Annual Report | December 31, 2014

Horizons Active Floating Rate Senior Loan ETF (HSL, HSL.A:TSX)

HORIZONS EXCHANGE TRADED FUNDS

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EXCHANGE TRADED FUNDS

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 Senior Loan ETF ("Horizons HSL" 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 HSL is to seek to provide unitholders with a high level of current income by investing primarily in a diversified portfolio of U.S. senior secured floating rate loans, which are generally rated below investment grade (loans rated at or below BB+ by Standard & Poor's or a similar rating by a designated rating organization), and debt securities, with capital appreciation as a secondary objective. Horizons HSL, to the best of its ability, seeks to hedge its non-Canadian dollar currency exposure to the Canadian dollar at all times. Horizons HSL may also invest in exchange traded funds that provide exposure to senior loans.

Senior loans, compared to equivalently rated unsecured high yield bonds, typically offer a higher recovery rate because of the added protection offered by their secured nature. This security may be achieved by liens on physical or non-physical assets and, even if not realized through liquidation, can increase recovery in a reorganization scenario.

Under normal market conditions, Horizons HSL will have the majority of its net assets invested directly or indirectly in senior secured loans, which may include secured loans that have a lower than first lien priority on collateral of the borrower, secured loans to foreign borrowers, secured loans in foreign currencies and other secured loans with characteristics that the ETF's sub-advisor, AlphaFixe Capital Inc. ("AlphaFixe" or the "Sub-Advisor"), believes qualify as senior secured loans.

Management Discussion of Fund Performance (continued)

AlphaFixe seeks to maintain borrower and industry diversification among Horizons HSL's senior loan portfolio. When selecting senior loans, AlphaFixe seeks to implement a fundamental analysis approach of risk/return characteristics. Senior loans may be purchased by the Sub-Advisor on the primary and secondary market as the opportunities for investment present themselves. Senior loans may be sold on the secondary market if, in the opinion of AlphaFixe, the risk-return profile deteriorates or to pursue more attractive investments.

The ETF generally does not invest more than 5% of its assets in a single senior loan issue. Horizons HSL generally maintains an average rating for the senior loan portfolio of BB-/B+ rating and does not invest in securities of issuers rated below B- or in unrated securities. The ETF primarily invests in issues with a minimum tranche size of USD $400 million and does not invest in any issues where the tranche is less than USD $100 million.

Horizons HSL may invest up to 20% of its net assets in cash, cash equivalents and/or other floating rate debt instruments. The ETF may also invest up to 20% of its net assets in investment grade corporate bonds and up to 20% of its net assets in high yield debt securities. Horizons HSL may make these investments by investing in exchange traded funds that provide exposure to the applicable asset classes. At all times, at least 10% of Horizons HSL's portfolio will be comprised of cash and/or securities that settle within three business days. Horizons HSL, to the best of its ability, seeks to hedge its non-Canadian dollar currency exposure to the Canadian dollar at all times.

Please refer to the ETF's most recent prospectus for a complete description of Horizons HSL'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
- Income 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
- Risk of difference between quoted and actionable market price
- High yield bond risk and risk of other lower rated investments
- Loan credit risk
- Senior loan risk
- Loan settlement risk

Management Discussion of Fund Performance (continued)

Results of Operations

From the ETF's effective start of operations on October 14 to December 31, 2014, the Class E units and Advisor Class units of the ETF returned 0.34% and 0.16%, respectively, when including distributions paid to unitholders. This compares to a return of -0.17% for the Credit Suisse Leveraged Loan Index (the "Index") for the same period.

General Market Review

The last quarter of 2014 was characterized by an increasing level of geopolitical uncertainty which in turn had significant impact on energy and commodity prices. October was a tumultuous month that featured a number of rapid sell-offs and rebounds as exogenous factors (the Ukraine crisis, Ebola outbreak, ISIS, Hong Kong protests, etc.), combined with a general nervousness about the fate of the European and Chinese economies influenced market sentiment.

Loan prices are generally driven by asset flows but were mostly impacted by negative economic indicators early in October. Credit spreads also widened when investors priced their forecasts for the third quarter earnings season. Average prices increased from mid-October to early November on strong U.S. corporate earnings. They stabilized throughout November only to lose almost twice the October gains in December. The sell-off in crude oil that accelerated in the fourth quarter has been the major driver for the energy industry. There was a flight to quality, where higher-rated names outperformed, and this came after the across the board sell-off in both high yield bonds and loans, though the impact on oil-related sectors was the largest. Of the last 38 weeks of 2014, 37 of them saw net U.S. loan outflows, with the second week of December seeing record outflows.

Portfolio Review

The ETF was launched on October 15, 2014. AlphaFixe's strategy was to construct a conservative loan portfolio with a long-term investment horizon. The portfolio's quality bias, paired with security selection from non-cyclical industries, allowed the ETF to outperform. Market conditions, specifically falling energy prices, highlighted the importance of this conservative strategy. It is in times of economic confusion that AlphaFixe's fundamental approach and quality bias, sometimes at the small expense of some yield, demonstrate the portfolio's stability.

AlphaFixe is unlikely to invest in cyclical industries, especially those with a strong link with geopolitics. As a result, the ETF had no allocations in the Energy, Metals and Minerals, and Utility industries, the top three worst performing sectors in December. At the security level, there were no issuer-specific events in the past quarter that led to an overweight or underweight position.

Outlook

AlphaFixe expects spreads to remain at their current levels in the first quarter of 2015. New deals are expected to be postponed by borrowers, when possible, as the cost of borrowing is on the higher end. Because of these larger spreads, a slower pace of mergers and acquisitions activity could potentially drive prices up. Uncertainty in the markets is expected to push investors to the sidelines as they wait for the next moves from global central banks. Should the market start to expect a hike in interest rates, we could see inflows in U.S. loans.

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

For the period from its inception on October 2, 2014 to December 31, 2014, the ETF generated gross comprehensive income (loss) from investments and derivatives of $96,606. The ETF paid management, operating and transaction expenses of $68,477 of which $39,029 was either paid or absorbed by the Manager on behalf of the ETF. The waiving and/

Management Discussion of Fund Performance (continued)

or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

The ETF distributed $162,787 to Class E unitholders and $1,830 to Advisor Class unitholders during the period.

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.

International Financial Reporting Standards

The attached financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Any mention of total net assets, net assets, net asset value or increase (decrease) in net assets is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable units as reported under IFRS.

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.

Management Discussion of Fund Performance (continued)

Other Related Parties

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

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

For the period ended December 31, 2014, the ETF paid $377 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 14, 2014. 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

Period		2014
Net assets, beginning of period (1)	$	10.00
Increase from operations:		
Total revenue		0.09
Total expenses		(0.02)
Realized losses for the period		(0.12)
Unrealized gains for the period		0.09
Total increase from operations (2)		0.04
Distributions:		
From net investment income (excluding dividends)		(0.03)
From return of capital		(0.06)
Total annual distributions (3)		(0.09)
Net assets, end of period (4)	$	9.95

Financial Highlights (continued)

Advisor Class

Period		**2014**
Net assets, beginning of period (1)	$	10.00
Increase from operations:		
Total revenue		0.09
Total expenses		(0.03)
Realized losses for the period		(0.12)
Unrealized gains for the period		0.08
Total increase from operations (2)		0.02
Distributions:		
From net investment income (excluding dividends)		(0.03)
From return of capital		(0.04)
Total annual distributions (3)		(0.07)
Net assets, end of period (4)	$	9.94

1. This information is derived from the ETF's audited annual financial statements as at December 31 of the year shown. Class E units and Advisor Class units of the ETF have an initial net asset value of $10.00 as at October 14, 2014. Information 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

Period [1]		2014
Total net asset value (000's)	$	27,510
Number of units outstanding (000's)		2,765
Management expense ratio [2]		0.83%
Management expense ratio before waivers or absorptions [3]		2.02%
Trading expense ratio [4]		0.03%
Portfolio turnover rate [5]		0.09%
Net asset value per unit, end of period	$	9.95
Closing market price	$	10.01

Advisor Class

Period [1]		2014
Total net asset value (000's)	$	249
Number of units outstanding (000's)		25
Management expense ratio [2]		1.39%
Management expense ratio before waivers or absorptions [3]		2.59%
Trading expense ratio [4]		0.03%
Portfolio turnover rate [5]		0.09%
Net asset value per unit, end of period	$	9.94
Closing market price	$	9.99

1. This information is provided as at December 31 of the year shown. Information 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 period. 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 period.
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 0.75%, plus applicable sales taxes, of the net asset value of the ETF's Class E units and 1.25%, 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.

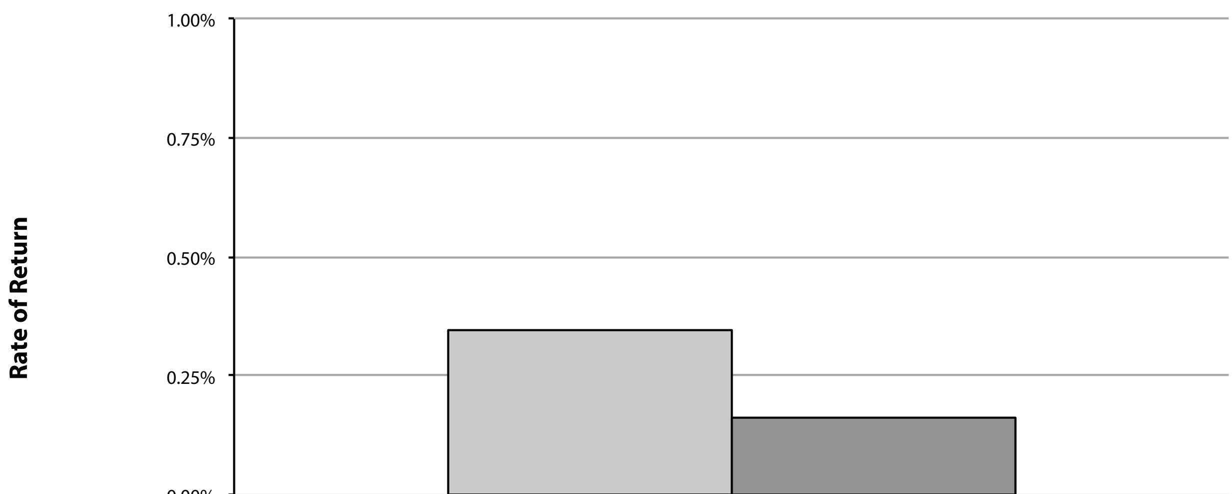
The Manager paid substantially more than 100% of the management fees it received from the ETF during the period towards marketing and promotional costs, and towards the fees associated with the managerial, portfolio management and portfolio advisory services provided to the ETF.

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.



	2014
Class E	0.34%
Advisor Class	0.16%

Class E units and Advisor Class units of the ETF have an initial net asset value of $10.00 as at October 14, 2014.

Past Performance (continued)

Annual Compound Returns

The following table shows the ETF's compound total return for the period 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 %	Credit Suisse Leveraged Loan Index Return %
Since Inception	0.34%	0.16%	-0.17%

Class E units and Advisor Class units of the ETF have an initial net asset value of $10.00 as at October 14, 2014.

Summary of Investment Portfolio

As at December 31, 2014

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
U.S. Senior Loans	$ 22,335,105	80.46%
Exchange Traded Funds	2,131,535	7.68%
Canadian Senior Loans	1,582,255	5.70%
Global Senior Loans	805,236	2.90%
Currency Forward Hedge*	(58,586)	-0.21%
Cash and Cash Equivalents	16,942,424	61.04%
Other Assets less Liabilities	(15,979,670)	-57.57%
	$ 27,758,299	**100.00%**

Sector Mix	Net Asset Value	% of ETF's Net Asset Value
Senior Loans	$ 24,722,596	89.06%
Exchange Traded Funds	2,131,535	7.68%
Currency Forward Hedge*	(58,586)	-0.21%
Cash and Cash Equivalents	16,942,424	61.04%
Other Assets less Liabilities	(15,979,670)	-57.57%
	$ 27,758,299	**100.00%**

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

Summary of Investment Portfolio (continued)

As at December 31, 2014

Top Holdings	% of ETF's Net Asset Value
PowerShares Senior Loan Portfolio	7.68%
Charter Communications Operating LLC	5.06%
Zebra Technologies Corp.	5.06%
Albertson's Holdings LLC	5.02%
Activision Blizzard Inc.	5.01%
Dell Inc.	5.00%
Community Health Systems Inc.	5.00%
Biomet Inc.	5.00%
Post Holdings Inc.	5.00%
99 Cents Only Stores	4.97%
CHG Healthcare Services, Inc.	4.97%
Media General Inc.	4.96%
Custom Sensors & Technologies Inc.	4.94%
Revlon Consumer Products Corp.	4.94%
Pinnacle Foods Finance LLC	4.88%
Genpact International Inc.	2.90%
Allison Transmission Inc.	2.90%
Bombardier Recreational Products Inc.	2.87%
Neiman Marcus Group Inc. (The)	2.86%
Gates Global LLC	2.85%
Livingston International Inc.	2.83%
MultiPlan, Inc. (MPH Acquisition Holdings LLC)	2.04%

* Note all of the Top 25 Holdings are senior loan instruments or provide exposure to senior loan instruments.

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 Senior Loan 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 Senior Loan 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 October 2, 2014, the statements of comprehensive income, changes in financial position and cash flows for the period from inception on October 2 to December 31, 2014, 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 October 2, 2014, and its financial performance and its cash flows for the period from inception on October 2 to December 31, 2014 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 October 2, 2014

	December 31, 2014	October 2, 2014
Assets		
Cash and cash equivalents	$ 16,942,424	$ 150,000
Investments	26,854,131	–
Amounts receivable relating to accrued income	51,636	–
Derivative assets (note 3)	48,502	–
Total assets	**43,896,693**	**150,000**
Liabilities		
Accrued expenses	16,025	–
Amounts payable for portfolio assets purchased	15,920,709	–
Distribution payable	94,572	–
Derivative liabilities (note 3)	107,088	–
Total liabilities	**16,138,394**	**–**
Total net assets (note 2)	**$ 27,758,299**	**$ 150,000**
Total net assets, Class E (note 2)	$ 27,509,715	$ 150,000
Number of redeemable units outstanding, Class E (note 9)	2,765,000	15,000
Total net assets per unit, Class E (note 2)	$ 9.95	$ 10.00
Total net assets, Advisor Class (note 2)	$ 248,584	$ –
Number of redeemable units outstanding, Advisor Class (note 9)	25,000	–
Total net assets per unit, Advisor Class (note 2)	$ 9.94	$ –

(See accompanying notes to financial statements)

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

Steven J. Hawkins

Howard Atkinson

Statement of Comprehensive Income

For the Period from Inception on October 2 to December 31, 2014

		2014
Income		
Dividend income	$	8,141
Interest income for distribution purposes		126,449
Net realized gain on sale of investments and derivatives		269
Net realized loss on foreign exchange		(175,771)
Net change in unrealized appreciation of investments and derivatives		313,221
Net change in unrealized depreciation of foreign exchange		(175,703)
		96,606
Expenses		
Management fees (note 10)		27,407
Custodial fees		1,272
Securityholder reporting costs		29,440
Administration fees		8,317
Transaction costs		841
Withholding taxes		1,200
		68,477
Amounts that were payable by the investment fund that were paid or absorbed by the Manager		(39,029)
		29,448
Increase in net assets for the period (note 2)	**$**	**67,158**
Increase in net assets, Class E (note 2)	$	66,744
Increase in net assets per unit, Class E (note 2)		0.04
Increase in net assets, Advisor Class (note 2)	$	414
Increase in net assets per unit, Advisor Class (note 2)		0.02

(See accompanying notes to financial statements)

Statement of Changes in Financial Position

For the Period from Inception on October 2 to December 31, 2014

		2014
Total net assets at the beginning of the period (note 2)	$	150,000
Increase in net assets (note 2)		67,158
Redeemable unit transactions		
Proceeds from the issuance of securities of the investment fund		30,590,577
Aggregate amounts paid on redemption of securities of the investment fund		(2,884,819)
Distributions:		
From net investment income		(55,374)
Return of capital		(109,243)
Total net assets at the end of the period (note 2)	**$**	**27,758,299**

Total net assets at the beginning of the period, Class E (note 2)	$	150,000
Increase in net assets, Class E (note 2)		66,744
Redeemable unit transactions		
Proceeds from the issuance of securities of the investment fund		30,340,577
Aggregate amounts paid on redemption of securities of the investment fund		(2,884,819)
Distributions:		
From net investment income		(54,698)
Return of capital		(108,089)
Total net assets at the end of the period, Class E (note 2)	**$**	**27,509,715**

Total net assets at the beginning of the period, Advisor Class (note 2)	$	–
Increase in net assets, Advisor Class (note 2)		414
Redeemable unit transactions		
Proceeds from the issuance of securities of the investment fund		250,000
Distributions:		
From net investment income		(676)
Return of capital		(1,154)
Total net assets at the end of the period, Advisor Class (note 2)	**$**	**248,584**

(See accompanying notes to financial statements)

Statement of Cash Flows

For the Period from Inception on October 2 to December 31, 2014

		2014
Cash flows from operating activities:		
Increase in net assets for the period (note 2)	$	67,158
Adjustments for:		
Net realized gain on sale of investments and derivatives		(269)
Net change in unrealized appreciation of investments and derivatives		(313,221)
Net change in unrealized depreciation of foreign exchange		41,826
Purchase of investments		(10,634,118)
Proceeds from the sale of investments		14,186
Amounts receivable relating to accrued income		(51,636)
Accrued expenses		16,025
Net cash used in operating activities		**(10,860,049)**
Cash flows from financing activities:		
Amount received from the issuance of units		30,590,577
Amount paid on redemptions of units		(2,884,819)
Distributions paid to unitholders		(70,045)
Net cash from financing activities		**27,635,713**
Net increase in cash and cash equivalents during the period		16,775,664
Effect of exchange rate fluctuations on cash and cash equivalents		16,760
Cash and cash equivalents at beginning of period		150,000
Cash and cash equivalents at end of period	**$**	**16,942,424**

Interest received	$	74,813
Dividends received, net of withholding taxes	$	6,941

(See accompanying notes to financial statements)

Schedule of Investments

As at December 31, 2014

Security	Par Value	Average Cost	Fair Value
U.S. SECURITIES (88.14%)			
Senior Loans (80.46%)			
99 Cents Only Stores, Term Loan, 4.50%, 2019/01/11	1,198,232	$ 1,363,470	$ 1,380,831
Activision Blizzard Inc., Term Loan, 3.25%, 2020/10/12	1,200,000	1,371,097	1,391,993
Albertson's Holdings LLC, Term Loan, 5.50%, 2021/08/25	1,200,000	1,365,481	1,394,325
Allison Transmission Inc., Term Loan, 3.75%, 2019/08/23	700,000	790,431	804,749
Biomet Inc., Term Loan, 3.67%, 2017/07/25	1,200,000	1,367,402	1,387,650
Charter Communications Operating LLC, Term Loan, 4.25%, 2021/09/10	1,200,000	1,372,551	1,402,662
CHG Healthcare Services Inc., Term Loan, 4.25%, 2019/11/19	1,200,000	1,372,230	1,378,950
CHS/Community Health Systems Inc., Term Loan, 4.25%, 2021/01/27	1,198,237	1,365,189	1,388,940
Custom Sensors & Technologies Inc., Term Loan, 4.50%, 2021/06/18	1,198,250	1,360,447	1,372,595
Dell Inc., Term Loan, 4.50%, 2020/04/29	1,198,237	1,360,324	1,389,086
Gates Global LLC, Term Loan, 4.25%, 2021/07/05	698,250	787,985	790,733
Media General Inc., Term Loan, 4.25%, 2020/07/30	1,200,000	1,366,531	1,378,080
MultiPlan, Inc. (MPH Acquisition Holdings LLC), Term Loan, 3.75%, 2021/03/19	500,000	562,829	565,645
Neiman Marcus Group Inc. (The), Term Loan, 4.25%, 2020/10/25	698,241	777,452	793,846
Pinnacle Foods Finance LLC, Term Loan, 3.00%, 2020/04/29	1,200,000	1,357,328	1,354,158
Post Holdings Inc., Term Loan, 3.75%, 2021/06/02	1,200,000	1,364,492	1,387,650
Revlon Consumer Products Corp., Term Loan, 4.00%, 2019/08/19	1,200,000	1,367,056	1,371,120
Zebra Technologies Corp., Term Loan, 4.75%, 2021/09/30	1,200,000	1,391,959	1,402,092
		22,064,254	22,335,105
Exchange Traded Funds (7.68%)			
PowerShares Senior Loan Portfolio	76,500	2,103,504	2,131,535
TOTAL U.S. SECURITIES		**24,167,758**	**24,466,640**
CANADIAN SECURITIES (5.70%)			
Senior Loans (5.70%)			
Bombardier Recreational Products Inc., Term Loan, 4.25%, 2019/01/30	700,000	787,463	796,609
Livingston International Inc., Term Loan, 5.00%, 2019/04/16	698,228	784,343	785,646
		1,571,806	1,582,255
TOTAL CANADIAN SECURITIES		**1,571,806**	**1,582,255**
GLOBAL SECURITIES (2.90%)			
Senior Loans (2.90%)			
Genpact International Inc., Term Loan, 3.50%, 2019/08/30	700,000	801,960	805,236
TOTAL GLOBAL SECURITIES		**801,960**	**805,236**

Schedule of Investments (continued)

As at December 31, 2014

Security	Par Value	Average Cost	Fair Value
DERIVATIVES (-0.21%)			
Currency Forwards (-0.21%)			
Currency forward contract to buy C$27,535,217 for US$23,750,000 maturing March 18, 2015		–	(58,586)
TOTAL DERIVATIVES		**–**	**(58,586)**
Transaction Costs		(614)	
TOTAL INVESTMENT PORTFOLIO (96.53%)		**$ 26,540,910**	**$ 26,795,545**
Cash and cash equivalents (61.04%)			16,942,424
Other assets less liabilities (-57.57%)			(15,979,670)
TOTAL NET ASSETS (100.00%) (note 2)			**$ 27,758,299**

(See accompanying notes to financial statements)

Notes to Financial Statements

For the Period from Inception on October 2 to December 31, 2014

1. REPORTING ENTITY

Horizons Active Floating Rate Senior Loan ETF (the "ETF" or "Horizons HSL") is an investment trust established under the laws of the Province of Ontario by Declaration of Trust and effectively began operations on October 14, 2014. 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 HSL and HSL.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 HSL is to seek to provide unitholders with a high level of current income by investing primarily in a diversified portfolio of U.S. senior secured floating rate loans, which are generally rated below investment grade (loans rated at or below BB+ by Standard & Poor's, or a similar rating by a designated rating organization) and debt securities, with capital appreciation as a secondary objective. Horizons HSL, 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 has appointed Horizons ETFs Management (Canada) Inc. ("Horizons Management") to act as the investment manager of the ETF (the "Investment Manager").

The Investment Manager is responsible for implementing the ETF's investment strategies and for engaging the services of AlphaFixe Capital Inc. ("AlphaFixe" 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"). Any mention of total net assets, net assets, net asset value or increase (decrease) in net assets 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.

Notes to Financial Statements (continued)

For the Period from Inception on October 2 to December 31, 2014

(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

(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.

Notes to Financial Statements (continued)

For the Period from Inception on October 2 to December 31, 2014

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 in unrealized appreciation (depreciation) of investments and derivatives in the statement 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 statement of comprehensive income in net realized gain (loss) on foreign exchange. The Canadian dollar value of forward foreign exchange contracts is determined using forward currency exchange rates supplied by an independent service provider.

Redeemable units

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

(b) Investment income

Investment transactions are accounted for as of the trade date. Realized gains and losses from investment transactions are calculated on a weighted average cost basis. The difference between fair value and average cost, as recorded in the financial statements, is included in the statement 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.

Notes to Financial Statements (continued)

For the Period from Inception on October 2 to December 31, 2014

Income from derivatives is shown in the statement 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 statement 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 statement of comprehensive income.

(c) Foreign currency

Transactions in foreign currencies are translated into the ETF's reporting currency using the exchange rate prevailing on the trade date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the period-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 statement 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 statement 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 period. 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 statement 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.

Notes to Financial Statements (continued)

For the Period from Inception on October 2 to December 31, 2014

(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 statement of comprehensive income.

(j) Future accounting changes

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

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

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

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

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.

Notes to Financial Statements (continued)

For the Period from Inception on October 2 to December 31, 2014

5. FINANCIAL INSTRUMENTS RISK

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

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

(a) Market risk

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

(i) Currency risk

Currency risk is the risk that financial instruments which are denominated in currencies other than the ETF's reporting currency, the Canadian dollar, will fluctuate due to changes in exchange rates and adversely impact the ETF's income, cash flows or fair values of its investment holdings. The ETF may reduce its foreign currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts. As at December 31, 2014 and October 2, 2014, 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 following table summarizes the ETF's exposure to interest rate risk, including the ETF's assets categorized by the remaining term to maturity:

Investments	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
As at	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)
December 31, 2014	32	1,607	7,985	17,230	–	26,854

The percentage of the ETF's net assets exposed to interest rate risk as at December 31, 2014 was 96.7%. The ETF was not exposed to interest rate risk on its inception date of October 2, 2014 as all of the ETF's assets were held in cash as at that date. 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 $65,023. The ETF's interest rate sensitivity was determined based on portfolio weighted duration. In practice, actual results may differ from this sensitivity analysis.

(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
Credit Suisse Leveraged Loan Index	$218,871

(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 is listed as follows:

Debt, Preferred or Derivative Securities by Credit Rating	Percentage of Net Asset Value (%)
	December 31, 2014
AAA/Aaa	0.0%
AA/Aa	0.0%
A/A	0.0%
BBB/Bbb	13.7%
BB/Bb	49.2%
B/B	33.2%
CCC	0.4%
Unrated	0.2%
Total	**96.7%**

Notes to Financial Statements (continued)

For the Period from Inception on October 2 to December 31, 2014

As at October 2, 2014, 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 5.2% (October 2, 2014 – nil) of the net assets of the ETF.

(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**
Financial assets (liabilities) at FVTPL:	
Held for trading	(305,305)
Designated at fair value	401,911
Total financial assets (liabilities) at FVTPL	96,606

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.

Notes to Financial Statements (continued)

For the Period from Inception on October 2 to December 31, 2014

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 in valuing the ETF's investments and derivatives carried at fair values:

December 31, 2014	Level 1 ($)	Level 2 ($)	Level 3 ($)
Financial Assets			
Senior Loans	–	24,722,596	–
Exchange Traded Funds	2,131,535	–	–
Currency Forward Contracts	–	48,502	–
Total Financial Assets	**2,131,535**	**24,771,098**	**–**
Financial Liabilities			
Currency Forward Contracts	–	(107,088)	–
Total Financial Liabilities	**–**	**(107,088)**	**–**
Total Financial Assets and Liabilities	**2,131,535**	**24,664,010**	**–**

As at October 2, 2014, the ETF did not hold any investments that were subject to the hierarchy described above. As at that date, all of the ETF's assets were held in cash.

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

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 period is disclosed in the ETF's statement of comprehensive income.

As at December 31, 2014 and October 2, 2014, the ETF was not participating in any securities lending transactions.

9. REDEEMABLE UNITS

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

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

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

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

The ETF is required to distribute any net income and capital gains that it has earned in the period. 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 statement 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 period ended December 31, 2014, 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	Period	Beginning Units Outstanding	Units Issued	Units Redeemed	Ending Units Outstanding	Average Units Outstanding
Class E	2014	15,000	3,040,000	(290,000)	2,765,000	1,490,316
Advisor Class	2014	–	25,000	–	25,000	25,000

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 re-

Notes to Financial Statements (continued)

For the Period from Inception on October 2 to December 31, 2014

ports 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 0.75%, plus applicable sales taxes, of the net asset value of the ETF's Class E units and 1.25%, 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.

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.

Notes to Financial Statements (continued)

For the Period from Inception on October 2 to December 31, 2014

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 period ended December 31, 2014 were as follows:

Period Ended	Brokerage Commissions Paid	Soft Dollar Transactions	Amount Paid to Related Parties
December 31, 2014	$614	$nil	$377

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 statement of comprehensive income.

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

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 period) may be available that would make it possible to retain some net capital gains in the ETF without incurring any income taxes.

13. TAX LOSSES CARRIED FORWARD

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

Net Capital Losses	Non-Capital Losses	Year of Expiry
$11,306	–	–

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. The "Net" column displays what the net impact would be on the ETF's statements of financial position if all amounts were set-off.

Notes to Financial Statements (continued)

For the Period from Inception on October 2 to December 31, 2014

	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	48,502	–	48,502	(48,502)	–	–
Derivative liabilities	(107,088)	–	(107,088)	48,502	–	(58,586)

As at October 2, 2014, the ETF did not have any financial instruments eligible for offsetting as all of the ETF's assets were held in cash as at that date.

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, the ETF had material investments in the subsidiaries (Sub), associates (Assc) and unconsolidated structured entities (SE) listed below:

Investee ETF as at December 31, 2014	Place of Business	Type	Ownership %	Carrying Amount
PowerShares Senior Loan Portfolio	U.S.	SE	0.03%	$2,131,535

As at October 2, 2014, the ETF did not have any exposure to subsidiaries, associates or unconsolidated structured entities as all of the ETF's assets were held in cash as at that date.

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