Annual Report | December 31, 2014

Horizons Active Floating Rate Preferred Share ETF (HFP, HFP.A:TSX)

HORIZONS EXCHANGE TRADED FUNDS

ALPHA ✶ BENCHMARK ✶ BETAPRO

Innovation is our capital. Make it yours.

www.HorizonsETFs.com

HORIZONS
EXCHANGE TRADED FUNDS

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..... 14

INDEPENDENT AUDITORS' REPORT..... 15

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 26

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 Active Floating Rate Preferred Share ETF ("Horizons HFP" 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 HFP is to generate income consistent with prevailing short-term preferred share yields while stabilizing the market value of the ETF from the effects of interest rate fluctuations. Horizons HFP invests primarily in preferred shares of Canadian companies and may also invest in preferred shares of companies located in the United States, fixed-income securities of Canadian and U.S. issuers, including other income generating securities, and exchange traded funds that issue index participation units ("Listed Funds"). Horizons HFP will generally maintain a portfolio duration of less than 2 years. Horizons HFP may use derivatives, including interest rate swaps and futures contracts, to contribute to the ability of the ETF to seek to deliver a floating rate of income. Horizons HFP, to the best of its ability, seeks to hedge its non-Canadian dollar currency exposure to the Canadian dollar at all times.

To achieve Horizons HFP's investment objective, the ETF's sub-advisor, Fiera Capital Corporation ("Fiera" or the "Sub-Advisor"), uses fundamental research to select companies that, based on the Sub-Advisor's view on the company's industry and growth prospects, should be included in the ETF's investment portfolio. An extensive credit analysis for each security as well as an assessment of each company's risk profile is completed in order to confirm the selection and relative weight of each security held by the ETF. Horizons HFP primarily invests in a portfolio of perpetual, fixed floating rate, retractable and floating rate preferred securities of Canadian issuers whose debt, generally, at a minimum, has an investment grade rating at the time of purchase.

Horizons HFP may also invest in preferred shares of companies located in the United States, fixed-income securities of Canadian and U.S. issuers, including other income generating securities and Listed Funds that have attractive yields.

Management Discussion of Fund Performance (continued)

To hedge the portfolio's interest rate risk, Horizons HFP may enter into one or more interest rate swaps pursuant to which the ETF pays a counterparty a fixed return based on a portfolio of preferred securities in exchange for a floating rate of income or use long or short futures contracts. Horizons HFP maintains a portfolio duration that is generally not more than two years.

The Sub-Advisor may, from time to time, invest in non-investment grade securities which generally in the aggregate will not exceed 10% of the ETF's net assets.

In anticipation of, or in response to, adverse conditions or for defensive purposes, Horizons HFP may temporarily hold a portion of its assets in cash, money market instruments, bonds or other debt securities generally not to exceed 20% of the ETF's net assets.

In accordance with applicable securities rules, the Sub-Advisor may purchase, for Horizons HFP, securities of issuers that are related or connected to the Sub-Advisor. The Sub-Advisor may also rely on exemptions from the securities regulatory authorities allowing it to purchase debt securities of a related issuer of the Sub-Advisor which are not exchange traded if certain conditions are met. In particular, the investment must be consistent with, or necessary to meet, the investment objective of Horizons HFP. The investment must also be approved by the ETF's Independent Review Committee ("IRC") and is subject to certain other provisions of National Instrument 81-107 ("NI 81-107").

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

- Stock market risk
- Specific issuer risk
- Legal and regulatory risk
- Exchange traded funds risk
- Reliance on historical data 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
- Tax risk
- Securities lending, repurchase and reverse repurchase transaction risk
- Loss of limited liability
- Reliance on key personnel
- Distributions risk
- Conflicts of interest
- No ownership interest
- Market for units
- Redemption price
- No guaranteed return
- Derivatives risk
- Interest rate risk
- Foreign currency risk
- Credit risk
- Income trust investment risk
- Foreign stock exchange risk
- Call risk

Management Discussion of Fund Performance (continued)

Results of Operations

For the year ended December 31, 2014, the Class E units and Advisor Class units of the ETF returned 4.56% and 3.93%, respectively, when including distributions paid to unitholders. This compares to a return of 6.82% for the S&P/TSX Preferred Share Index™ (the "Index") on a total return basis and 1.28% for the 3-month Canadian Dealer Offered Rate ("CDOR"), for the same period.

General Market Review

The first half of 2014 saw a slowdown of quantitative purchases by the U.S. Federal Reserve (the "Fed"), which would help revive the perception of financing risk for some emerging countries. A sharp decline of the U.S. economy, most attributable to extreme inclement weather, caused interest rates to significantly decline during the winter months. After stabilizing in March, international funds flows continued to push rates down in the second quarter. Credit spreads remained relatively stable and so was the "dovish" tone of central bankers as geopolitical tensions escalated in Eastern Europe.

Interest rates continued their downward trend during the summer, a reflection of investors' anxiety, which perturbed the high yield markets in early July. Nevertheless, the preferred stock market stayed afloat as redemptions of shares by the banks kept liquidity conditions fairly tight. This situation was magnified by retail investors' appetite for the yields offered on preferred shares. Even with mounting uncertainty regarding the post-quantitative easing era in the U.S. and concerns of economic slowdown in Europe and China, investors were eager to allocate capital in the Canadian preferred market in later months of the year.

Portfolio Review

Fiera continued to be fairly active in managing the ETF to benefit from dislocated liquidity conditions. The duration for the portfolio was kept short at about 1 year, but the single most important factor was the ETF's bias toward the quality of issuers and selection of issues based on their specific risk factors.

Outlook

The United States is back as the global economic locomotive. As a result of accelerating growth, the Fed will most likely begin the long rebalancing process of its monetary policy in 2015. However, Fiera believes that the initial steps will be very gradual so that the American middle-class does not bear the burden of any interest rate tightening. In addition, with very low inflation expectations, there is no hurry for a radical rate hike. The first rate hike in Canada is not expected until later in 2015. Meanwhile, the Canadian dollar should continue losing ground versus the U.S. dollar, a situation favorable for many Canadian exporting and manufacturing companies. With interest rates likely to stay below their long-term averages, and positive prospects for North American businesses, we believe the appetite for credit products will stay firm over the coming months, and especially so for preferred shares which still offer a superior risk-adjusted net yield when compared to other asset classes.

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 $1,200,254. This compares to $67,066 for the period from its inception on September 18, 2013 to December 31, 2013. The ETF paid management, operating and transaction expenses of $381,196 (2013 – $64,971) of which $125,928 (2013 – $47,150) 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.

Management Discussion of Fund Performance (continued)

The ETF distributed $947,266 to Class E unitholders and $19,753 to Advisor Class unitholders during the year (2013 – Class E: $46,792, Advisor Class: $3,146).

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.

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 September 18, 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 in this report is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable units as reported under IFRS.

Management Discussion of Fund Performance (continued)

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, and did not affect the ongoing engagement of the ETF's Sub-Advisor. 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.

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.

Fiera, the sub-advisor of the ETF, is an affiliate of NBF and NBF holds an indirect minority interest in the Manager. As a result, Fiera may be considered to be an associate of the Manager.

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 year ended December 31, 2014 and the period ended December 31, 2013, the ETF did not make any payments 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 October 1, 2013. 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

Year		**2014**	**2013**
Net assets, beginning of year (1)	$	10.00	10.00
Increase from operations:			
Total revenue		0.41	0.11
Total expenses		(0.09)	(0.03)
Realized losses for the year		(0.03)	(0.02)
Unrealized gains for the year		0.06	0.02
Total increase from operations (2)		0.35	0.08
Distributions:			
From dividends		(0.27)	(0.02)
From net realized capital gains		(0.02)	(0.01)
From return of capital		(0.05)	(0.05)
Total annual distributions (3)		(0.34)	(0.08)
Net assets, end of year (4)	$	10.11	10.00

Financial Highlights (continued)

Advisor Class

Year		2014	2013
Net assets, beginning of year (1)	$	10.00	10.00
Increase from operations:			
Total revenue		0.41	0.11
Total expenses		(0.15)	(0.04)
Realized losses for the year		(0.03)	(0.02)
Unrealized gains (losses) for the year		(0.07)	0.01
Total increase from operations (2)		0.16	0.06
Distributions:			
From dividends		(0.23)	(0.01)
From net realized capital gains		(0.05)	(0.01)
From return of capital		–	(0.04)
Total annual distributions (3)		(0.28)	(0.06)
Net assets, end of year (4)	$	10.11	10.00

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 October 1, 2013. Information from 2014 and 2013 is in accordance with IFRS.
2. 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.
3. 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.
4. 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
Total net asset value (000's)	$	49,060	8,901
Number of units outstanding (000's)		4,850	890
Management expense ratio (2)		0.62%	0.62%
Management expense ratio before waivers or absorptions (3)		1.07%	3.63%
Trading expense ratio (4)		0.21%	0.40%
Portfolio turnover rate (5)		39.45%	7.56%
Net asset value per unit, end of year	$	10.11	10.00
Closing market price	$	10.08	10.00

Advisor Class

Year (1)		2014	2013
Total net asset value (000's)	$	759	500
Number of units outstanding (000's)		75	50
Management expense ratio (2)		1.19%	1.19%
Management expense ratio before waivers or absorptions (3)		1.64%	4.19%
Trading expense ratio (4)		0.21%	0.40%
Portfolio turnover rate (5)		39.45%	7.56%
Net asset value per unit, end of year	$	10.11	10.00
Closing market price	$	10.12	10.03

1. This information is provided as at December 31 of the years shown. Information from 2014 and 2013 is in accordance with IFRS.
2. 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.
3. 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.
4. 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.
5. 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 0.55%, plus applicable sales taxes, of the net asset value of the ETF's Class E units and 1.05%, 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 0.50% 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 and Sub-Advisor are compensated for their 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 series received by the ETF from the Manager in consideration of the management fees paid during the year.

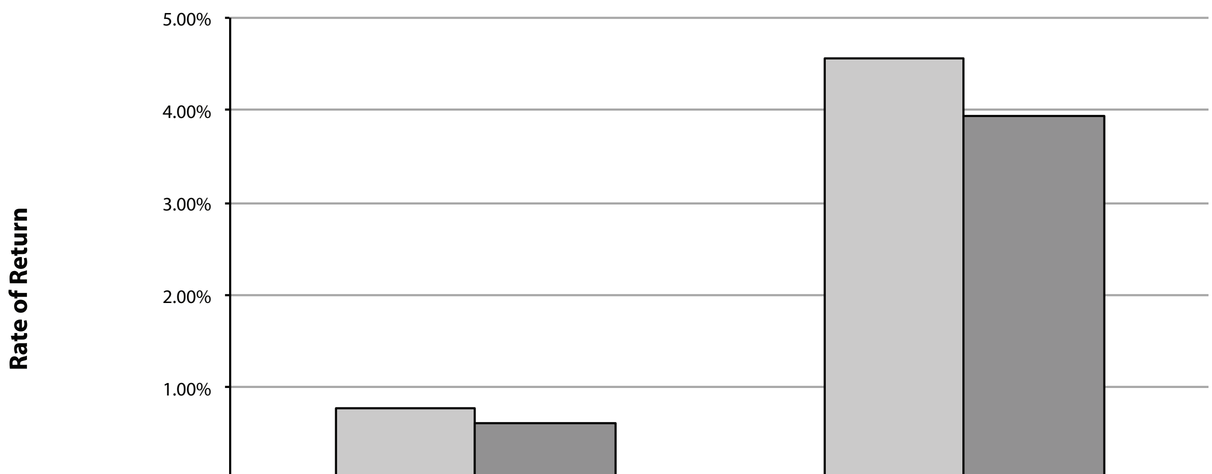
Marketing	Portfolio management fees, general administrative costs and profit	Waived/absorbed expenses of the ETF
8%	21%	71%

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.



	2013	2014
Class E	0.77%	4.56%
Advisor Class	0.63%	3.93%

Class E units and Advisor Class units of the ETF have an initial net asset value of $10.00 as at October 1, 2013.

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 %	S&P/TSX Preferred Share Index™ Return %
1 Year	4.56%	3.93%	6.82%
Since Inception	4.27%	3.65%	5.19%

Class E units and Advisor Class units of the ETF have an initial net asset value of $10.00 as at October 1, 2013.

Summary of Investment Portfolio

As at December 31, 2014

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
Canadian Preferred Securities	$ 42,792,511	85.89%
U.S. Preferred Securities	2,468,654	4.96%
Currency Forward Hedge*	7,609	0.02%
Interest Rate Swaps*	(435,812)	-0.87%
Cash and Cash Equivalents	5,407,503	10.85%
Other Assets less Liabilities	(421,815)	-0.85%
	$ 49,818,650	**100.00%**

Sector Mix	Net Asset Value	% of ETF's Net Asset Value
Financials	$ 26,481,375	53.16%
Energy	10,035,612	20.14%
Telecommunication Services	3,961,607	7.95%
Utilities	3,836,305	7.70%
Consumer Discretionary	537,578	1.08%
Consumer Staples	408,688	0.82%
Currency Forward Hedge*	7,609	0.02%
Interest Rate Swaps*	(435,812)	-0.87%
Cash and Cash Equivalents	5,407,503	10.85%
Other Assets less Liabilities	(421,815)	-0.85%
	$ 49,818,650	**100.00%**

*Positions in forward contracts and swaps are disclosed as the gain/(loss) that would be realized if the contracts and swaps 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
Bank of Nova Scotia (The)	8.32%
BCE Inc.	7.95%
Enbridge Inc.	7.90%
Royal Bank of Canada	6.21%
Toronto-Dominion Bank (The)	5.91%
Manulife Financial Corp.	5.57%
Bank of Montreal	4.33%
Brookfield Office Properties Inc.	4.10%
Fortis Inc.	3.97%
TransCanada Corp.	3.86%
Brookfield Asset Management Inc.	3.77%
Husky Energy Inc.	2.86%
AltaGas Ltd.	2.83%
Brookfield Renewable Power Preferred Equity Inc.	2.72%
Pembina Pipeline Corp.	2.70%
HSBC Bank PLC	1.64%
Fairfax Financial Holdings Ltd.	1.22%
Sun Life Financial Inc.	1.13%
Morgan Stanley	1.11%
Canadian Imperial Bank of Commerce	1.08%
Intact Financial Corp.	1.00%
Wells Fargo Financial Corp.	0.96%
RioCan REIT	0.92%
Goldman Sachs Group Inc. (The)	0.92%
National Bank of Canada	0.82%

* Note all of the Top 25 Holdings are the aggregate preferred securities of that issuer in the ETF's portfolio.

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 Active Floating Rate Preferred Share 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 safe-guarded 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	Howard Atkinson
Director	Director
AlphaPro Management Inc.	AlphaPro Management Inc.

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Horizons Active Floating Rate Preferred Share 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 September 18, 2013, the statements of comprehensive income, changes in financial position and cash flows for the year ended December 31, 2014 and for the period from inception on September 18, 2013 to 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 September 18, 2013, and its financial performance and its cash flows for the year ended December 31, 2014 and for the period from inception on September 18, 2013 to December 31, 2013 in accordance with International Financial Reporting Standards.

KPMG LLP

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

Statements of Financial Position

As at December 31, 2014 and 2013 and September 18, 2013

	December 31, 2014	December 31, 2013	September 18, 2013
Assets			
Cash and cash equivalents	$ 5,407,503	$ 688,636	$ 150,000
Investments	45,261,165	8,171,925	–
Amounts receivable relating to accrued income	44,691	11,962	–
Amounts receivable relating to portfolio assets sold	54,722	49,947	–
Accounts receivable relating to securities issued	–	749,985	–
Derivative assets (note 3)	9,078	4,705	–
Total assets	**50,777,159**	**9,677,160**	**150,000**
Liabilities			
Accrued expenses	30,058	5,243	–
Amounts payable for portfolio assets purchased	354,515	234,987	–
Distribution payable	136,655	22,002	–
Derivative liabilities (note 3)	437,281	14,328	–
Total liabilities	**958,509**	**276,560**	**–**
Total net assets (note 2)	**$ 49,818,650**	**$ 9,400,600**	**$ 150,000**
Total net assets, Class E (note 2)	$ 49,059,746	$ 8,900,734	$ 150,000
Number of redeemable units outstanding, Class E (note 9)	4,850,218	890,000	15,000
Total net assets per unit, Class E (note 2)	$ 10.11	$ 10.00	$ 10.00
Total net assets, Advisor Class (note 2)	$ 758,904	$ 499,866	$ –
Number of redeemable units outstanding, Advisor Class (note 9)	75,052	50,000	–
Total net assets per unit, Advisor Class (note 2)	$ 10.11	$ 10.00	$ –

(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 Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

	2014	2013
Income		
Dividend income	$ 1,106,192	$ 66,407
Interest income for distribution purposes	34,044	1,676
Securities lending income	1,031	–
Net realized gain on sale of investments and derivatives	102,123	4,668
Net realized loss on foreign exchange	(191,106)	(14,358)
Net change in unrealized appreciation of investments and derivatives	138,996	10,327
Net change in unrealized appreciation (depreciation) of foreign exchange	8,974	(1,654)
	1,200,254	**67,066**
Expenses		
Management fees (note 10)	177,354	10,301
Audit fees	15,329	–
Independent Review Committee fees	384	21
Custodial fees	13,090	61
Legal fees	19,316	–
Securityholder reporting costs	40,522	35,835
Administration fees	38,321	11,422
Listing fees	223	–
Transaction costs	58,029	6,310
Withholding taxes	18,279	1,003
Other expenses	349	18
	381,196	**64,971**
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(125,928)	(47,150)
	255,268	**17,821**
Increase in net assets for the year (note 2)	**$ 944,986**	**$ 49,245**
Increase in net assets, Class E (note 2)	$ 933,511	$ 46,233
Increase in net assets per unit, Class E (note 2)	0.35	0.08
Increase in net assets, Advisor Class (note 2)	$ 11,475	$ 3,012
Increase in net assets per unit, Advisor Class (note 2)	0.16	0.06

(See accompanying notes to financial statements)

Statements of Changes in Financial Position

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

		2014		2013
Total net assets at the beginning of the year (note 2)	$	9,400,600	$	150,000
Increase in net assets (note 2)		944,986		49,245
Redeemable unit transactions				
Proceeds from the issuance of securities of the investment fund		46,846,118		9,251,293
Aggregate amounts paid on redemption of securities of the investment fund		(6,408,880)		–
Securities issued on reinvestment of distributions		2,845		–
Distributions:				
From net investment income		(762,026)		(13,156)
From net realized capital gains		(53,897)		(4,989)
Return of capital		(151,096)		(31,793)
Total net assets at the end of the year (note 2)	**$**	**49,818,650**	**$**	**9,400,600**

		2014		2013
Total net assets at the beginning of the year, Class E (note 2)	$	8,900,734	$	150,000
Increase in net assets, Class E (note 2)		933,511		46,233
Redeemable unit transactions				
Proceeds from the issuance of securities of the investment fund		44,083,200		8,751,293
Aggregate amounts paid on redemption of securities of the investment fund		(3,912,720)		–
Securities issued on reinvestment of distributions		2,287		–
Distributions:				
From net investment income		(745,693)		(12,557)
From net realized capital gains		(50,477)		(4,483)
Return of capital		(151,096)		(29,752)
Total net assets at the end of the year, Class E (note 2)	**$**	**49,059,746**	**$**	**8,900,734**

		2014		2013
Total net assets at the beginning of the year, Advisor Class (note 2)	$	499,866	$	–
Increase in net assets, Advisor Class (note 2)		11,475		3,012
Redeemable unit transactions				
Proceeds from the issuance of securities of the investment fund		2,762,918		500,000
Aggregate amounts paid on redemption of securities of the investment fund		(2,496,160)		–
Securities issued on reinvestment of distributions		558		–
Distributions:				
From net investment income		(16,333)		(599)
From net realized capital gains		(3,420)		(506)
Return of capital		–		(2,041)
Total net assets at the end of the year, Advisor Class (note 2)	**$**	**758,904**	**$**	**499,866**

(See accompanying notes to financial statements)

Statements of Cash Flows

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

	2014	2013
Cash flows from operating activities:		
Increase in net assets for the year (note 2)	$ 944,986	$ 49,245
Adjustments for:		
Net realized gain on sale of investments and derivatives	(102,123)	(4,668)
Net change in unrealized appreciation of investments and derivatives	(138,996)	(10,327)
Net change in unrealized depreciation (appreciation) of foreign exchange	(9,232)	1,623
Purchase of investments	(45,928,212)	(8,384,955)
Proceeds from the sale of investments	9,622,644	421,077
Amounts receivable relating to accrued income	(32,729)	(11,962)
Accrued expenses	24,815	5,243
Net cash used in operating activities	**(35,618,847)**	**(7,934,724)**
Cash flows from financing activities:		
Amount received from the issuance of units	47,596,103	8,501,308
Amount paid on redemptions of units	(6,408,880)	–
Distributions paid to unitholders	(849,521)	(27,936)
Net cash from financing activities	**40,337,702**	**8,473,372**
Net increase in cash and cash equivalents during the year	4,718,855	538,648
Effect of exchange rate fluctuations on cash and cash equivalents	12	(12)
Cash and cash equivalents at beginning of year	688,636	150,000
Cash and cash equivalents at end of year	**$ 5,407,503**	**$ 688,636**

Interest received	$ 31,346	$ 1,394
Dividends received, net of withholding taxes	$ 1,057,882	$ 53,725

(See accompanying notes to financial statements)

Schedule of Investments
As at December 31, 2014

Security	Shares/ Par Value/Contracts		Average Cost		Fair Value
CANADIAN PREFERRED SECURITIES (85.89%)					
Financials (48.20%)					
Artis REIT, Preferred, Series 'A', Variable Rate, Perpetual	4,084	$	100,294	$	100,466
Artis REIT, Preferred, Series 'E', Variable Rate, Perpetual	5,956		121,688		116,142
Bank of Montreal, 5.25%, Preferred, Class 'B', Series '14', Perpetual	25,810		669,795		672,867
Bank of Montreal, 5.80%, Preferred, Class 'B', Series '15', Perpetual	3,768		98,559		99,814
Bank of Montreal, 5.20%, Preferred, Class 'B', Series '16', Perpetual	1,154		28,842		29,485
Bank of Montreal, Preferred, Class 'B', Series '17', Floating Rate, Callable	13,192		328,702		340,617
Bank of Montreal, Preferred, Class 'B', Series '23', Variable Rate, Callable	21,369		548,870		544,482
Bank of Montreal, Preferred, Class 'B', Series '25', Variable Rate, Callable	2,454		60,542		61,301
Bank of Montreal, 4.00%, Preferred, Class 'B', Series '27', Callable	5,804		145,242		148,350
Bank of Montreal, Preferred, Class 'B', Series '29', Non-Cumulative, Variable Rate, Perpetual	7,257		182,080		183,239
Bank of Montreal, Preferred, Class 'B', Series '31', Non-Cumulative, Variable Rate, Perpetual	3,060		76,304		77,143
Bank of Nova Scotia (The), 4.50%, Preferred, Series '14', Non-Cumulative, Callable	10,212		261,916		266,023
Bank of Nova Scotia (The), 5.25%, Preferred, Series '16', Non-Cumulative, Callable	36,332		948,230		951,898
Bank of Nova Scotia (The), 5.60%, Preferred, Series '17', Non-Cumulative, Callable	9,222		242,254		242,723
Bank of Nova Scotia (The), Preferred, Series '19', Non-Cumulative, Variable Rate, Perpetual, Callable	322		8,140		8,298
Bank of Nova Scotia (The), Preferred, Series '20', Non-Cumulative, Variable Rate, Convertible, Perpetual	5,116		129,767		131,942
Bank of Nova Scotia (The), Preferred, Series '21', Non-Cumulative, Variable Rate, Perpetual, Callable	4,822		119,797		123,491
Bank of Nova Scotia (The), Preferred, Series '22', Non-Cumulative, Variable Rate, Convertible, Callable	23,082		588,657		595,286
Bank of Nova Scotia (The), Preferred, Series '23', Non-Cumulative, Floating Rate, Perpetual	20,996		528,628		537,918
Bank of Nova Scotia (The), Preferred, Series '30', Non-Cumulative, Variable Rate, Convertible, Callable	20,172		482,588		487,557
Bank of Nova Scotia (The), Preferred, Series '32', Non-Cumulative, Variable Rate, Convertible, Callable	32,382		776,415		799,835
Brookfield Asset Management Inc., Preferred, Class 'A', Series '9', Variable Rate, Callable	6,093		130,678		132,584
Brookfield Asset Management Inc., Preferred, Class 'A', Series '26', Variable Rate, Convertible, Perpetual	970		23,513		24,405
Brookfield Asset Management Inc., Preferred, Class 'A', Series '28', Variable Rate, Convertible, Perpetual	2,970		59,759		63,380
Brookfield Asset Management Inc., Preferred, Class 'A', Series '30', Variable Rate, Convertible, Callable	2,056		52,534		53,723
Brookfield Asset Management Inc., Preferred, Class 'A', Series '32', Variable Rate, Convertible, Callable	12,172		307,592		313,672
Brookfield Asset Management Inc., Preferred, Class 'A', Series '34', Variable Rate, Perpetual	1,584		38,817		40,218
Brookfield Asset Management Inc., 4.40%, Preferred, Class 'A', Series '38', Perpetual, Callable	5,116		127,231		130,458

Schedule of Investments (continued)

As at December 31, 2014

Security	Shares/ Par Value/Contracts	Average Cost	Fair Value
Brookfield Asset Management Inc., Preferred, Class 'A', Series '40', Variable Rate, Perpetual	27,968	703,142	714,303
Brookfield Asset Management Inc., Preferred, Class 'A', Series '42', Variable Rate, Perpetual	15,828	395,749	406,463
Brookfield Office Properties Inc., 5.25%, Preferred, Class 'AAA', Series 'G', Convertible, Perpetual	320	8,957	9,441
Brookfield Office Properties Inc., 5.75%, Preferred, Class 'AAA', Series 'H', Convertible, Callable	16,340	412,244	413,075
Brookfield Office Properties Inc., 5.00%, Preferred, Class 'AAA', Series 'J', Convertible, Callable	725	18,319	18,197
Brookfield Office Properties Inc., 5.20%, Preferred, Class 'AAA', Series 'K', Convertible, Perpetual	7,349	187,602	191,000
Brookfield Office Properties Inc., 6.15%, Preferred, Class 'AAA', Series 'N', Callable	11,182	286,246	286,147
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'P', Variable Rate, Convertible, Perpetual	2,606	63,199	66,974
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'R', Variable Rate, Callable	10,264	260,825	261,424
Brookfield Office Properties Inc., 4.60%, Preferred, Class 'AAA', Series 'T', Perpetual	4,121	102,911	106,487
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'W', Variable Rate, Perpetual	5,442	75,785	77,685
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'AA', Variable Rate, Perpetual	24,468	611,949	614,147
Brookfield Property Split Corp., 5.25%, Preferred, Class 'A', Series '1', Perpetual	6	165	175
Brookfield Property Split Corp., 5.00%, Preferred, Class 'A', Series '3', Perpetual	9	224	226
Brookfield Property Split Corp., 5.20%, Preferred, Class 'A', Series '4'	85	2,138	2,128
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '39', Variable Rate, Perpetual	6,228	156,008	158,440
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '41', Variable Rate, Perpetual	15,140	375,792	377,440
Dream Unlimited Corp., 7.00%, Preferred, Series '1', Callable	12,452	91,123	90,152
Dundee Corp., 5.00%, Preferred, Series '4', Perpetual	9,668	173,469	171,220
Element Financial Corp., 6.50%, Preferred, Series 'C', Perpetual, Callable	2,261	57,742	57,452
Element Financial Corp., Preferred, Series 'E', Cumulative, Variable Rate, Perpetual, Callable	2,591	66,047	65,811
Fairfax Financial Holdings Ltd., Preferred, Series 'C', Variable Rate, Convertible	666	16,474	15,904
Fairfax Financial Holdings Ltd., Preferred, Series 'D', Cumulative, Floating Rate, Perpetual	20,736	512,907	495,176
Fairfax Financial Holdings Ltd., Preferred, Series 'I', Variable Rate, Convertible, Callable	4,202	97,167	94,545
HSBC Bank Canada, 5.10%, Preferred, Class '1', Series 'C', Callable	19,748	497,814	498,045
HSBC Bank Canada, 5.00%, Preferred, Class '1', Series 'D', Callable	12,564	319,178	318,372
Industrial Alliance Insurance and Financial Services Inc., Preferred, Class 'A', Series 'G', Variable Rate, Perpetual	2,336	60,605	61,670

Schedule of Investments (continued)

As at December 31, 2014

Security	Shares/ Par Value/Contracts	Average Cost	Fair Value
Intact Financial Corp., Preferred, Class 'A', Series '3', Variable Rate, Convertible, Callable	19,380	495,751	499,810
Laurentian Bank of Canada, Preferred, Class 'A', Series '11', Variable Rate, Convertible, Callable	8,713	220,663	221,049
Laurentian Bank of Canada, Preferred, Class 'A', Series '13', Variable Rate, Callable	4,284	108,188	108,856
Manulife Financial Corp., Preferred, Class '1', Series '5', Variable Rate, Convertible, Perpetual	2,558	65,431	66,252
Manulife Financial Corp., Preferred, Class '1', Series '7', Variable Rate, Perpetual	2,002	51,676	52,332
Manulife Financial Corp., Preferred, Class '1', Series '9', Variable Rate, Convertible, Callable	2,966	75,999	77,146
Manulife Financial Corp., Preferred, Class '1', Series '11', Variable Rate, Perpetual	8,092	204,254	208,450
Manulife Financial Corp., Preferred, Class '1', Series '13', Variable Rate, Perpetual, Callable	3,780	93,453	95,936
Manulife Financial Corp., Preferred, Class '1', Series '15', Variable Rate, Perpetual	7,492	183,092	191,046
Manulife Financial Corp., Preferred, Class '1', Series '17', Non-Cumulative, Variable Rate, Perpetual	7,656	191,451	194,769
Manulife Financial Corp., Preferred, Class '1', Series '19', Variable Rate, Perpetual	41,360	1,034,167	1,034,827
Manulife Financial Corp., 4.10%, Preferred, Class 'A', Series '1', Convertible, Perpetual	33,700	853,268	853,621
National Bank of Canada, 6.00%, Preferred, Series '20', Callable	1,490	38,642	39,545
National Bank of Canada, Preferred, Series '28', Variable Rate, Perpetual	1,902	47,901	49,433
National Bank of Canada, Preferred, Series '30', Variable Rate, Callable	500	12,663	12,880
National Bank of Canada, Preferred, Series '32', Variable Rate, Callable	12,152	303,019	307,203
Power Financial Corp., Preferred, Series 'T', Variable Rate, Perpetual, Callable	3,286	83,646	87,276
RioCan REIT, Preferred, Series 'A', Variable Rate, Convertible, Callable	5,086	128,818	128,778
RioCan REIT, Preferred, Series 'C', Variable Rate, Convertible, Callable	12,816	327,097	331,806
Royal Bank of Canada, 4.45%, Preferred, Series 'AA', Callable	2,040	51,848	52,081
Royal Bank of Canada, 4.70%, Preferred, Series 'AB', Callable	13,276	339,065	338,936
Royal Bank of Canada, 4.50%, Preferred, Series 'AD', Callable	7,070	180,937	181,487
Royal Bank of Canada, 4.50%, Preferred, Series 'AE', Callable	30,636	786,990	788,571
Royal Bank of Canada, 2.50%, Preferred, Series 'AG', Perpetual	15,316	394,928	393,928
Royal Bank of Canada, 5.00%, Preferred, Series 'AJ', Callable	9,014	225,935	232,020
Royal Bank of Canada, Preferred, Series 'AK', Variable Rate, Callable	4,094	102,360	105,830
Royal Bank of Canada, Preferred, Series 'AL', Variable Rate, Convertible, Perpetual	1,804	46,220	47,896
Royal Bank of Canada, Preferred, Series 'BB', Variable Rate, Perpetual	37,256	932,337	954,126
Sun Life Financial Inc., Preferred, Class 'A', Series '10R', Variable Rate, Callable	21,820	542,691	556,628
Sun Life Financial Inc., Preferred, Class 'A', Series '12R', Variable Rate, Callable	308	7,874	8,067
Toronto-Dominion Bank (The), Preferred, Series '1', Variable Rate, Convertible, Perpetual	39,478	987,666	1,007,084
Toronto-Dominion Bank (The), Preferred, Series '3', Variable Rate, Callable	20,424	510,052	520,404
Toronto-Dominion Bank (The), Preferred, Series '5', Variable Rate, Perpetual	24,304	606,613	607,114

Schedule of Investments (continued)

As at December 31, 2014

Security	Shares/ Par Value/Contracts	Average Cost	Fair Value
Toronto-Dominion Bank (The), 5.60%, Preferred, Class 'A', Series 'R', Perpetual	23,706	623,362	626,075
Toronto-Dominion Bank (The), Preferred, Class 'A', Series 'S', Variable Rate, Convertible, Callable	2,518	63,308	64,738
Toronto-Dominion Bank (The), Preferred, Class 'A', Series 'Y', Variable Rate, Convertible, Callable	1,738	43,857	44,823
Toronto-Dominion Bank (The), Preferred, Class 'A', Series 'Z', Variable Rate, Perpetual, Callable	2,828	70,142	72,482
		23,776,579	24,012,721
Energy (20.14%)			
AltaGas Ltd., Preferred, Series 'A', Variable Rate, Convertible, Callable	12,844	322,170	320,972
AltaGas Ltd., 4.40%, Preferred, Series 'C', Convertible, Perpetual	8,046	221,282	234,734
AltaGas Ltd., Preferred, Series 'G', Cumulative, Variable Rate, Perpetual	33,188	833,249	852,932
Enbridge Inc., Preferred, Series '1', Variable Rate, Perpetual, Callable	4,972	128,807	137,613
Enbridge Inc., Preferred, Series '3', Variable Rate, Perpetual	57,274	1,346,927	1,298,401
Enbridge Inc., Preferred, Series '5', Variable Rate, Perpetual, Callable	14,918	400,429	407,011
Enbridge Inc., Preferred, Series '9', Variable Rate, Perpetual	1,738	42,970	43,085
Enbridge Inc., Preferred, Series '11', Variable Rate, Perpetual	15,826	394,177	390,110
Enbridge Inc., Preferred, Series '13', Cumulative, Variable Rate, Perpetual	2,040	50,396	50,164
Enbridge Inc., Preferred, Series 'F', Variable Rate, Perpetual	7,878	189,825	187,969
Enbridge Inc., 4.00%, Preferred, Series 'H', Perpetual	21,448	492,991	457,486
Enbridge Inc., Preferred, Series 'L', Variable Rate, Callable	2,268	59,992	61,931
Enbridge Inc., Preferred, Series 'P', Variable Rate, Perpetual	29,752	714,105	703,040
Enbridge Inc., Preferred, Series 'R', Variable Rate, Perpetual	8,426	202,055	198,264
Husky Energy Inc., Preferred, Series '1', Variable Rate, Callable	12,046	254,931	261,398
Husky Energy Inc., Preferred, Series '3', Variable Rate, Perpetual	46,143	1,152,872	1,162,803
Pembina Pipeline Corp., Preferred, Class 'A', Series '1', Variable Rate, Perpetual	7,035	168,005	171,654
Pembina Pipeline Corp., Preferred, Class 'A', Series '3', Variable Rate, Perpetual, Callable	3,200	79,887	79,904
Pembina Pipeline Corp., Preferred, Class 'A', Series '5', Variable Rate, Perpetual	5,350	136,284	137,495
Pembina Pipeline Corp., Preferred, Class 'A', Series '7', Variable Rate, Perpetual	38,152	953,402	954,563
TransCanada Corp., 4.60%, Preferred, Series '1', Convertible, Callable	1,074	24,900	22,769
TransCanada Corp., Preferred, Series '2', Cumulative, Variable Rate, Callable	33,416	774,736	755,536
TransCanada Corp., Preferred, Series '7', Variable Rate, Perpetual, Callable	14,890	372,647	376,419
TransCanada Corp., Preferred, Series '9', Variable Rate, Perpetual	30,254	755,973	769,359
		10,073,012	10,035,612
Telecommunication Services (7.95%)			
BCE Inc., Preferred, Series 'R', Variable Rate, Callable	11,932	263,353	252,600
BCE Inc., Preferred, Series 'S', Variable Rate, Callable	13,014	282,108	270,171
BCE Inc., Preferred, Series 'T', Variable Rate, Callable	16,016	332,586	331,051
BCE Inc., Preferred, Series 'AA', Variable Rate, Callable	11,232	236,874	230,705
BCE Inc., Preferred, Series 'AB', Floating Rate, Callable	8,088	176,416	171,223
BCE Inc., Preferred, Series 'AC', Variable Rate, Callable	10,702	222,193	219,391

Schedule of Investments (continued)

As at December 31, 2014

Security	Shares/ Par Value/Contracts	Average Cost	Fair Value
BCE Inc., Preferred, Series 'AF', Variable Rate, Callable	23,650	509,309	482,933
BCE Inc., Preferred, Series 'AG', Variable Rate, Callable	22,256	472,919	482,955
BCE Inc., Preferred, Series 'AH', Variable Rate, Callable	3,266	67,751	67,933
BCE Inc., Preferred, Series 'AI', Variable Rate, Callable	9,056	192,974	191,082
BCE Inc., Preferred, Series 'AK', Variable Rate, Convertible, Callable	10,484	222,181	222,890
BCE Inc., Preferred, Series 'AM', Variable Rate, Perpetual	7,974	171,625	178,777
BCE Inc., Preferred, Series 'AO', Variable Rate, Perpetual	7,096	177,645	185,844
BCE Inc., Preferred, Series 'AQ', Variable Rate, Perpetual	26,392	644,834	674,052
		3,972,768	3,961,607
Utilities (7.70%)			
Algonquin Power & Utilities Corp., Preferred, Series 'A', Variable Rate, Convertible, Callable	7,521	168,580	183,512
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '1', Variable Rate, Callable	20,773	502,944	517,871
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '3', Variable Rate, Callable	33,170	776,981	836,215
Canadian Utilities Ltd., Preferred, Series 'Y', Variable Rate, Callable	922	23,213	24,101
Emera Inc., Preferred, Series 'A', Variable Rate, Perpetual, Callable	3,980	82,470	84,217
Fortis Inc., 4.90%, Preferred, Series 'E'	23,486	610,583	604,764
Fortis Inc., 4.25%, Preferred, Series 'H', Perpetual, Callable	1,732	31,245	33,566
Fortis Inc., Preferred, Series 'G', Variable Rate, Callable	23,668	573,856	600,931
Fortis Inc., Preferred, Series 'M', Variable Rate, Callable	28,808	720,517	737,773
TransAlta Corp., Preferred, Series 'C', Variable Rate, Convertible, Callable	5,894	120,551	112,575
Veresen Inc., Preferred, Series 'A', Variable Rate, Perpetual, Callable	3,928	95,211	98,554
Veresen Inc., Preferred, Series 'C', Variable Rate, Perpetual, Callable	88	2,203	2,226
		3,708,354	3,836,305
Consumer Discretionary (1.08%)			
Aimia Inc., Preferred, Series '1', Variable Rate, Convertible, Callable	8,816	222,669	217,668
Aimia Inc., Preferred, Series '3', Variable Rate, Perpetual, Callable	3,130	79,459	81,818
Shaw Communications Inc., Preferred, Series 'A', Variable Rate, Perpetual	11,252	249,889	238,092
		552,017	537,578
Consumer Staples (0.82%)			
Loblaw Cos. Ltd., 5.95%, Preferred, Series 'A'	15,810	408,003	408,688
TOTAL CANADIAN PREFERRED SECURITIES		**42,490,733**	**42,792,511**
U.S. PREFERRED SECURITIES (4.96%)			
Financials (4.96%)			
Citigroup Inc., 6.88%, Preferred, Series 'K', Non-Cumulative, Perpetual	9,660	265,053	297,845
Countrywide Capital IV, 6.75%, Preferred, Callable	1,490	40,662	43,815
Fifth Third Bancorp, Preferred, Series 'I', Variable Rate, Perpetual	7,492	208,084	237,517
GMAC Capital Trust I, Preferred, Series '2', Variable Rate, Callable	8,704	256,551	266,349
Goldman Sachs Group Inc. (The), Preferred, Series 'J', Variable Rate, Callable	16,194	426,993	458,355
Morgan Stanley, Preferred, Variable Rate, Perpetual	9,964	279,389	307,565
Morgan Stanley, Preferred, Series 'E', Variable Rate, Perpetual	7,634	211,066	243,790
PNC Financial Services Group Inc., Preferred, Series 'P', Variable Rate, Perpetual, Callable	4,180	113,958	134,603

Schedule of Investments (continued)

As at December 31, 2014

Security	Shares/ Par Value/Contracts	Average Cost	Fair Value
Wells Fargo & Co., 5.85%, Preferred, Variable Rate, Perpetual	1,181	30,598	35,139
Wells Fargo & Co., 6.63%, Preferred, Perpetual, Callable	13,788	388,185	443,676
		2,220,539	2,468,654
TOTAL U.S. PREFERRED SECURITIES		**2,220,539**	**2,468,654**
DERIVATIVES (-0.85%)			
Currency Forwards (0.02%)			
Currency forward contract to buy C$3,144,960 for US$2,700,000 maturing March 18, 2015		–	7,980
Currency forward contract to buy US$150,000 for C$174,652 maturing March 19, 2015		–	(371)
TOTAL CURRENCY FORWARDS		**–**	**7,609**
Interest Rate Swaps (-0.87%)			
Floating Interest Rate Swap, 1.273%, 2016/10/02 C$	1,100,000	–	3,575
Fixed Interest Rate Swap, 1.872%, 2016/10/02 C$	(1,100,000)	–	(13,943)
Floating Interest Rate Swap, 1.273%, 2017/10/02 C$	700,000	–	2,317
Fixed Interest Rate Swap, 2.265%, 2017/10/02 C$	(700,000)	–	(17,945)
Floating Interest Rate Swap, 1.273%, 2018/10/02 C$	3,400,000	–	11,892
Fixed Interest Rate Swap, 2.242%, 2018/10/02 C$	(3,400,000)	–	(94,504)
Floating Interest Rate Swap, 1.273%, 2019/10/02 C$	10,500,000	–	39,306
Fixed Interest Rate Swap, 2.093%, 2019/10/02 C$	(10,500,000)	–	(227,546)
Floating Interest Rate Swap, 1.183%, 2020/10/02 C$	3,000,000	–	4,147
Fixed Interest Rate Swap, 1.841%, 2020/10/02 C$	(3,000,000)	–	(3,049)
Floating Interest Rate Swap, 0.231%, 2023/10/04 US$	1,600,000	–	263,583
Fixed Interest Rate Swap, 3.031%, 2023/10/04 US$	(1,600,000)	–	(403,645)
		–	(435,812)
TOTAL DERIVATIVES		**–**	**(428,203)**
Transaction Costs		(35,242)	
TOTAL INVESTMENT PORTFOLIO (90.00%)		**$ 44,676,030**	**$ 44,832,962**
Cash and cash equivalents (10.85%)			5,407,503
Other assets less liabilities (-0.85%)			(421,815)
TOTAL NET ASSETS (100.00%) (note 2)			**$ 49,818,650**

(See accompanying notes to financial statements)

Notes to Financial Statements

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

1. REPORTING ENTITY

Horizons Active Floating Rate Preferred Share ETF (the "ETF" or "Horizons HFP") is an investment trust established under the laws of the Province of Ontario by Declaration of Trust and effectively began operations on October 1, 2013. 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 HFP and HFP.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 HFP is to generate income consistent with prevailing short-term preferred share yields while stabilizing the market value of the ETF from the effects of interest rate fluctuations. Horizons HFP invests primarily in preferred shares of Canadian companies and may also invest in preferred shares of companies located in the United States, fixed-income securities of Canadian and U.S. issuers, including other income generating securities, and exchange traded funds that issue index participation units ("Listed Funds"). Horizons HFP will generally maintain a portfolio duration of less than 2 years. Horizons HFP may use derivatives, including interest rate swaps and futures contracts, to contribute to the ability of the ETF to seek to deliver a floating rate of income. Horizons HFP, to the best of its ability, seeks to hedge its non-Canadian dollar currency exposure to the Canadian dollar at all times.

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 and for engaging the services of Fiera Capital Corporation ("Fiera" or the "Sub-Advisor"), to act as the sub-advisor to the ETF. 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 Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 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 September 18, 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 in this report 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 though 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 Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 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 Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 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.

Interest rate swaps

Interest rate swaps, if any, are valued at the current market value thereof on the Valuation Date. The value of these interest rate swaps 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, plus any amounts relating to accrued income, if applicable, in the statements of financial position, and as a net change in unrealized appreciation (depreciation) of investments and derivatives and interest income for distribution purposes, if applicable, in the statements of comprehensive income. When the interest rate swaps are closed out or mature, realized gains or losses on interest rate swaps are recognized and are included in the statements of comprehensive income.

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

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

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.

(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.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

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.

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

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

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, December 31, 2013 and September 18, 2013, the ETF did not have any material exposure to foreign currencies due to the ETF's hedging strategies.

(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.

The majority of the ETF's assets and liabilities are non-interest bearing. However, in general, preferred shares tend to react to changes in the prevailing level of long-term interest rates in a similar manner as bonds. For example, if interest rates fall, preferred share prices tend to rise, and vice versa. As at December 31, 2014, approximately 90.9% (December 31, 2013 - 86.9%) of the ETF's net assets were indirectly exposed to interest rate risk. The amount by which the net assets of the ETF would have increased or decreased, as at December 31, 2014, had the prevailing interest rates been lowered or raised by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, was $502,561 (December 31, 2013 - $73,597). As at September 18, 2013, the ETF was not exposed to interest rate risk as all of the ETF's assets were held in cash on that date.

(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
S&P/TSX Preferred Index™	$366,327	$66,144

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

(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.

Analysis of credit quality

The ETF's credit risk exposure by designated rating of the invested portfolio as at December 31, 2014, December 31, 2013 and September 18, 2013 is listed as follows:

Canadian Securities by Credit Rating	Percentage of Net Asset Value (%)	
	December 31, 2014	December 31, 2013
P-1 - Best credit	0.2%	3.1%
P-2 - Second best credit	50.3%	57.4%
P-3 - Third best credit	26.2%	17.6%
Unrated	0.8%	–
Total	77.5%	78.1%
U.S. Securities by Credit Rating	**Percentage of Net Asset Value (%)**	
	December 31, 2014	**December 31, 2013**
A/A	–	3.4%
BBB/Bbb	8.6%	4.9%
BB/Bb	4.2%	–
B/B	0.5%	0.5%
Total	**13.3%**	**8.8%**

As at September 18, 2013, the ETF was not exposed to credit risk as all of the ETF's assets were held in cash on that date.

Designated ratings are obtained by Standard & Poor's, Moody's and/or Dominion Bond Rating Services. Where more than one rating is obtained for a security, the lowest rating has been used. Credit risk is managed by dealing with counterparties the ETF believes to be creditworthy and by regular monitoring of credit exposures. The maximum exposure to any one debt issuer as of December 31, 2014 was 8.3% (December 31, 2013 - 8.6%; September 18, 2013 - nil) of the net assets of the ETF.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

(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.

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:

	Net Changes at FVTPL ($)	
Category	**December 31, 2014**	**December 31, 2013**
Financial assets (liabilities) at FVTPL:		
Held for trading	(644,237)	(30,686)
Designated at fair value	1,843,460	97,752
Total financial assets (liabilities) at FVTPL	1,199,223	67,066

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 September 18, 2013 in valuing the ETF's investments and derivatives carried at fair values:

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

December 31, 2014	Level 1 ($)	Level 2 ($)	Level 3 ($)
Financial Assets			
Equities	45,261,165	–	–
Currency Forward Contracts	–	7,980	–
Interest Rate Swaps	–	1,098	–
Total Financial Assets	**45,261,165**	**9,078**	**–**
Financial Liabilities			
Currency Forward Contracts	–	(371)	–
Interest Rate Swaps	–	(436,910)	–
Total Financial Liabilities	**–**	**(437,281)**	**–**
Total Financial Assets and Liabilities	**45,261,165**	**(428,203)**	**–**

December 31, 2013	Level 1 ($)	Level 2 ($)	Level 3 ($)
Financial Assets			
Equities	8,171,925	–	–
Interest Rate Swaps	–	4,705	–
Total Financial Assets	**8,171,925**	**4,705**	**–**
Financial Liabilities			
Currency Forward Contracts	–	(1,611)	–
Interest Rate Swaps	–	(12,717)	–
Total Financial Liabilities	**–**	**(14,328)**	**–**
Total Financial Assets and Liabilities	**8,171,925**	**(9,623)**	**–**

As at September 18, the ETF did not have any investments that were subject to the hierarchy described above. As at that date, all of the ETF's assets were held in cash and cash equivalents.

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 year or period shown. In addition, there were no investments or transactions classified in Level 3 for the year ended December 31, 2014 and for the period ended December 31, 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.

The aggregate closing market value of securities loaned and collateral received as at December 31, 2014, December 31, 2013 and September 18, 2013 was as follows:

As at	Securities Loaned	Collateral Received
December 31, 2014	$2,347,115	$2,483,511
December 31, 2013	$74,422	$78,425
September 18, 2013	–	–

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.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

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 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 year ended December 31, 2014 and the period ended December 31, 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/ Period	Beginning Units Outstanding	Units Issued	Units Redeemed	Ending Units Outstanding	Average Units Outstanding
Class E	2014	890,000	4,350,218	(390,000)	4,850,218	2,695,610
	2013	15,000	875,000	–	890,000	572,609
Advisor Class	2014	50,000	275,052	(250,000)	75,052	71,994
	2013	–	50,000	–	50,000	50,000

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 0.55%, plus applicable sales taxes, of the net asset value of the ETF's Class E units and 1.05%, 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 0.50% 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.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

The Investment Manager and Sub-Advisor are compensated for their 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.

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.

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 year ended December 31, 2014 and the period ended December 31, 2013 were as follows:

Year/Period Ended	Brokerage Commissions Paid	Soft Dollar Transactions	Amount Paid to Related Parties
December 31, 2014	$43,226	$nil	$nil
December 31, 2013	$5,495	$nil	$nil

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.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

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.

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 no net capital or non-capital losses available.

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 September 18, 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.

	Amounts Offset ($)			**Amounts Not Offset ($)**		**Net**
Financial Assets and Liabilities as at December 31, 2014	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets - currency forwards	7,980		7,980	(371)	–	7,609
Derivative assets - interest rate swaps	1,098		1,098	(1,098)	–	–
Total derivative assets	**9,078**	**–**	**9,078**	**(1,469)**		**7,609**
Derivative liabilities - currency forwards	(371)	–	(371)	371	–	–
Derivative liabilities - interest rate swaps	(436,910)	–	(436,910)	1,098	–	(435,812)
Total derivative liabilities	**(437,281)**	**–**	**(437,281)**	**1,469**	**–**	**(435,812)**

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

	Amounts Offset ($)			Amounts Not Offset ($)		Net
Financial Assets and Liabilities as at December 31, 2013	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets - interest rate swaps	4,705	–	4,705	(4,705)	–	–
Total derivative assets	**4,705**	**–**	**4,705**	**(4,705)**	**–**	**–**
Derivative liabilities - currency forwards	(1,611)	–	(1,611)	–	–	(1,611)
Derivative liabilities - interest rate swaps	(12,717)	–	(12,717)	4,705	–	(8,012)
Total derivative liabilities	**(14,328)**	**–**	**(14,328)**	**4,705**	**–**	**(9,623)**

As at September 18, 2013, the ETF did not have any financial instruments eligible for offsetting.

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 September 18, 2013, the ETF had no exposure to subsidiaries, associates or unconsolidated structured entities.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on September 18 to December 31, 2013

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.

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 September 18, 2013 and December 31, 2013 and for the period ended December 31, 2013, respectively:

Statements of Financial Position	December 31, 2013	September 18, 2013
Net assets reported under Canadian GAAP	$9,382,019	$150,000
Revaluation of investments at FVTPL (b)	$18,581	–
Net assets attributable to holders of redeemable units (a)	$9,400,600	$150,000

Statement of Comprehensive Income	December 31, 2013
Comprehensive income reported under Canadian GAAP	$30,664
Revaluation of investments at FVTPL (b)	$18,581
Increase (decrease) in net assets attributable to holders of redeemable units	$49,245

(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.

Manager
AlphaPro Management Inc.
26 Wellington Street East, Suite 700
Toronto, Ontario
M5E 1S2
Tel: 416-933-5745
Fax: 416-777-5181
Toll Free: 1-866-641-5739
info@horizonsetfs.com
www.horizonsetfs.com

Auditors
KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto, Ontario
M5H 2S5

Custodian
CIBC Mellon Trust Company
320 Bay Street
P.O. Box 1
Toronto, Ontario
M5H 4A6

Registrar and Transfer Agent
CST Trust Company
320 Bay Street
P.O. Box 1
Toronto, Ontario
M5H 4A6