Annual Report | December 31, 2018

Horizons Cdn High Dividend Index ETF (HXH:TSX)

HORIZONS EXCHANGE TRADED FUNDS

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HORIZONS
EXCHANGE TRADED FUNDS

Letter from the President and CEO:

For both Horizons ETFs and the Canadian ETF industry, 2018 marked another great year. The industry surpassed $157 billion in assets under management ("AUM") and now has more than 770 ETF listings. Meanwhile, we launched seven new ETFs, giving us a total of 85 different investment tools available for our clients – and ended the year with $9.9 billion of AUM.

In keeping with our mandate of bringing highly innovative ETF solutions to Canadian investors, we continued to focus on the future by expanding our lineup of thematic, technology-focused ETFs. Along with our existing robotics and artificial intelligence solutions, in 2018 we introduced the Horizons Blockchain Technology & Hardware Index ETF ("BKCH"), as well as the Horizons Industry 4.0 Index ETF ("FOUR").

In 2018, we carried on our tradition of bringing first-of-their-kind ETFs to market in Canada, including the Horizons Conservative TRI ETF Portfolio ("HCON") and the Horizons Balanced TRI ETF Portfolio ("HBAL"). These one-ticket ETF solutions are designed to provide instant diversification and tax-efficient returns for investors. We also launched Canada's first actively managed emerging markets bond ETF – as well as our first socially responsible investing ETF.

This was also a very intriguing year in the cannabis investing space. To complement the world's first and largest marijuana ETF: the Horizons Marijuana Life Sciences Index ETF ("HMMJ"), we introduced a small-cap marijuana ETF – the Horizons Emerging Marijuana Growers Index ETF ("HMJR"). In early September, we saw HMMJ's AUM surpass the $1 billion threshold due to the impending legalization of recreational marijuana in October.

Along with expanding our offerings, we recently lowered the management fees on six of our existing actively managed ETFs – giving unitholders in these funds the opportunity to keep more of their investment dollars.

Regardless of the direction of markets or interest rates, we have ETF solutions that allow investors of all types to customize their portfolio exposure. Markets do change, sometimes quickly, and our family of ETFs gives investors the tools they need to help meet their objectives. For information on all our strategies, please visit our website at www.HorizonsETFs.com where we offer a range of resources designed to help you become a more educated ETF investor.

Thank you for your continued support and wishing you strong returns in 2019.

Steven J. Hawkins, President & CEO
Horizons ETFs Management (Canada) Inc.

PS: I would like to take this opportunity to thank the dedicated team of professionals that I work with here at Horizons ETFs. My recognition as CEO of the Year at the 2018 Wealth Professional Awards is a testament to their tremendous talent and passion for ETFs.

MANAGEMENT REPORT OF FUND PERFORMANCE

This annual management report of fund performance for Horizons Cdn High Dividend Index ETF ("HXH" 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 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7, by visiting our website at www.horizonsetfs.com or through SEDAR at www.sedar.com.

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

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

Management Discussion of Fund Performance

Investment Objective and Strategy

HXH seeks to replicate, to the extent possible, the performance of the Solactive Canadian High Dividend Yield Index (Total Return) (the "Underlying Index", Bloomberg ticker: SOLHXH), net of expenses. The Underlying Index is designed to measure the performance of Canadian-listed equity securities characterized by high dividend yield.

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

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

Management Discussion of Fund Performance (continued)

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

About the Underlying Index

The Solactive Canadian High Dividend Yield Index is a rules-based index which is designed to measure the performance of approximately 40 TSX-listed high dividend Canadian domiciled companies or real estate investment trusts ("REITs") with significant anticipated yield. The universe of eligible securities for the Underlying Index is selected from 400 listed TSX-listed companies or REITs which must meet a minimum size, and dividend paying requirements.

The constituent issuer selection process for the Underlying Index is to identify 40 cash dividend paying equity securities within the universe of eligible securities based upon three equally represented sectors: financials, energy and a "diversified sector" with securities chosen across all remaining industries. The selection criteria include a minimum market capitalization threshold, an expectation of cash dividends being paid over the next twelve months, and a minimum and maximum number of securities per sector. The eligible securities are then ranked based on their anticipated cash dividend yield to select the top 40 securities. In calculating the weight of a security within each equally weighted sector, the securities are float market-capitalization weighted.

Risk

The Manager performs a review of the ETF's risk rating at least annually, as well as when there is a material change in the ETF's investment objective or investment strategies. The current risk rating for the ETF is: medium.

Risk ratings are determined based on the historical volatility of the ETF as measured by the standard deviation of its performance against its mean. The risk categorization of the ETF may change over time and historical volatility is not indicative of future volatility. Generally, a risk rating is assigned to the ETF based on a rolling 10-year standard deviation of its returns, the return of its Underlying Index, or of an applicable proxy. In cases where the Manager believes that this methodology produces a result that is not indicative of the ETF's future volatility, the risk rating may be determined by the ETF's category. Risk ratings are not intended for use as a substitute for undertaking a proper and complete suitability or financial assessment by an investment advisor.

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 purchasing units.

The risks to which an investment in the ETF is subject are listed below and have not changed from the list of risks found in the ETF's most recent prospectus. A full description of each risk listed below may also be found in the most recent prospectus. The most recent prospectus is available at www.horizonsetfs.com or from www.sedar.com, or by calling Horizons ETFs Management (Canada) Inc. at (toll free) 1-866-641-5739, or at (416) 933-5745.

Management Discussion of Fund Performance (continued)

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

Results of Operations

For the year ended December 31, 2018, the units of the ETF returned -15.13%. This compares to a return of -15.03% for the Underlying Index for the same period. The above figures are adjusted for distributions, if any. This represents precise tracking in performance between the ETF and the Underlying Index before the expenses payable by the ETF, which include management fees plus applicable sales taxes.

The Solactive Canadian High Dividend Yield Index is a rules-based index which is designed to measure the performance of approximately 40 TSX-listed high dividend Canadian domiciled companies or REITs with significant anticipated yield. For the year ended December 31, 2018, the top performers in the Underlying Index were Canadian Apartment Properties Real Estate Investment Trust, Allied Properties Real Estate Investment Trust and Rogers Communications Inc., Class 'B', gaining 24.27%, 10.02% and 8.77%, respectively. The worst performers in the Underlying Index for the year were Crescent Point Energy Corp., AltaGas Ltd. and ARC Resources Ltd., returning -54.40%, -48.22% and -47.80%, respectively.

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

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

The annualized volatility of each of the Underlying Index and the ETF was 12.94% and 13.47%, respectively, for the year ended December 31, 2018.

Management Discussion of Fund Performance (continued)

Presentation

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

Swap Agreements

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

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

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

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

Recent Developments

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

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.

Management Discussion of Fund Performance (continued)

Manager, Trustee and Investment Manager

The manager, trustee and investment manager of the ETF is Horizons ETFs Management (Canada) Inc., 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7, a corporation incorporated under the laws of Ontario. The Manager is a member of the Mirae Asset Financial Group based in Seoul, South Korea.

Any management fees paid to the Manager (described in detail on page 7) are related party transactions, as the Manager is considered to be a related party to the ETF. The management fees are disclosed in the statements of comprehensive income in the attached financial statements of the ETF. The management fees payable by the ETF as at December 31, 2018 and 2017, are disclosed in the statements of financial position.

Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance since it effectively began operations on April 8, 2016. 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 [1]		2018	2017	2016
Net assets, beginning of year	$	32.02	29.50	25.00
Increase (decrease) from operations:				
Total revenue		0.02	0.02	0.02
Total expenses		(0.04)	(0.04)	(0.02)
Realized gains (losses) for the year		4.00	1.20	0.04
Unrealized gains (losses) for the year		(7.56)	1.45	4.40
Total increase (decrease) from operations [2]		(3.58)	2.63	4.44
Total distributions [3]		–	–	–
Net assets, end of year [4]	$	27.18	32.02	29.50

1. This information is derived from the ETF's audited annual financial statements.
2. Net assets per unit and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.
3. Distributions, if any, were paid in cash, reinvested in additional units of the ETF, or both.
4. The Financial Highlights are not intended to act as a continuity of the opening and closing net assets per unit.

Financial Highlights (continued)

Ratios and Supplemental Data

Year [1]		2018	2017	2016
Total net asset value (000's)	$	169,691	292,523	215,413
Number of units outstanding (000's)		6,244	9,136	7,303
Management expense ratio [2]		0.11%	0.11%	0.11%
Management expense ratio before waivers and absorptions [2]		0.11%	0.11%	0.11%
Trading expense ratio [3]		0.00%	0.00%	0.00%
Portfolio turnover rate [4]		27.36%	18.85%	0.94%
Net asset value per unit, end of year	$	27.18	32.02	29.50
Closing market price	$	27.18	32.03	29.50

1. This information is provided as at December 31 of the other years shown.
2. Management expense ratio is based on total expenses, including sales tax, (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the year. The trust declaration of the ETF requires that the Manager pay all the expenses of the ETF other than the management fee and any sales taxes on the management fee.
3. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.
4. The ETF's portfolio turnover rate indicates how actively the ETF trades its portfolio investments. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of a year. The higher an ETF's portfolio turnover rate in a year, the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of an ETF.

Management Fees

In consideration for management services and investment advice provided to the ETF, the Manager is entitled to a management fee. The management fee, inclusive of sales tax, is applied on a daily basis to the net asset value of the ETF. The management fees, exclusive of sales tax, are charged at the annual rate of 0.10%. Approximately 100% of management fees were used for management, investment management, operating costs of the ETF, other general administration and profit.

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

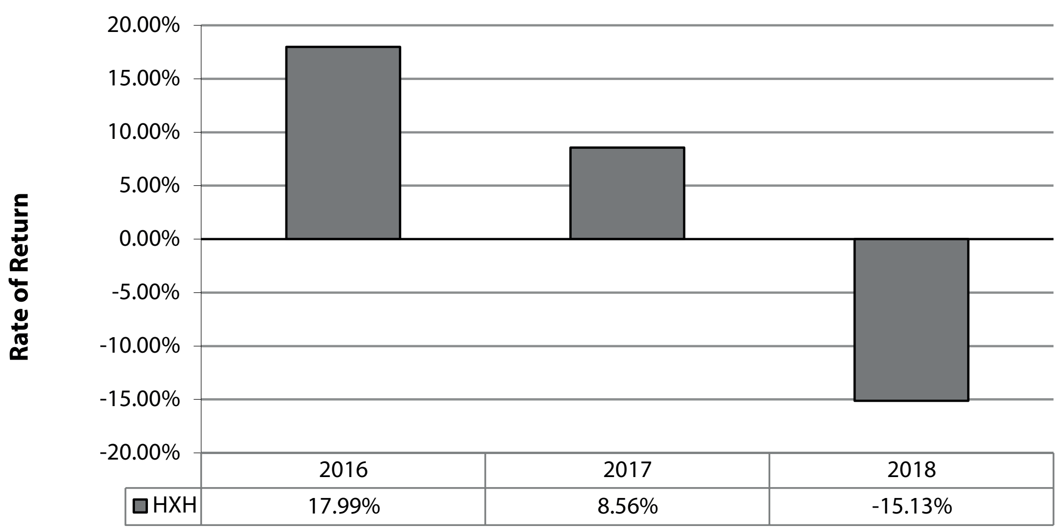
The trust declaration of the ETF requires that the Manager pay all the expenses of the ETF other than the management fee and any sales taxes on the management fee as may be applicable. As a result, the ETF does not have any other expenses.

Past Performance

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

Year-by-Year Returns

The following chart presents 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 would have grown or decreased by the last day of the financial period.



The ETF effectively began operations on Apri 8, 2016.

Past Performance (continued)

Annual Compound Returns

The following table presents the ETF's annual compound total return since inception and for the periods shown ended December 31, 2018 compared with the ETF's applicable benchmark. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the ETF or future returns on investments in the ETF.

	1 Year	Since Inception
Horizons Cdn High Dividend Index ETF	-15.13%	3.11%
Solactive Canadian High Dividend Yield Index (Total Return)	-15.03%	3.22%

The ETF effectively began operations on Apri 8, 2016.

Summary of Investment Portfolio

As at December 31, 2018

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
Canadian Equity Exposure through Index Swaps	$ 169,230,199	99.73%
Cash–Other	264,719	0.16%
Other Assets less Liabilities	196,416	0.11%
	$ 169,691,334	**100.00%**

Top Holdings	% of ETF's Net Asset Value
Cash held for Collateral	119.14%
Cash–Other	0.16%
Fair Value of Index Swaps (notional value 202,421,779)[1]	-19.41%

Top 25 Securities In the Underlying Index*—Solactive Canadian High Dividend Yield Index	% Weighting in Underlying Index
Suncor Energy Inc.	9.61%
Canadian Natural Resources Ltd.	8.75%
Enbridge Inc.	8.37%
Royal Bank of Canada	7.81%
Toronto-Dominion Bank (The)	6.97%
BCE Inc.	5.18%
TransCanada Corp.	4.88%
Bank of Nova Scotia (The)	4.72%
Nutrien Ltd.	4.47%
Bank of Montreal	3.33%
TELUS Corp.	2.89%
Rogers Communications Inc., Class 'B'	2.76%
Vermilion Energy Inc.	2.75%
Canadian Imperial Bank of Commerce	2.56%
Manulife Financial Corp.	2.25%
ARC Resources Ltd.	2.25%
Pembina Pipeline Corp.	2.25%
Fortis Inc.	2.04%
Crescent Point Energy Corp.	1.95%
AltaGas Ltd.	1.93%
Sun Life Financial Inc.	1.56%
Shaw Communications Inc., Class 'B'	1.15%
National Bank of Canada	1.09%
Emera Inc.	1.07%
Inter Pipeline Ltd.	0.82%

[1] The fair value of index swap(s) represents the amount receivable/(payable) from/(to) the counterparty of the ETF's total return swap agreement(s) as at the date of this report.

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

The summary of investment portfolio may change due to the ongoing portfolio transactions of the ETF. The most recent interim and annual reports are available at no cost by calling toll free 1-866-641-5739, or (416) 933-5745, by writing to us at Horizons ETFs Management (Canada) Inc., 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7, or by visiting our website at www.horizonsetfs.com or through SEDAR at www.sedar.com.

MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

Steven J. Hawkins	Peter Lee
Director	Director
Horizons ETFs Management (Canada) Inc.	Horizons ETFs Management (Canada) Inc.

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Horizons Cdn High Dividend Index ETF (the "ETF")

Opinion

We have audited the financial statements of the ETF, which comprise the statements of financial position as at December 31, 2018 and 2017, the statements of comprehensive income, changes in financial position and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ETF as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the ETF in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in the Management Report of Fund Performance filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the Management Report of Fund Performance filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the ETF's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the ETF or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ETF's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ETF's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the ETF to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
The engagement partner on the audit resulting in this auditors' report is Paritosh Gambhir.
Toronto, Canada
March 13, 2019

Statements of Financial Position

As at December 31,

	2018	2017
Assets		
Cash held for collateral	$ 202,169,591	$ 263,331,505
Cash - other	264,719	252,560
Amounts receivable relating to accrued income	213,165	162,350
Derivative assets (note 3)	–	28,804,549
Total Assets	**202,647,475**	**292,550,964**
Liabilities		
Accrued management fees	16,749	28,402
Derivative liabilities (note 3)	32,939,392	–
Total Liabilities	**32,956,141**	**28,402**
Total net assets (note 2)	**$ 169,691,334**	**$ 292,522,562**
Number of redeemable units outstanding (note 9)	6,244,030	9,135,541
Total net assets per unit	$ 27.18	$ 32.02

(See accompanying notes to financial statements)

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

Steven J. Hawkins
Director

Peter Lee
Director

Statements of Comprehensive Income

For the Years Ended December 31,

		2018		2017
Income				
Interest income for distribution purposes	$	156,459	$	114,667
Net realized gain on sale of investments and derivatives		32,632,644		8,195,489
Net change in unrealized appreciation (depreciation) of investments and derivatives		(61,743,941)		9,847,398
		(28,954,838)		**18,157,554**
Expenses (note 10)				
Management fees		288,284		236,340
		288,284		**236,340**
Increase (decrease) in net assets for the year	**$**	**(29,243,122)**	**$**	**17,921,214**
Increase (decrease) in net assets per unit	$	(3.58)	$	2.63

(See accompanying notes to financial statements)

Statements of Changes in Financial Position

For the Years Ended December 31,

		2018		2017
Total net assets at the beginning of the year	$	292,522,562	$	215,413,282
Increase (decrease) in net assets		(29,243,122)		17,921,214
Redeemable unit transactions				
Proceeds from the issuance of securities of the investment fund		68,805,525		106,726,071
Aggregate amounts paid on redemption of securities of the investment fund		(162,393,631)		(47,538,005)
Total net assets at the end of the year	**$**	**169,691,334**	**$**	**292,522,562**

(See accompanying notes to financial statements)

Statements of Cash Flows

For the Years Ended December 31,

		2018		2017
Cash flows from operating activities:				
Increase (decrease) in net assets for the year	$	(29,243,122)	$	17,921,214
Adjustments for:				
Net realized gain on sale of investments and derivatives		(32,632,644)		(8,195,489)
Net change in unrealized depreciation (appreciation) of investments and derivatives		61,743,941		(9,847,398)
Proceeds from the sale of investments		32,632,644		8,195,489
Amounts receivable relating to accrued income		(50,815)		(88,482)
Accrued expenses		(11,653)		12,014
Net cash from operating activities		**32,438,351**		**7,997,348**
Cash flows from financing activities:				
Amount received from the issuance of units		68,805,525		106,726,071
Amount paid on redemptions of units		(162,393,631)		(47,538,005)
Net cash from (used in) financing activities		**(93,588,106)**		**59,188,066**
Net increase (decrease) in cash and cash equivalents for the year		(61,149,755)		67,185,414
Cash at beginning of year		263,584,065		196,398,651
Cash at end of year	**$**	**202,434,310**	**$**	**263,584,065**
Interest received	$	105,644	$	26,185
Total Cash are composed of :				
Cash held for collateral	$	202,169,591	$	263,331,505
Cash - other		264,719		252,560
Cash at end of year	**$**	**202,434,310**	**$**	**263,584,065**

(See accompanying notes to financial statements)

Schedule of Investments

As at December 31, 2018

Security	Notional Value	Fair Value
INDEX SWAPS (-19.41%)		
Solactive Canadian High Dividend Yield Index Swaps, Payment Date May 2, 2023	$ 199,506,511	$ (32,739,287)
Solactive Canadian High Dividend Yield Index Swaps, Payment Date November 24, 2023	2,915,268	(200,105)
	202,421,779	(32,939,392)
TOTAL INDEX SWAPS		**(32,939,392)**
CASH HELD FOR COLLATERAL (119.14%)		**202,169,591**
TOTAL INVESTMENT PORTFOLIO (99.73%) (note 7)		**$ 169,230,199**
Cash - other (0.16%)		264,719
Other assets less liabilities (0.11%)		196,416
TOTAL NET ASSETS (100.00%)		**$ 169,691,334**

(See accompanying notes to financial statements)

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

1. REPORTING ENTITY

Horizons Cdn High Dividend Index ETF ("HXH" or the "ETF") is an investment trust established under the laws of the Province of Ontario by Declaration of Trust and effectively began operations on April 8, 2016. The address of the ETF's registered office is: c/o Horizons ETFs Management (Canada) Inc., 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7.

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 HXH. 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.

HXH seeks to replicate, to the extent possible, the performance of the Solactive Canadian High Dividend Yield Index (Total Return) (the "Underlying Index", Bloomberg ticker: SOLHXH), net of expenses. The Underlying Index is designed to measure the performance of Canadian-listed equity securities characterized by high dividend yield.

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

Horizons ETFs Management (Canada) Inc. ("Horizons Management" or the "Manager", the "Investment Manager", or the "Trustee") is the manager, investment manager and trustee of the ETF. The Investment Manager is responsible for implementing the ETF's investment strategies.

2. BASIS OF PREPARATION

(i) Statement of compliance

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

These financial statements were authorized for issue on March 13, 2019, by the Board of Directors of the Manager.

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Financial instruments

(i) Recognition, initial measurement and classification

For fiscal years beginning January 1, 2018, IFRS 9, Financial Instruments ("IFRS 9") has replaced International Accounting Standard 39, Financial Instruments – Recognition and Measurement ("IAS 39"). IFRS 9 introduces new classification and measurement requirements for financial instruments, including impairment on financial assets and hedge accounting.

This 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. The standard includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit and loss ("FVTPL"). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. IFRS 9 requires classification of debt instruments, if any, based solely on payments of principal and interests, and business model tests.

The ETF's financial assets and financial liabilities are managed and its performance is evaluated on a fair value basis. The contractual cash flows of the ETF's debt securities, if any, consist solely of principal and interest, however, these securities are neither held in held-to-collect, or held-to-collect-and-sale business models in IFRS 9. Therefore, there were no changes to the measurement basis of the ETF's financial instruments as a result of adopting IFRS 9, and consequently, there was no impact to net assets. IFRS 9 has been adopted retrospectively.

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, at fair value (see below), with transaction costs recognized in the statements of comprehensive income. Other financial assets and financial liabilities are recognized 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 mandatorily classified at fair value through profit or loss: debt securities, equity investments and derivative financial instruments (previously under IAS 39 designated at FVTPL or held for trading)
- Financial assets at amortized cost: All other financial assets (previously under IAS 39 as loans and receivables)
- Financial liabilities classified at fair value through profit or loss: derivative financial instruments and securities sold short, if any (previously under IAS 39 designated at FVTPL or held for trading)
- Financial liabilities at amortized cost: all other financial liabilities

(ii) Fair value measurement

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

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

Investments held that are not traded in an active market, including some derivative financial instruments, are valued using observable market inputs where possible, on such basis and in such manner as established by the Manager. Derivative financial instruments are recorded in the statements of financial position according to the gain or loss that would be realized if the contracts were closed out on the Valuation Date. Margin deposits, if any, are included in the schedule of investments as margin deposits. See also the summary of fair value measurements in note 6.

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

Cash consist of cash on deposit. Cash held for collateral consists of cash posted as collateral to the Swap Agreements as described in note 7.

Redeemable units

The redeemable units 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. They are classified as financial liabilities as a result of the ETF's requirement to distribute net income and capital gains to unitholders.

(b) Investment income

Investment transactions are accounted for as of the trade date. Realized gains and losses from investment transactions are calculated on a weighted average cost basis. The difference between fair value and average cost, as recorded in the financial statements, is included in the statements of comprehensive income as part of the net change in unrealized appreciation (depreciation) of investments and derivatives. Interest income for distribution purposes from investments in bonds and short-term investments, if any, represents the coupon interest received by the ETF accounted for on an accrual basis. 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 8).

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

(c) Foreign currency

Transactions in foreign currencies, 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 10.

(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.

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

Net assets attributable to holders of redeemable units per unit is calculated by dividing the ETF's net assets attributable to holders of redeemable units by the number of units of the ETF outstanding on the Valuation Date.

(i) Transaction costs

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

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 recognized 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 6 for more information on the fair value measurement of the ETF's financial instruments.

5. FINANCIAL INSTRUMENTS RISK

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

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

(a) Market risk

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2018 and 2017

(i) Currency risk

Currency risk is the risk that financial instruments which are denominated in currencies other than the ETF's reporting currency, the Canadian dollar, will fluctuate due to changes in exchange rates and adversely impact the ETF's income, cash flows or fair values of its investment holdings. The ETF has no exposure to foreign currencies.

(ii) Interest rate risk

The ETF may be exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. In general, the value of interest-bearing financial instruments will rise if interest rates fall, and conversely, will generally fall if interest rates rise. There is minimal sensitivity to interest rate fluctuation on cash and cash equivalents invested at short-term market rates since those securities are usually held to maturity and are short term in nature. The ETF does not hold any long term debt instruments to which it would have interest rate risk exposure.

(iii) Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment.

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

For the year ended December 31, 2018, the units of the ETF returned -15.13%. This compares to a return of -15.03% for the Underlying Index for the same period. The above figures are adjusted for distributions, if any.

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

(b) Credit risk

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the ETF. It arises principally from debt securities held, and also from derivative financial assets, cash and cash equivalents, and other receivables.

The ETF's maximum credit risk exposure as at the reporting date is represented by the respective carrying amounts of the financial assets in the statements of financial position, including any positive mark-to-market of the ETF's swap agreements. This amount is included in "Derivative assets" (if any) in the statements of financial position. The credit risk related to any one swap agreement is concentrated in the counterparty to that particular swap agreement.

Credit risk is managed by dealing with counterparties the Manager believes to be creditworthy and which meet the designated rating requirements of National Instrument 81-102 ("NI 81-102"), please see note 7.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2018 and 2017

(c) Liquidity risk

Liquidity risk is the risk that the ETF will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The ETF may, at times, have very large purchase and redemption activity. However, the performance of the ETF is primarily affected by the performance of its swap agreement, which is tied to the performance of the ETF's Underlying Index. The performance and liquidity of the ETF is unaffected by the asset size of the ETF, purchases or redemptions as these transactions are taken into account, as applicable, with adjustments to the notional value of the swap agreement. Generally, liabilities of the ETF are due within 90 days.

6. 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, 2018 and 2017, in valuing the ETF's investments and derivatives carried at fair values:

	December 31, 2018			December 31, 2017		
	Level 1 ($)	**Level 2 ($)**	**Level 3 ($)**	**Level 1 ($)**	**Level 2 ($)**	**Level 3 ($)**
Financial Assets						
Swaps	–	–	–	–	28,804,549	–
Total Financial Assets	**–**	**–**	**–**	**–**	**28,804,549**	**–**
Financial Liabilities						
Swaps	–	(32,939,392)	–	–	–	–
Total Financial Liabilities	**–**	**(32,939,392)**	**–**	**–**	**–**	**–**
Net Financial Assets & Liabilities	**–**	**(32,939,392)**	**–**	**–**	**28,804,549**	**–**

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, 2018 and 2017.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2018 and 2017

7. SWAP AGREEMENTS AND COLLATERAL PLEDGED

(a) Swap Agreements

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

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

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

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

(b) Swap Counterparty Restrictions

The Counterparty to the Swaps entered into by the ETF must be a chartered Canadian bank or an affiliate of a chartered Canadian bank whose obligations are guaranteed by a chartered Canadian bank, and which has a designated rating. The ETF's exposure to Swaps by Counterparty is disclosed in the next section.

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

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

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

(c) Swap Agreement Exposure

The table below shows the notional exposure of the ETF to Swaps as at December 31, 2018 and 2017. In addition, designated ratings for each Counterparty at each reporting date are presented, as is the credit risk exposure (see note 5) of derivative assets as shown in the statements of financial position.

As at	Counter-party [1] [2]	Notional Exposure	Credit Risk	DBRS Rating	Fitch Rating	Moody's Rating	S&P Rating
Dec. 31, 2018	NBC	$199,506,511	–	AA (low)	A+	Aa3	A
Dec. 31, 2018	CIBC	$2,915,268	–	AA	AA-	Aa3	A+
Dec. 31, 2017	NBC	$263,533,172	$28,804,549	AA (low)	A+	Aa3	A

[1] NBC refers to National Bank of Canada
[2] CIBC refers to Canadian Imperial Bank of Commerce

8. SECURITIES LENDING

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

As at December 31, 2018 and 2017, the ETF was not participating in any securities lending transactions. The ETF did not earn any income from securities lending transactions for the years ended December 31, 2018 and 2017.

9. 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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2018 and 2017

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.

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, 2018 and 2017, 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
2018	9,135,541	2,108,490	(5,000,001)	6,244,030	8,163,158
2017	7,303,011	3,407,530	(1,575,000)	9,135,541	6,802,483

10. EXPENSES

Management fees

In consideration for management services and investment advice provided to the ETF, the Manager is entitled to a management fee. The management fee, inclusive of sales tax, is applied on a daily basis to the net asset value of the ETF. The management fees, exclusive of sales tax, are charged at the annual rate of 0.10%. Approximately 100% of management fees were used for management, investment management, operating costs of the ETF, other general administration and profit.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2018 and 2017

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

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

The management fees paid to the Manager are considered related party transactions, as the Manager is a related party to the ETF. The management fees paid to the Manager are disclosed in the statements of comprehensive income. The management fees payable by the ETF as at December 31, 2018 and 2017, are disclosed in the statements of financial position.

11. INCOME TAX

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

12. 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, 2018, the ETF had no net capital losses or non-capital losses available.

13. 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, 2018 and 2017. The "Net" column displays what the net impact would be on the ETF's statements of financial position if all amounts were set-off.

	Amounts Offset ($)			**Amounts Not Offset ($)**		**Net ($)**
Financial Assets and Liabilities as at December 31, 2018	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	–	–	–	–	–	–
Derivative liabilities	(32,939,392)	–	(32,939,392)	–	32,939,392	–

Notes to Financial Statements (continued)

For the Years Ended December 31, 2018 and 2017

	Amounts Offset ($)			Amounts Not Offset ($)		Net ($)
Financial Assets and Liabilities as at December 31, 2017	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	28,804,549	–	28,804,549	–	–	28,804,549
Derivative liabilities	–	–	–	–	–	–

14. COMPARATIVE FINANCIAL STATEMENTS

Certain information in the comparative financial statements and/or notes to the financial statements for 2017 has been reclassified to conform to the financial statement presentation adopted for 2018.

Manager
Horizons ETFs Management (Canada) Inc.
55 University Avenue, Suite 800
Toronto, Ontario
M5J 2H7
Tel: 416-933-5745
Fax: 416-777-5181
Toll Free: 1-866-641-5739
info@horizonsetfs.com
www.horizonsetfs.com

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

Custodian
CIBC Mellon Trust Company
1 York Street, Suite 900
Toronto, Ontario
M5J 0B6

Registrar and Transfer Agent
TSX Trust Company
100 Adelaide Street West, Suite 301
Toronto, Ontario
M5H 4H1