



**Horizons BetaPro COMEX<sup>®</sup> Silver Bear Plus ETF  
(HZD:TSX)**



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**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 BetaPro COMEX® Silver Bear Plus ETF (“Horizons HZD” 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 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](http://www.horizonsetfs.com) or through SEDAR at [www.sedar.com](http://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 HZD seeks **daily investment results**, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to two times (200%) the inverse (opposite) of the daily performance of the COMEX® silver futures contract for a subsequent delivery month (the “Referenced Futures Contract”). Horizons HZD is denominated in Canadian dollars. Any U.S. dollar gains or losses as a result of the ETF’s investment will be hedged back to the Canadian dollar to the best of the ETF’s ability.

If Horizons HZD is successful in meeting its investment objective, its net asset value should gain approximately two times as much, on a percentage basis, as the COMEX® silver futures contract for a subsequent delivery month when the COMEX® silver futures contract for that delivery month falls on a given day. Conversely, Horizons HZD’s net asset value should lose approximately two times as much, on a percentage basis, as the COMEX® silver futures contract for a subsequent delivery month when the COMEX® silver futures contract for that delivery month rises on a given day.

Horizons HZD invests in financial instruments that have similar daily return characteristics as two times (200%) the inverse (opposite) of the daily performance of the COMEX® silver futures contract for a subsequent delivery month. In order to achieve this objective, the total underlying notional value of these instruments will typically not exceed two times the total assets of the ETF. As such, Horizons HZD will employ leverage. Assets not invested in financial instruments may be invested in debt instruments or money market instruments with a term not to exceed 365 days, or repurchase agreements with a term not to exceed 30 days.

## Management Discussion of Fund Performance (continued)

### *Value of the Referenced Futures Contract*

Horizons HZD will typically use the COMEX® silver futures contract for a subsequent delivery month as determined at approximately 1:25 p.m. (EST) as the reference for its daily investment objective. Currently, Horizons HZD tracks the COMEX® 5,000 troy ounce silver contract for a subsequent delivery month to achieve its investment objective. The performance of Horizons HZD is currently based on a rolling futures position of the COMEX® 5,000 troy ounce silver contract for a subsequent delivery month. On a periodic basis, positions in the COMEX® silver futures contracts specifying delivery on a nearby date must be sold and the COMEX® silver futures contracts that have not yet reached the delivery period must be purchased. By rolling, an investor with a rolling position in a COMEX® silver futures contract avoids delivering the underlying commodity while maintaining exposure to silver.

### **Risk**

The ETF is very different from most other exchange-traded funds. The ETF uses leverage, and is riskier than funds that do not. The ETF does not and should not be expected to return twice the inverse return of the Referenced Futures Contract over any period of time other than **daily**. Investors should monitor their investment in the ETF as often as daily.

The ETF's returns over periods longer than one day will likely differ in amount and possibly direction from the inverse performance of the Referenced Futures Contract for the same period. This effect becomes more pronounced as the volatility of the Referenced Futures Contract increases.

Investments in the units of the ETF are speculative, involve a high degree of risk and are suitable only for persons who are able to assume the risk of losing their entire investment. 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](http://www.horizonsetfs.com) or from [www.sedar.com](http://www.sedar.com), or by calling Horizons ETFs Management (Canada) Inc. at (toll free) 1-866-641-5739, or at (416) 933-5745.

- Commodity risk
- Leverage risk
- Long term performance risk
- Price volatility risk
- Spot v. futures risk
- Aggressive investment technique risk
- Concentration risk
- Trading in derivatives is highly leveraged
- Corresponding net asset value risk
- Counterparty risk
- Inverse correlation risk
- Liquidity risk
- Market risk
- Early closing risk
- Regulatory risk
- Commodity market risk
- No assurance of meeting investment objective
- Tax risk
- Conflicts of interest
- Price limit risk
- Liability of unitholders
- No assurance of continued participation
- Reliance on the manager and the portfolio manager
- Reverse repurchase transaction risk
- Designated broker/dealer risk
- Exchange risk
- Borrowing risk
- Foreign exchange risk
- Exchange rate risk
- Securities lending risk

## Management Discussion of Fund Performance (continued)

The degree of the price volatility risk will vary from period to period depending on the volatility of the Referenced Futures Contract. Please refer to the Results of Operations section for further discussion on the impact of price volatility on the performance of the ETF relative to its Referenced Futures Contract.

### Results of Operations

The net asset value per unit of the ETF increased by 31.57% from January 1, 2014 to December 31, 2014. This compares to a decrease of the compounded value of 20.49% for the Referenced Futures Contract over the same period. The above figures are adjusted for distributions, if any. **This ETF does not seek to meet its investment objective over any period other than daily, as the ETF is rebalanced daily to ensure an investor's risk is limited to the current value of their investment.**

The ETF's returns over periods longer than one day will likely differ in amount and possibly direction from the inverse performance of the Referenced Futures Contract for the same period. This effect becomes more pronounced as the volatility of the Referenced Futures Contract increases.

For the year ended December 31, 2014, the price of COMEX® 1-month silver futures (the "Silver Futures") reached its high closing price for the period of U.S.\$22.09 per ounce (/oz) on February 24, 2014 after a 14.04% run up from the end of 2013. From there, the price of Silver Futures proceeded in an almost straight-line decline to hit the low close for the first half of the year of U.S.\$18.68/oz on May 30, 2014, a fall of 15.44% from the February high.

With renewed geopolitical concerns in Ukraine and the Middle East, the price of silver, along with other precious metals, rose from the May lows to hit a closing price of U.S.\$21.51/oz on July 10, up 15.15% from the end of May. That rally was short-lived though. From mid-July until the beginning of November, Silver Futures set off on a more dramatic decline, falling 28.36% and hitting the low closing price for the year of U.S.\$15.41/oz on November 6. Though the Silver Futures rallied briefly to the \$17.30/oz level in early December, they declined into year-end finishing just off the lows for the year at a closing price of \$15.60/oz on December 31, 2014. The rolling one month COMEX® silver futures contract returned -20.49% for the year ended December 31, 2014 largely as a result of that July-November period.

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 silver futures market 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 daily correlation of the ETF to its stated Referenced Futures Contract since inception was 0.9999. A perfect daily correlation of 200% of the daily inverse return of the Referenced Futures Contract would be a correlation of 1.0.

While the objective of the ETF is to seek **daily** investment results, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to two times (200%) the daily inverse performance of the Referenced Futures Contract, when performance is measured over periods other than daily, the ETF may experience greater volatility than the Referenced Futures Contract or the securities comprising the Referenced Futures Contract due to the compounding effect inherent in seeking a multiple of the Referenced Futures Contract, and thus has the potential for greater losses.

When comparing the returns of the ETF and the Referenced Futures Contract over any period **other than daily**, the volatility of the Referenced Futures Contract is a significant factor as a result of the rebalancing process. The following table illustrates the impact of two factors, benchmark volatility and benchmark performance, on a leveraged fund's period performance. The table shows estimated fund returns for a number of combinations of benchmark performance and benchmark volatility over a one year period.

**Management Discussion of Fund Performance** (continued)

Assumptions used in the table include: a) no ETF expenses and b) borrowing/lending rates (to obtain leverage) of zero percent. If the ETF's expenses were included, the ETF's performance would be lower than shown.

One Year Benchmark Performance	-200% One Year Benchmark Performance	Benchmark Volatility			
		0%	25%	50%	75%
-40%	80%	177.8%	130.3%	31.2%	-48.6%
-20%	40%	56.3%	29.5%	-26.2%	-71.1%
0%	0%	0.0%	-17.1%	-52.8%	-81.5%
20%	-40%	-30.6%	-42.4%	-67.2%	-87.2%
40%	-80%	-49.0%	-57.7%	-75.9%	-90.6%

Per the above, it can be concluded that for any given benchmark return, increased volatility will negatively impact the relative period performance of the ETF to the Referenced Futures Contract.

The annualized volatility of each of the Referenced Futures Contract and the ETF was 28.55% and 46.65%, respectively, for the year ended December 31, 2014.

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 forward agreement, which is rebalanced daily and is tied to the performance of the ETF's Referenced Futures Contract. 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 during the daily rebalancing of the forward agreement.

**Leverage**

The ETF measures leverage in terms of the total underlying notional value of the securities and/or financial derivative positions as a ratio of the total assets held by such ETF. The ETF, unlike a mutual fund that is not subject to National Instrument 81-104 ("NI 81-104"), is permitted by NI 81-104 to lever its assets: that is, the aggregate underlying market exposure of all derivatives held by the ETF calculated on a daily mark-to-market basis can exceed the ETF's cash and cash equivalents, including cash and securities held as margin on deposit to support the ETF's derivatives trading activities. The ETF will generally not use leverage in excess of 2.0 times its net asset value. If the ETF uses leverage in excess of 2.0 times its net asset value, it shall generally reduce its leverage to 2.0 times its net asset value within 10 business days.

Until recently, leverage had been achieved primarily through an original share purchase agreement (the "Original Forward Agreement"). As a consequence of the amendments to the *Income Tax Act* (Canada) (the "Tax Act") announced by the Ministry of Finance in the federal government's budget on March 21, 2013 (see *Recent Developments*), the Original Forward Agreement was replaced by new forward agreements ("New Forward Agreements") in late 2013.

The ETF has entered into multiple New Forward Agreements with National Bank of Canada ("NBC") and Canadian Imperial Bank of Commerce ("CIBC") as bank counterparties (each a "New Forward Counterparty"). The New Forward Agreements provide both positive exposure to the Referenced Futures Contract and negative exposure to the Referenced Futures Contract. The ETF now seeks to achieve its investment objective and leverage through the net exposure of its respective New Forward Agreements that it previously sought to achieve with the Original Forward Agreement (collectively, the "Forward Agreement(s)"). The ETF generally invests its assets in interest bearing accounts and short-term Canadian federal or provincial treasury bills to earn prevailing short-term market interest rates to serve as collateral for the New Forward Agreements.

## Management Discussion of Fund Performance (continued)

The Original Forward Agreement counterparties and New Forward Counterparties (collectively, the “Counterparties”) to any Forward Agreements 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 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 Counterparties 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 Counterparties 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”.

The New Forward Agreements entered into by the ETF may have terms to maturity of less than one year but generally are longer than one year. Counterparties are subject to the applicable short-term or long-term designated ratings restrictions listed above. The New Forward Counterparties meet those designated ratings requirements.

Since the New Forward Agreements, like most forward agreements, may settle the obligations of each party on a net basis, the exposure of the ETF to the credit risk of any one Counterparty is limited to the positive mark-to-market of the New Forward Agreements entered into with that Counterparty, which is calculated and accrued on a daily basis.

The minimum and maximum leverage for the ETF was 2.00:1. Maximum and minimum leverage factors are not adjusted for capital stock activity. Leverage was adjusted daily to be within limits set out in the prospectus. At the end of the reporting period, leverage was 2.00:1, which represented approximately 200% of the ETF’s net assets.

### 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 January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 17 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 assets for periods starting on or after January 1, 2013 is referring to net assets or increase (decrease) in assets attributable to holders of redeemable units as reported under IFRS.



## Management Discussion of Fund Performance (continued)

### ***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, and did not affect the ongoing engagement of ProShare Advisors LLC as the ETF’s portfolio manager (the “Portfolio Manager”). 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.

### ***Tax Changes Announced in the Federal Budget***

In the federal budget delivered in March 2013, the Finance Minister announced many targeted tax measures aimed at addressing what the government considers tax “loopholes” in the Canadian tax system. Among these measures were changes to the method of recognition of what the government labels as “character conversion transactions”. A character conversion transaction seeks to reduce tax by converting, through derivative contracts, the returns on an investment that would normally be considered to be ordinary income, to capital gains which are only 50% taxable.

Under the changes to the Tax Act, gains realized by the ETF on the disposition of property under an “equity derivative forward agreement”, as defined below, will be treated as ordinary income and losses may be deducted from income. An equity derivative forward agreement is defined to mean an agreement entered into on or after March 21, 2013 to sell (or purchase) capital property where the term of the agreement exceeds 180 days or the agreement is part of a series of agreements entered into on or after March 21, 2013 with a term that exceeds 180 days and where the sale price (or purchase price) of the property is determined by reference to, for example, the value of other property.

These changes did not apply to the gains and losses realized by the ETF in connection with the settlement of the ETF’s Original Forward Agreement.

The New Forward Agreements are not considered to be “equity derivative forward agreements”, as defined above. The ETF will recognize income under a New Forward Agreement when it is realized upon partial settlements or upon maturity of the New Forward Agreement. This may result in significant gains being realized by the ETF at such times and such gains would be taxable as ordinary income. To the extent such income is not offset by any available deductions, it would be distributed to applicable unitholders in the taxation year in which it is realized and included in such unitholder’s income for the year.

Since its inception, the ETF has not been in a position to make any such distributions of income or capital gains to its unitholders.

### **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.

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## 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 National Bank of Canada 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, 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 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 for the past five fiscal years. 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	2012	2011	2010
<b>Net assets, beginning of year</b> <sup>(1)</sup>	\$ 8.43	4.78	7.21	10.87	47.88
<b>Increase (decrease) from operations:</b>					
Total revenue	0.05	0.01	0.01	–	–
Total expenses	(0.19)	(0.16)	(0.07)	(0.08)	(0.28)
Realized gains (losses) for the year	3.72	4.01	0.91	(1.29)	(14.76)
Unrealized gains (losses) for the year	(1.65)	0.15	(1.56)	3.51	(24.36)
<b>Total increase (decrease) from operations</b> <sup>(3)</sup>	1.93	4.01	(0.71)	2.14	(39.40)
<b>Total distributions</b> <sup>(4)</sup>	–	–	–	–	–
<b>Net assets, end of year</b> <sup>(2)(5)</sup>	\$ 11.09	8.43	4.77	7.21	10.87

(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 June 29, 2009. Information from 2014 and 2013 is in accordance with IFRS. Information for years prior to 2013 is reported under Canadian GAAP.

(2) Differences may result from a comparison of the fair valuation of securities held by the ETF for financial reporting purposes prior to January 1, 2013 under Canadian GAAP, versus the market value used to determine the net asset value of the ETF for the purchase and redemption of the ETF's units. As a result, the net assets per unit presented in the financial statements may differ from the net asset value per unit presented in these Financial Highlights.

(3) Net assets per unit and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.

(4) Distributions, if any, were paid in cash, reinvested in additional units of the ETF, or both.

(5) The Financial Highlights are not intended to act as a continuity of the opening and closing net assets per unit.

**Financial Highlights** (continued)

**Ratios and Supplemental Data**

Year <sup>(1)</sup>	2014	2013	2012	2011	2010
Total net asset value <sup>(2)</sup> (000's)	\$ 3,360	7,902	12,617	23,040	12,806
Number of units outstanding (000's)	303	938	2,638	3,188	1,175
Management expense ratio <sup>(3)</sup>	1.50%	1.46%	1.37%	1.30%	1.34%
Management expense ratio before waivers and absorptions <sup>(3)</sup>	1.99%	1.52%	1.52%	1.52%	1.92%
Trading expense ratio <sup>(4)</sup>	0.81%	0.84%	0.92%	0.88%	0.89%
Portfolio turnover rate <sup>(5)</sup>	0.00%	267.15%	526.30%	494.04%	229.37%
Net asset value per unit, end of year <sup>(2)</sup>	\$ 11.09	8.43	4.78	7.23	10.88
Closing market price	\$ 10.92	8.37	4.73	7.34	10.84

(1) This information is provided as at December 31 of the years shown. The ETF effectively began operations on June 29, 2009. Information from 2014 and 2013 is in accordance with IFRS. Information for years prior to 2013 is reported under Canadian GAAP.

(2) Differences may result from a comparison of the fair valuation of securities held by the ETF for financial reporting purposes prior to January 1, 2013 under Canadian GAAP, versus the market value used to determine the net asset value of the ETF for the purchase and redemption of the ETF's units. As a result, the net assets per unit presented in the financial statements may differ from the net asset value per unit presented in these Financial Highlights.

(3) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the year. Out of its management fees, the Manager pays for such services to the ETF as portfolio advisor compensation, administration, service fees and marketing. The Manager, at its discretion, waived and/or absorbed 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, forward agreement fees and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.

(5) The ETF's portfolio turnover rate indicates how actively 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 1.15%. Approximately 100% of management fees were used for investment management, other general administration and profit. Fees payable to the Investment Manager, which include the fees paid to the Portfolio Manager, are paid from the management fees.

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 units of the ETF.

The ETF, and not the Manager, is responsible for all brokerage expenses and commissions, income taxes, sales tax, costs associated with the Independent Review Committee of the ETF, filing fees, costs associated with delivering documents to unitholders, fees payable to the CDS Clearing and Depository Services Inc., annual stock exchange fees, annual index licensing fees, if applicable, withholding taxes and extraordinary expenses. 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.

**Financial Highlights** (continued)

Fees related to the operation of the Forward Agreements are not included in the management fees or other operating expenses of the ETF. Forward fees and applicable hedging costs related to the Forward Agreements, as described in the “Fees and Expenses” section of the ETF’s prospectus, are incurred by way of a reduction in the forward price payable to the ETF by the Counterparties. For the purposes of financial reporting, these expenses have been broken out and disclosed in “transaction costs” in the statements of comprehensive income and are included in the trading expense ratio in the management report of fund performance.

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

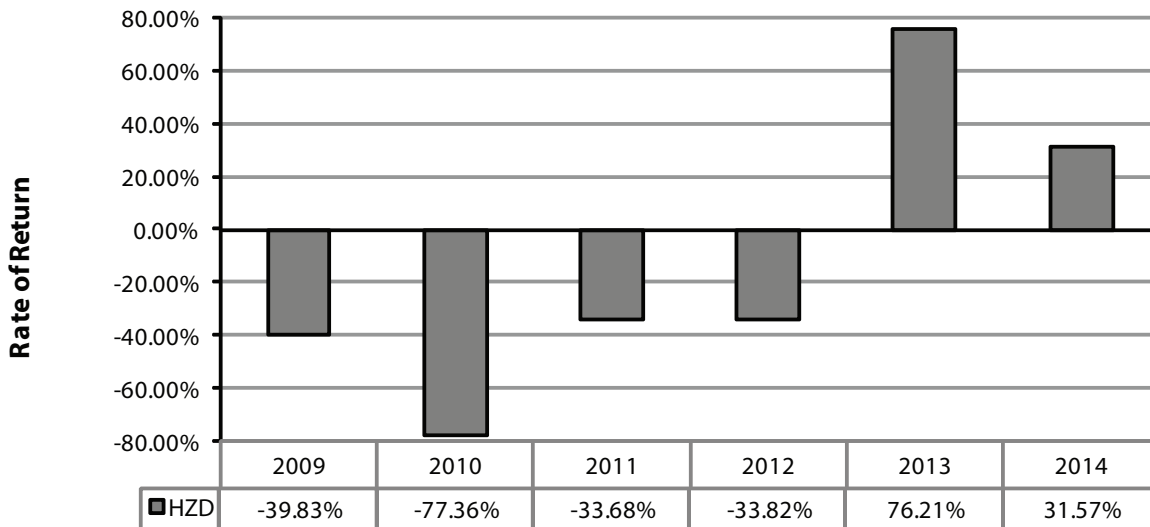
<b>Marketing</b>	<b>Portfolio management fees, general administrative costs and profit</b>	<b>Waived/absorbed expenses of the ETF</b>
5%	56%	39%

## Past Performance

Sales 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 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 that financial period.



The ETF effectively began operations on June 29, 2009.

**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.

	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>Since Inception</b>
Horizons HZD	31.57%	15.32%	-25.43%	-30.14%
COMEX® silver futures contract - subsequent month delivery	-20.49%	-18.57%	-2.52%	0.99%

The ETF effectively began operations on June 29, 2009.

**This ETF does not seek to meet its investment objective over any period other than daily, as the ETF is rebalanced daily to ensure an investor's risk is limited to the current value of their investment.**

The ETF's returns over periods longer than one day will likely differ in amount and possibly direction from the inverse performance of the Referenced Futures Contract for the same period. This effect becomes more pronounced as the volatility of the Referenced Futures Contract increases.

The daily correlation of the ETF to its stated Referenced Futures Contract since inception was 0.9999. A perfect daily correlation of 200% of the daily inverse return of the Referenced Futures Contract would be a correlation of 1.0.

## Summary of Investment Portfolio

As at December 31, 2014

<b>Asset Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
Investments	\$ 1,569,481	46.71%
Cash and Cash Equivalents held for Collateral	1,730,626	51.50%
Cash and Cash Equivalents – Other	62,532	1.86%
Other Assets less Liabilities	(2,388)	-0.07%
	<b>\$ 3,360,251</b>	<b>100.00%</b>

<b>Top Holdings</b>	<b>% of ETF's Net Asset Value</b>
Cash and Cash Equivalents held for Collateral	51.50%
Forward Agreements (net notional value US\$5,789,544)	46.71%

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](http://www.horizonsetfs.com).



### MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying audited annual financial statements of Horizons BetaPro COMEX® Silver Bear Plus 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  
Director  
Horizons ETFs Management (Canada) Inc.



Howard Atkinson  
Director  
Horizons ETFs Management (Canada) Inc.

## INDEPENDENT AUDITORS' REPORT

### To the Unitholders of Horizons BetaPro COMEX® Silver Bear Plus ETF (the "ETF")

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

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

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



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

## Statements of Financial Position

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

	December 31, 2014	December 31, 2013	January 1, 2013
<b>Assets</b>			
Cash and cash equivalents held for collateral	\$ 1,730,626	\$ 2,459,863	\$ –
Cash and cash equivalents – other	62,532	54,793	204,414
Investments	–	2,459,353	9,642,773
Amounts receivable relating to accrued income	2,757	5,863	16,155
Derivative assets (note 3)	2,409,601	2,959,547	2,776,805
<b>Total assets</b>	<b>4,205,516</b>	<b>7,939,419</b>	<b>12,640,147</b>
<b>Liabilities</b>			
Accrued expenses	5,145	12,555	23,448
Derivative liabilities (note 3)	840,120	24,725	–
<b>Total liabilities</b>	<b>845,265</b>	<b>37,280</b>	<b>23,448</b>
<b>Total net assets (note 2)</b>	<b>\$ 3,360,251</b>	<b>\$ 7,902,139</b>	<b>\$ 12,616,699</b>
Number of redeemable units outstanding, (note 11)	303,000	937,500	2,637,500
Total net assets per unit (note 2)	\$ 11.09	\$ 8.43	\$ 4.78

(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 Years Ended December 31,

	2014	2013
<b>Income</b>		
Interest income for distribution purposes	\$ 29,458	\$ 662
Securities lending income	3,130	20,397
Net realized gain on sale of investments and derivatives	2,350,977	11,036,947
Net change in unrealized appreciation (depreciation) of investments and derivatives	(1,044,915)	413,636
	<b>1,338,650</b>	<b>11,471,642</b>
<b>Expenses</b>		
Management fees (note 12)	63,523	237,940
Annual stock exchange listing fees	3,374	2,823
Index licensing fees	3,522	13,148
Filing fees	24,942	28,708
Independent Review Committee fees	102	496
Securityholder reporting costs	5,144	3,373
Transaction costs	40,955	158,062
	<b>141,562</b>	<b>444,550</b>
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(24,602)	(11,073)
	<b>116,960</b>	<b>433,477</b>
<b>Increase in net assets for the year (note 2)</b>	<b>\$ 1,221,690</b>	<b>\$ 11,038,165</b>
Increase in net assets per unit (note 2)	\$ 1.93	\$ 4.01

(See accompanying notes to financial statements)

## Statements of Changes in Financial Position

For the Years Ended December 31,

	<b>2014</b>	<b>2013</b>
<b>Total net assets at the beginning of the year (note 2)</b>	\$ 7,902,139	\$ 12,616,699
<b>Increase in net assets (note 2)</b>	1,221,690	11,038,165
<b>Redeemable unit transactions</b>		
Proceeds from the issuance of securities of the investment fund	13,730,227	71,177,215
Aggregate amounts paid on redemption of securities of the investment fund	(19,493,805)	(86,929,940)
<b>Total net assets at the end of the year (note 2)</b>	<b>\$ 3,360,251</b>	<b>\$ 7,902,139</b>

(See accompanying notes to financial statements)

## Statements of Cash Flows

For the Years Ended December 31,

	2014	2013
<b>Cash flows from operating activities:</b>		
Increase in net assets for the year (note 2)	\$ 1,221,690	\$ 11,038,165
Adjustments for:		
Net realized gain on sale of investments and derivatives	(2,350,977)	(11,036,947)
Net change in unrealized depreciation (appreciation) of investments and derivatives	1,044,915	(413,636)
Purchase of investments	40,955	(23,972,374)
Proceeds from the sale of investments	5,089,801	42,448,360
Amounts receivable relating to accrued income	3,106	10,292
Accrued expenses	(7,410)	(10,893)
<b>Net cash from operating activities</b>	<b>5,042,080</b>	<b>18,062,967</b>
<b>Cash flows from financing activities:</b>		
Amount received from the issuance of units	13,730,227	71,177,215
Amount paid on redemptions of units	(19,493,805)	(86,929,940)
<b>Net cash used in financing activities</b>	<b>(5,763,578)</b>	<b>(15,752,725)</b>
<b>Net increase (decrease) in cash and cash equivalents for the year</b>	<b>(721,498)</b>	<b>2,310,242</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>2,514,656</b>	<b>204,414</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 1,793,158</b>	<b>\$ 2,514,656</b>
Interest received	\$ 33,023	\$ 10,954

(See accompanying notes to financial statements)

## Schedule of Investments

As at December 31, 2014

<b>Security</b>	<b>Fair Value</b>
<b>FORWARD AGREEMENTS (46.71%)</b>	
<b>Positive Exposure Forward Agreements (-25.00%)</b>	
COMEX® Silver Forward Agreement	
Payment Date September 16, 2019 (notional value US\$47,829)	\$ (6,743)
COMEX® Silver Forward Agreement	
Payment Date October 15, 2019 (notional value US\$7,115,237)	(833,377)
	<u>(840,120)</u>
<b>Negative Exposure Forward Agreements (71.71%)</b>	
COMEX® Silver Forward Agreement	
Payment Date September 16, 2019 (notional value US\$1,480,302)	44,395
COMEX® Silver Forward Agreement	
Payment Date October 1, 2019 (notional value US\$11,472,308)	2,365,206
	<u>2,409,601</u>
<b>TOTAL FORWARD AGREEMENTS</b>	<b><u>1,569,481</u></b>
<b>CASH AND CASH EQUIVALENTS HELD FOR COLLATERAL (51.50%)</b>	<b><u>1,730,626</u></b>
<b>TOTAL INVESTMENT PORTFOLIO (98.21%) (note 9)</b>	<b><u>\$ 3,300,107</u></b>
<b>Cash and cash equivalents – other (1.86%)</b>	62,532
<b>Other assets less liabilities (-0.07%)</b>	(2,388)
<b>TOTAL NET ASSETS (100.00%) (note 2)</b>	<b><u>\$ 3,360,251</u></b>

(See accompanying notes to financial statements)

## Notes to Financial Statements

For the Years Ended December 31, 2014 and 2013

### 1. REPORTING ENTITY

Horizons BetaPro COMEX® Silver Bear Plus ETF (the “ETF” or “Horizons HZD”) is an investment trust established under the laws of the Province of Ontario by Declaration of Trust and effectively began operations on June 29, 2009. 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 symbol HZD. 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 HZD seeks **daily investment results**, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to two times (200%) the inverse (opposite) of the daily performance of the COMEX® silver futures contract for a subsequent delivery month (the “Referenced Futures Contract”). Horizons HZD is denominated in Canadian dollars. Any U.S. dollar gains or losses as a result of the ETF’s investment will be hedged back to the Canadian dollar to the best of the ETF’s ability.

If Horizons HZD is successful in meeting its investment objective, its net asset value should gain approximately two times as much, on a percentage basis, as the COMEX® silver futures contract for a subsequent delivery month when the COMEX® silver futures contract for that delivery month falls on a given day. Conversely, Horizons HZD’s net asset value should lose approximately two times as much, on a percentage basis, as the COMEX® silver futures contract for a subsequent delivery month when the COMEX® silver futures contract for that delivery month rises on a given day.

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, and did not affect the ongoing engagement of ProShare Advisors LLC as the ETF’s portfolio manager (the “Portfolio Manager”). 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 January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 17 discloses the impact of the transition to IFRS on the ETF’s reported financial position,



**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2014 and 2013

financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used previously under Canadian GAAP.

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

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

**(ii) Basis of measurement**

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

**(iii) Functional and presentation currency**

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

- Financial assets at fair value through profit or loss:
  - Held for trading: derivative financial instruments
  - Designated as at fair value through profit or loss: debt securities and equity investments, 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 Years Ended December 31, 2014 and 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. Cash and cash equivalents held for collateral consists of cash and short-term investments posted as collateral to the Forward Agreements as described in note 9.

**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 Years Ended December 31, 2014 and 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 10).

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 12.

**(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 Years Ended December 31, 2014 and 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 forward 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 Years Ended December 31, 2014 and 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, to the best of its ability, hedges all of its foreign currency exposure back to the Canadian dollar as part of any Forward Agreement (see note 9) so that it has no net foreign currency exposure.

**(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 does not seek to meet its investment objective over any period other than daily, as the ETF is rebalanced daily to ensure an investor's risk is limited to the current value of their investment.**

The ETF's returns over periods longer than one day will likely differ in amount and possibly direction from the inverse performance of the Referenced Futures Contract for the same period. This effect becomes more pronounced as the volatility of the Referenced Futures Contract increases.

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2014 and 2013

The daily correlation of the ETF to its stated Referenced Futures Contract since inception was 0.9999. A perfect daily correlation of 200% of the daily inverse return of the Referenced Futures Contract would be a correlation of 1.0.

While the objective of the ETF is to seek **daily** investment results, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to two times (200%) the daily inverse performance of the Referenced Futures Contract, when performance is measured over periods other than daily, the ETF may experience greater volatility than its Referenced Futures Contract or the securities comprising the Referenced Futures Contract due to the compounding effect inherent in seeking a multiple of the Referenced Futures Contract, and thus has the potential for greater losses.

When comparing the returns of the ETF and the Referenced Futures Contract over any period **other than daily**, the volatility of the Referenced Futures Contract is a significant factor as a result of the rebalancing process. The following table illustrates the impact of two factors, benchmark volatility and benchmark performance, on a leveraged fund's period performance. The table shows estimated fund returns for a number of combinations of benchmark performance and benchmark volatility over a one year period.

Assumptions used in the table include: a) no ETF expenses and b) borrowing/lending rates (to obtain leverage) of zero percent. If the ETF's expenses were included, the ETF's performance would be lower than shown.

One Year Benchmark Performance	-200% One Year Benchmark Performance	Benchmark Volatility			
		0%	25%	50%	75%
-40%	80%	177.8%	130.3%	31.2%	-48.6%
-20%	40%	56.3%	29.5%	-26.2%	-71.1%
0%	0%	0.0%	-17.1%	-52.8%	-81.5%
20%	-40%	-30.6%	-42.4%	-67.2%	-87.2%
40%	-80%	-49.0%	-57.7%	-75.9%	-90.6%

Per the above, it can be concluded that for any given benchmark return, increased volatility will negatively impact the relative period performance of the ETF to its Referenced Futures Contract.

The annualized volatility of each of the Referenced Futures Contract and the ETF was 28.55% and 46.65%, respectively, for the year ended December 31, 2014.

**(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 Forward Agreement(s). This amount is included in "Derivative assets" (if any) in the statements of financial position. The credit risk related to any one Forward Agreement is concentrated in the Counterparty to that particular Forward 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 9.

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2014 and 2013

**(c) Liquidity risk**

Liquidity risk is the risk that the ETF will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The ETF may, at times, have very large purchase and redemption activity. However, the performance of the ETF is primarily affected by the performance of its Forward Agreement(s), which are rebalanced daily and is tied to the performance of the Referenced Futures Contract. 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 during the daily rebalancing of the Forward Agreement(s).

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

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

Category	Net Changes at FVTPL (\$)	
	December 31, 2014	December 31, 2013
<b>Financial assets (liabilities) at FVTPL:</b>		
Held for trading	(987,506)	309,908
Designated at fair value	2,293,568	11,140,675
<b>Total financial assets (liabilities) at FVTPL</b>	<b>1,306,062</b>	<b>11,450,583</b>

**7. FAIR VALUE MEASUREMENT**

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

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

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

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2014 and 2013

December 31, 2014	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
<b>Financial Assets</b>			
New Forward Agreement	–	2,409,601	–
<b>Total Financial Assets</b>	–	<b>2,409,601</b>	–
<b>Financial Liabilities</b>			
New Forward Agreement	–	(840,120)	–
<b>Total Financial Liabilities</b>	–	<b>(840,120)</b>	–
<b>Total Financial Assets &amp; Liabilities</b>	–	<b>1,569,481</b>	–

December 31, 2013	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
<b>Financial Assets</b>			
Common shares	2,459,353	–	–
Original Forward Agreement	–	2,959,547	–
<b>Total Financial Assets</b>	<b>2,459,353</b>	<b>2,959,547</b>	–
<b>Financial Liabilities</b>			
New Forward Agreement	–	(24,725)	–
<b>Total Financial Liabilities</b>	–	<b>(24,725)</b>	–
<b>Total Financial Assets &amp; Liabilities</b>	<b>2,459,353</b>	<b>2,934,822</b>	–

January 1, 2013	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
<b>Financial Assets</b>			
Common shares	9,642,773	–	–
Original Forward Agreement	–	2,776,805	–
<b>Total Financial Assets</b>	<b>9,642,773</b>	<b>2,776,805</b>	–
<b>Total Financial Liabilities</b>	–	–	–
<b>Total Financial Assets &amp; Liabilities</b>	<b>9,642,773</b>	<b>2,776,805</b>	–

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

**8. LEVERAGE**

The ETF measures leverage in terms of the total underlying notional value of the securities and/or financial derivative positions as a ratio of the total assets held by such ETF. The ETF, unlike a mutual fund that is not subject to National Instrument 81-104 (“NI 81-104”), is permitted by NI 81-104 to lever its assets: that is, the aggregate underlying market exposure of all derivatives held by the ETF calculated on a daily mark-to-market basis can exceed the ETF’s cash and cash equivalents, including cash held as margin on deposit to support the ETF’s derivatives trading activities. The ETF will generally not use leverage in excess of 2.0 times its net asset value. If the ETF uses leverage in excess of 2.0 times its net asset value, it shall generally reduce its leverage to 2.0 times its net asset value within 10 business days.



**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2014 and 2013

The minimum and maximum leverage for the ETF was 2.00:1. Maximum and minimum leverage factors are not adjusted for securityholder activity. Leverage was adjusted daily to be within limits set out in the prospectus. At the end of the reporting period, leverage was 2.00:1, which represented approximately 200% of the ETF's net assets.

**9. ORIGINAL AND NEW FORWARD AGREEMENTS AND COLLATERAL PLEDGED**

Since its inception, the ETF had entered into original forward agreements ("Original Forward Agreements") for the purpose of pursuing its investment objective or as a substitute for investing directly in securities. As a consequence of the amendments to the *Income Tax Act* (Canada) (the "Tax Act") announced by the Minister of Finance in the federal government's budget on March 21, 2013, the ETF, in late 2013, began to employ new forward agreements ("New Forward Agreement(s)"), interest bearing accounts and short-term Canadian federal or provincial treasury bills ("T-bills") to achieve its investment objectives in place of any previous Original Forward Agreement(s) and investments in Canadian equity securities.

**(a) Original Forward Agreement**

Pursuant to any previous Original Forward Agreement entered into by the ETF, at the option of the ETF, either the counterparty to that Original Forward Agreement (the "Original Forward Counterparty") would pay to the ETF an amount equal to a notional investment amount (the "Leveraged Investment Amount"), which was derived from exposure to the Referenced Futures Contract, in exchange for the ETF delivering to the Original Forward Counterparty a basket of Canadian common equities (the "Common Share Portfolio"); or, the Original Forward Counterparty would pay to the ETF the amount (if any) by which the Leveraged Investment Amount exceeded the fair market value of the Common Share Portfolio on the maturity date, or early termination date, of that Original Forward Agreement (the "Common Share Portfolio Maturity Value"); or, the ETF would pay to the Original Forward Counterparty the amount (if any) by which the Common Share Portfolio Market Value exceeded the Leveraged Investment Amount on that maturity date, or early termination date.

Since an Original Forward Agreement, like most forward agreements, could settle the obligations of each party on a net basis, the exposure of the ETF to the credit risk of an Original Forward Counterparty was limited to the positive mark-to-market of the Original Forward Agreement entered into with that Original Forward Counterparty, which was calculated and accrued on a daily basis.

The Common Share Portfolio was pledged as collateral for the performance of the obligations of the ETF under the Original Forward Agreement to which the ETF was party. The strike price payable to the ETF with respect to the Common Share Portfolio by the Original Forward Counterparty to the Original Forward Agreement was calculated by reference to the Leveraged Investment Amount. The ETF terminated the Original Forward Agreements in late 2013 and mid-2014.

**(b) New Forward Agreements**

The ETF has entered into multiple New Forward Agreements with bank counterparties (each a "New Forward Counterparty"). The New Forward Agreements provide both positive exposure to the Referenced Futures Contract and negative exposure to the Referenced Futures Contract. The ETF now seeks to achieve its investment objective through the net exposure (the "Net Notional Exposure") of its respective New Forward Agreements that it previously sought to achieve with the Original Forward Agreements (collectively, the "Forward Agreement(s)").

Each New Forward Agreement with a New Forward Counterparty in which the ETF is provided with exposure that corresponds positively with the exposure to the Referenced Futures Contract requires the ETF to pay the New Forward Counterparty an agreed notional amount. In return, the New Forward Counterparty pays the ETF the value of the notional investment, plus an amount based upon any increase or decline in the Referenced Futures Contract. Each New Forward Agreement with a New Forward Counterparty in which the ETF is provided with exposure that corresponds negatively

## Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

with the exposure to the Referenced Futures Contract requires the New Forward Counterparty to pay the ETF an agreed notional amount. In return, the ETF pays the New Forward Counterparty the value of the notional investment, plus an amount based upon any increase or decline in the Referenced Futures Contract. The ETF also invests the net proceeds of unit subscriptions in interest bearing accounts and T-Bills to earn short-term money-market interest rates. The terms of the New Forward Agreements requires the ETF, for any applicable New Forward Counterparty, to pledge substantially all of its respective interest bearing account and T-Bills to the New Forward Counterparty to secure the payment of the ETF's payment obligations under the New Forward Agreements.

In respect of the New Forward Agreements, the ETF has the ability to replace the New Forward Counterparties or engage additional New Forward Counterparties at any time.

### (c) Forward Counterparty Restrictions

The Original Forward Counterparties and New Forward Counterparties (collectively, the "Counterparties") to any Forward Agreements 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 Counterparties 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 Counterparties 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".

The Forward Agreements entered into by the ETF may have terms to maturity of less than one year but generally are longer than one year. The Counterparties are subject to the applicable short-term or long-term designated ratings restrictions listed above. The Counterparties to the Forward Agreements meet those designated ratings requirements.

### (d) Forward Agreements Exposure

The table below shows the notional exposure of the ETF to Forward Agreements as at December 31, 2014 and 2013 and January 1, 2013 as measured either by the Leveraged Investment Amount, in the case of Original Forward Agreements, or Net Notional Exposure, in the case of New Forward Agreements. In addition, designated ratings for the Counterparties 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.

As at	Forward Type	Counterparty <sup>(1)(2)</sup>	Notional Exposure	Credit Risk	DBRS Rating	Fitch Rating	Moody's Rating	S&P Rating
Dec. 31, 2014	New	NBC	US\$4,357,071	\$2,365,206	AA (low)	A+	Aa3	A
	New	CIBC	US\$1,432,473	\$44,395	AA	AA-	Aa3	A+
Dec. 31, 2013	New	NBC	US\$4,609,616	-	R-1 (mid)	F1	P-1	A-1
	Original	CIBC	US\$10,256,604	\$2,959,547	R-1 (high)	F1+	P-1	A-1
Jan. 1, 2013	Original	NBC	US\$20,691,100	\$2,555,979	R-1 (mid)	F1	P-1	A-1 (low)
	Original	CIBC	US\$4,709,949	\$220,826	R-1 (high)	F1+	P-1	A-1

<sup>(1)</sup> NBC refers to National Bank of Canada

<sup>(2)</sup> CIBC refers to Canadian Imperial Bank of Commerce

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2014 and 2013

**10. 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.

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

As at	Securities Loaned	Collateral Received
December 31, 2014	–	–
December 31, 2013	\$3,939,730	\$4,248,125
January 1, 2013	\$8,857,566	\$9,432,252

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

**11. 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 Years Ended December 31, 2014 and 2013

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 years ended December 31, 2014 and 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	Beginning Units Outstanding	Units Issued	Units Redeemed	Ending Units Outstanding	Average Units Outstanding
2014	937,500	1,815,500	(2,450,000)	303,000	632,092
2013	2,637,500	12,050,000	(13,750,000)	937,500	2,755,171

**12. EXPENSES AND OTHER RELATED PARTY TRANSACTIONS**
**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 1.15%. Fees payable to the Investment Manager, which include the fees paid to the Portfolio Manager, are paid from the management fees.

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.

**Other expenses**

The ETF, and not the Manager, is responsible for all brokerage expenses and commissions, income taxes, sales tax, costs associated with the Independent Review Committee of the ETF, filing fees, costs associated with delivering documents to unitholders, fees payable to the CDS Clearing and Depository Services Inc., annual stock exchange fees, annual index licensing fees, if applicable, withholding taxes and extraordinary expenses. Fees paid to the Independent Review Committee are considered to be related party transactions and are disclosed in the statements of comprehensive income.

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2014 and 2013

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.

Fees related to the operation of the Forward Agreements are not included in the management fees or other operating expenses of the ETF. Forward fees and applicable hedging costs related to the Forward Agreements, as described in the "Fees and Expenses" section of the ETF's prospectus, are incurred by way of a reduction in the forward price payable to the ETF by the Counterparty. For the purposes of financial reporting, these expenses have been broken out and disclosed in "transaction costs" in the statements of comprehensive income and are included in the trading expense ratio in the management report of fund performance.

**Other related party transactions**

In addition to the related party fees described above, 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 are disclosed in the schedule of investments.

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

**14. 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 of the Non-Capital Losses
\$5,173,422	\$113,393	2031

**15. OFFSETTING OF FINANCIAL INSTRUMENTS**

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

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2014 and 2013

Financial Assets and Liabilities as at December 31, 2014	Amounts Offset (\$)			Amounts Not Offset (\$)		Net
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	2,409,601	–	2,409,601	(840,120)	–	1,569,481
Derivative liabilities	(840,120)	–	(840,120)	840,120	–	–

Financial Assets and Liabilities as at December 31, 2013	Amounts Offset (\$)			Amounts Not Offset (\$)		Net
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	2,959,547	–	2,959,547	–	–	2,959,547
Derivative liabilities	(24,725)	–	(24,725)	–	24,725	–

Financial Assets and Liabilities as at January 1, 2013	Amounts Offset (\$)			Amounts Not Offset (\$)		Net
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	2,776,805	–	2,776,805	–	–	2,776,805
Derivative liabilities	–	–	–	–	–	–

**16. 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.

## Notes to Financial Statements (continued)

For the Years Ended December 31, 2014 and 2013

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

### 17. 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 January 1, 2013 and December 31, 2013 and for the year ended December 31, 2013, respectively:*

<b>Statements of Financial Position</b>	<b>December 31, 2013</b>	<b>January 1, 2013</b>
Net assets reported under Canadian GAAP	\$7,900,515	\$12,568,373
Revaluation of investments at FVTPL (b)	\$1,624	\$48,326
Net assets attributable to holders of redeemable units (a)	\$7,902,139	\$12,616,699

<b>Statement of Comprehensive Income</b>	<b>December 31, 2013</b>
Comprehensive income reported under Canadian GAAP	\$11,084,867
Revaluation of investments at FVTPL (b)	\$(46,702)
Increase (decrease) in net assets attributable to holders of redeemable units	\$11,038,165

#### (a) Classification of redeemable units issued by the ETF

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

#### (b) Revaluation of investments at FVTPL

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

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