Annual Report | December 31, 2014

Horizons S&P/TSX Capped Financials Index ETF (HXF:TSX)

Contents

HORIZONS
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 contains financial highlights and is included with the audited annual financial statements for the investment fund. You may request a copy of the investment fund'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, by calling (toll free) 1-866-641-5739, or (416) 933-5745, by writing to Horizons ETFs Management (Canada) Inc. ("Horizons Management" or the "Manager"), 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.

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, 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 simplified 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 Strategy

Horizons S&P/TSX Capped Financials Index ETF ("Horizons HXF" or the "ETF") seeks to replicate, to the extent possible, the performance of the S&P/TSX Capped Financials Index (Total Return) (the "Underlying Index"), net of expenses.

To achieve the ETF's investment objective and obtain direct or indirect exposure to securities of its Underlying Index's constituent issuers, the ETF may use equity securities and derivatives, including swap agreements, provided that the use of such derivative instruments is in compliance with National Instrument 81-102 ("NI 81-102") and is consistent with the investment objective of the ETF.

The ETF has entered into a total return swap (the "Swap") with National Bank of Canada ("NBC" or the "Counterparty") pursuant to which the ETF gains exposure to the performance of its Underlying Index and invests the net proceeds of unit subscriptions in cash and short-term debt obligations to earn prevailing short-term market interest rates. The ETF may replace the Counterparty or engage additional counterparties at any time. As collateral for its obligations under the Swap, the ETF pledges its cash and short-term debt obligations, if any, to the Counterparty. The daily marked-to-market value of the Swap is based upon the performance of the Underlying Index.

The ETF may also invest in and hold the securities of the issuers contained in its Underlying Index in substantially the same proportion as they are reflect in the Underlying Index or the ETF may invest in and hold index participation units of

Management Discussion of Fund Performance (continued)

exchange traded funds that are based on its Underlying Index. The ETF will remain fully invested in or exposed to the markets at all times. The ETF may also invest in futures contracts and forward agreements in order to provide market exposure for other cash held by the ETF and may also hold money market instruments, securities of money market funds or cash to meet its current obligations.

The Investment Manager does not invest the assets of the ETF on a discretionary basis or select securities based on the Investment Manager's view of the investment merit of a particular security or company, nor does it conduct conventional stock research or analysis, or forecast stock market movement or trends in managing the assets of the ETF.

The Underlying Index

The S&P/TSX Capped Financials Index (Total Return) is comprised of constituent securities from the Canadian financials sector selected from a pool of S&P/TSX composite stocks using Standard & Poor's guidelines for evaluating company capitalization, liquidity and fundamentals. The relative weight of any single index constituent security is capped at 25%.

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 calling Horizons ETFs Management (Canada) Inc. at (toll free) 1-866-641-5739, or at (416) 933-5745.

- General risks of investments
- General risks of investing in an index fund and passive investment risk
- Risk relating to index replication strategies
- Calculation of index levels and termination of the Underlying Index
- The Underlying Index
- Derivatives investments
- Risk that units will trade at prices other than net asset value per unit
- Issuer concentration risk
- Sector risk
- Foreign exchange rate risk
- Counterparty risk
- Index adjustments
- Liquidity risk
- Borrowing risk
- Risks relating to tax changes
- Regulatory and tax-related risks
- Cease trading of securities risk
- General risks of equity investments
- Voting of index securities risk
- Income trust investments risks
- Securities lending

Results of Operations

The net asset value per unit of the ETF increased by 12.12% from January 1, 2014 to December 31, 2014. This compares to an increase of the compounded value of 12.57% for the Underlying Index over the same period. The above figures are adjusted for distributions, if any. The difference in performance between the ETF and the Underlying Index is due to expenses payable by the ETF, which include management fees plus applicable sales taxes.

Management Discussion of Fund Performance (continued)

The S&P/TSX Capped Financials Index™ is comprised of stocks from the Canadian Financial sector. For the year ended December 31, 2014, the top performers in the Underlying Index were Fairfax Financial Holdings Ltd., Intact Financial Corp. and Home Capital Group Inc., gaining 43.54%, 20.87% and 18.60%, respectively. The worst performers in the Underlying Index for the year were AGF Management Ltd., Class B, Dundee Corp., Class A and IGM Financial Inc., returning -36.02%, -31.46% and -17.44%, respectively.

In managing the ETF, Horizons Management does not endeavour to predict market direction, or the changes that may occur in global fiscal and monetary policies, the effect of additional geopolitical concerns, or unforeseen other crises. Horizons Management and the ETF are agnostic as to their impact on global equity, fixed income, currency and commodity markets generally, and the Canadian Financials sector specifically. They are only of concern to the ETF in so much as there is some minimal risk they could affect its ability to meet its investment objective. Please refer to the risk factors section in the ETF's prospectus for a more detailed discussion.

The ETF may, at times, have very large purchase and redemption activity. However, the performance of the ETF is primarily affected by the performance of its swap which is marked-to-market daily and is tied to the performance of the ETF's Underlying Index. The performance and liquidity of the ETF is unaffected by the asset size of the ETF, or by purchase and redemption activity, as these transactions are taken into account, as applicable, with adjustments to the notional value of the Swap.

The annualized volatility of each of the Underlying Index and the ETF was 9.81% and 10.73% respectively, for the year ended December 31, 2014.

Swap Agreements

As a means to achieving its investment objective, the ETF has entered into a Swap with the Counterparty to gain exposure to the Underlying Index. There is no swap fee related to the current swap. The Swap is a total return swap under which the ETF pays the Counterparty a floating amount based upon prevailing short-term market interest rates computed upon an agreed notional amount and an equity amount based upon any decline in value of a notional investment in a notional number of units the value of each of which will equal the value of the Underlying Index. In return, the Counterparty will pay the ETF an equity amount based upon any increase in value of the Underlying Index. The total return is comprised of notional income which would be earned on a notional investment in the reference assets (which, by virtue of the operation of the Swap, will be notionally reinvested in further reference assets) plus any notional appreciation in the value of the Underlying Index or, as the case may be, minus any reduction in the value of the Underlying Index. The ETF also invests the net proceeds of unit subscriptions in cash and short-term debt obligations to earn short-term market interest rates. The terms of the Swap require the ETF to pledge its cash and short-term debt obligations, if any, to the Counterparty to secure the payment of the ETF's payment obligations under the Swap. The income earned on the cash and short-term debt obligations is anticipated to be sufficient to fund the required floating payments by the ETF under the Swap.

The obligations of the Counterparty to the ETF under the Swap are determined by reference to the performance of the Underlying Index, the value of which will equal the value of the Underlying Index. The Counterparty may hedge its exposure under the Swap to index securities. There is no assurance that the Counterparty will maintain a hedge or will do so with respect to the full amount or term of the Swap.

In addition to assisting in the pursuit of the ETF's investment objective, total return swap agreements may be entered into as a substitute for investing directly in securities or to hedge a position.

Management Discussion of Fund Performance (continued)

Since the Swap, like most swap agreements, may settle the obligations of each party on a net basis, the exposure of the ETF to the credit risk of the Counterparty is limited to the positive mark-to-market of the Swap, which is calculated and accrued on a daily basis.

Recent Developments

There have been no recent market developments of particular note, aside from the normal fluctuations of the markets, that are expected to have an undue influence on the portfolio of the ETF when compared to its benchmark.

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 August 27, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 15 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 is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable units as reported under IFRS.

Amalgamation of the Manager and Investment Manager

Effective December 30, 2013, Horizons Investment Management Inc. ("Horizons Investment"), the investment manager of the ETF, was amalgamated with its parent, 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. Horizons ETFs Management (Canada) Inc. is now the manager, trustee and investment manager of the ETF.

Related Party Transactions

There were no related party portfolio transactions during the current reporting period. Certain services have been provided to the ETF by related parties, and those relationships are described below.

Manager, Trustee and Investment Manager

The manager, trustee and investment manager of the ETF is Horizons ETFs Management (Canada) Inc., 26 Wellington Street East, Suite 700, Toronto, Ontario, M5E 1S2, a corporation incorporated under the laws of Ontario.

Management Discussion of Fund Performance (continued)

For a complete description of services provided, please refer to the most recent prospectus of the ETF - Duties and Services to be Provided by the Manager.

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

The Manager and its subsidiary, AlphaPro Management Inc., are members of the Mirae Asset Financial Group.

National Bank of Canada Relationship

While not a related party to the ETF, an affiliate of the Counterparty and National Bank Financial Inc. ("NBF") holds an indirect minority interest in AlphaPro Management Inc., a subsidiary of the Manager. Another affiliate of the Counterparty, NBF, acts or may act as a designated broker, a dealer 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 the ETF's 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, 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.

Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance since it effectively began operations on September 17, 2013. This information is derived from the ETF's annual audited 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

Year		2014	2013
Net assets, beginning of year (1)	$	27.70	25.00
Increase from operations:			
Total revenue		0.01	0.02
Total expenses		(0.12)	(0.03)
Realized gains for the year		6.41	–
Unrealized gains (losses) for the year		(2.42)	2.67
Total increase from operations (2)		3.88	2.66
Total annual distributions (3)		–	–
Net assets, end of year (4)	$	31.06	27.70

(1) This information is derived from the ETF's audited annual financial statements as at December 31 of the years shown. The ETF effectively began operations on September 17, 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) Distributions, if any, were paid in cash, reinvested in additional units of the ETF, or both.

(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

Year [(1)]		2014	2013
Net asset value (000's)	$	12,427	14,032
Number of units outstanding (000's)		400	507
Management expense ratio [(2)]		0.40%	0.39%
Management expense ratio before waivers or absorptions [(2)]		0.40%	0.39%
Trading expense ratio [(3)]		0.00%	0.00%
Portfolio turnover rate [(4)]		97.33%	0.00%
Net asset value per unit, end of year	$	31.06	27.70
Closing market price	$	31.07	27.43

(1) This information is provided as at December 31 of the years shown. The ETF effectively began operations on September 17, 2013. 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. The trust declaration of the ETF requires that the Manager pay all the expenses of the ETF other than the management fee and any sales taxes on the management fee.

(3) 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.

(4) The ETF's portfolio turnover rate indicates how actively the ETF trades its portfolio investments. 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 a year. The higher an ETF's portfolio turnover rate in a year, 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 an ETF.

Management Fees

In consideration for management services and investment advice provided to the ETF, the Manager is entitled to a management fee. The management fee, inclusive of sales tax, is applied on a daily basis to the net asset value of the ETF. The management fees, exclusive of sales tax, are charged at the annual rate of 0.35%. Approximately 100% of management fees were used for management, investment management, operating costs of the ETF, other general administration and profit.

From the management fee, the Manager has paid substantially all of the costs and expenses relating to the operation of the business and affairs of the ETF including investment management, administration, legal, accounting, custody, audit, registrar and transfer agency fees, and taxes as well as expenses associated with advertising, marketing, sponsoring and promoting the sale of units of the ETF.

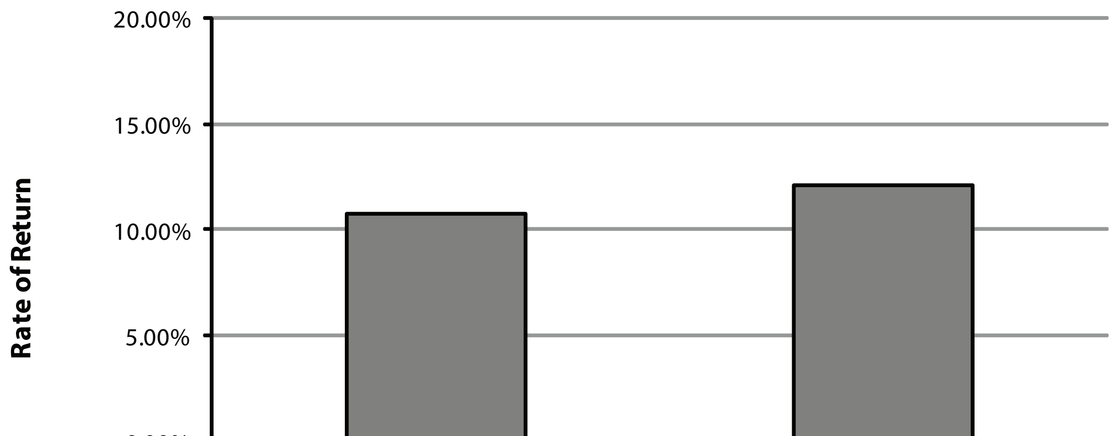
The trust declaration of the ETF requires that the Manager pay all the expenses of the ETF other than the management fee and any sales taxes on the management fee. As a result, the ETF does not have any other expenses.

Past Performance

Sales commissions, management fees and applicable sales taxes all may be associated with an investment in the ETF. Please read the prospectus before investing. The indicated rates of return are the historical returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution 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, if any, 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 the periods shown, and illustrates how the performance has changed from period to period. In percentage terms, the chart shows how much an investment made on the first day of each financial period (or, on the inception date, as the case may be) would have grown or decreased by the last day of the financial period.



	2013	2014
HXF	10.81%	12.12%

The ETF effectively began operations on September 17, 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.

	1 Year	Since Inception
Horizons HXF	12.12%	18.32%
S&P/TSX Capped Financials Index (Total Return)	12.57%	18.79%

The ETF effectively began operations on September 17, 2013.

Summary of Investment Portfolio

As at December 31, 2014

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
Index Swaps [(2)]	$ 135,936	1.09%
Cash and Cash Equivalents [(1)]	12,289,647	98.90%
Other Assets less Liabilities	1,775	0.01%
	$ 12,427,358	**100.00%**

Top Holdings	% of ETF's Net Asset Value
Index Swaps (notional value $12,282,403)	1.09%

Top 25 Securities In the Underlying Index* – S&P/TSX Capped Financials Index™	% Weighting in Underlying Index
Royal Bank of Canada	20.39%
Toronto-Dominion Bank (The)	18.05%
Bank of Nova Scotia (The)	14.21%
Bank of Montreal	9.40%
Manulife Financial Corp.	7.28%
Canadian Imperial Bank of Commerce	6.98%
Sun Life Financial Inc.	4.52%
National Bank of Canada	2.86%
Fairfax Financial Holdings Ltd.	2.24%
Power Corp. of Canada	2.04%
Intact Financial Corp.	1.94%
Great-West Lifeco Inc.	1.71%
Power Financial Corp.	1.54%
CI Financial Corp.	1.31%
Onex Corp.	1.03%
Industrial Alliance Insurance & Financial Services Inc.	0.79%
IGM Financial Inc.	0.78%
Element Financial Corp.	0.66%
Home Capital Group Inc.	0.56%
Canadian Western Bank	0.46%
Genworth MI Canada Inc.	0.27%
Laurentian Bank of Canada	0.25%
TMX Group Ltd.	0.21%
Alaris Royalty Corp.	0.20%
Canaccord Genuity Group Inc.	0.13%

(1) Cash and cash equivalents includes collateral pledged to the counterparty of the ETF's total return swap agreement.
(2) The value presented for the index swap(s) represents the amount receivable/(payable) from/(to) the counterparty of the ETF's total return swap agreement as at the date of this report.

*These positions represent the top 25 constituents of the Underlying Index. The ETF is exposed to the performance of the Underlying Index on a total return basis through a total return swap agreement.

The summary of investment portfolio may change due to the ongoing portfolio transactions of the ETF. The most recent interim and annual reports are available at no cost by calling toll free 1-866-641-5739, or (416) 933-5745, by writing to us at Horizons ETFs Management (Canada) Inc., 26 Wellington Street East, Suite 700, Toronto, Ontario, M5E 1S2, or 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 S&P/TSX Capped Financials Index ETF (the "ETF") are the responsibility of the manager and the trustee to the ETF, Horizons ETFs Management (Canada) 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 judgements.

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

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

Taeyong Lee	Howard Atkinson
Director	Director
Horizons ETFs Management (Canada) Inc.	Horizons ETFs Management (Canada) Inc.

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Horizons S&P/TSX Capped Financials Index 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 August 27, 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 August 27 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 August 27, 2013, and its financial performance and its cash flows for the year ended December 31, 2014 and for the period from inception on August 27 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 August 27, 2013

	December 31, 2014	December 31, 2013	August 27, 2013
Assets			
Cash and cash equivalents	$ 12,289,647	$ 12,772,534	$ 150,000
Amounts receivable relating to accrued income	6,581	7,690	–
Derivative assets (note 3)	135,936	1,256,320	–
Total assets	**12,432,164**	**14,036,544**	**150,000**
Liabilities			
Accrued expenses	4,806	4,760	–
Total liabilities	**4,806**	**4,760**	**–**
Total net assets (note 2)	**$ 12,427,358**	**$ 14,031,784**	**$ 150,000**
Number of redeemable units outstanding, (note 10)	400,100	506,500	6,000
Total net assets per unit (note 2)	$ 31.06	$ 27.70	$ 25.00

(See accompanying notes to financial statements)

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

Taeyong Lee
Director

Howard Atkinson
Director

Statements of Comprehensive Income

For the Year Ended December 31, 2014 and
For the Period from Inception on August 27 to December 31, 2013

		2014		2013
Income				
Interest income for distribution purposes	$	3,467		8,961
Net realized gain on sale of investments and derivatives		2,964,710		–
Net change in unrealized appreciation (depreciation) of investments and derivatives		(1,120,384)		1,256,320
		1,847,793		**1,265,281**
Expenses				
Management fees (note 11)		54,179		14,336
		54,179		**14,336**
Increase in net assets for the year (note 2)	**$**	**1,793,614**	**$**	**1,250,945**
Increase in net assets per unit (note 2)	$	3.88	$	2.66

(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 August 27 to December 31, 2013

	2014	2013
Total net assets at the beginning of the year (note 2)	$ 14,031,784	$ 150,000
Increase in net assets (note 2)	1,793,614	1,250,945
Redeemable unit transactions		
Proceeds from the issuance of securities of the investment fund	13,527,581	12,630,839
Aggregate amounts paid on redemption of securities of the investment fund	(16,925,621)	–
Total net assets at the end of the year (note 2)	**$ 12,427,358**	**$ 14,031,784**

(See accompanying notes to financial statements)

Statements of Cash Flows

For the Year Ended December 31, 2014 and
For the Period from Inception on August 27 to December 31, 2013

	2014	2013
Cash flows from operating activities:		
Increase in net assets for the year (note 2)	$ 1,793,614	$ 1,250,945
Adjustments for:		
Net realized gain on sale of investments and derivatives	(2,964,710)	–
Net change in unrealized depreciation (appreciation) of investments and derivatives	1,120,384	(1,256,320)
Proceeds from the sale of investments	2,964,710	–
Amounts receivable relating to accrued income	1,109	(7,690)
Accrued expenses	46	4,760
Net cash from (used in) operating activities	**2,915,153**	**(8,305)**
Cash flows from financing activities:		
Amount received from the issuance of units	13,527,581	12,630,839
Amount paid on redemptions of units	(16,925,621)	–
Net cash from (used in) financing activities	**(3,398,040)**	**12,630,839**
Net increase (decrease) in cash and cash equivalents for the year	(482,887)	12,622,534
Cash and cash equivalents at beginning of year	12,772,534	150,000
Cash and cash equivalents at end of year	**$ 12,289,647**	**$ 12,772,534**
Interest received	$ 4,576	$ 1,271

(See accompanying notes to financial statements)

Schedule of Investments

As at December 31, 2014

Security	Notional Value	Fair Value
INDEX SWAPS (1.09%)		
S&P/TSX Capped Financials Index Swaps, Payment Date September 20, 2018	$ 12,282,403	$ 135,936
TOTAL INVESTMENT PORTFOLIO (1.09%) (note 8)		**$ 135,936**
Cash and cash equivalents (98.90%)		12,289,647
Other assets less liabilities (0.01%)		1,775
TOTAL NET ASSETS (100.00%) (note 2)		**$ 12,427,358**

(See accompanying notes to financial statements)

Notes to Financial Statements

For the Year Ended December 31, 2014 and
For the Period from Inception on August 27 to December 31, 2013

1. REPORTING ENTITY

Horizons S&P/TSX Capped Financials Index ETF (the "ETF" or "Horizons HXF") is an investment trust established under the laws of the Province of Ontario by Declaration of Trust and effectively began operations on September 17, 2013. The address of the ETF's registered office is: c/o Horizons ETFs Management (Canada) 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 class A units which trade on the Toronto Stock Exchange ("TSX") under the symbols HXF. 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.

Horizons S&P/TSX Capped Financials Index ETF ("Horizons HXF" or the "ETF") seeks to replicate, to the extent possible, the performance of the S&P/TSX Capped Financials Index (Total Return) (the "Underlying Index"), net of expenses.

To achieve the ETF's investment objective and obtain direct or indirect exposure to securities of its Underlying Index's constituent issuers, the ETF may use equity securities and derivatives, including swap agreements, provided that the use of such derivative instruments is in compliance with National Instrument 81-102 ("NI 81-102") and is consistent with the investment objective of the ETF.

Horizons ETFs Management (Canada) Inc. (the "Manager" or the "Trustee") is the manager and trustee of the ETF. Effective December 30, 2013, Horizons Investment Management Inc. ("Horizons Investment"), the investment manager of the ETF, was amalgamated with its parent, 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. Horizons ETFs Management (Canada) Inc. is now the manager, trustee and investment manager of the ETF.

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.

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 August 27, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 15 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.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on August 27 to December 31, 2013

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.

(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, if any
- 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.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on August 27 to December 31, 2013

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.

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

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on August 27 to December 31, 2013

bonds and short-term investments, if any, 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, if any, is recognized on the ex-dividend date. Distribution income from investments in other funds or ETFs, if any, 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 9).

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

(d) Cost basis

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

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

The increase (decrease) in net assets per unit in the statements of comprehensive income represents the change in net assets attributable to holders of redeemable units from operations divided by the weighted average number of units of the ETF outstanding during the reporting year. For management fees please refer to note 11.

(f) Unitholder transactions

The value at which units are issued or redeemed is determined by dividing the net asset value of the ETF by the total number of units outstanding of the ETF 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.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on August 27 to December 31, 2013

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

Net assets attributable to holders of redeemable units per unit is calculated by dividing the ETF's net assets attributable to holders of redeemable units by the number of units of the ETF 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, fees incurred in conjunction with the ETF's total return swap agreements, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs are expensed and are included in "Transaction costs" in the statements of comprehensive income.

(j) Future accounting changes

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

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

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

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

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 Year Ended December 31, 2014 and
For the Period from Inception on August 27 to December 31, 2013

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 has no exposure to foreign currencies.

(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 ETF does not hold any long term debt instruments to which it would have interest rate risk exposure.

(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 ETF is subject to other market risks that will affect the value of its investments, including general economic and market conditions, as well as developments that impact specific economic sectors, industries or companies. The ETF, will normally lose value on days when the securities comprising the Underlying Index declines. The ETF intends to remain fully invested regardless of market conditions.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on August 27 to December 31, 2013

The net asset value per unit of the ETF increased by 12.12% from January 1, 2014 to December 31, 2014. This compares to an increase of the compounded value of 12.57% for the Underlying Index over the same period. The above figures are adjusted for distributions, if any.

The difference in performance between the ETF and the Underlying Index is due to expenses payable by the ETF, which include management fees plus applicable sales taxes.

(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, including any positive mark-to-market of the ETF's swap agreements. This amount is included in "Derivative assets" (if any) in the statements of financial position. The credit risk related to any one swap agreement is concentrated in the counterparty to that particular swap agreement.

Credit risk is managed by dealing with counterparties the Manager believes to be creditworthy and which meet the designated rating requirements of National Instrument 81-102 ("NI 81-102"), please see note 8.

(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 may, at times, have very large purchase and redemption activity. However, the performance of the ETF is primarily affected by the performance of its swap agreement, which is tied to the performance of the ETF's Underlying Index. The performance and liquidity of the ETF is unaffected by the asset size of the ETF, purchases or redemptions as these transactions are taken into account, as applicable, with adjustments to the notional value of the swap agreement.

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	1,844,326	1,256,320
Designated at fair value	–	–
Total financial assets (liabilities) at FVTPL	1,844,326	1,256,320

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on August 27 to December 31, 2013

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 and 2013 and August 27, 2013 in valuing the ETF's investments and derivatives carried at fair values:

December 31, 2014	Level 1 ($)	Level 2 ($)	Level 3 ($)
Financial Assets			
Swaps	–	135,936	–
Total Financial Assets	**–**	**135,936**	**–**
Total Financial Liabilities	**–**	**–**	**–**
Total Financial Assets & Liabilities	**–**	**135,936**	**–**

December 31, 2013	Level 1 ($)	Level 2 ($)	Level 3 ($)
Financial Assets			
Swaps	–	1,256,320	–
Total Financial Assets	**–**	**1,256,320**	**–**
Total Financial Liabilities	**–**	**–**	**–**
Total Financial Assets & Liabilities	**–**	**1,256,320**	**–**

As at August 27, 2013, 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 years 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. SWAP AGREEMENT AND COLLATERAL PLEDGED

(a) Swap Agreement

As a means to achieving its investment objective, the ETF has entered into a swap agreement (the "Swap") with the National Bank of Canada ("NBC" or the "Counterparty") to gain exposure to the Underlying Index. The Swap is a total return

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on August 27 to December 31, 2013

swap under which the ETF pays the Counterparty a floating amount based upon prevailing short-term market interest rates computed upon an agreed notional amount and an equity amount based upon any decline in value of a notional investment in a notional number of units the value of each of which will equal the value of the Underlying Index. In return, the Counterparty will pay the ETF an equity amount based upon any increase in value of the Underlying Index. The total return will be comprised of notional income which would be earned on a notional investment in the reference assets (which, by virtue of the operation of the Swap, will be notionally reinvested in further reference assets) plus any notional appreciation in the value of the Underlying Index or, as the case may be, minus any reduction in the value of the Underlying Index. The ETF also invests the net proceeds of unit subscriptions in cash and/or short-term debt obligations to earn short-term market interest rates. The terms of the Swap require the ETF to pledge its cash and/or short-term debt obligations to the Counterparty to secure the payment of the ETF's payment obligations under the Swap. The income earned on the cash and/or short-term debt obligations is anticipated to be sufficient to fund the required floating payments by the ETF under the Swap. The ETF may replace the Counterparty or engage additional counterparties at any time.

The obligations of a Counterparty to the ETF under the Swap will be determined by reference to the performance of the Underlying Index, the value of each of which will equal the value of the Underlying Index. A counterparty may hedge its exposure under the Swap to index securities. There is no assurance that a counterparty will maintain a hedge or will do so with respect to the full amount or term of the Swap.

In addition to assisting in the pursuit of the ETF's investment objective, total return swap agreements may be entered into as a substitute for investing directly in securities or to hedge a position.

Since the Swap, like most swap agreements, may settle the obligations of each party on a net basis, the exposure of the ETF to the credit risk of the Counterparty is limited to the positive mark-to-market value of the Swap, which is calculated and accrued on a daily basis.

(b) Swap Counterparty Restrictions

The Counterparty to any Swaps entered into by the ETF must be a chartered Canadian bank or an affiliate of a chartered Canadian bank whose obligations are guaranteed by a chartered Canadian bank, and which has a designated rating.

In respect of short-term securities or instruments (where the maturity date of the security or instrument is less than one year), the Counterparty must have a designated rating for Commercial Paper/Short-Term Debt no lower than (a) Dominion Bond Rating Service Limited ("DBRS") - "R-1(low)"; (b) Fitch Ratings ("Fitch") - "F1"; (c) Moody's Investors Service ("Moody's") - "P-1"; and (d) Standard & Poor's ("S&P") - "A-1(Low)".

In respect of long-term securities or instruments (where the maturity date of the security or instrument is equal to or greater than one year), the Counterparty must have a designated rating for Long-Term Debt no lower than (a) DBRS - "A"; (b) Fitch - "A"; (c) Moody's - "A2"; and (d) S&P - "A".

Swaps entered into by the ETF may have terms to maturity of less than one year or longer than one year. The Counterparty to any Swap is subject to the applicable short-term or long-term designated ratings restrictions listed above. The Counterparty to the Swap meets those designated ratings requirements.

(c) Swap Agreement Exposure

The table below shows the notional exposure of the ETF to Swaps as at December 31, 2014 and 2013 and August 27, 2013. In addition, designated ratings for the Counterparty at each reporting date are presented, as is the credit risk exposure (see note 5) of derivative assets as shown in the statements of financial position.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
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As at	Counter-party[1]	Notional Exposure	Credit Risk	DBRS Rating	Fitch Rating	Moody's Rating	S&P Rating
Dec. 31, 2014	NBC	$12,282,403	$135,936	AA (low)	A+	Aa3	A
Dec. 31, 2013	NBC	$12,766,553	$1,256,320	R-1 (mid)	F1	P-1	A-1

[1] NBC refers to National Bank of Canada

As at August 27, 2013, all of the ETF's assets were held in cash and cash equivalents.

9. 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"). 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.

As at December 31, 2014, December 31, 2013 and August 27, 2013, the ETF was not participating in any securities lending transactions.

10. REDEEMABLE UNITS

The ETF is authorized to issue an unlimited number of redeemable, transferable Class A 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 and are classified as liabilities as a result of the ETF's requirement to distribute net income and capital gains to unitholders. 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; or (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.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
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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 all of its income (including net realized capital gains) that it has earned in the year to such an extent that the ETF will not be liable for ordinary income tax thereon. Income earned by the ETF is distributed to unitholders at least once per year, if necessary, and any such amount distributed by the ETF will be paid as a "reinvested distribution". Reinvested distributions on units of the ETF will be reinvested automatically in additional units of the ETF at a price equal to the net asset value per unit of the ETF on such day and the units of the ETF will be immediately consolidated such that the number of outstanding units of the ETF held by each unitholder on such day following the distribution will equal the number of units of the ETF held by the unitholder prior to the distribution. Reinvested distributions are reported as taxable distributions and used to increase each unitholder's adjusted cost base for the ETF. Distributions paid to holders of redeemable units, if any, 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 and redemption features of the ETF's units.

For the year ended December 31, 2014 and for the period ended December 31, 2013, the number of units issued by subscription, the number of units redeemed, the total and average number of units outstanding was as follows:

Year/Period	Beginning Units Outstanding	Units Issued	Units Redeemed	Ending Units Outstanding	Average Units Outstanding
2014	506,500	451,865	(558,265)	400,100	462,222
2013	6,000	500,500	–	506,500	470,715

11. EXPENSES

Management fees

In consideration for management services and investment advice provided to the ETF, the Manager is entitled to a management fee. The management fee, inclusive of sales tax, is applied on a daily basis to the net asset value of the ETF. The management fees, exclusive of sales tax, are charged at the annual rate of 0.35%. Approximately 100% of management fees were used for management, investment management, operating costs of the ETF, other general administration and profit.

From the management fee, the Manager has paid substantially all of the costs and expenses relating to the operation of the business and affairs of the ETF including investment management, administration, legal, accounting, custody, audit, registrar and transfer agency fees, and applicable sales taxes as well as expenses associated with advertising, marketing, sponsoring and promoting the sale of securities of the ETF.

The trust declaration of the ETF requires that the Manager pay all the expenses of the ETF other than the management fees and sales tax on the management fee. As a result, the ETF does not have any other expenses.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on August 27 to December 31, 2013

12. INCOME TAX

The ETF has qualified as a mutual fund trust under 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 no net capital losses 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 and 2013 and August 27, 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	135,936	–	135,936	–	–	135,936
Derivative liabilities	–	–	–	–	–	–

	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	1,256,320	–	1,256,320	–	–	1,256,320
Derivative liabilities	–	–	–	–	–	–

As at August 27, 2013, the ETF did not have any financial instruments eligible for offsetting.

Notes to Financial Statements (continued)

For the Year Ended December 31, 2014 and
For the Period from Inception on August 27 to December 31, 2013

15. 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 August 27, 2013 and December 31, 2013 and for the period ended December 31, 2013, respectively:

Statements of Financial Position	December 31, 2013	August 27, 2013
Net assets reported under Canadian GAAP	$14,031,784	$150,000
Revaluation of investments at FVTPL (b)	–	–
Net assets attributable to holders of redeemable units (a)	$14,031,784	$150,000

Statement of Comprehensive Income	December 31, 2013
Comprehensive income reported under Canadian GAAP	$1,250,945
Revaluation of investments at FVTPL (b)	–
Increase (decrease) in net assets attributable to holders of redeemable units	$1,250,945

(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
Horizons ETFs Management (Canada) 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

Innovation is our capital. Make it yours.

Horizons Exchange Traded Funds | 26 Wellington Street East, Suite 700 | Toronto, Ontario, M5E 1S2
T 416 933 5745 | **TF** 1 866 641 5739 | **w** horizonsetfs.com

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