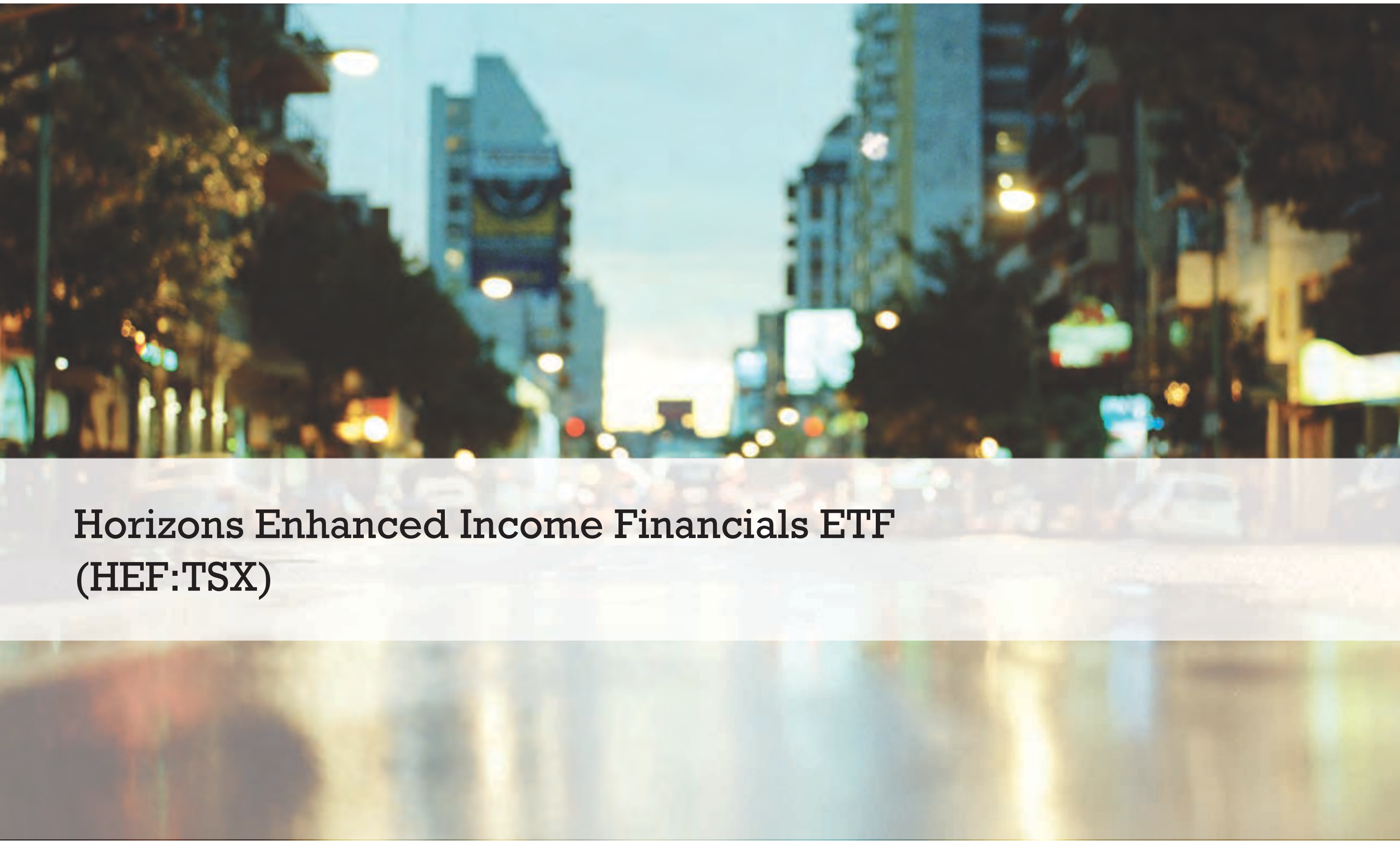
Annual Report | December 31, 2019



Horizons Enhanced Income Financials ETF (HEF:TSX)

HORIZONS ETFs by Mirae Asset

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HORIZONS ETFs
by Mirae Asset

Annual Letter from the President and CEO:

This past year was one of big change, not only for investors, but for Horizons ETFs. The markets kicked off with a roaring start after a difficult end to 2018, but by mid-June, concerns about a global recession and deflation started to rear their heads. Interestingly, investors who remained patient were rewarded with returns in excess of 20% for both Canadian and U.S. equities.

The Canadian ETF industry also hit new highs in terms of assets under management, exceeding $200 billion, while sales topped $25 billion for the year. Investment dollars in the Canadian ETF industry did not chase equity returns; instead, over 50% of inflows went into investment-grade fixed income strategies. Canadian investors spent most of the year on the defensive.

At Horizons ETFs, we believe that any type of trade agreement between China and the United States could produce additional positive equity returns, improve economic growth, and potentially spur more investor money into growth areas of the marketplace. Preferred shares and marijuana equities, two sectors that Horizons ETFs is well-known for, both appear to have neared their bottoms from a valuation perspective at the end of the year.

In the case of preferred shares, declining interest rates — specifically on the five-year government of Canada bond rate — significantly hurt the performance of the sector. However, in September, the spread on the yield offered by our asset-leading preferred share ETF, the Horizons Active Preferred Share ETF ("**HPR**"), was more than 400 basis points over the five-year rate. The last time this happened, preferred shares rallied significantly over the following 18 months. Could it be that we will see a similar rally into 2020? Certainly, returns in the asset class have stabilized, with the preferred share asset class generating positive performance in the last quarter of 2019.

Similarly, on marijuana equities — which were down more than 30% in 2019 — a bottom might be forming. Disappointment with Canadian recreational marijuana sales has impacted the revenue growth of many Canadian-based licensed producers. Using fundamental analytics, we see that price-to-book and price-to-sales on these stocks have declined significantly over the last quarter. These metrics don't account for revenue that can be generated by these companies from business operations outside of Canada. The global opportunity for both medical and recreational marijuana sales remains massive, potentially exceeding US$40.6 billion in global sales by the end of 2024, according to Arcview Market Research and BDS Analytics. As these markets outside of Canada grow, it's possible we could see enthusiasm return to the sector for many of the stocks held by the Horizons Marijuana Life Sciences Index ETF ("**HMMJ**").

More specific to Horizons ETFs, it was a big year of change for our business operations. Legislative proposals to the way ETF distributions are taxed in the primary market – the market where ETF subscriptions and redemptions are settled – forced us to re-evaluate the structure of nearly half of our ETF offerings all of which used derivatives-based investment strategies. In November, we reorganized 44 ETFs, totaling more than $5 billion in assets, into a new corporate class structure to align these ETFs with the proposed legislation.

While this was a massive undertaking, in many ways we feel that this new structure allows us to continue to offer all the same structural benefits these ETFs have provided in the past. We've built up a large unitholder base for these ETFs over the last 10 years, and we appreciate their patience as we completed the reorganization.

We think 2020 is shaping up to be an amazing start to the new decade, and we continue to look forward to empowering our unitholders with ETFs designed to help them build their best portfolios.

Thank you for your continued support. We're wishing you strong returns for 2020!

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

MANAGEMENT REPORT OF FUND PERFORMANCE

This annual management report of fund performance for Horizons Enhanced Income Financials ETF ("HEF" or the "ETF") contains financial highlights and is included with the audited annual financial statements for the investment fund. You may request a copy of the ETF's unaudited interim or audited annual financial statements, interim or annual management report of fund performance, current proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosures, at no cost, from the ETF's manager, Horizons ETFs Management (Canada) Inc. ("Horizons Management" or the "Manager"), by calling toll free 1-866-641-5739, or locally (416) 933-5745, by writing to us at: 55 University Avenue, Suite 800, Toronto ON, M5J 2H7, or by visiting our website at www.horizonsetfs.com or SEDAR at www.sedar.com.

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

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

Management Discussion of Fund Performance

Investment Objective and Strategies

The investment objective of HEF is to provide unitholders with: (a) exposure to the performance of an equal weighted portfolio of Canadian banking, finance and financial services companies; and (b) monthly distributions of dividend and call option income. HEF invests primarily in a portfolio of equity and equity related securities of Canadian companies that are primarily exposed to Canadian banking, finance and financial services sectors and that, as at the Constituent Reset Date (see below), are amongst the largest and most liquid issuers listed on the Toronto Stock Exchange ("TSX") in their sector. To mitigate downside risk and generate income, the ETF's investment manager actively manages a covered call strategy that generally writes out of the money covered call options on up to 100% of the portfolio securities. The level of covered call option writing may vary based on market volatility and other factors.

To achieve its investment objective, HEF invests in an equal weighted portfolio of Canadian companies that are involved in the Canadian banking, finance and financial services industries. Semi-annually, the investment manager selects from the largest and most liquid Canadian issuers listed on the TSX in this sector and invests HEF in each issuer equally (the "Constituent Reset Date"). HEF rebalances, on an equal weight basis, the portfolio of constituent securities on each Constituent Reset Date. The number of issuers included in the equal weighted portfolio may change on a Constituent Reset Date. Between Constituent Reset Dates, the allocation between each of these constituent securities will change due to market movement and the investment manager will not re-allocate, include or exclude issuers from HEF's portfolio until its next rebalance date or Constituent Reset Date, other than when, in the opinion of the investment manager, circumstances necessitate a change.

Management Discussion of Fund Performance (continued)

Please refer to the ETF's most recent prospectus for a complete description of HEF's investment restrictions.

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 an 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 contacting Horizons ETFs Management (Canada) Inc. directly via the contact information on the back page of this document.

- Use of options risk
- Stock market risk
- Specific issuer risk
- Sector risk
- Concentration risk
- Regulatory risk
- Corresponding net asset value risk
- Designated broker/dealer risk
- Cease trading or securities risk
- Exchange risk
- Early closing risk
- No assurance of meeting investment objectives
- No guaranteed return
- Tax risk
- Securities lending, repurchase and reverse repurchase transaction risk
- Liability of unitholders
- Reliance on key personnel
- Derivatives risk
- Foreign stock exchange risk
- Suitability of investment in units
- Conflicts of interest

Results of Operations

For the year ended December 31, 2019, the units of the ETF returned 19.15%, when including distributions paid to unitholders. This compares to the S&P/TSX Capped Financials Index™ (the "Index"), which returned 21.35% over the same period on a total return basis. The units had an average annualized distribution yield of 5.56%, when including distributions of $0.47. The underlying equity portfolio return, exclusive of the covered call strategy, returned 26.26 % over the same period.

Management Discussion of Fund Performance (continued)

The Index imposes capped weights on the index constituents included in the S&P/TSX Composite Index classified in the Global Industry Classification Standard ("GICS") financial sector. The relative weight of any single Index constituent security is capped at 25%.

Market Review

The Index had a very strong start to the year, rallying more than 10% during the first quarter of 2019. These gains continued for the rest of the year, with the Index registering positive returns in each of the subsequent three quarters of 2019. Each of the positions in the ETF's portfolio had positive returns for the year, highlighting the wide breadth of this strong performance.

Not all companies contributed equally to the gains, however. Insurance companies fared particularly well, with Intact Financial Corp., Manulife Financial Corp. and Sun Life Financial Inc. all returning over 30% during the year. While all the banks also had positive returns, only Bank of Montreal, National Bank of Canada and Canadian Western Bank increased over 10% during the same timeframe. In particular, Canadian Western Bank was the strongest-performing bank, with a total return of 26.9% for the year. Improving oil prices helped the Western-based lender after a difficult year in 2018. Sentiment for financials improved dramatically in 2019 as central banks globally — in particular, the U.S. Federal Reserve — initially changed their bias from raising interest rates to a more neutral stance, even cutting rates. This caught the market by surprise and improved the outlook for the financial sector.

The improving fortunes of the financial sector during the first six months of 2019 did reduce the volatility of the underlying portfolio, especially after a much more volatile fourth quarter of 2018. Volatility levels did steady in the second half of the year, allowing premium levels to stabilize. Lower volatility typically means reduced premiums from the call option strategy overlay.

Option Writing Strategy

During each month, options are generally written on up to 100% of the equities in the ETF's portfolio. The premiums are received from selling call options approximately one standard deviation out of the money. The ETF's monthly distributions are not fixed, but vary as the premiums generated from covered call writing are earned and passed through, and will change with changes in implied volatility and time to option expiration. Distributions also vary based on the dividends received from the securities in the ETF's portfolio during the year.

Rebalancing

The equity positions in the ETF are rebalanced to equal weightings semi-annually with the objective of maintaining an equity basket of large-cap Canadian corporations that are primarily exposed to the banking, finance and financial services sectors. There were no changes to the constituents in the ETF's portfolio during the most recent rebalance in September 2019.

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

For the year ended December 31, 2019, the ETF generated gross comprehensive income (loss) from investments and derivatives (which includes changes in the fair value of the ETF's portfolio) of $2,882,419. This compares to ($2,446,296) for the year ended December 31, 2018. The ETF incurred management, operating and transaction expenses of $239,389 (2018 – $241,272) of which $55,802 (2018 – $60,375) was either paid or absorbed by the Manager on behalf of the ETF.

Management Discussion of Fund Performance (continued)

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.

The ETF distributed $848,187 to unitholders during the year (2018 – $959,157).

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.

Recent Developments

There are no recent industry, management or ETF related developments that are pertinent to the present and future of the ETF.

Related Party Transactions

Certain services have been provided to the ETF by related parties and those relationships are described below.

Manager, Trustee and Investment Manager

The manager, 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.

If the ETF invests in other Horizons Management ETFs, Horizons Management may receive management fees in respect of the ETF's assets invested in such Horizons Management ETFs. In addition, 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. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee 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, 2019 and 2018, 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 for the past five fiscal years. This information is derived from the ETF's audited annual financial statements. Please see the front page for information on how you may obtain the ETF's annual or interim financial statements.

The ETF's Net Assets per Unit

Year [1]		2019	2018	2017	2016	2015
Net assets, beginning of year	$	7.58	9.39	8.93	8.04	8.95
Increase (decrease) from operations:						
Total revenue		0.30	0.32	0.32	0.32	0.34
Total expenses		(0.10)	(0.09)	(0.09)	(0.10)	(0.09)
Realized gains for the year		0.39	0.47	0.52	0.46	0.82
Unrealized gains (losses) for the year		0.88	(1.99)	0.31	0.71	(1.46)
Total increase (decrease) from operations [2]		1.47	(1.29)	1.06	1.39	(0.39)
Distributions:						
From dividends		(0.22)	(0.22)	(0.20)	(0.24)	(0.23)
From net realized capital gains		(0.25)	(0.25)	(0.23)	(0.28)	(0.36)
From return of capital		–	–	(0.11)	–	–
Total annual distributions [3]		(0.47)	(0.47)	(0.54)	(0.52)	(0.59)
Net assets, end of year [4]	$	8.55	7.58	9.39	8.93	8.04

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. Income, dividend and/or return of capital distributions, if any, are paid in cash, reinvested in additional units of the ETF, or both. Capital gains distributions, if any, may or may not be paid in cash. Non-cash capital gains distributions are reinvested in additional units of the ETF and subsequently consolidated. They are reported as taxable distributions and increase each unitholder's adjusted cost base for their units. Neither the number of units held by the unitholder, nor the net asset per unit of the ETF change as a result of any non-cash capital gains distributions. Distributions classified as return of capital, if any, decrease each unitholder's adjusted cost base for their units.
4. The Financial Highlights are not intended to act as a continuity of the opening and closing net assets per unit.

Financial Highlights (continued)

Ratios and Supplemental Data

Year (1)		2019	2018	2017	2016	2015
Total net asset value (000's)	$	13,983	15,033	19,271	16,349	15,870
Number of units outstanding (000's)		1,636	1,982	2,053	1,830	1,974
Management expense ratio (2)		0.84%	0.83%	0.83%	0.82%	0.80%
Management expense ratio before waivers and absorptions (3)		1.21%	1.18%	1.11%	1.20%	1.17%
Trading expense ratio (4)		0.36%	0.19%	0.21%	0.36%	0.26%
Portfolio turnover rate (5)		72.19%	48.54%	53.89%	74.81%	29.57%
Net asset value per unit, end of year	$	8.55	7.58	9.39	8.93	8.04
Closing market price	$	8.54	7.59	9.37	8.96	8.05

1. This information is provided as at December 31 of the 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. Out of its management fees, the Manager pays for such services to the ETF as investment manager compensation and marketing.
3. The Manager, at its discretion, may waive and/or absorb a portion of the fees and/or expenses otherwise payable by the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.
4. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.
5. The ETF's portfolio turnover rate indicates how actively its portfolio investments are traded. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of the year. Generally, the higher the ETF's portfolio turnover rate in a year, the greater the trading costs payable by the ETF in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the ETF.

Financial Highlights (continued)

Management Fees

The Manager provides, or oversees the provision of, administrative services required by the ETF including, but not limited to: negotiating contracts with certain third-party service providers, such as portfolio managers, custodians, registrars, transfer agents, auditors and printers; authorizing the payment of operating expenses incurred on behalf of the ETF; arranging for the maintenance of accounting records for the ETF; preparing reports to unitholders and to the applicable securities regulatory authorities; calculating the amount and determining the frequency of distributions by the ETF; preparing financial statements, income tax returns and financial and accounting information as required by the ETF; ensuring that unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the ETF complies with all other regulatory requirements, including the continuous disclosure obligations of the ETF under applicable securities laws; administering purchases, redemptions and other transactions in units of the ETF; and dealing and communicating with unitholders of the ETF. The Manager provides office facilities and personnel to carry out these services, if not otherwise furnished by any other service provider to the ETF. The Manager also monitors the investment strategies of the ETF to ensure that the ETF complies with its investment objectives, investment strategies and investment restrictions and practices.

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.65%, plus applicable sales taxes, of the net asset value of the ETF's units, calculated and accrued daily and payable monthly in arrears.

Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

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

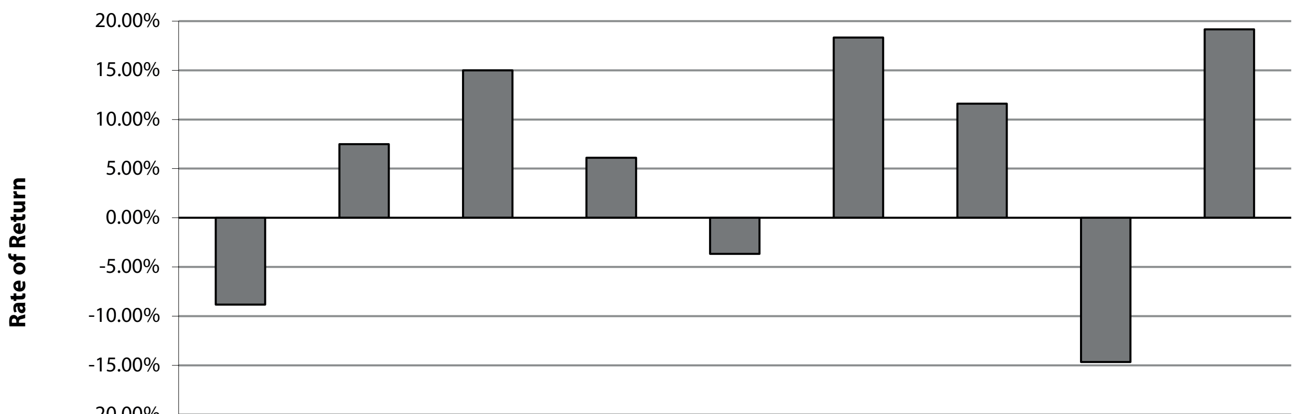
Marketing	Portfolio management fees, general administrative costs and profit	Waived/absorbed expenses of the ETF
4%	45%	51%

Past Performance

Commissions, management fees, expenses 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 total returns including changes in unit value and reinvestment of all distributions, and do not take into account sales, redemptions, distributions or optional charges or income taxes payable by any investor that would have reduced returns. An investment in the ETF is not guaranteed. Its value changes frequently and past performance may not be repeated. The ETF's performance numbers assume that all distributions, 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 the financial period would have grown or decreased by the last day of the financial period.



	2011	2012	2013	2014	2015	2016	2017	2018	2019
HEF	-8.84%	7.48%	15.00%	6.10%	-3.68%	18.34%	11.61%	-14.67%	19.15%

The ETF effectively began operations on May 16, 2011.

Annual Compound Returns

The following table presents the ETF's annual compound total return since inception and for the periods shown ended December 31, 2019 along with a comparable market index. 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	3 Year	5 Year	Since Inception
Horizons Enhanced Income Financials ETF	19.15%	4.31%	5.28%	5.20%
Horizons Enhanced Financials Basket Total Return Index	26.26%	7.07%	7.74%	8.88%
S&P/TSX Capped Financials Index™	21.35%	7.67%	8.49%	9.78%

The ETF effectively began operations on May 16, 2011.

Summary of Investment Portfolio

As at December 31, 2019

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
Long Positions		
Canadian Equities	$ 13,933,598	99.65%
Cash and Cash Equivalents	137,790	0.99%
Other Assets less Liabilities	(37,364)	-0.27%
Short Positions		
Equity Call Options	(51,248)	-0.37%
	$ 13,982,776	**100.00%**

Sector Mix	Net Asset Value	% of ETF's Net Asset Value
Long Positions		
Financials	$ 13,933,598	99.65%
Cash and Cash Equivalents	137,790	0.99%
Other Assets less Liabilities	(37,364)	-0.27%
Short Positions		
Equity Call Options	(51,248)	-0.37%
	$ 13,982,776	**100.00%**

Summary of Investment Portfolio (continued)

As at December 31, 2019

Top 25 Holdings	% of ETF's Net Asset Value
Long Positions	
CI Financial Corp.	8.37%
Manulife Financial Corp.	8.07%
Intact Financial Corp.	8.03%
National Bank of Canada	8.02%
Great-West Lifeco Inc.	7.96%
Brookfield Asset Management Inc.	7.85%
Bank of Montreal	7.74%
Sun Life Financial Inc.	7.49%
Bank of Nova Scotia (The)	7.36%
Canadian Imperial Bank of Commerce	7.30%
Canadian Western Bank	7.18%
Royal Bank of Canada	7.14%
Toronto-Dominion Bank (The)	7.14%
Cash and Cash Equivalents	0.99%
Short Positions	
Canadian Imperial Bank of Commerce, Call Options	0.00%
Royal Bank of Canada, Call Options	0.00%
Canadian Western Bank, Call Options	0.00%
Sun Life Financial Inc., Call Options	0.00%
Brookfield Asset Management Inc., Call Options	-0.01%
National Bank of Canada, Call Options	-0.02%
Manulife Financial Corp., Call Options	-0.02%
CI Financial Corp., Call Options	-0.03%
Bank of Montreal, Call Options	-0.03%
Great-West Lifeco Inc., Call Options	-0.06%
Intact Financial Corp., Call Options	-0.20%

The summary of investment portfolio may change due to the ongoing portfolio transactions of the ETF. The most recent financial statements are available at no cost by calling 1-866-641-5739, or (416) 933-5745, by writing to us 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.

MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying audited annual financial statements of Horizons Enhanced Income Financials ETF (the "ETF") are the responsibility of the manager and 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.

Steven J. Hawkins Director Horizons ETFs Management (Canada) Inc.	Thomas Park Director Horizons ETFs Management (Canada) Inc.

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Horizons Enhanced Income Financials ETF (the "ETF")

Opinion

We have audited the financial statements of the ETF, which comprise the statements of financial position as at December 31, 2019 and 2018, 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, 2019 and 2018, 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 Ziad Said.
Toronto, Canada
March 11, 2020

Statements of Financial Position

As at December 31,

		2019		2018
Assets				
Cash and cash equivalents	$	137,790	$	442,547
Investments		13,933,598		14,634,639
Amounts receivable relating to accrued income		39,614		63,511
Amounts receivable relating to portfolio assets sold		–		24,008
Total assets		**14,111,002**		**15,164,705**
Liabilities				
Accrued management fees		8,874		9,250
Accrued operating expenses		4,415		3,772
Distribution payable		63,689		76,039
Derivative liabilities (note 3)		51,248		43,077
Total liabilities		**128,226**		**132,138**
Total net assets (note 2)	**$**	**13,982,776**	**$**	**15,032,567**
Number of redeemable units outstanding (note 8)		1,635,997		1,982,234
Total net assets per unit	$	8.55	$	7.58

(See accompanying notes to financial statements)

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

Steven J. Hawkins
Director

Thomas Park
Director

Statements of Comprehensive Income

For the Years Ended December 31,

		2019		2018
Income				
Dividend income	$	545,661	$	646,027
Interest income for distribution purposes		1,111		562
Securities lending income (note 7)		748		286
Net realized gain on sale of investments and derivatives		716,299		948,741
Net realized gain on foreign exchange		1		–
Net change in unrealized appreciation (depreciation) of investments and derivatives		1,618,599		(4,041,912)
		2,882,419		**(2,446,296)**
Expenses (note 9)				
Management fees		108,700		126,418
Audit fees		6,635		9,348
Independent Review Committee fees		744		768
Custodial and fund valuation fees		31,309		32,419
Legal fees		2,276		2,109
Securityholder reporting costs		8,558		10,461
Administration fees		26,493		26,548
Transaction costs		54,622		33,200
Other expenses		52		1
		239,389		**241,272**
Amounts that were payable by the investment fund that were paid or absorbed by the Manager		(55,802)		(60,375)
		183,587		**180,897**
Increase (decrease) in net assets for the year	**$**	**2,698,832**	**$**	**(2,627,193)**
Increase (decrease) in net assets per unit	$	1.47	$	(1.29)

(See accompanying notes to financial statements)

Statements of Changes in Financial Position

For the Years Ended December 31,

		2019		2018
Total net assets at the beginning of the year	$	15,032,567	$	19,271,002
Increase (decrease) in net assets		2,698,832		(2,627,193)
Redeemable unit transactions				
Proceeds from the issuance of securities of the investment fund		–		1,707,308
Aggregate amounts paid on redemption of securities of the investment fund		(2,931,687)		(2,396,405)
Securities issued on reinvestment of distributions		31,251		37,012
Distributions:				
From net investment income		(406,015)		(448,021)
From net realized capital gains		(442,172)		(511,136)
Total net assets at the end of the year	**$**	**13,982,776**	**$**	**15,032,567**

(See accompanying notes to financial statements)

Statements of Cash Flows

For the Years Ended December 31,

		2019		2018
Cash flows from operating activities:				
Increase (decrease) in net assets for the year	$	2,698,832	$	(2,627,193)
Adjustments for:				
Net realized gain on sale of investments and derivatives		(716,299)		(948,741)
Net change in unrealized depreciation (appreciation) of investments and derivatives		(1,618,599)		4,041,912
Purchase of investments		(10,988,674)		(8,532,393)
Proceeds from the sale of investments		13,855,056		9,964,189
Amounts receivable relating to accrued income		23,897		9,706
Accrued expenses		267		(2,306)
Net cash from operating activities		**3,254,480**		**1,905,174**
Cash flows from financing activities:				
Amount received from the issuance of units		–		1,707,308
Amount paid on redemptions of units		(2,729,951)		(2,396,405)
Distributions paid to unitholders		(829,286)		(928,842)
Net cash used in financing activities		**(3,559,237)**		**(1,617,939)**
Net increase (decrease) in cash and cash equivalents during the year		(304,757)		287,235
Cash and cash equivalents at beginning of year		442,547		155,312
Cash and cash equivalents at end of year	**$**	**137,790**	**$**	**442,547**

Interest received, net of withholding taxes	$	1,111	$	562
Dividends received, net of withholding taxes	$	569,558	$	655,733

(See accompanying notes to financial statements)

Schedule of Investments

As at December 31, 2019

Security	Shares/ Contracts	Average Cost	Fair Value
CANADIAN EQUITIES (99.65%)			
Financials (99.65%)			
Bank of Montreal	10,756	$ 949,675	$ 1,082,484
Bank of Nova Scotia (The)	14,040	1,065,047	1,029,834
Brookfield Asset Management Inc., Class 'A'	14,628	931,264	1,097,539
Canadian Imperial Bank of Commerce	9,445	978,901	1,020,627
Canadian Western Bank	31,481	1,047,686	1,003,929
CI Financial Corp.	53,889	1,414,134	1,169,930
Great-West Lifeco Inc.	33,468	1,071,463	1,113,146
Intact Financial Corp.	7,992	934,750	1,122,237
Manulife Financial Corp.	42,808	1,046,218	1,128,419
National Bank of Canada	15,561	993,713	1,121,637
Royal Bank of Canada	9,722	935,487	998,935
Sun Life Financial Inc.	17,681	827,293	1,046,892
Toronto-Dominion Bank (The)	13,703	1,049,601	997,989
		13,245,232	13,933,598
TOTAL CANADIAN EQUITIES		**13,245,232**	**13,933,598**
DERIVATIVES (-0.37%)			
SHORT POSITIONS (-0.37%)			
Equity Call Options (-0.37%)			
Bank of Montreal, January 2020, $100.00 CAD	(36)	(2,214)	(4,446)
Bank of Montreal, January 2020, $102.00 CAD	(26)	(1,729)	(377)
Brookfield Asset Management Inc., Class 'A', January 2020, $78.00 CAD	(93)	(8,030)	(1,255)
Canadian Imperial Bank of Commerce, January 2020, $110.50 CAD	(31)	(1,116)	(78)
Canadian Western Bank, January 2020, $36.00 CAD	(200)	(8,600)	(300)
CI Financial Corp., January 2020, $22.00 CAD	(250)	(4,750)	(4,375)
Great-West Lifeco Inc., April 2020, $34.00 CAD	(167)	(8,434)	(8,016)
Intact Financial Corp., January 2020, $135.00 CAD	(40)	(16,720)	(22,800)
Intact Financial Corp., January 2020, $140.00 CAD	(25)	(4,825)	(4,500)
Manulife Financial Corp., January 2020, $26.50 CAD	(150)	(3,300)	(2,775)
National Bank of Canada, April 2020, $74.00 CAD	(25)	(825)	(1,875)
Royal Bank of Canada, January 2020, $107.00 CAD	(33)	(2,671)	(132)
Sun Life Financial Inc., January 2020, $61.00 CAD	(50)	(1,150)	(225)
Sun Life Financial Inc., January 2020, $62.00 CAD	(47)	(1,316)	(94)
		(65,680)	(51,248)
TOTAL DERIVATIVES		**(65,680)**	**(51,248)**
Transaction Costs		(24,333)	
TOTAL INVESTMENT PORTFOLIO (99.28%)		**$ 13,155,219**	**$ 13,882,350**
Cash and cash equivalents (0.99%)			137,790
Other assets less liabilities (-0.27%)			(37,364)
TOTAL NET ASSETS (100.00%)			**$ 13,982,776**

(See accompanying notes to financial statements)

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

1. REPORTING ENTITY

Horizons Enhanced Income Financials ETF ("HEF" 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 May 16, 2011. 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 E units ("Class E") which trade on the Toronto Stock Exchange ("TSX") under the symbol HEF. An investor may buy or sell units of the ETF on the TSX only through a registered broker or dealer in the province or territory where the investor resides. Investors are able to trade units of the ETF in the same way as other securities traded on the TSX, including by using market orders and limit orders and may incur customary brokerage commissions when buying or selling units.

The investment objective of HEF is to provide unitholders with: (a) exposure to the performance of an equal weighted portfolio of Canadian banking, finance and financial services companies; and (b) monthly distributions of dividend and call option income. HEF invests primarily in a portfolio of equity and equity related securities of Canadian companies that are primarily exposed to Canadian banking, finance and financial services sectors and that are amongst the largest and most liquid issuers listed on the Toronto Stock Exchange ("TSX") in their sector. To mitigate downside risk and generate income, the ETF's investment manager actively manages a covered call strategy that generally writes out of the money covered call options on up to 100% of the portfolio securities. The level of covered call option writing may vary based on market volatility and other factors.

Horizons ETFs Management (Canada) Inc. is the manager, trustee and investment manager of the ETF ("Horizons Management", the "Manager" or the "Investment Manager"). 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 11, 2020, 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.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

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

The ETF is subject to IFRS 9, Financial Instruments ("IFRS 9") for the classification and measurement requirements for financial instruments, including impairment on financial assets and hedge accounting.

This 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"). 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-sell business models in IFRS 9.

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
- Financial assets at amortized cost: All other financial assets
- Financial liabilities classified at fair value through profit or loss: derivative financial instruments and securities sold short, if any
- 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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

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 and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term, interest bearing notes with a term to maturity of less than three months from the date of purchase.

Forward foreign exchange contracts

Forward foreign exchange contracts, if any, are valued at the current market value thereof on the Valuation Date. The value of these forward contracts is the gain or loss that would be realized if, on the Valuation Date, the positions were to be closed out and recorded as derivative assets and/or liabilities in the statements of financial position and as a net change in unrealized appreciation (depreciation) of investments and derivatives in the statements of comprehensive income. When the forward contracts are closed out or mature, realized gains or losses on forward contracts are recognized and are included in the statements of comprehensive income in net realized gain (loss) on sale of investments and derivatives. The Canadian dollar value of forward foreign exchange contracts is determined using forward currency exchange rates supplied by an independent service provider.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

Options

As part of the ETF's investment strategy, call options are written on the equities in the ETF's portfolio. The premium received from writing a call option is recorded as a derivative liability in the statements of financial position. These call options are valued at the current market value thereof on the Valuation Date. The difference between the premium received when the option was written and its current market value is recorded as a net change in unrealized appreciation (depreciation) of investments and derivatives in the statements of comprehensive income.

When a written call option expires, the ETF will realize a gain equal to the premium received. When a written option is bought back, the ETF will realize a gain or loss equal to the difference between the cost at which the contract was re-purchased and the premium received. When a written call option is exercised, the premium received is added to the proceeds from the sale of the underlying investments to determine the realized gain or loss. In all three cases, the gains or losses realized on call option premiums written is recorded as a net realized gain (loss) on sale of investments and derivatives in the statements of comprehensive income.

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 represents the coupon interest received by the ETF accounted for on an accrual basis. Dividend income is recognized on the ex-dividend date. Distribution income from investments in other funds or ETFs is recognized when earned.

Income from derivatives is shown in the statements of comprehensive income as net realized gain (loss) on sale of investments and derivatives; net change in unrealized appreciation (depreciation) of investments and derivatives; and, interest income for distribution purposes, in accordance with its nature.

Income from securities lending, if any, is included in "Securities lending income" on the statements of comprehensive income and is recognized when earned. Any securities on loan continue to be displayed in the schedule of investments and the market value of the securities loaned and collateral held is determined daily (see note 7).

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

(c) Foreign currency

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

Notes to Financial Statements (continued)
For the Years Ended December 31, 2019 and 2018

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.

(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 applicable 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. Orders for subscriptions or redemptions are only permissible on valid trading days, as defined in the ETF's prospectus.

(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, 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.

Notes to Financial Statements (continued)
For the Years Ended December 31, 2019 and 2018

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.

(i) Currency risk

Currency risk is the risk that financial instruments which are denominated in currencies other than the ETF's reporting currency, the Canadian dollar, will fluctuate due to changes in exchange rates and adversely impact the ETF's income, cash flows or fair values of its investment holdings. The ETF may reduce its foreign currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts. As at December 31, 2019 and 2018, the ETF did not have any material 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.

As at December 31, 2019 and 2018, the ETF did not hold any long-term debt instruments and did not have any exposure to interest rate risk.

Notes to Financial Statements (continued)
For the Years Ended December 31, 2019 and 2018

(iii) Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. The Manager has imposed internal risk management controls on the ETF which are intended to limit the loss on its trading activities.

The table below shows the estimated impact on the ETF of a 1% increase or decrease in a broad-based market index, based on historical correlation, with all other factors remaining constant, as at the dates shown. In practice, actual results may differ from this sensitivity analysis and the difference could be material. The historical correlation may not be representative of future correlation.

Comparative Index	December 31, 2019	December 31, 2018
S&P/TSX Composite Index™	$112,437	$120,978

(b) Credit risk

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the ETF. It arises principally from debt securities held, and also from derivative financial assets, cash and cash equivalents, and other receivables. The ETF's maximum credit risk exposure as at the reporting date is represented by the respective carrying amounts of the financial assets in the statements of financial position. The ETF's credit risk policy is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out in the ETF's prospectus and by taking collateral.

As at December 31, 2019 and 2018, due to the nature of its portfolio investments, the ETF did not have any material credit risk exposure.

(c) Liquidity risk

Liquidity risk is the risk that the ETF will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The ETF's policy and the Investment Manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of shares, without incurring unacceptable losses or risking damage to the ETF's reputation. Generally, liabilities of the ETF are due within 90 days. Liquidity risk is managed by investing the majority of the ETF's assets in investments that are traded in an active market and can be readily disposed. The ETF aims to retain sufficient cash and cash equivalent positions to maintain liquidity; therefore, the liquidity risk for the ETF is considered minimal.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

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, 2019 and 2018, in valuing the ETF's investments and derivatives carried at fair values:

	December 31, 2019			December 31, 2018		
	Level 1 ($)	**Level 2 ($)**	**Level 3 ($)**	**Level 1 ($)**	**Level 2 ($)**	**Level 3 ($)**
Financial Assets						
Equities	13,933,598	–	–	14,634,639	–	–
Total Financial Assets	**13,933,598**	**–**	**–**	**14,634,639**	**–**	**–**
Financial Liabilities						
Options	(51,248)	–	–	(43,077)	–	–
Total Financial Liabilities	**(51,248)**	**–**	**–**	**(43,077)**	**–**	**–**
Net Financial Assets and Liabilities	**13,882,350**	**–**	**–**	**14,591,562**	**–**	**–**

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, 2019 and 2018.

7. 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.

The aggregate closing market value of securities loaned and collateral received as at December 31, 2019 and 2018, was as follows:

As at	Securities Loaned	Collateral Received
December 31, 2019	$194,280	$204,097
December 31, 2018	$472,998	$496,975

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.

The table below presents a reconciliation of the securities lending income as presented in the statements of comprehensive income for the years ended December 31, 2019 and 2018. It shows the gross amount of securities lending revenues generated from the securities lending transactions of the ETF, less any taxes withheld and amounts earned by parties entitled to receive payments out of the gross amount as part of any securities lending agreements.

For the years ended	December 31, 2019	% of Gross Income	December 31, 2018	% of Gross Income
Gross securities lending income	$1,068		$409	
Lending Agents' fees:				
Canadian Imperial Bank of Commerce	(320)	29.96%	(123)	30.07%
Net securities lending income paid to the ETF	**$748**	**70.04%**	**$286**	**69.93%**

8. REDEEMABLE UNITS

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

The redeemable units issued by the ETF provide an investor with the right to require redemption for cash at a value proportionate to the investor's share in the ETF's net assets at each redemption date. They are classified as liabilities as a result of the ETF's requirement to distribute net income and capital gains to unitholders. 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 valid trading day, as defined in the ETF's prospectus, 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 any net income and capital gains that it has earned in the year. Income earned by the ETF is distributed to unitholders at least once per year, if necessary, and these distributions are either paid in cash or reinvested by unitholders into additional units of the ETF. Net realized capital gains, if any, are typically distributed in December of each year to unitholders. The annual capital gains distributions are not paid in cash but rather, are reinvested and reported as taxable distributions and used to increase each unitholder's adjusted cost base for the ETF. Distributions paid to holders of redeemable units are recognized in the statements of changes in financial position.

Please consult the ETF's most recent prospectus for a full description of the subscription and redemption features of the ETF's units.

For the years ended December 31, 2019 and 2018, the number of units issued by subscription and/or distribution reinvestment, the number of units redeemed, the total and average number of units outstanding was as follows:

Year	Beginning Units Outstanding	Units Issued	Units Redeemed	Ending Units Outstanding	Average Units Outstanding
2019	1,982,234	3,763	(350,000)	1,635,997	1,833,416
2018	2,053,004	204,230	(275,000)	1,982,234	2,028,330

9. EXPENSES

Management fees

The Manager provides, or oversees the provision of, administrative services required by the ETF including, but not limited to: negotiating contracts with certain third-party service providers, such as portfolio managers, custodians, registrars, transfer agents, auditors and printers; authorizing the payment of operating expenses incurred on behalf of the ETF; arranging for the maintenance of accounting records for the ETF; preparing reports to unitholders and to the applicable securities regulatory authorities; calculating the amount and determining the frequency of distributions by the ETF; preparing financial statements, income tax returns and financial and accounting information as required by the ETF; ensuring that unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the ETF complies with all other regulatory requirements, including the continuous disclosure obligations of the ETF under applicable securities laws; administering purchases, redemptions and other transactions in units of the ETF; and dealing and communicating with unitholders of the ETF. The Manager provides office facilities and personnel to carry out these services, if not otherwise furnished by any other service provider to the ETF. The Manager also monitors the investment strategies of the ETF to ensure that the ETF complies with its investment objectives, investment strategies and investment restrictions and practices.

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.65%, plus applicable sales taxes, of the net asset value of the ETF's units, calculated and accrued daily and payable monthly in arrears. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

Other expenses

Unless otherwise waived or reimbursed by the Manager, the ETF pays all of its operating expenses, including but not limited to: audit fees; trustee and custodial expenses; valuation, accounting and record keeping costs; legal expenses; permitted prospectus preparation and filing expenses; costs associated with delivering documents to unitholders; listing and annual stock exchange fees; index licensing fees, if applicable; fees payable to CDS Clearing and Depository Services Inc.; bank related fees and interest charges; extraordinary expenses; unitholder reports and servicing costs; registrar and transfer agent fees; costs associated with the Independent Review Committee; income taxes; sales taxes; brokerage expenses and commissions; and withholding taxes.

The Manager, at its discretion, may waive and/or absorb a portion of the fees and/or expenses otherwise payable by the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

10. BROKER COMMISSIONS, SOFT DOLLARS AND RELATED PARTY TRANSACTIONS

Brokerage commissions paid on securities transactions may include amounts paid to related parties of the Manager for brokerage services provided to the ETF.

Research and system usage related services received in return for commissions generated with specific dealers are generally referred to as soft dollars.

Total brokerage commissions paid to dealers in connection with investment portfolio transactions, soft dollar transactions incurred and amounts paid to related parties of the Manager, if any, for the years ended December 31, 2019 and 2018, were as follow:

Year Ended	Brokerage Commissions Paid	Soft Dollar Transactions	Amount Paid to Related Parties
December 31, 2019	$46,314	$nil	$nil
December 31, 2018	$27,267	$nil	$nil

In addition to the information contained in the table above, the management fees paid to the Manager described in note 9 are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statements of comprehensive income. The management fees payable by the ETF as at December 31, 2019 and 2018, are disclosed in the statements of financial position.

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

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.

Notes to Financial Statements (continued)
For the Years Ended December 31, 2019 and 2018

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, 2019, 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
$277,969	–	–

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. As at December 31, 2019 and 2018, the ETF did not have any financial instruments eligible for offsetting.

14. INTERESTS IN SUBSIDIARIES, ASSOCIATES AND UNCONSOLIDATED STRUCTURED ENTITIES

The ETF may invest in units of other ETFs as part of its investment strategies ("Investee ETF(s)"). The nature and purpose of these Investee ETFs generally, is to manage assets on behalf of third party investors in accordance with their investment objectives, and are financed through the issue of units to investors.

In determining whether the ETF has control or significant influence over an Investee ETF, the ETF assesses voting rights, the exposure to variable returns, and its ability to use the voting rights to affect the amount of the returns. In instances where the ETF has control over an Investee ETF, the ETF qualifies as an investment entity under IFRS 10 - *Consolidated Financial Statements*, and therefore accounts for investments it controls at fair value through profit and loss. The ETF's primary purpose is defined by its investment objectives and uses the investment strategies available to it as defined in the ETF's prospectus to meet those objectives. The ETF also measures and evaluates the performance of any Investee ETFs on a fair value basis.

Investee ETFs over which the ETF has control or significant influence are categorized as subsidiaries and associates, respectively. All other Investee ETFs are categorized as unconsolidated structured entities. Investee ETFs may be managed by the Manager, its affiliates, or by third-party managers.

Investments in Investee ETFs are susceptible to market price risk arising from uncertainty about future values of those Investee ETFs. The maximum exposure to loss from interests in Investee ETFs is equal to the total fair value of the investment in those respective Investee ETFs at any given point in time. The fair value of Investee ETFs, if any, are disclosed in investments in the statements of financial position and listed in the schedule of investments. As at December 31, 2019 and 2018, the ETF had no exposure to subsidiaries, associates or unconsolidated structured entities.

15. COMPARATIVE FINANCIAL STATEMENTS

Certain information in the comparative financial statements and/or notes to the financial statements for 2018 has been reclassified to conform to the financial statement presentation adopted for 2019.

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