margin deposits. See also the summary of fair value measurements in note 7.

Fair value policies used for financial reporting purposes are the same as those used to measure the net asset value ("NAV") for transactions with unitholders.

The fair value of other financial assets and liabilities approximates their carrying values due to the short-term nature of these instruments.

(iii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at fair value through profit or loss and foreign exchange gains and losses.

(iv) Specific instruments**Cash and cash equivalents**

Cash and cash equivalents consist of cash on deposit and short-term, interest bearing notes with a term to maturity of less than three months from the date of purchase.

Forward foreign exchange contracts

Forward foreign exchange contracts, if any, are valued at the current market value thereof on the Valuation Date. The value of these forward contracts is the gain or loss that would be realized if, on the Valuation Date, the positions were to be closed out and recorded as derivative assets and/or liabilities in the statements of financial position and as a net change

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

in unrealized appreciation (depreciation) of investments and derivatives in the statements of comprehensive income. When the forward contracts are closed out or mature, realized gains or losses on forward contracts are recognized and are included in the statements of comprehensive income in net realized gain (loss) on foreign exchange. The Canadian dollar value of forward foreign exchange contracts is determined using forward currency exchange rates supplied by an independent service provider.

Redeemable units

The redeemable units, which are classified as financial liabilities, are measured at the present value of the redemption amounts and are considered a residual amount of the net assets attributable to holders of redeemable units.

(b) Investment income

Investment transactions are accounted for as of the trade date. Realized gains and losses from investment transactions are calculated on a weighted average cost basis. The difference between fair value and average cost, as recorded in the financial statements, is included in the statements of comprehensive income as part of the net change in unrealized appreciation (depreciation) of investments and derivatives. Interest income for distribution purposes from investments in bonds and short-term investments represents the coupon interest received by the ETF accounted for on an accrual basis. The ETF does not amortize premiums paid or discounts received on the purchase of fixed income securities. The ETF does not use the effective interest method. Dividend income is recognized on the ex-dividend date. Distribution income from investments in other funds or ETFs is recognized when earned.

Income from derivatives is shown in the statements of comprehensive income as net realized gain (loss) on sale of investments and derivatives; net change in unrealized appreciation (depreciation) of investments and derivatives; and, interest income for distribution purposes, in accordance with its nature.

Income from securities lending, if any, is included in "Securities lending income" on the statements of comprehensive income and is recognized when earned. Any securities on loan continue to be displayed in the schedule of investments and the market value of the securities loaned and collateral held is determined daily (see note 8).

If the ETF incurs withholding taxes imposed by certain countries on investment income and capital gains, such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the statements of comprehensive income.

(c) Foreign currency

Transactions in foreign currencies are translated into the ETF's reporting currency using the exchange rate prevailing on the trade date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the year-end exchange rate. Foreign exchange gains and losses are presented as "Net realized gain (loss) on foreign exchange", except for those arising from financial instruments at fair value through profit or loss, which are recognized as a component within "Net realized gain (loss) on sale of investments and derivatives" and "Net change in unrealized appreciation (depreciation) of investments and derivatives" in the statements of comprehensive income.

(d) Cost basis

The cost of portfolio investments is determined on an average cost basis.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

(e) Increase (decrease) in net assets attributable to holders of redeemable units per unit

The increase (decrease) in net assets per unit by class in the statements of comprehensive income represents the change in net assets attributable to holders of redeemable units from operations attributable to each class divided by the weighted average number of units of that class outstanding during the reporting year. Income, expenses other than management fees, and realized and unrealized capital gains (losses) are distributed amongst the different classes of units in proportion to the amount invested in them. For management fees please refer to note 10.

(f) Unitholder transactions

The value at which units are issued or redeemed is determined by dividing the net asset value of the class by the total number of units outstanding of that class on the Valuation Date. Amounts received on the issuance of units and amounts paid on the redemption of units are included in the statements of changes in financial position.

(g) Amounts receivable (payable) relating to portfolio assets sold (purchased)

In accordance with the ETF's policy of trade date accounting for sale and purchase transactions, sales/purchase transactions awaiting settlement represent amounts receivable/payable for securities sold/purchased, but not yet settled as at the reporting date.

(h) Net assets attributable to holders of redeemable units per unit

Net assets attributable to holders of redeemable units per unit is calculated for each class of units of the ETF by taking the respective class' proportionate share of the ETF's net assets attributable to holders of redeemable units and dividing by the number of units of that class outstanding on the Valuation Date.

(i) Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs are expensed and are included in "Transaction costs" in the statements of comprehensive income.

(j) Future accounting changes

The International Accounting Standards Board ("IASB") has issued the following new standards and amendments to existing standards that are not yet effective.

IFRS 9, Financial Instruments ("IFRS 9"):

In July 2014, the IASB issued IFRS 9, Financial Instruments, to replace International Accounting Standard 39, Financial Instruments – Recognition and Measurement ("IAS 39"). IFRS 9 addresses classification and measurement, impairment and hedge accounting.

The new standard requires assets to be classified based on the ETF's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. Financial assets will be measured at fair value through profit and loss unless certain conditions are met which permit measurement at amortized cost or value through other comprehensive income.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

The classification and measurement of liabilities remain generally unchanged, with the exception of liabilities recorded at fair value through profit and loss. For financial liabilities designated at fair value through profit and loss, IFRS 9 requires the presentation of the effects of changes in the ETF's own credit risk in other comprehensive income instead of net income.

IFRS 9 is effective for fiscal years beginning on January 1, 2018, though early adoption is permitted. The Manager is currently assessing the impact of this new standard on the ETF's financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these financial statements, the Manager has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The ETF may hold financial instruments that are not quoted in active markets, including derivatives. The determination of the fair value of these instruments is the area with the most significant accounting judgements and estimates that the ETF has made in preparing the financial statements. See note 7 for more information on the fair value measurement of the ETF's financial instruments.

5. FINANCIAL INSTRUMENTS RISK

In the normal course of business, the ETF's investment activities expose it to a variety of financial risks. The Manager seeks to minimize potential adverse effects of these risks for the ETF's performance by employing professional, experienced portfolio advisors, by daily monitoring of the ETF's positions and market events, and periodically may use derivatives to hedge certain risk exposures. To assist in managing risks, the Manager maintains a governance structure that oversees the ETF's investment activities and monitors compliance with the ETF's stated investment strategies, internal guidelines and securities regulations.

Please refer to the most recent prospectus for a complete discussion of the risks attributed to an investment in the units of the ETF. Significant financial instrument risks that are relevant to the ETF and an analysis of how they are managed are presented below.

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the ETF's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Currency risk

Currency risk is the risk that financial instruments which are denominated in currencies other than the ETF's reporting currency, the Canadian dollar, will fluctuate due to changes in exchange rates and adversely impact the ETF's income, cash flows or fair values of its investment holdings. The ETF may reduce its foreign currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts. As at December 31, 2014 and 2013 and January 1, 2013, the ETF did not have any material net exposure to foreign currencies due to the ETF's hedging strategies.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

(ii) Interest rate risk

The ETF may be exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. In general, the value of interest-bearing financial instruments will rise if interest rates fall, and conversely, will generally fall if interest rates rise. There is minimal sensitivity to interest rate fluctuation on cash and cash equivalents invested at short-term market rates since those securities are usually held to maturity and are short term in nature.

As at December 31, 2014, December 31, 2013 and January 1, 2013, the ETF did not hold any long-term debt instruments and did not have any exposure to interest rate risk.

(iii) Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. The Manager has imposed internal risk management controls on the ETF which are intended to limit the loss on its trading activities.

The table below shows the estimated impact on the ETF of a 1% increase or decrease in a broad-based market index, based on historical correlation, with all other factors remaining constant, as at the dates shown. In practice, actual results may differ from this sensitivity analysis and the difference could be material. The historical correlation may not be representative of future correlation.

Comparative Index	December 31, 2014	December 31, 2013	January 1, 2013
MSCI World Index	\$112,125	\$162,291	\$265,001

(b) Credit risk

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the ETF. It arises principally from debt securities held, and also from derivative financial assets, cash and cash equivalents, and other receivables. The ETF's maximum credit risk exposure as at the reporting date is represented by the respective carrying amounts of the financial assets in the statements of financial position. The ETF's credit risk policy is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out in the ETF's prospectus and by taking collateral.

As at December 31, 2014, December 31, 2013 and January 1, 2013, due to the nature of its portfolio investments, the ETF did not have any material credit risk exposure.

(c) Liquidity risk

Liquidity risk is the risk that the ETF will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The ETF's policy and the investment manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of shares, without incurring unacceptable losses or risking damage to the ETF's reputation. Liquidity risk is managed by investing the majority of the ETF's assets in investments that are traded in an active market and can be readily disposed. The ETF aims to retain sufficient cash and cash equivalent positions to maintain liquidity; therefore, the liquidity risk for the ETF is considered minimal.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

6. NET CHANGES FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net changes in fair value on financial assets and financial liabilities at fair value through profit or loss presented in the table below are comprised of the following: net realized gain (loss) on sale of investments and derivatives, net change in unrealized appreciation (depreciation) of investments and derivatives, dividend income and interest income for distribution purposes. Their classifications between held for trading and designated at fair value are presented in the following table:

Category	Net Changes at FVTPL (\$)	
	December 31, 2014	December 31, 2013
Financial assets (liabilities) at FVTPL:		
Held for trading	(1,090,189)	(2,553,113)
Designated at fair value	739,467	3,044,057
Total financial assets (liabilities) at FVTPL	(350,722)	490,944

7. FAIR VALUE MEASUREMENT

Below is a classification of fair value measurements of the ETF's investments based on a three level fair value hierarchy and a reconciliation of transactions and transfers within that hierarchy. The hierarchy of fair valuation inputs is summarized as follows:

- Level 1: securities that are valued based on quoted prices in active markets.
- Level 2: securities that are valued based on inputs other than quoted prices that are observable, either directly as prices, or indirectly as derived from prices.
- Level 3: securities that are valued with significant unobservable market data.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following is a summary of the inputs used as at December 31, 2014, December 31, 2013 and January 1, 2013 in valuing the ETF's investments and derivatives carried at fair values:

December 31, 2014	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
Financial Assets			
Equities	12,738,513	–	–
Currency Forward Contracts	–	3,170	–
Total Financial Assets	12,738,513	3,170	–
Financial Liabilities			
Currency Forward Contracts	–	(93,712)	–
Options	(63,116)	–	–
Total Financial Liabilities	(63,116)	(93,712)	–
Total Financial Assets and Liabilities	12,675,397	(90,542)	–

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

December 31, 2013	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
Financial Assets			
Equities	17,466,133	–	–
Currency Forward Contracts	–	50,362	–
Total Financial Assets	17,466,133	50,362	–
Financial Liabilities			
Options	(149,240)	–	–
Total Financial Liabilities	(149,240)	–	–
Total Financial Assets and Liabilities	17,316,893	50,362	–

January 1, 2013	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
Financial Assets			
Equities	27,987,787	–	–
Currency Forward Contracts	–	21,649	–
Total Financial Assets	27,987,787	21,649	–
Financial Liabilities			
Currency Forward Contracts	–	(3,695)	–
Options	(455,102)	–	–
Total Financial Liabilities	(455,102)	(3,695)	–
Total Financial Assets and Liabilities	27,532,685	17,954	–

There were no significant transfers made between Levels 1 and 2 as a result of changes in the availability of quoted market prices or observable market inputs during the years shown. In addition, there were no investments or transactions classified in Level 3 for the years ended December 31, 2014 and 2013.

8. SECURITIES LENDING

In order to generate additional returns, the ETF is authorized to enter into securities lending agreements with borrowers deemed acceptable in accordance with National Instrument 81-102 – *Mutual Funds* (“NI 81-102”). The ETF has received exemptive relief from securities regulatory authorities, to allow the ETF to lend 100% of its investment portfolio to qualified borrowers. Under a securities lending agreement, the borrower must pay the ETF a negotiated securities lending fee, provide compensation to the ETF equal to any distributions received by the borrower on the securities borrowed, and the ETF must receive an acceptable form of collateral in excess of the value of the securities loaned. Although such collateral is marked to market, the ETF may be exposed to the risk of loss should a borrower default on its obligations to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities. Revenue, if any, earned on securities lending transactions during the year is disclosed in the ETF’s statements of comprehensive income.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

The aggregate closing market value of securities loaned and collateral received as at December 31, 2014, December 31, 2013 and January 1, 2013 was as follows:

As at	Securities Loaned	Collateral Received
December 31, 2014	\$1,429,502	\$1,516,655
December 31, 2013	\$37,215	\$39,188
January 1, 2013	\$606,913	\$638,603

Collateral may comprise, but is not limited to, cash and obligations of or guaranteed by the Government of Canada or a province thereof; by the United States government or its agencies; by some sovereign states; by permitted supranational agencies; and short-term debt of Canadian financial institutions, if, in each case, the evidence of indebtedness has a designated rating as defined by NI 81-102.

9. REDEEMABLE UNITS

The ETF is authorized to issue an unlimited number of redeemable, transferable Class E units and Advisor Class units each of which represents an equal, undivided interest in the net assets of the ETF. Each unit entitles the owner to one vote at meetings of unitholders. Each unit is entitled to participate equally with all other units with respect to all payments made to unitholders, other than management fee distributions, whether by way of income or capital distributions and, on liquidation, to participate equally in the net assets of the ETF remaining after satisfaction of any outstanding liabilities that are attributable to units of that class of the ETF. All units will be fully paid and non-assessable, with no liability for future assessments, when issued and will not be transferable except by operation of law.

The redeemable units issued by the ETF provide an investor with the right to require redemption for cash at a value proportionate to the investor's share in the ETF's net assets at each redemption date. They are classified as liabilities as a result of the ETF's requirement to distribute net income and capital gains to unitholders and because the ETF has multiple classes of units with different features, as described in note 10. The ETF's objectives in managing the redeemable units are to meet the ETF's investment objective, and to manage liquidity risk arising from redemptions. The ETF's management of liquidity risk arising from redeemable units is discussed in note 5.

On any trading day, which is defined as the day that a net asset value of the ETF is being struck, unitholders of the ETF may (i) redeem units of the ETF for cash at a redemption price per unit equal to 95% of the closing price for units of the ETF on the TSX on the effective day of the redemption, where the units being redeemed are not equal to a prescribed number of units ("PNU") or a multiple PNU; (ii) redeem, less any applicable redemption charge as determined by the Manager in its sole discretion from time to time, a PNU or a multiple PNU of the ETF for cash equal to the net asset value of that number of units; or (iii) redeem units of the ETF for cash at a redemption price equal to the net asset value of the ETF if the redemption is made pursuant to a systematic withdrawal plan by a distribution reinvestment plan participant.

Units of the ETF are issued or redeemed on a daily basis at the net asset value per security that is determined as at 4:00 p.m. (Eastern Time) each business day. Purchase and redemption orders are subject to a 9:30 a.m. (Eastern Time) cut-off time.

The ETF is required to distribute any net income and capital gains that it has earned in the year. Income earned by the ETF is distributed to unitholders at least once per year, if necessary, and these distributions are either paid in cash or reinvested by unitholders into additional units of the ETF. Net realized capital gains, if any, are typically distributed in December of each year to unitholders. The annual capital gains distributions are not paid in cash but rather, are reinvested and

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

reported as taxable distributions and used to increase each unitholder's adjusted cost base for the ETF. Distributions paid to holders of redeemable units are recognized in the statements of changes in financial position.

Please consult the ETF's most recent prospectus for a full description of the subscription, exchange and redemption features of the ETF's units.

For the years ended December 31, 2014 and 2013, the number of units issued by subscription and/or distribution reinvestment, the number of units redeemed, the total and average number of units outstanding was as follows:

Class of Units	Year	Beginning Units Outstanding	Units Issued	Units Redeemed	Ending Units Outstanding	Average Units Outstanding
Class E	2014	1,933,574	55,187	(475,000)	1,513,761	1,729,394
	2013	2,970,924	62,650	(1,100,000)	1,933,574	2,485,446
Advisor Class	2014	250,498	791	(50,000)	201,289	218,178
	2013	276,529	1,369	(27,400)	250,498	259,637

10. EXPENSES
Management fees

The Manager appoints the Investment Manager and provides, or oversees the provision of, administrative services required by the ETF including, but not limited to: negotiating contracts with certain third-party service providers, such as portfolio managers, custodians, registrars, transfer agents, auditors and printers; authorizing the payment of operating expenses incurred on behalf of the ETF; arranging for the maintenance of accounting records for the ETF; preparing reports to unitholders and to the applicable securities regulatory authorities; calculating the amount and determining the frequency of distributions by the ETF; preparing financial statements, income tax returns and financial and accounting information as required by the ETF; ensuring that unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the ETF complies with all other regulatory requirements, including the continuous disclosure obligations of the ETF under applicable securities laws; administering purchases, redemptions and other transactions in units of the ETF; and dealing and communicating with unitholders of the ETF. The Manager provides office facilities and personnel to carry out these services, if not otherwise furnished by any other service provider to the ETF. The Manager also monitors the investment strategies of the ETF to ensure that the ETF complies with its investment objectives, investment strategies and investment restrictions and practices.

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.65%, plus applicable sales taxes, of the net asset value of the ETF's Class E units and 1.40%, plus applicable sales taxes, of the net asset value of the ETF's Advisor Class units, calculated and accrued daily and payable monthly in arrears.

The Manager, and not the ETF, pays to registered dealers a service fee equal to 0.75% per year of the net asset value of Advisor Class units held by clients of the registered dealer. No service fees are paid to registered dealers in respect of Class E units.

The Investment Manager is compensated for its services out of the management fees without any further cost to the ETF. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

Other expenses

Unless otherwise waived or absorbed by the Manager, the ETF pays all of its operating expenses, including but not limited to: audit fees; trustee and custodial expenses; valuation, accounting and record keeping costs; legal expenses; permitted prospectus preparation and filing expenses; costs associated with delivering documents to unitholders; listing and annual stock exchange fees; index licensing fees, if applicable; CDS Clearing and Depository Services Inc. fees; bank related fees and interest charges; extraordinary expenses; unitholder reports and servicing costs; registrar and transfer agent fees; costs of the Independent Review Committee; income taxes; sales taxes; brokerage expenses and commissions; and withholding taxes.

The Manager, at its discretion, may waive and/or absorb a portion of the fees and/or expenses otherwise payable by the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

11. BROKER COMMISSIONS, SOFT DOLLARS AND RELATED PARTY TRANSACTIONS

An affiliate of National Bank of Canada (“NBC”) and National Bank Financial Inc. (“NBF”) holds an indirect minority interest in the Manager. NBF acts or may act as a designated broker, an underwriter and/or a registered trader (market maker). NBC, NBF and its affiliates may, at present or in the future, engage in business with the ETF, the issuers of securities making up the investment portfolio of the ETF, or with the Manager or any funds sponsored by the Manager or its affiliates, including by making loans, executing brokerage transactions, entering into derivative transactions or providing advisory or agency services.

Brokerage commissions paid on securities transactions may include amounts paid to related parties of the Manager for brokerage services provided to the ETF.

Research and system usage related services received in return for commissions generated with specific dealers are generally referred to as soft dollars. The Investment Manager does not engage in soft dollar arrangements.

Total brokerage commissions paid to dealers in connection with investment portfolio transactions, soft dollar transactions incurred and amounts paid to related parties of the Manager for the years ended December 31, 2014 and 2013 were as follows:

Year Ended	Brokerage Commissions Paid	Soft Dollar Transactions	Amount Paid to Related Parties
December 31, 2014	\$70,240	\$nil	\$2,060
December 31, 2013	\$156,942	\$nil	\$2,212

In addition to the information contained in the table above, the management fees paid to the Manager described in note 10 are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions and are disclosed in the statements of comprehensive income.

The ETF may invest in other ETFs managed by the Manager or its affiliates, in accordance with the ETF’s investment objectives and strategies. Such investments, if any, are disclosed in the schedule of investments.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

12. INCOME TAX

The ETF has qualified as a mutual fund trust under the *Income Tax Act* (Canada) (the "Tax Act") and accordingly, is not taxed on the portion of taxable income that is paid or allocated to unitholders. As well, tax refunds (based on redemptions and realized and unrealized gains during the year) may be available that would make it possible to retain some net capital gains in the ETF without incurring any income taxes.

13. TAX LOSSES CARRIED FORWARD

Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years. Non-capital losses carried forwards may be applied against future years' taxable income. Non-capital losses that are realized in the current taxation year may be carried forward for 20 years. As at December 31, 2014, the ETF had net capital losses and/or non-capital losses, with the year of expiry of the non-capital losses as follows:

Net Capital Losses	Non-Capital Losses	Year of Expiry
\$672,461	–	–

14. OFFSETTING OF FINANCIAL INSTRUMENTS

In the normal course of business, the ETF may enter into various master netting arrangements or other similar agreements that do not meet the criteria for offsetting in the statements of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts. The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at December 31, 2014, December 31, 2013 and January 1, 2013. The "Net" column displays what the net impact would be on the ETF's statements of financial position if all amounts were set-off.

Financial Assets and Liabilities as at December 31, 2014	Amounts Offset (\$)			Amounts Not Offset (\$)		Net
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	3,170	–	3,170	(3,170)	–	–
Derivative liabilities	(93,712)	–	(93,712)	3,170	–	(90,542)

Financial Assets and Liabilities as at December 31, 2013	Amounts Offset (\$)			Amounts Not Offset (\$)		Net
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	50,362	–	50,362	–	–	50,362
Derivative liabilities	–	–	–	–	–	–

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

Financial Assets and Liabilities as at January 1, 2013	Amounts Offset (\$)			Amounts Not Offset (\$)		Net
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	21,649	–	21,649	(3,695)	–	17,954
Derivative liabilities	(3,695)	–	(3,695)	3,695	–	–

15. INTERESTS IN SUBSIDIARIES, ASSOCIATES AND UNCONSOLIDATED STRUCTURED ENTITIES

The ETF may invest in units of other ETFs as part of its investment strategies (“Investee ETF(s)”). The nature and purpose of these Investee ETFs generally, is to manage assets on behalf of third party investors in accordance with their investment objectives, and are financed through the issue of units to investors.

In determining whether the ETF has control or significant influence over an Investee ETF, the ETF assesses voting rights, the exposure to variable returns, and its ability to use the voting rights to affect the amount of the returns. In instances where the ETF has control over an Investee ETF, the ETF qualifies as an investment entity under IFRS 10 - *Consolidated Financial Statements*, and therefore accounts for investments it controls at fair value through profit and loss. The ETF’s primary purpose is defined by its investment objectives and uses the investment strategies available to it as defined in the ETF’s prospectus to meet those objectives. The ETF also measures and evaluates the performance of any Investee ETFs on a fair value basis.

Investee ETFs over which the ETF has control or significant influence are categorized as subsidiaries and associates, respectively. All other Investee ETFs are categorized as unconsolidated structured entities. Investee ETFs may be managed by the Manager, its affiliates, or by third-party managers.

Investments in Investee ETFs are susceptible to market price risk arising from uncertainty about future values of those Investee ETFs. The maximum exposure to loss from interests in Investee ETFs is equal to the total fair value of the investment in those respective Investee ETFs at any given point in time. The fair value of Investee ETFs, if any, are disclosed in investments in the statements of financial position and listed in the schedule of investments.

As at December 31, 2014, December 31, 2013 and January 1, 2013, the ETF had no exposure to subsidiaries, associates or unconsolidated structured entities.

16. TRANSITION TO IFRS

The effect of the ETF’s transition to IFRS is summarized as follows:

Exemptions and elections from full retrospective application:

IFRS 1 requires adopters to retrospectively apply all IFRS standards as of the reporting date with certain optional exemptions and certain mandatory exceptions. As allowed under IFRS 1 the ETF elected to designate all investments at fair value through profit and loss which were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18, *Investment Companies*. The ETF did not apply any other IFRS 1 exemptions or exceptions.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

Statements of cash flows

Under Canadian GAAP, the ETF was exempt from providing statements of cash flows. IAS 1 requires a complete set of financial statements, including statements of cash flows for the current and comparative periods, without exception.

Reconciliation of financial position and comprehensive income as previously reported under Canadian GAAP to IFRS as at transition date January 1, 2013 and December 31, 2013 and for the year ended December 31, 2013, respectively:

Statements of Financial Position	December 31, 2013	January 1, 2013
Net assets reported under Canadian GAAP	\$18,749,504	\$29,240,431
Revaluation of investments at FVTPL (b)	\$95,198	\$111,801
Net assets attributable to holders of redeemable units (a)	\$18,844,702	\$29,352,232

Statement of Comprehensive Income	December 31, 2013
Comprehensive income reported under Canadian GAAP	\$74,694
Revaluation of investments at FVTPL (b)	\$(16,603)
Increase (decrease) in net assets attributable to holders of redeemable units	\$58,091

(a) Classification of redeemable units issued by the ETF

Previously under Canadian GAAP, the units of the ETF were classified as equity instruments. In accordance with IAS 32 - Financial Instruments: Presentation, the units of the ETF are classified as financial liabilities as there is a requirement to distribute net income and capital gains earned by the ETF.

(b) Revaluation of investments at FVTPL

Previously under Canadian GAAP, the fair value of the ETF's investments was measured at bid prices for financial assets and ask price for financial liabilities. Under IFRS, the Manager has concluded that mid-market prices for such instruments are representative of fair value and to use the closing sale price for measurement of financial assets and financial liabilities.

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