



**Horizons Natural Gas ETF
(HUN:TSX)**



HORIZONS ETFs
by Mirae Asset

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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 Natural Gas ETF (“HUN” or the “ETF”), a corporate class of shares (a “Corporate Class”) of Horizons ETF Corp. (the “Company”) (see *Recent Developments* below), contains financial highlights and is included with the audited annual consolidated financial statements (“financial statements” or “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

HUN seeks investment results, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to the performance of the Solactive Natural Gas Winter MD Rolling Futures Index ER (the “Underlying Index”, Bloomberg ticker: SOLCNGF1). HUN is denominated in Canadian dollars. Any U.S. dollar gains or losses as a result of the ETF’s investment will be hedged back to the Canadian dollar to the best of its ability.

If HUN is successful in meeting its investment objective, its net asset value should gain approximately as much on a given day, on a percentage basis, as its Underlying Index rises on that given day. Conversely, HUN’s net asset value should lose approximately as much on a given day, on a percentage basis, as its Underlying Index declines on that given day.

HUN invests in financial instruments that have similar return characteristics as the performance of its Underlying Index, which tracks a rolling position in the January natural gas futures contract traded on the Chicago Mercantile Exchange (the “Referenced Futures Contract”) for the next January delivery month. In order to achieve this objective, the total underlying notional value of these instruments will typically not exceed one times the total assets of the ETF. Assets not invested in financial instruments may be invested in debt instruments or money market instruments with a term not to exceed 365 days, or reverse repurchase agreements with a term not to exceed 30 days.

Management Discussion of Fund Performance (continued)

Value of the Underlying Index

HUN's Underlying Index will use, in its closing calculation on any trading day, the closing price of its Referenced Futures Contract. The Referenced Futures Contract typically trades on the Chicago Mercantile Exchange until 2:30 p.m. (EST), and the closing price of the Referenced Futures Contract is typically not available until at least 15 minutes after the close of trading. The performance of the Underlying Index will be based on a rolling position of the Referenced Futures Contract. On a periodic basis, the Underlying Index rolls positions in a Referenced Futures Contract specifying delivery on a nearby date, which means the position must be sold, and a different position in a Referenced Futures Contract that has not yet reached the delivery period must be purchased.

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: high.

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.

Investments in the shares of the ETF are speculative, involve a high degree of risk and are suitable only for persons who are able to assume the risk of losing their entire investment. The Manager, as a summary for existing investors, is providing the list below of the risks to which an investment in the ETF may be subject. **Prospective investors should read the ETF's most recent prospectus and consider the full description of the risks contained therein before purchasing shares.**

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)

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| <ul style="list-style-type: none"> • Commodity risk • Spot v. futures risk • Concentration risk • Aggressive investment technique risk • Trading in derivatives is highly leveraged • Corresponding net asset value risk • Counterparty risk • Correlation risk • Liquidity risk • Market risk • Early closing risk • Share consolidation and share split risk • Regulatory risk • Commodity market risk • No assurance of meeting investment objective • Tax risk | <ul style="list-style-type: none"> • Conflicts of interest • Price limit risk • Liability of shareholders • Reliance on the manager • Reverse repurchase transaction risk • Designated broker/dealer risk • Exchange risk • Borrowing risk • Changes to the Underlying Index • Foreign exchange risk • Exchange rate risk • Securities lending risk • Fund corporation and multi-class/series structure risk • Absence of an active market for the ETF Shares and lack of operating history risk • Contango and backwardation risk |
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The degree of the price volatility risk will vary from period to period depending on the volatility of the Underlying Index. Please refer to the Results of Operations section for further discussion on the impact of price volatility on the performance of the ETF relative to its Underlying Index.

Results of Operations

For the year ended December 31, 2019, shares of the ETF returned -15.68%. This compares to a return of -15.96% for the Underlying Index for the same period. The above figures are adjusted for distributions, if any.

The one-month natural gas futures contracts (“Natural Gas Futures”) returned -25.54% while experiencing a 42.24% annualized standard deviation for the year ended December 31, 2019. The one- and two-month natural gas futures were in contango for 66% of the year, and in backwardation 34% of the year.

After closing 2018 at U.S.\$2.940 per million British thermal units (“MMBtu”) — which was the result of a 35.31% decline from December 10, 2018 to December 31, 2018, Natural Gas Futures spiked up to begin 2019, to hit a high for the year of U.S.\$3.591/MMBtu on January 14, 2019. However, that jump was short-lived, lasting a mere two days before resuming a downward trend that continued until early August, where it hit a low for the year of U.S.\$2.070/MMBtu on August 5, 2019. That decline from the January 14 high of U.S.\$3.591/MMBtu represented a return of -42.36%.

Warmer than normal temperatures from early August to mid-September saw demand for natural gas push Natural Gas Futures up 29.52%, culminating in a 2.56% spike on September 16, 2019. This was the first day of trading after Yemen’s Houthi rebels hit two major Saudi Arabian oil facilities with drone strikes, knocking out half of Saudi Arabia’s oil output and approximately 5% of the global oil supply. On that day alone, the price of crude oil spiked more than U.S.\$10 per barrel on an intraday basis.

Natural Gas Futures prices eased after that September spike, falling 17.42% to October 11, 2019, as Hurricane Dorian pushed its way up the eastern seaboard and eroded the demand for natural gas. However, this setback was short-lived. In the U.S. Midwest and Northeast — where heating demand is often the greatest — the number of heating degree days

Management Discussion of Fund Performance (continued)

in November were 17% to 28% more than the 10-year average, respectively. In addition, as weather-related natural gas demand increased, a price surge in Natural Gas Futures was exacerbated by relatively low levels of natural gas in storage. Natural gas inventories ended October at their lowest level since 2005. From October 11, 2019, to November 5, 2019, Natural Gas Futures rose 29.27% to U.S.\$2.862/MMBtu.

As was the case in 2018, though, Natural Gas Futures had a late year sell-off. From the second-half high on November 5, 2019, to December 31, 2019, Natural Gas Futures fell 23.52% to end the year at U.S.\$2.189/MMBtu, as unseasonably warmer December weather reduced heating demand.

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 natural gas futures 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 annualized volatility of each of the Underlying Index and the ETF was 22.41% and 21.64%, respectively, for the year ended December 31, 2019.

The ETF may, at times, have very large purchase and redemption activity. However, the performance of the ETF is primarily affected by the performance of its forward agreement, which is rebalanced daily and is tied to the performance of the ETF's 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 during the daily rebalancing of the forward agreement.

Forward Agreements

In order to achieve its investment objective, the ETF has entered into multiple forward agreements (the "Forward Agreements") with one or more bank counterparties (each a "Counterparty"). The Forward Agreements provide both positive exposure to the Underlying Index and negative exposure to the Underlying Index. The ETF generally invests its assets in interest bearing accounts and/or short-term Canadian federal or provincial treasury bills to earn prevailing short-term market interest rates to serve as collateral for the Forward Agreements.

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

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

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

Counterparties are subject to the applicable short-term or long-term designated ratings restrictions listed above. The Counterparties to the ETF's Forward Agreements meet those designated ratings requirements.

Management Discussion of Fund Performance (continued)

Each Forward Agreement has a remaining term to maturity at any point in time of less than five years which, with the consent of the ETF and the applicable Counterparty, will be extended annually for a fixed number of years and, provided no default or event of default and no unresolved hedging event or disruption event has occurred and is continuing, the ETF has the ability to request the termination of its exposure under a Forward Agreement, in whole or in part, at any time.

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

Recent Developments

Other than indicated below, there are no recent industry, management or ETF related developments that are pertinent to the present and future of the ETF.

The Corporate Class Reorganization

On November 12, 2019, a meeting of unitholders of a number of pre-existing exchange traded mutual fund trusts (collectively the “ETF Trusts”, individually the “ETF Trust”) managed by Horizons Management approved a proposal to reorganize the ETF Trusts into a mutual fund corporate class structure (the “Reorganization”).

The decision to propose the corporate class structure followed an extensive review by the Manager of the activities and tax positions of the relevant ETF Trusts, along with the proposed changes to the *Income Tax Act* (Canada) (the “Tax Act”), as a means to preserve the existing benefits offered by these ETF Trusts.

The Company effectively began operations on November 27, 2019, and units of each of these pre-existing ETF Trusts (the “ETF Units”) were exchanged on a one-for-one basis for ETF Shares of the applicable corresponding Corporate Class of the Company, after the close of business on November 27, 2019, and November 29, 2019, as applicable. The investment objectives, investment strategies and fee structure of each reorganized ETF did not change as a result of the exchange of ETF Units into the corresponding ETF Shares.

The Reorganization is not expected to be a taxable event for Canadian resident holders of the ETF, provided that holders with ETF Units in taxable accounts prior to the Reorganization make a joint election with Horizons ETF Corp. under Section 85 of the Tax Act for the exchange of their ETF Units into the corresponding class of ETF Shares of Horizons ETF Corp., to occur on a tax-deferred basis.

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. As the Reorganization described in *Recent Developments* involved the exchange of ETF Units for ETF Shares on a one-for-one basis, any items measured and described as on a “per share” basis may equally be ascribed to as on a “per unit” basis prior to the Reorganization.

While the Company only effectively began operations after the completion of the Reorganization, it has received an exemption from its regulators so that each ETF may report information in its management report of fund performance and financial statements on a combined basis for both the pre- and post-Reorganization periods as though it were one continuous reporting entity.

Management Discussion of Fund Performance (continued)**Related Party Transactions**

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

Manager and Investment Manager

The manager and investment manager of the Company and 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.

Any management fees paid to the Manager (described in detail on page 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 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 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 Share

Year ⁽¹⁾	2019	2018	2017	2016	2015
Net assets, beginning of year	\$ 8.19	5.70	7.41	6.33	9.64
Increase (decrease) from operations:					
Total revenue	0.15	0.10	0.06	0.04	0.06
Total expenses	(0.10)	(0.08)	(0.08)	(0.09)	(0.11)
Realized gains (losses) for the year	(1.17)	3.53	(1.38)	0.62	(3.73)
Unrealized gains (losses) for the year	(0.06)	(0.27)	(0.31)	0.62	0.58
Total increase (decrease) from operations ⁽²⁾	(1.18)	3.28	(1.71)	1.19	(3.20)
Total distributions ⁽³⁾	–	–	–	–	–
Net assets, end of year ⁽⁴⁾	\$ 6.90	8.19	5.70	7.41	6.33

1. This information is derived from the ETF's audited annual financial statements.
2. Net assets per share and distributions are based on the actual number of shares outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of shares outstanding over the financial period.
3. Distributions, if any, were paid in cash, reinvested in additional shares 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 share.

Financial Highlights (continued)

Ratios and Supplemental Data

Year ⁽¹⁾	2019	2018	2017	2016	2015
Total net asset value (000's)	\$ 6,421	6,223	8,698	7,777	5,068
Number of shares outstanding (000's)	930	760	1,525	1,050	800
Management expense ratio ⁽²⁾	0.88%	0.87%	0.87%	0.86%	0.87%
Management expense ratio before waivers and absorptions ⁽²⁾	1.94%	1.78%	1.61%	1.19%	1.22%
Trading expense ratio ⁽³⁾	0.40%	0.40%	0.40%	0.41%	0.41%
Portfolio turnover rate ⁽⁴⁾	0.00%	0.00%	0.00%	0.00%	0.00%
Net asset value per share, end of year	\$ 6.90	8.19	5.70	7.41	6.33
Closing market price	\$ 6.91	8.23	5.71	7.36	6.41

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 portfolio advisor compensation, administration, service fees and marketing. 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.
3. The trading expense ratio represents total commissions, forward agreement fees and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.
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.

Financial Highlights (continued)**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 0.75%. Approximately 100% of management fees were used for investment management, other general administration and profit.

The ETF is also responsible for all of its operating expenses, unless waived or reimbursed by the Manager, 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 shareholders; 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; shareholder reports and servicing costs; registrar and transfer agent fees; costs of the independent review committee; income taxes; sales tax; brokerage expenses and commissions; and withholding taxes. The Manager bears the costs relating to the investment management, advertising, marketing, sponsorship and promotion of the ETF.

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

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

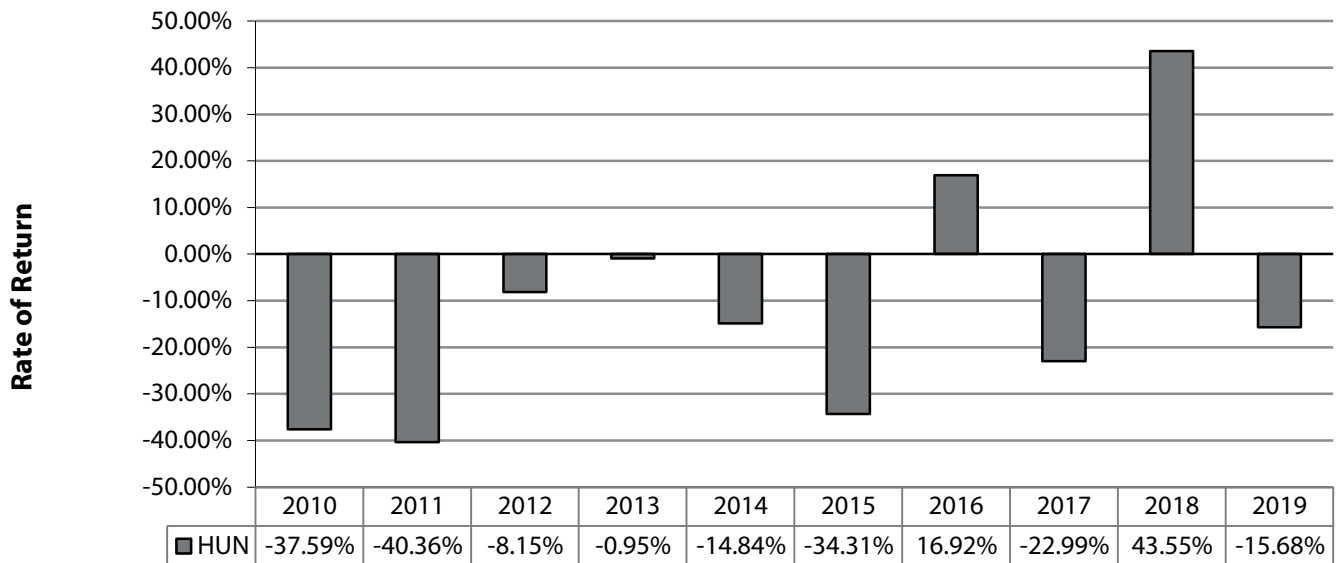
The Manager paid substantially more than 100% of the management fees it received from the ETF during the year towards marketing and promotional costs, and towards the fees associated with the managerial, portfolio management and portfolio advisory services provided to the ETF.

Past Performance

Sales commissions, management fees and expenses all may be associated with an investment in the ETF. Please read the prospectus before investing. The indicated rates of return are the historical returns including changes in share 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 shares 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 shares. The amount of the reinvested taxable distributions is added to the adjusted cost base of the shares 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 that financial period.



The ETF effectively began operations on June 24, 2009.

Past Performance (continued)

Annual Compound Returns

The following table presents the ETF's annual compound total return since inception of the predecessor ETF Trust and for the periods shown ended December 31, 2019 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	3 Year	5 Year	10 Year	Since Inception
Horizons Natural Gas ETF	-15.68%	-2.32%	-6.46%	-14.60%	-15.38%
Solactive Natural Gas Winter MD Rolling Futures Index ER	-15.96%	-2.24%	-5.94%	-13.87%	-14.57%

The ETF effectively began operations on June 24, 2009.

The ETF is rebalanced daily to ensure an investor's risk is limited to the current value of their investment.

A perfect daily correlation of 100% of the daily return of the Underlying Index would be a correlation of 1.0. The ETF has achieved a perfect daily correlation to its stated Underlying Index for the year ended December 31, 2019, of 1.0000.

Summary of Investment Portfolio

As at December 31, 2019

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
Investments	\$ (126,576)	-1.97%
Cash held for Collateral	6,397,774	99.64%
Cash - Other	143,249	2.23%
Other Assets less Liabilities	6,394	0.10%
	\$ 6,420,841	100.00%

Top Holdings	% of ETF's Net Asset Value
Cash held for Collateral	99.64%
Cash - Other	2.23%
Forward Agreements (net notional value US\$4,942,911)	-1.97%

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 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, 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 consolidated financial statements ("financial statements") of Horizons Natural Gas ETF (the "ETF") are the responsibility of the manager 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 by the Board of Directors of Horizons ETF Corp., and have been audited by KPMG LLP, Chartered Professional Accountants, Licensed Public Accountants, on behalf of shareholders. 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 Shareholders of Horizons Natural Gas ETF (the "ETF" and previously "ETF Trust")

Opinion

We have audited the consolidated financial statements of the ETF, which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, the consolidated statements of comprehensive income, changes in financial position and cash flows for the years then ended, and notes to the consolidated 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.



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

Consolidated Statements of Financial Position

As at December 31,

	2019	2018
Assets		
Cash held for collateral	\$ 6,397,774	\$ 6,124,398
Cash - other	143,249	127,063
Amounts receivable relating to accrued income	13,780	5,664
Derivative assets (note 3)	–	25,840
Total Assets	6,554,803	6,282,965
Liabilities		
Accrued management fees	6,992	5,010
Accrued operating expenses	394	167
Derivative liabilities (note 3)	126,576	55,244
Total Liabilities	133,962	60,421
Total net assets (note 2)	\$ 6,420,841	\$ 6,222,544
Number of redeemable shares outstanding (note 9)	930,000	760,000
Total net assets per share (Cdn\$ Shares) (note 1)	\$ 6.90	\$ 8.19

(See accompanying notes to financial statements)

Approved on behalf of the Board of Directors of Horizons ETF Corp.:



 Steven J. Hawkins
 Director



 Kevin S. Beatson
 Director

Consolidated Statements of Comprehensive Income

For the Years Ended December 31,

	2019	2018
Income		
Interest income for distribution purposes	\$ 150,889	\$ 150,996
Net realized gain (loss) on sale of investments and derivatives	(1,191,246)	5,513,954
Net change in unrealized depreciation of investments and derivatives	(66,408)	(422,436)
	(1,106,765)	5,242,514
Expenses (note 10)		
Management fees	64,136	78,969
Audit fees	6,549	6,872
Independent Review Committee fees	740	768
Custodial and fund valuation fees	38,231	35,344
Legal fees	1,401	5,612
Securityholder reporting costs	9,737	11,473
Administration fees	27,847	28,999
Transaction costs	30,764	38,165
	179,405	206,202
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(80,890)	(86,432)
	98,515	119,770
Increase (decrease) in net assets for the year	\$ (1,205,280)	\$ 5,122,744
Increase (decrease) in net assets per share	\$ (1.18)	\$ 3.28

(See accompanying notes to financial statements)

Consolidated Statements of Changes in Financial Position

For the Years Ended December 31,

	2019	2018
Total net assets at the beginning of the year	\$ 6,222,544	\$ 8,698,485
Increase (decrease) in net assets	(1,205,280)	5,122,744
Redeemable share transactions		
Proceeds from the issuance of securities of the investment fund	8,358,609	10,339,821
Aggregate amounts paid on redemption of securities of the investment fund	(6,955,032)	(17,938,506)
Total net assets at the end of the year	\$ 6,420,841	\$ 6,222,544

(See accompanying notes to financial statements)

Consolidated 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	\$ (1,205,280)	\$ 5,122,744
Adjustments for:		
Net realized loss (gain) on sale of investments and derivatives	1,191,246	(5,513,954)
Net change in unrealized depreciation of investments and derivatives	66,408	422,436
Purchase of investments	30,764	38,165
Proceeds from the sale of investments	(1,191,246)	5,513,954
Amounts receivable relating to accrued income	(8,116)	(344)
Accrued expenses	2,209	(974)
Net cash from (used in) operating activities	(1,114,015)	5,582,027
Cash flows from financing activities:		
Amount received from the issuance of shares	8,358,609	10,339,821
Amount paid on redemptions of shares	(6,955,032)	(17,938,506)
Net cash from (used in) financing activities	1,403,577	(7,598,685)
Net increase (decrease) in cash for the year	289,562	(2,016,658)
Cash at beginning of year	6,251,461	8,268,119
Cash at end of year	\$ 6,541,023	\$ 6,251,461
Interest received	\$ 142,773	\$ 150,252
Total Cash are composed of		
Cash held for collateral	\$ 6,397,774	\$ 6,124,398
Cash - other	143,249	127,063
Cash at end of year	\$ 6,541,023	\$ 6,251,461

(See accompanying notes to financial statements)

Schedule of Investments

As at December 31, 2019

Security	Fair Value
FORWARD AGREEMENTS (-1.97%)	
Positive Exposure Forward Agreement (-1.96%)	
Natural Gas Forward Agreement	
Payment Date October 1, 2024 (notional value US\$5,041,973)	\$ (126,155)
Negative Exposure Forward Agreement (-0.01%)	
Natural Gas Forward Agreement	
Payment Date October 15, 2024 (notional value US\$99,062)	(421)
TOTAL FORWARD AGREEMENTS	(126,576)
CASH HELD FOR COLLATERAL (99.64%)	6,397,774
TOTAL INVESTMENT PORTFOLIO (97.67%) (note 7)	\$ 6,271,198
Cash - other (2.23%)	143,249
Other assets less liabilities (0.10%)	6,394
TOTAL NET ASSETS (100.00%)	\$ 6,420,841

(See accompanying notes to financial statements)

Notes to Consolidated Financial Statements - ETF Specific Information

For the Years Ended December 31, 2019 and 2018

A. ETF INFORMATION (NOTE 1)

The following table lists specific information about the ETF, the tickers under which the Cdn\$ Shares and US\$ Shares (if applicable), as described in note 1, trade on the Toronto Stock Exchange (the "TSX"), the functional and presentation currency of the ETF in either Canadian ("CAD") or U.S. ("USD") dollars, and the effective start of operations of the pre-existing ETF Trust participating in the Reorganization described in note 1.

ETF Name	TSX Ticker(s)	Reporting Currency	Effective Start of Operations
Horizons Natural Gas ETF	HUN	CAD	June 24, 2009

Investment Objective

HUN seeks investment results, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to the performance of the Solactive Natural Gas Winter MD Rolling Futures Index ER (the "Underlying Index", Bloomberg ticker: SOLCNGF1). HUN is denominated in Canadian dollars. Any U.S. dollar gains or losses as a result of the ETF's investment will be hedged back to the Canadian dollar to the best of its ability.

If HUN is successful in meeting its investment objective, its net asset value should gain approximately as much on a given day, on a percentage basis, as its Underlying Index rises on that given day. Conversely, HUN's net asset value should lose approximately as much on a given day, on a percentage basis, as its Underlying Index declines on that given day.

B. FINANCIAL INSTRUMENTS RISK (NOTE 5)

(a) Market risks

(i) Currency risk

The ETF, to the best of its ability, hedges all of its foreign currency exposure back to the Canadian dollar as part of any derivative agreement (see note 7) to limit the ETF's foreign currency exposure.

(ii) Interest rate risk

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

(iii) Market price risk

The table below shows the estimated impact on the ETF of a 1% increase or decrease in the Underlying Index, based on daily historical correlation during the reporting period, 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. A perfect daily correlation of 100% of the daily return of the Underlying Index would be a correlation of 1.0. The historical daily correlation may not be representative of future correlation.

Underlying Index	December 31, 2019	December 31, 2018
Solactive Natural Gas Winter MD Rolling Futures Index ER	\$64,208	\$62,225
Daily Correlation	1.0000	1.0000

Notes to Consolidated Financial Statements - ETF Specific Information (continued)

For the Years Ended December 31, 2019 and 2018

The annualized volatility of each of the Underlying Index and the ETF for the years ended December 31, 2019 and 2018, were as follows:

	Underlying Index	ETF
December 31, 2019	22.41%	21.64%
December 31, 2018	35.33%	38.17%

(b) Credit risk

The table below shows the notional exposure of the ETF to Derivative Agreements (as described in note 7) as at December 31, 2019 and 2018, as measured by the Net Notional Exposure. In addition, designated ratings for any Counterparties at each reporting date are presented, as is the credit risk exposure (see note 5) of derivative assets as shown in the statements of financial position.

As at	Counterparty ⁽¹⁾	Notional Exposure	Credit Risk	DBRS Rating	Fitch Rating	Moody's Rating	S&P Rating
Dec. 31, 2019	NBC	US\$4,942,911	–	AA (low)	A+	Aa3	A
Dec. 31, 2018	NBC	US\$4,563,321	\$25,840	AA (low)	A+	Aa3	A

⁽¹⁾ NBC refers to National Bank of Canada

C. FAIR VALUE MEASUREMENT (NOTE 6)

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						
Forward Agreements	–	–	–	–	25,840	–
Total Financial Assets	–	–	–	–	25,840	–
Financial Liabilities						
Forward Agreements	–	(126,576)	–	–	(55,244)	–
Total Financial Liabilities	–	(126,576)	–	–	(55,244)	–
Net Financial Assets & Liabilities	–	(126,576)	–	–	(29,404)	–

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.

Notes to Consolidated Financial Statements - ETF Specific Information (continued)

For the Years Ended December 31, 2019 and 2018

D. SECURITIES LENDING (NOTE 8)

As at December 31, 2019 and 2018, 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, 2019 and 2018.

E. REDEEMABLE SHARES/UNITS (NOTE 9)

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

Year	Beginning Shares/ Units Outstanding	Shares/Units Issued	Shares/Units Redeemed	Ending Shares/ Units Outstanding	Average Shares/ Units Outstanding
2019	760,000	1,170,000	(1,000,000)	930,000	1,022,411
2018	1,525,000	1,785,000	(2,550,000)	760,000	1,561,356

F. OFFSETTING OF FINANCIAL INSTRUMENTS (NOTE 13)

The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at December 31, 2019 and 2018. The "Net" column displays what the net impact would be on the ETF's statements of financial position if all amounts were set-off. "Financial Instruments" may include non-cash collateral pledged by the ETF.

	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Financial Assets and Liabilities as at December 31, 2019						
Derivative assets	–	–	–	–	–	–
Derivative liabilities	(126,576)	–	(126,576)	–	126,576	–

	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Financial Assets and Liabilities as at December 31, 2018						
Derivative assets	25,840	–	25,840	(25,840)	–	–
Derivative liabilities	(55,244)	–	(55,244)	25,840	29,404	–

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

1. REPORTING ENTITY

Horizons ETF Corp. (the “Company”) is a mutual fund corporation established on October 10, 2019, under the federal laws of Canada. The authorized capital of the Company includes an unlimited number of non-cumulative, redeemable, non-voting classes of shares (each, a “Corporate Class” or “ETF”), issuable in an unlimited number of series, and one class of voting shares designated as “Class J Shares”. Each Corporate Class is a separate investment fund having specific investment objectives and is specifically referable to a separate portfolio of investments. These consolidated financial statements (the “financial statements”) as at and for the years ended December 31, 2019 and 2018 comprise the Company and its wholly-owned entities and are presented on the basis outlined below. ETF-specific information and the investment objectives for each ETF in the Company are disclosed in the ETF-specific notes information to the consolidated financial statements of each ETF. Each ETF is a separate Corporate Class and currently consists of a single series of exchange traded fund shares (“ETF Shares”) of the applicable Corporate Class of the Company.

Each ETF is offered for sale on a continuous basis by the Company’s prospectus in ETF Shares which trade on the Toronto Stock Exchange (“TSX”) in Canadian dollars (“Cdn\$ Shares”) and, where applicable, in U.S. dollars (“US\$ Shares”). Subscriptions for US\$ Shares can be made in either U.S. or Canadian dollars. An investor may buy or sell shares of the ETF on the TSX through a registered broker or dealer in the province or territory where the investor resides. Investors are able to trade shares 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 shares.

Horizons ETFs Management (Canada) Inc. (“Horizons Management” or the “Manager” or the “Investment Manager”) is the manager and investment manager of the Company and of each Corporate Class. The Investment Manager is responsible for implementing each ETF’s investment strategies. The address of the Company’s registered office is: c/o Horizons ETFs Management (Canada) Inc., 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7.

The Corporate Class Reorganization

On November 12, 2019, a meeting of unitholders of a number of pre-existing exchange traded mutual fund trusts (collectively the “ETF Trusts”, individually the “ETF Trust”) managed by Horizons Management approved a proposal to reorganize the ETF Trusts into a mutual fund corporate class structure (the “Reorganization”).

The decision to propose the corporate class structure followed an extensive review by the Manager of the activities and tax positions of the relevant ETF Trusts, along with the proposed changes to the *Income Tax Act* (Canada) (the “Tax Act”), as a means to preserve the existing benefits offered by these ETF Trusts.

The Company effectively began operations on November 27, 2019, and units of each of these pre-existing ETF Trusts (the “ETF Units”) were exchanged on a one-for-one basis for ETF Shares of the applicable corresponding Corporate Class of the Company, after the close of business on November 27, 2019, and November 29, 2019, as applicable. The investment objectives, investment strategies and fee structure of each reorganized ETF did not change as a result of the exchange of ETF Units into the corresponding ETF Shares.

The Reorganization is not expected to be a taxable event for Canadian resident holders of the ETF, provided that holders with ETF Units in taxable accounts prior to the Reorganization make a joint election with Horizons ETF Corp. under Section 85 of the Tax Act for the exchange of their ETF Units into the corresponding class of ETF Shares of Horizons ETF Corp., to occur on a tax-deferred basis.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

Reporting Periods

While the Company only effectively began operations after the completion of the Reorganization, it has received an exemption from its regulators so that each Corporate Class may report information in its financial statements on a combined basis for both the pre- and post-Reorganization periods into one contiguous period for the full year ended December 31, 2019, as well as for the comparative year ended December 31, 2018. Post-Reorganization, all of the ETF Trusts are wholly-owned by the Company. These financial statements are presented on a consolidated basis for each individual ETF and the corresponding ETF Trusts.

Investment Objective

The purpose of each ETF is to invest the net assets attributable to that ETF in accordance with its investment objectives, as defined in the Company's prospectus. The investment objective for each ETF is set out in note A in the ETF-specific notes information.

2. BASIS OF PREPARATION

(i) Statement of compliance

The ETF's 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 shares as reported under IFRS. As the Reorganization described in note 1 involved the exchange of ETF Units for ETF Shares on a one-for-one basis, any items measured and described as on a "per share" basis may equally be ascribed to as on a "per unit" basis prior to the Reorganization.

These financial statements were authorized for issue on March 11, 2020, by the Board of Directors of the Company.

(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.

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

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit and loss (“FVTPL”). IFRS9 requires classification of debt instruments, if any, based solely on payment of principal and interest, 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 valuation date, as defined in the ETF’s prospectus (“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 shareholders.

The fair value of other financial assets and liabilities approximates their carrying values due to the short-term nature of these instruments.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

(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 consists of cash on deposit. Cash held for collateral consists of cash posted as collateral to the derivative agreements as described in note 7.

Redeemable shares

The redeemable shares 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 shares. They are classified as financial liabilities as a result of the Company's requirement to distribute net income and capital gains to shareholders.

Derivative agreements

In order to achieve its investment objective, the ETF may enter into derivative agreements (the "Derivative Agreements") (see note 7) with one or more bank counterparties (each a "Counterparty"). The value of these derivative agreements is the gain or loss that would be realized if, on the Valuation Date, the agreements were to be closed out. That value is recorded as a derivative asset and/or derivative liability in the statements of financial position and included in the net change in unrealized appreciation (depreciation) of investments and derivatives in the statements of comprehensive income.

When these derivative contracts are closed out or mature, realized gains or losses on the derivative agreements are recognized and are included in the statements of comprehensive income in net realized gain (loss) on sale of investments and derivatives.

(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.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

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 period-end exchange rate. Foreign exchange gains and losses, if any, 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 shares per share

The increase (decrease) in net assets per share in the statements of comprehensive income represents the change in net assets attributable to holders of redeemable shares from operations divided by the weighted average number of shares of the ETF outstanding during the reporting period.

(f) Shareholder transactions

The value at which shares of the ETF (and, prior to the Reorganization described in note 1, units of the ETF) are issued or redeemed is determined by dividing the net asset value of the ETF by the total number of shares outstanding of the ETF on the applicable Valuation Date. Amounts received on the issuance of shares and amounts paid on the redemption of shares 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 shares per share

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

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

(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 derivative 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 Company's most recent prospectus for a complete discussion of the risks attributed to an investment in the shares of the ETF. Significant financial instrument risks that are relevant to the ETF are discussed below and an analysis of how they are managed is included in note B of the ETF-specific notes information.

(a) Market risks

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 will fluctuate due to changes in exchange rates and adversely impact the ETF's income, cash flows or fair values of its investment holdings.

(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

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

cash and cash equivalents invested at short-term market rates since those securities are usually held to maturity and are short term in nature.

(iii) Market price risk

Other market price 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 index, security, currency or commodity comprising its Underlying Index declines. The ETF intends to remain fully invested regardless of market conditions.

(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 Derivative Agreement(s). This amount is included in "Derivative assets" (if any) in the statements of financial position. The credit risk related to any one Derivative Agreement is concentrated in the Counterparty to that particular Derivative 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"), see note 7.

(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 Derivative Agreements, which are rebalanced daily, and is tied to the performance of the 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 during the daily rebalancing of the Derivative Agreements. Generally, liabilities of the ETF are due within 90 days.

6. FAIR VALUE MEASUREMENT

IFRS 13, Fair Value Measurement ("IFRS 13") requires a classification of fair value measurements of the ETF's investments based on a three level fair value hierarchy and a reconciliation of transactions and transfers within that hierarchy. The hierarchy of fair valuation inputs is summarized as follows:

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

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The fair value hierarchy classification of the ETF's assets and liabilities and additional disclosures relating to transfers between levels is included in note C in the ETF-specific notes information.

7. DERIVATIVE AGREEMENTS AND COLLATERAL PLEDGED**(a) Forward Agreements**

In order to achieve its investment objective, the type of Derivative Agreements the ETF has entered into are forward agreements (the "Forward Agreements") with one or more bank Counterparties. The Forward Agreements provide both positive exposure to the Underlying Index and negative exposure to the Underlying Index. The ETF seeks to achieve its investment objective through the net exposure (the "Net Notional Exposure") of these Forward Agreements. The ETF generally invests its assets in interest bearing accounts and/or short-term Canadian federal or provincial treasury bills ("T-Bills") to earn prevailing short-term market interest rates.

Each Forward Agreement with a Counterparty in which the ETF is provided with exposure that corresponds positively with the exposure to the Underlying Index requires the ETF to pay the Counterparty an agreed notional amount. In return, the Counterparty pays the ETF the value of the notional investment, plus an amount based upon any increase or decline in the Underlying Index. Each Forward Agreement with a Counterparty in which the ETF is provided with exposure that corresponds negatively with the exposure to the Underlying Index requires the Counterparty to pay the ETF an agreed notional amount. In return, the ETF pays the Counterparty the value of the notional investment, plus an amount based upon any increase or decline in the Underlying Index. The ETF also invests the net proceeds of share subscriptions in interest bearing accounts and T-Bills to earn short-term money-market interest rates. The terms of the Forward Agreements requires the ETF, for any applicable Counterparty, to pledge substantially all of its respective interest bearing account and T-Bills to the Counterparty to secure the payment of the ETF's payment obligations under the Forward Agreements. The ETF has the ability to replace Counterparties or engage additional Counterparties at any time.

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

(b) Counterparty Restrictions

The Counterparty to any Derivative Agreements entered into by the ETF must be a chartered Canadian bank or an affiliate of a chartered Canadian bank whose obligations are guaranteed by a chartered Canadian bank, and has a designated rating. The ETF's exposure to Derivative Agreements by Counterparty is disclosed in the credit risk section of note B of the ETF-specific notes information.

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

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

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

Counterparties are subject to the applicable short-term or long-term designated ratings restrictions listed above. The Counterparties to the ETF's Derivative Agreements meet those designated ratings requirements.

Each Derivative Agreement has a remaining term to maturity at any point in time of less than five years which, with the consent of the ETF and the applicable Counterparty, will be extended annually for a fixed number of years and, provided no default or event of default and no unresolved hedging event or disruption event has occurred and is continuing, the ETF has the ability to request the termination of its exposure under its Derivative Agreements, in whole or in part, at any time.

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

The aggregate closing market value of securities loaned and collateral received, if any, as at December 31, 2019 and 2018, and a reconciliation of the securities lending income for the years then ended, if any, as presented in the statements of comprehensive income are presented in note D of the ETF-specific notes information.

9. REDEEMABLE SHARES

The ETF is authorized to issue an unlimited number of redeemable, transferable Class A shares each of which represents an equal, undivided interest in the net assets of the ETF. Each share entitles the owner to one vote at meetings of shareholders. Each share is entitled to participate equally with all other shares with respect to all payments made to shareholders, 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 shares of that class of the ETF. All shares 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 shares 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 shareholders. The ETF's objectives in managing the redeemable shares 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 shares is discussed in note 5.

On any valid trading day, as defined in the ETF's prospectus, shareholders of the ETF may redeem: (i) ETF Shares for cash at a redemption price per ETF Share equal to 95% of the closing price for the ETF Shares in the applicable currency on the TSX on the effective day of the redemption, subject to a maximum redemption price per ETF Share equal to the net asset value per ETF Share on the effective day of redemption; or (ii) at the sole discretion of the Manager, a prescribed number of shares ("PNS") or a whole multiple PNS for cash in the applicable currency equal to the net asset value of that number of ETF Shares in such currency next determined following the receipt of the redemption request, less any applicable redemption charge as determined by the Manager in its sole discretion; or (iii) at the sole discretion of the Manager, a PNS or a whole multiple PNS in exchange for securities and cash in the applicable currency equal to the net asset value

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

of that number of ETF Shares in such currency following the receipt of the redemption request, provided that a securities redemption may be subject to redemption charges at the sole discretion of the Manager.

Shares of the ETF are issued or redeemed on a daily basis at the net asset value per share that is determined as at 4:00 p.m. (Eastern Time) each business day.

If, in any taxation year, the Company would otherwise be liable for tax on net realized capital gains, the Company intends to pay, to the extent possible, by the last day of that year, a special capital gains dividend to ensure that the Company will not be liable for income tax on such amounts under the Tax Act (after taking into account all available deductions, credits and refunds). Such distributions may be paid in the form of ETF Shares of the relevant ETF and/or cash which is automatically reinvested in ETF Shares of the relevant ETF. Any such distributions payable in ETF Shares or reinvested in ETF Shares of the relevant ETF will increase the aggregate adjusted cost base of a shareholder's ETF Shares of that ETF. Immediately following payment of such a special distribution in ETF Shares or reinvestment in ETF Shares, the number of ETF Shares of that ETF outstanding will be automatically consolidated such that the number of ETF Shares of that ETF outstanding after such distribution will be equal to the number of ETF Shares of that ETF outstanding immediately prior to such distribution, except where there are non-resident shareholders to the extent tax is required to be withheld in respect of the distribution.

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

A summary table of the number of shares and/or units issued by subscription, the number of shares and/or units redeemed, the total and average number of shares and/or units outstanding during the relevant reporting periods is disclosed in note E of the ETF-specific notes information.

10. EXPENSES AND OTHER RELATED PARTY TRANSACTIONS

Management fees

In consideration for management services and investment advice provided to the ETF, the Manager is entitled to a management fee. The management fee, inclusive of sales tax, is applied on a daily basis to the net asset value of the ETF. The management fees, exclusive of sales tax, are charged at the annual rate of 0.75%.

Other expenses

The ETF is also responsible for all of its operating expenses, unless waived or reimbursed by the Manager, including but not limited to: audit fees; custodial expenses; valuation, accounting and record keeping costs; legal expenses; permitted prospectus preparation and filing expenses; costs associated with delivering documents to shareholders; 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; shareholder reports and servicing costs; registrar and transfer agent fees; costs of the independent review committee; income taxes; sales tax; brokerage expenses and commissions; and withholding taxes. The Manager bears the costs relating to the investment management, advertising, marketing, sponsorship and promotion of the ETF.

The Manager, at its discretion, has waived or absorbed, and may continue to waive and/or absorb, a portion of the fees and/or expenses otherwise payable by the ETF. These waivers or absorptions are disclosed in the statements of comprehensive income. 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.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

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

Other related party transactions

The management fees paid to the Manager and fees paid to the Independent Review Committee (“IRC”) are considered related party transactions, as the Manager and IRC are related parties to the ETF. Both the management fees and fees paid to the IRC 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.

11. INCOME TAX

The Company qualifies and intends at all relevant times to qualify as a “mutual fund corporation” as defined in the Tax Act. Although the Company may issue any number of classes, in any number of series, it will be required (like any other mutual fund corporation with a multi-class structure) to compute its income and net capital gains for tax purposes as a single entity. All of the Company’s revenues, deductible expenses, non-capital losses, capital gains and capital losses in connection with all of its investment portfolios, and other items relevant to its tax position (including the tax attributes of all of its assets), will be taken into account in determining the income (and taxable income) or loss of the Company and applicable taxes payable by the Company as a whole.

As a mutual fund corporation, the Company is entitled, in certain circumstances, to a refund of tax paid by it in respect of its net realized capital gains determined on a formula basis that is based in part on the redemption of the ETF Shares. Also, as a mutual fund corporation, the Company will be entitled to maintain a capital gains dividend account in respect of its net realized capital gains and from which it may elect to pay dividends which are treated as capital gains in the hands of shareholders.

To the extent that the Company earns net income (other than dividends from taxable Canadian corporations and certain taxable capital gains and after available deductions), including in respect of derivative transactions (including in respect of the ETF’s Derivative Agreements described in note 7), interest and income paid or made payable to it by a trust resident in Canada, the Company will be subject to income tax on such net income and no refund will be available in respect thereof.

The Company may, at its option, pay special year-end dividends to shareholders in the form of a capital gains dividend where the Company has net taxable capital gains upon which it would otherwise be subject to tax, or in order to recover refundable tax not otherwise recoverable upon payment of regular cash distributions.

The Company will establish a policy to determine how it will allocate income and capital gains in a tax-efficient manner among its Corporate Classes in a way that it believes is fair, consistent and reasonable for all shareholders. The amount of dividends, if any, paid to shareholders will be based on this tax allocation policy, which will be approved by the Company’s board of directors.

Prior to the Reorganization described in note 1, the ETF Trust qualified as a mutual fund trust under the Tax Act and accordingly, was not taxed on the portion of taxable income that was paid or allocated to the unitholders. As well, tax refunds (based on redemptions and realized and unrealized gains during the period) may have been available to retain some net capital gains in the ETF without incurring any income taxes.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2019 and 2018

12. TAX LOSSES CARRIED FORWARD

Where the Company has realized a net capital loss in a taxation year, such capital loss cannot be allocated to shareholders but the Company may carry such capital loss back three years or forward indefinitely to offset capital gains realized by the Company. Non-capital losses incurred by the Company in a taxation year cannot be allocated to shareholders of the Company, but may be carried back three years or carried forward twenty years to offset income (including taxable capital gains).

As at December 31, 2019, the Company and its wholly-owned entities 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
\$1,268,854,684	\$126,121	2028
	\$1,961,149	2029
	\$5,668,871	2030
	\$3,237,571	2031
	\$3,138,653	2032
	\$153,021,428	2033
	\$230,454,838	2034
	\$447,364,861	2035
	\$74,326,117	2036
	\$266,066,173	2037
	\$118,753,295	2038
	\$229,673,077	2039

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. Amounts eligible for offset, if any, are disclosed in note F of the ETF-specific notes information.

14. 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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