



**Horizons Absolute Return Global Currency ETF
(HARC:TSX)**



HORIZONS ETFs
by Mirae Asset

Innovation is our capital. Make it yours.
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A Message from the CEO

Following the end of a turbulent 2020, it is worthwhile to reflect on the successes that Horizons ETFs and the broader Canadian ETF industry have achieved in the face of unprecedented challenges brought on by the COVID-19 pandemic during the year.

Despite the economic challenges and volatility posed by the COVID-19 pandemic, the Canadian ETF industry has grown in 2020 to new levels with record inflows of more than \$40 billion. The number of ETFs available in Canada has also eclipsed more than 1,000, which is a testament to the increasing confidence in, and demand for, ETFs as the investment vehicle of choice for investors.

Horizons ETFs also hit a major milestone in 2020, with its assets under management surpassing \$16 billion. This achievement reflects a record 55% increase in assets in 2020 alone – the highest proportional growth rate amongst Canada's top 5 ETF providers by assets.

As one of Canada's original and oldest ETF providers, we are proud of our history of product innovation and the track records of our ETFs. In 2020, 7 of our 94 funds celebrated 10-year anniversaries – a significant accomplishment in Canada's relatively young ETF industry. That includes the Horizons S&P/TSX 60™ Index ETF (HXT), as well the Horizons S&P 500® Index ETF (HXS), which have offered investors tax-efficiency unique to the Canadian marketplace for more than a decade.

There are reasons for optimism as we look ahead to 2021. As countries around the world begin implementing major COVID-19 vaccination efforts, we truly hope that we will see an easing of lockdown restrictions that could set the stage for a greater global economic recovery. Other trends, like the continued efforts at market expansion and deregulation of cannabis at state and federal levels in the United States, promises to transform the marijuana sector into one of the most important sectors to watch in 2021. This growing opportunity is highlighted by the popularity we have seen with our Horizons US Marijuana Index ETF (HMUS) and Horizons Marijuana Life Sciences Index ETF (HMMJ).

Recently, we announced an exciting development: Barry Allan, founder of DMAT Capital Management Inc. and a fixed income manager with nearly 40 years of experience, is working with us as the sub-advisor on our Horizons Active High Yield Bond ETF (HYI) and newly launched Horizons Tactical Absolute Return Bond ETF (HARB). We are excited to begin this partnership and offer these active solutions to this low-yield marketplace.

The hardships of this past year, both in the markets and in our daily lives, cannot be understated. However, we should take pride in the remarkable resilience of our markets and our country in the face of the COVID-19 pandemic.

We thank you for your continued support, and hope you are staying safe and healthy with your families. Wishing you good fortune with all of your investing in 2021!

Sincerely,



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

MANAGEMENT REPORT OF FUND PERFORMANCE

This annual management report of fund performance for Horizons Absolute Return Global Currency ETF (“HARC” or the “ETF”), a corporate class of shares (a “Corporate Class”) of Horizons ETF Corp. (the “Company”), 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

HARC seeks to generate positive absolute returns through long and short exposure to selected global currencies. HARC will generally hold Canadian short-term fixed-income securities and will primarily use derivative instruments to gain its exposure to selected global currencies.

In order to achieve its investment objective, the ETF’s portfolio sub-advisor, CIBC Asset Management Inc. (“CIBC Asset” or the “Sub-Advisor”), selects currencies that are expected to strengthen or weaken on a relative basis using the Sub-Advisor’s proprietary active investment process that tracks more than thirty global currencies. The Sub-Advisor’s investment process employs both fundamental analysis and a factor based ranking model.

HARC obtains exposure to currencies primarily by entering into derivatives where the underlying interests are the currencies of two countries. In each derivative, the currency of one country (the “strong side currency”) is selected by the Sub-Advisor to outperform the currency of the other country (the “weak side currency”). HARC profits (or incurs a loss) from the derivative if, during the term of the derivative, the exchange rate between the two currencies changes such that the strong side currency increases (or decreases) in value relative to the weak side currency.

Management Discussion of Fund Performance (continued)

The Sub-Advisor studies a country's level of inflation, anticipated interest rate change, employment outlook, economic growth expectation, trade balance, government policy and central bank actions. The Sub-Advisor actively monitors interest rate and inflation differentials and uses, among other techniques, exchange rate analysis techniques such as interest rate parity and purchasing power parity to forecast currency values. The Sub-Advisor also conducts fundamental economic analysis of the currencies being considered for inclusion in HARC's portfolio, taking into account macro-economic variables and events that it judges to be important to a particular country.

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

Risk

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

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

The Manager, as a summary for existing investors, is providing the list below of the risks to which an investment in the ETF may be subject. Prospective investors should read the ETF's most recent prospectus and consider the full description of the risks contained therein before purchasing 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.

- Inability to achieve investment objective
- Leverage risk
- Liquidity risk
- Borrowing risk
- Exchange traded products risk
- Risks relating to use of derivatives
- Designated Broker/Dealer risk
- Counterparty risk
- Reliance on key personnel
- Issuer concentration risk
- Cyber security risk
- Aggressive investment technique risk
- Tax-related risks
- Foreign security risk
- Currency price fluctuations
- Income trust investments risks
- Interest rate risk
- Currency fund risk
- Use of options risk
- Political, economic and social risk
- Market disruptions risk
- Significant redemptions
- Exchange risk
- Cease trading of securities risk
- Early closing risk
- Price limit risk
- Conflicts of interest
- Business and regulatory risks of alternative investment strategies
- Change in legislation
- No ownership interest
- Securities lending risk
- Fund corporation and multi-class/series structure risk
- Fluctuations in NAV and market price of the ETF shares risk
- Absence of an active market for the ETF shares and lack of operating history risk

Management Discussion of Fund Performance (continued)

Results of Operations

For the year ended December 31, 2020, units of the ETF returned -0.20%. By comparison, a basket of global currencies had the following returns versus the Canadian dollar ("CAD") for the same period: U.S. dollar ("USD") -2.04%, Japanese yen ("JPY") +3.08%, Euro currency ("EUR") +6.72%, Brazilian real ("BRL") -24.11% and Russian ruble (RUB) -18.02%.

General Market Review

The first quarter ("Q1") of 2020 witnessed a deep decline in global economic activity due to COVID-19-related shutdowns. Risk assets, including pro-risk currencies, weakened significantly, due to indiscriminate selling versus the USD on fears of widespread dollar shortage. Economic data subsequently bounced vigorously in the second quarter ("Q2"), outperforming market expectations.

The global economic recovery has remained resilient through the second half of the year, with strong Chinese growth acting as the main contributor. Leading indicators project a further acceleration of Chinese growth in coming months. U.S. growth, although likely to weaken in the short term, has remained more robust than expected in the face of heightened COVID-19-related activity restrictions. This growth should be boosted in 2021 by the additional fiscal stimulus announced at the end of December 2020, as well as by vaccine deployment, an inventory rebuild cycle, and a drawdown of excess consumer savings that will likely be deployed as confidence rises. Similarly in Europe, a loss of growth momentum in recent months is expected to persist through early 2021, but will then be replaced by a growth rebound fuelled in part by recently added European Central Bank ("ECB") policy stimulus.

Headline inflation data is expected to strengthen in early 2021 and move above central bank targets in the spring. This will likely be a short-lived phenomenon, driven primarily by base effects related to the March 2020 COVID-19 lockdowns. Underlying inflation pressures remain subdued. Despite the growth recovery, aggregate global economic activity levels are still relatively low, particularly in service industries. They will likely not get back to highs reported at the beginning of 2020 until well into 2021, at the earliest. This outlook is expected to encourage policymakers to keep financial conditions accommodative for an extended period until the trajectory of underlying inflation data becomes consistent with central bank targets.

In the view of CIBC Asset Management Inc., the longer-term outlook is constructive. Markets remain susceptible to headline risk, including on COVID-19, inflation, and politics. Overall uncertainty appears to have declined towards the end of 2020, as a number of near-term risks that confronted markets at the beginning of the fourth quarter—including uncertainty surrounding progress on a COVID-19 vaccine, and the U.S. elections—were resolved in ways supportive of market risk sentiment, leading to a perceived reduction in tail risk.

Portfolio Review and Outlook

Strategy performance in 2020 was positive. By quarter, performance was negative in Q1, and positive in each subsequent quarter. The ETF's portfolio ended the year with four main themes. First, the level of active strategy risk was set at a relatively high level, reflecting our constructive outlook. Portfolio positioning maintained a pro-cyclical bias, underpinned by three related factors: continued global cyclical recovery; abundant liquidity; and prospective vaccine deployment.

Second, the ETF remained short USD and CAD. Short USD was the dominant theme of the portfolio through 2020. The USD strengthened in response to the pandemic-related economic shutdowns before weakening as the massive global monetary and fiscal policy response, led by the U.S., got underway. The ETF took this opportunity to progressively build its short USD position. All longer-term factors suggest a continued trend of USD weakening as it remains expensive ac-

Management Discussion of Fund Performance (continued)

ording to CIBC Asset's valuation metrics. The increase in dollar liquidity resulting from U.S. policy stimulus has been massive, both in absolute terms and relative to other countries, and is expected to persist for many quarters yet. The recent change in the U.S. Federal Reserve's policy framework, to an explicit average inflation target, reinforces this outlook, as does the prospective nomination of Janet Yellen as Treasury Secretary. The U.S. is expected to continue to cede cyclical growth leadership to China. The longer-term dominant global status of USD is also waning.

From a longer-term fundamental perspective, CAD remains challenged by high household and non-financial corporate debt levels, and low productivity. A short CAD position also represents a diversifying counterweight to long crude oil beta exposure elsewhere in the portfolio.

Third, the ETF maintained long positions in fundamentally strong currencies that offer a combination of exposure to the global cyclical recovery, have relatively attractive valuations, and, in some cases, relatively attractive interest rate carry. This group included the Chinese renminbi ("CNH"), the Chilean peso ("CLP"), the Mexican peso ("MXN"), the RUB, the Indian rupee ("INR"), and the Indonesian rupiah ("IDR"). Funding for these long positions came from short positions in the Taiwan dollar ("TWD")—which is a particularly attractive short from a carry perspective—and the Thai baht ("THB"). The THB position was replaced near the end of the year with a short Philippines peso ("PHP") position.

Fourth, positioning reflected a constructive long-term view on Europe. We started 2020 with a negative view, but switched to positive in Q2 in response to unexpectedly well-targeted and extensive European policy stimulus, as well as the Franco-German proposed European Recovery Fund. This fund was initially intended as a response to the economic impact of COVID-19 shutdowns. However, it is likely to become much more than this, and, in CIBC Asset's opinion, represents the first step towards fiscal union. Our constructive view was initially expressed through long positions in the Norwegian krone ("NOK"), Swedish krona ("SEK"), and Polish zloty ("PLN"), and a short Swiss franc ("CHF") position. As we moved through the second half of the year, the ETF's long exposure was concentrated into NOK, and remained short CHF.

Other Operating Items and Changes in Net Assets Attributable to Holders of ETF Shares

For the year ended December 31, 2020, the ETF generated gross comprehensive income (loss) from investments and derivatives (which includes changes in the fair value of the ETF's portfolio) of \$750,116. This compares to \$779,038 for the year ended December 31, 2019. The ETF incurred management, operating and transaction expenses of \$400,918 (2019 – \$201,116) of which \$58,327 (2019 – \$68,700) was either paid or absorbed by the Manager on behalf of 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. The ETF did not make any distributions to shareholders, or previously to unitholders, during the year (2019 – \$nil).

Leverage

The aggregate market exposure of all instruments held directly or indirectly by HARC, calculated daily on a mark-to-market basis, can exceed HARC's net asset value, and can exceed the amount of cash and securities held as margin on deposit to support the derivatives trading activities of the ETF. Under normal market conditions, the maximum amount of leverage used, directly or indirectly, by the ETF, expressed as a ratio of total underlying notional value of the securities and/or financial derivative positions of HARC divided by the net assets of the ETF (the "Leverage Ratio"), will generally not exceed 3:1.

The following table discloses the minimum and maximum leverage levels for the ETF for the years ended December 31, 2020 and 2019; the ETF's leverage at the end of the reporting period; and, approximately what that leverage represents as a percentage of the ETF's net assets.

Management Discussion of Fund Performance (continued)

| Year Ended | Minimum Leverage | Maximum Leverage | Leverage at end of Reporting Period | Approximate Percentage of Net Assets |
|-------------------|------------------|------------------|-------------------------------------|--------------------------------------|
| December 31, 2020 | 1.77:1 | 2.74:1 | 2.34:1 | 234% |
| December 31, 2019 | 1.45:1 | 2.61:1 | 2.36:1 | 236% |

Recent Developments

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

The Corporate Class Merger

On June 23, 2020, a meeting of unitholders of the ETF approved a proposal to proceed with a merger (the “Merger”) of the ETF, structured at the time as a trust (the “ETF Trust”), into a corresponding class of shares (the “Continuing Corporate Class ETF”) of Horizons ETF Corp. (“Horizons MFC”), a multi-class mutual fund corporation managed by the Manager.

The decision to propose the Merger followed an extensive review by the Manager of the activities and tax positions of the ETF Trust, along with the proposed changes to the *Income Tax Act* (Canada) (the “Tax Act”) contained in the 2019 Federal Budget, as a means to preserve the existing benefits offered by the ETF Trust.

The approved Merger took place at the close of business on June 29, 2020, and units of the ETF Trust (the “ETF Units”) were exchanged on a one-for-one basis for ETF Shares of the applicable corresponding Corporate Class of Horizons MFC. The investment objective, investment strategies and fee structure of the merged ETF did not change as a result of the exchange of ETF Units into the corresponding ETF Shares.

The Merger is not expected to be a taxable event for Canadian resident holders of the ETF, provided that holders with ETF Units that were in an unrealized gain position and were held in taxable accounts prior to the Merger 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.

For more information about making a joint election as indicated above, investors should refer to our website disclosure on this which can be found at: <https://www.horizonsetfs.com/section-85-election>

Impact of COVID-19

The full extent of the impact that the COVID-19 epidemic will have on the Canadian and U.S. economies and the ETF’s business remains uncertain and difficult to predict at this time. By their very nature, the estimates and/or judgements the Manager makes for the purposes of preparing the ETF’s financial statements relate to matters that are inherently uncertain. However, the Manager maintains detailed policies and internal controls that are intended to ensure that these estimates and judgements are well controlled, and that they are consistently applied from period to period. It is the Manager’s opinion that any estimates and/or judgements used in the preparation of these financial statements are appropriate as at December 31, 2020 and 2019.

Management Discussion of Fund Performance (continued)

Presentation

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

The ETF has received an exemption from its regulators so that it may report information in its management report of fund performance and financial statements on a combined basis for both the pre- and post-Merger periods as though it were one continuous reporting entity.

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. The management fees are disclosed in the statements of comprehensive income in the attached financial statements of the ETF. The management fees payable by the ETF as at December 31, 2020 and 2019, are disclosed in the statements of financial position.

Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance since it effectively began operations on January 16, 2017. This information is derived from the ETF's audited annual financial statements. Please see the front page for information on how you may obtain the ETF's annual or interim financial statements.

The ETF's Net Assets per Share

| Year ⁽¹⁾ | 2020 | 2019 | 2018 | 2017 |
|---|----------|--------|--------|--------|
| Net assets, beginning of year | \$ 21.71 | 20.23 | 21.05 | 20.00 |
| Increase (decrease) from operations: | | | | |
| Total revenue | 0.11 | 0.34 | 0.28 | 0.19 |
| Total expenses | (0.29) | (0.31) | (0.28) | (0.31) |
| Realized gains (losses) for the year | (0.38) | 0.72 | (0.57) | 1.27 |
| Unrealized gains (losses) for the year | 0.90 | 0.75 | (0.25) | (0.15) |
| Total increase (decrease) from operations ⁽²⁾ | 0.34 | 1.50 | (0.82) | 1.00 |
| Distributions: | | | | |
| From net investment income (excluding dividends) | – | – | – | (0.96) |
| Total annual distributions ⁽³⁾ | – | – | – | (0.96) |
| Net assets, end of year ⁽⁴⁾ | \$ 21.66 | 21.71 | 20.23 | 21.05 |

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⁾ | 2020 | 2019 | 2018 | 2017 |
|--|-------------|-------------|-------------|-------------|
| Total net asset value (000's) | \$ 33,406 | 11,223 | 9,449 | 7,777 |
| Number of shares outstanding (000's) | 1,542 | 517 | 467 | 370 |
| Management expense ratio ⁽²⁾⁽⁴⁾ | 1.23% | 1.09% | 1.09% | 1.09% |
| Management expense ratio excluding proportion of expenses from underlying investment funds | 1.19% | 1.09% | 1.09% | 1.09% |
| Management expense ratio before waivers and absorptions ⁽²⁾ | 1.46% | 1.85% | 1.93% | 3.20% |
| Trading expense ratio ⁽³⁾⁽⁴⁾ | 0.20% | 0.36% | 0.28% | 0.45% |
| Trading expense ratio excluding proportion of costs from underlying investment funds | 0.20% | 0.36% | 0.28% | 0.45% |
| Portfolio turnover rate ⁽⁵⁾ | 0.00% | 0.00% | 0.00% | 0.00% |
| Net asset value per share, end of year | \$ 21.66 | 21.71 | 20.23 | 21.05 |
| Closing market price | \$ 21.63 | 21.67 | 20.34 | 21.15 |

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, and waivers and absorptions, as applicable, the Manager pays for such services to the ETF as investment manager compensation 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 and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.
4. The ETF's management expense ratio (MER) and trading expense ratio (TER) include an estimated proportion of the MER and TER for any underlying investment funds held in the ETF's portfolio during the year.
5. The ETF's portfolio turnover rate indicates how actively the ETF trades its portfolio investments. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of a year. The higher an ETF's portfolio turnover rate in a year, the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of an ETF.

Financial Highlights (continued)

Management Fees

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

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.85%, plus applicable sales taxes, of the net asset value of the ETF's shares, calculated and accrued daily and payable monthly in arrears.

The Sub-Advisor is compensated for its services out of the management fees without any further cost to the ETF. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

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

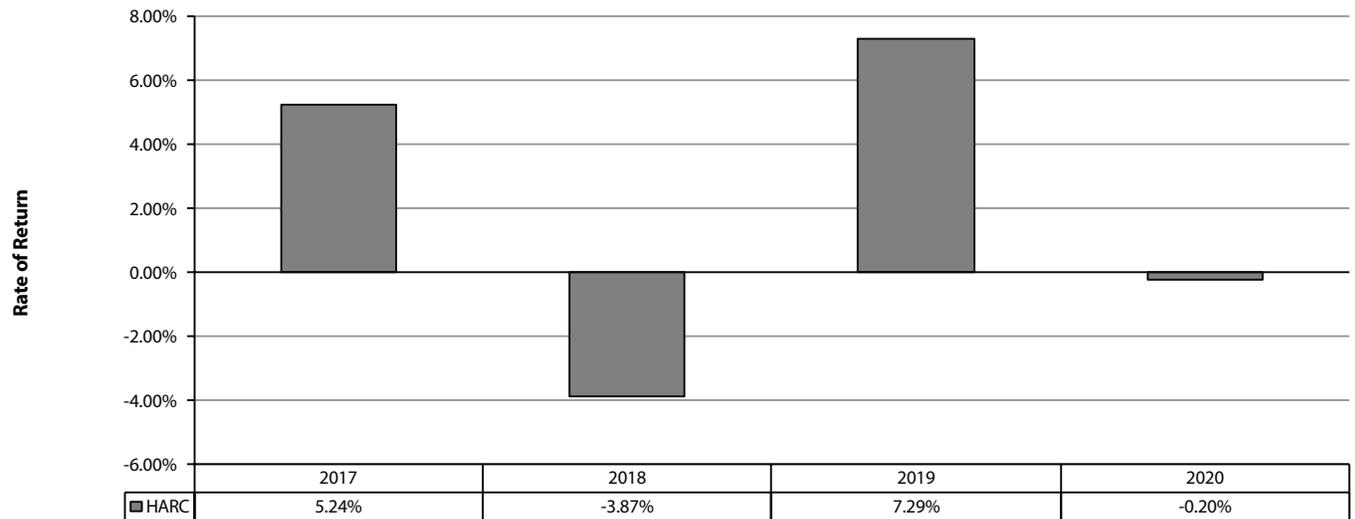
| | Portfolio management fees, general administrative costs and profit | Waived/absorbed expenses of the ETF |
|------------------|---|--|
| Marketing | | |
| 4% | 72% | 24% |

Past Performance

Commissions, management fees, expenses and applicable sales taxes all may be associated with an investment in the ETF. Please read the prospectus before investing. The indicated rates of return are the historical total returns including changes in share value and reinvestment of all distributions, and do not take into account sales, redemptions, distributions or optional charges or income taxes payable by any investor that would have reduced returns. An investment in the ETF is not guaranteed. Its value changes frequently and past performance may not be repeated. The ETF's performance numbers assume that all distributions, if any, are reinvested in additional 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 the financial period would have grown or decreased by the last day of the financial period.



The ETF effectively began operations on January 16, 2017.

Past Performance (continued)

Annual Compound Returns

The following table presents the ETF's annual compound total return since inception and for the periods shown ended December 31, 2020, along with a comparable basket of foreign currencies. 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 | Since Inception |
|--|---------------|---------------|------------------------|
| Horizons Absolute Return Global Currency ETF | -0.20% | 0.97% | 2.04% |
| US Dollar (USD) | -2.04% | 0.41% | -0.87% |
| Japanese Yen (JPY) | 3.08% | 3.37% | 1.68% |
| Euro Currency (EUR) | 6.72% | 1.00% | 2.74% |
| Brazilian Real (BRL) | -24.11% | -13.52% | -11.99% |
| Russian Ruble (RUB) | -18.02% | -7.59% | -6.04% |

The ETF effectively began operations on January 16, 2017.

Summary of Investment Portfolio

As at December 31, 2020

| Asset & Sector Mix | Net Asset Value | % of ETF's Net Asset Value |
|---|----------------------|-------------------------------|
| Long Exposure | | |
| Currency Forward Contracts–Speculative* | \$ 41,113,191 | 123.07% |
| Cash and Cash Equivalents | 33,272,436 | 99.60% |
| Other Assets less Liabilities | (1,085,863) | -3.25% |
| Short Exposure | | |
| Currency Forward Contracts–Speculative* | (39,893,510) | -119.42% |
| | \$ 33,406,254 | 100.00% |

*Positions in forward contracts are disclosed as the gain/(loss) that would be realized if the contracts were closed out on the date of this report.

| Top Forward Currency Exposure ** | % of ETF's Net Asset Value |
|----------------------------------|-------------------------------|
| Long Exposure | |
| Indian Rupee | 29.39% |
| Indonesian Rupiah | 17.83% |
| Russian Ruble | 17.76% |
| Norwegian Krone | 17.73% |
| Mexican Peso | 11.84% |
| Chile Preso | 11.50% |
| Chinese Yuan Renminbi | 11.45% |
| Colombian Peso | 5.57% |
| Short Exposure | |
| Australian Dollars | -5.66% |
| Israeli Shekel | -7.61% |
| Hong Kong Dollars | -7.64% |
| Canadian Dollars | -8.53% |
| Philippine Peso | -11.42% |
| Swiss Franc | -11.80% |
| Taiwan Dollars | -17.89% |
| United States Dollars | -48.87% |

** All forward contracts are speculative in nature. Positions in forward contracts are disclosed in terms of their fair value. Aggregate exposure of forward contracts equals 242.49% of the ETFs NAV.

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

MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying audited annual consolidated financial statements ("financial statements") of Horizons Absolute Return Global Currency 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 Absolute Return Global Currency ETF (the "ETF")

Opinion

We have audited the consolidated financial statements of the ETF, which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, 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, 2020 and 2019, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS).

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 (IFRS), 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 12, 2021

Consolidated Statements of Financial Position

As at December 31,

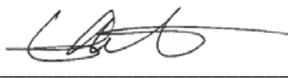
| | 2020 | 2019 |
|--|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 33,272,436 | \$ 11,052,932 |
| Amounts receivable relating to accrued income | 1,634 | 15,546 |
| Derivative assets (note 3) | 2,055,438 | 596,578 |
| Total assets | 35,329,508 | 11,665,056 |
| Liabilities | | |
| Accrued management fees | 25,677 | 9,403 |
| Accrued operating expenses | 3,749 | 11,843 |
| Amounts payable for portfolio assets purchased | 1,058,071 | – |
| Derivative liabilities (note 3) | 835,757 | 420,522 |
| Total liabilities | 1,923,254 | 441,768 |
| Total net assets (note 2) | \$ 33,406,254 | \$ 11,223,288 |
| Number of redeemable shares outstanding (note 9) | 1,542,000 | 517,000 |
| Total net assets per share | \$ 21.66 | \$ 21.71 |

(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,

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Income | | |
| Interest income for distribution purposes | \$ 129,201 | \$ 145,295 |
| Securities lending income (note 7) | 2,424 | 1,058 |
| Net realized gain (loss) on sale of investments and derivatives | (470,349) | 322,544 |
| Net realized gain (loss) on foreign exchange | 19,206 | (11,549) |
| Net change in unrealized appreciation of investments and derivatives | 1,044,319 | 326,777 |
| Net change in unrealized appreciation (depreciation) of foreign exchange | 25,315 | (5,087) |
| | 750,116 | 779,038 |
| Expenses (note 10) | | |
| Management fees | 247,439 | 97,702 |
| Audit fees | 12,231 | 6,594 |
| Independent Review Committee fees | 726 | 735 |
| Custodial and fund valuation fees | 28,121 | 28,010 |
| Legal fees | 29,843 | 1,469 |
| Securityholder reporting costs | 11,262 | 10,887 |
| Administration fees | 23,162 | 23,000 |
| Transaction costs | 48,134 | 32,719 |
| | 400,918 | 201,116 |
| Amounts that were payable by the investment fund that were paid or absorbed by the Manager | (58,327) | (68,700) |
| | 342,591 | 132,416 |
| Increase in net assets for the year | \$ 407,525 | \$ 646,622 |
| Increase in net assets per share | \$ 0.34 | \$ 1.50 |

(See accompanying notes to financial statements)

Consolidated Statements of Changes in Financial Position

For the Years Ended December 31,

| | 2020 | 2019 |
|---|----------------------|----------------------|
| Total net assets at the beginning of the year | \$ 11,223,288 | \$ 9,449,037 |
| Increase in net assets | 407,525 | 646,622 |
| Redeemable share transactions | | |
| Proceeds from the issuance of securities of the investment fund | 30,973,636 | 2,164,514 |
| Aggregate amounts paid on redemption of securities of the investment fund | (9,198,195) | (1,036,885) |
| Total net assets at the end of the year | \$ 33,406,254 | \$ 11,223,288 |

(See accompanying notes to financial statements)

Consolidated Statements of Cash Flows

For the Years Ended December 31,

| | 2020 | 2019 |
|--|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Increase in net assets for the year | \$ 407,525 | \$ 646,622 |
| Adjustments for: | | |
| Net realized loss (gain) on sale of investments and derivatives | 470,349 | (322,544) |
| Net realized gain (loss) on currency forward contracts | (470,564) | 322,544 |
| Net change in unrealized appreciation of investments and derivatives | (1,044,319) | (326,777) |
| Net change in unrealized depreciation (appreciation) of foreign exchange | (25,315) | 5,087 |
| Purchase of investments | 1,058,872 | – |
| Proceeds from the sale of investments | 108 | – |
| Amounts receivable relating to accrued income | 13,912 | 588 |
| Accrued expenses | 8,180 | 3,411 |
| Net cash from operating activities | 418,748 | 328,931 |
| Cash flows from financing activities: | | |
| Amount received from the issuance of shares | 30,973,636 | 2,164,514 |
| Amount paid on redemptions of shares | (9,198,195) | (1,036,885) |
| Net cash from financing activities | 21,775,441 | 1,127,629 |
| Net increase in cash and cash equivalents during the year | 22,194,189 | 1,456,560 |
| Effect of exchange rate fluctuations on cash and cash equivalents | 25,315 | (5,087) |
| Cash and cash equivalents at beginning of year | 11,052,932 | 9,601,459 |
| Cash and cash equivalents at end of year | \$ 33,272,436 | \$ 11,052,932 |

| | | |
|---|------------|------------|
| Interest received, net of withholding taxes | \$ 143,113 | \$ 145,883 |
|---|------------|------------|

(See accompanying notes to financial statements)

Schedule of Investments

As at December 31, 2020

| Security | Contracts | Average Cost | Fair Value |
|--|-----------|-----------------|---------------|
| DERIVATIVES (3.65%) | | | |
| Currency Forwards (3.65%) | | | |
| Currency forward contract to buy MXN 118,835,000 for C\$7,290,011 maturing January 14, 2021 | | \$ – | \$ 303,206 |
| Currency forward contract to buy EUR€2,290,000 for C\$3,535,169 maturing January 14, 2021 | | – | 26,530 |
| Currency forward contract to buy C\$2,130,039 for PLN 6,210,000 maturing January 14, 2021 | | – | 14,010 |
| Currency forward contract to buy C\$3,572,989 for EUR€2,290,000 maturing January 14, 2021 | | – | 11,290 |
| Currency forward contract to buy PLN 6,210,000 for C\$2,143,246 maturing January 14, 2021 | | – | (27,218) |
| Currency forward contract to buy C\$3,581,127 for MXN 56,915,000 maturing January 14, 2021 | | – | (55,579) |
| Currency forward contract to buy C\$9,845,578 for US\$7,600,000 maturing January 15, 2021 | | – | 171,944 |
| Currency forward contract to buy US\$8,015,000 for C\$10,431,351 maturing January 15, 2021 | | – | (229,485) |
| Currency forward contract to buy RUB 420,635,000 for US\$5,402,805 maturing January 25, 2021 | | – | 342,773 |
| Currency forward contract to buy US\$968,006 for RUB 75,035,000 maturing January 25, 2021 | | – | (55,766) |
| Currency forward contract to buy CLP 3,261,765,000 for US\$4,252,043 maturing January 26, 2021 | | – | 430,593 |
| Currency forward contract to buy NOK 48,715,000 for C\$6,929,693 maturing January 26, 2021 | | – | 301,581 |
| Currency forward contract to buy SEK 21,675,000 for C\$3,251,697 maturing January 26, 2021 | | – | 102,253 |
| Currency forward contract to buy COP 4,996,140,000 for US\$1,437,014 maturing January 26, 2021 | | – | 32,897 |
| Currency forward contract to buy C\$1,270,496 for NOK 8,820,000 maturing January 26, 2021 | | – | (38,748) |
| Currency forward contract to buy C\$3,277,134 for SEK 21,675,000 maturing January 26, 2021 | | – | (76,816) |
| Currency forward contract to buy US\$1,475,795 for CLP 1,116,380,000 maturing January 26, 2021 | | – | (121,309) |
| Currency forward contract to buy C\$3,929,642 for CHF 2,737,000 maturing February 26, 2021 | | – | (11,180) |
| Currency forward contract to buy C\$3,708,443 for THB 86,185,000 maturing March 1, 2021 | | – | 46,943 |
| Currency forward contract to buy THB 86,185,000 for C\$3,672,538 maturing March 1, 2021 | | – | (11,038) |

Schedule of Investments (continued)

As at December 31, 2020

| Security | Contracts | Average Cost | Fair Value |
|---|-----------|-----------------|----------------------|
| Currency forward contract to buy C\$2,510,390 for ILS 6,410,000 maturing March 1, 2021 | | - | (30,768) |
| Currency forward contract to buy INR 567,020,000 for US\$7,626,580 maturing March 8, 2021 | | - | 111,975 |
| Currency forward contract to buy C\$2,585,126 for HKD 15,535,000 maturing March 8, 2021 | | - | 34,350 |
| Currency forward contract to buy CNH 19,620,000 for C\$3,848,747 maturing March 8, 2021 | | - | (24,598) |
| Currency forward contract to buy US\$2,988,208 for PHP 144,430,000 maturing March 15, 2021 | | - | (11,391) |
| Currency forward contract to buy C\$1,842,747 for AU\$1,925,000 maturing March 15, 2021 | | - | (47,073) |
| Currency forward contract to buy IDR 65,495,300,000 for US\$4,589,452 maturing March 23, 2021 | | - | 115,316 |
| Currency forward contract to buy US\$4,628,222 for TWD 129,785,000 maturing April 8, 2021 | | - | (85,011) |
| | | - | 1,219,681 |
| TOTAL DERIVATIVES | | - | 1,219,681 |
| TOTAL INVESTMENT PORTFOLIO (3.65%) | | \$ - | \$ 1,219,681 |
| Cash and cash equivalents - other (99.60%) | | | 33,272,436 |
| Other assets less liabilities (-3.25%) | | | (1,085,863) |
| TOTAL NET ASSETS (100.00%) | | | \$ 33,406,254 |

(See accompanying notes to financial statements)

Notes to Consolidated Financial Statements - ETF Specific Information

For the Years Ended December 31, 2020 and 2019

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 ETF.

| ETF Name | TSX Ticker(s) | Reporting Currency | Effective Start of Operations |
|--|---------------|--------------------|-------------------------------|
| Horizons Absolute Return Global Currency ETF | HARC | CAD | January 16, 2017 |

Investment Objective

HARC seeks to generate positive absolute returns through long and short exposure to selected global currencies. HARC will generally hold Canadian short-term fixed-income securities and will primarily use derivative instruments to gain its exposure to selected global currencies.

B. FINANCIAL INSTRUMENTS RISK (NOTE 5)

(a) Market risks

(i) *Currency risk*

The following tables indicate the foreign currencies to which the ETF had significant exposure as at December 31, 2020 and 2019, in Canadian dollar terms and the potential impact on the ETF's net assets (including the underlying principal amount of future or forward currency contracts, if any), as a result of a 1% change in these currencies relative to the Canadian dollar:

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

For the Years Ended December 31, 2020 and 2019

| December 31, 2020 | Financial Instruments | Currency Forward and/ or Futures Contracts | Total | Impact on Net Asset Value |
|--------------------------|------------------------------|---|--------------|--------------------------------------|
| Currency | (\$000's) | (\$000's) | (\$000's) | (\$000's) |
| Australian Dollar | – | (1,890) | (1,890) | (19) |
| Chilean Peso | – | 3,843 | 3,843 | 38 |
| Chinese Yuan | – | 3,824 | 3,824 | 38 |
| Colombian Peso | – | 1,862 | 1,862 | 19 |
| Hong Kong Dollar | – | (2,551) | (2,551) | (26) |
| Indian Rupee | – | 9,818 | 9,818 | 98 |
| Indonesian Rupiah | – | 5,956 | 5,956 | 60 |
| Israeli New Shekel | – | (2,541) | (2,541) | (25) |
| Mexican Peso | – | 3,957 | 3,957 | 40 |
| New Taiwan Dollar | – | (5,975) | (5,975) | (60) |
| Norwegian Krone | – | 5,922 | 5,922 | 59 |
| Philippine Peso | – | (3,814) | (3,814) | (38) |
| Russian Ruble | – | 5,932 | 5,932 | 59 |
| Swiss Franc | – | (3,941) | (3,941) | (39) |
| U.S. Dollar | 642 | (16,333) | (15,691) | (157) |
| Total | 642 | 4,069 | 4,711 | 47 |
| As % of Net Asset Value | 1.9% | 12.2% | 14.1% | 0.1% |

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

For the Years Ended December 31, 2020 and 2019

| December 31, 2019 | Financial Instruments | Currency Forward and/ or Futures Contracts | Total | Impact on Net Asset Value |
|-------------------------|-----------------------|---|-----------|------------------------------|
| Currency | (\$000's) | (\$000's) | (\$000's) | (\$000's) |
| Australian Dollar | – | (1,136) | (1,136) | (11) |
| Brazilian Real | – | 892 | 892 | 9 |
| Euro Currency | – | (3,807) | (3,807) | (38) |
| Hong Kong Dollar | – | (2,437) | (2,437) | (24) |
| Indian Rupee | – | 2,636 | 2,636 | 26 |
| Indonesian Rupiah | – | 2,671 | 2,671 | 27 |
| Japanese Yen | – | 449 | 449 | 4 |
| Mexican Peso | – | 1,554 | 1,554 | 16 |
| Norwegian Krone | – | 1,813 | 1,813 | 18 |
| Russian Ruble | – | 2,009 | 2,009 | 20 |
| Singapore Dollar | – | (449) | (449) | (4) |
| South Korean Won | – | (1,347) | (1,347) | (13) |
| Swedish Krona | – | 1,338 | 1,338 | 13 |
| Thai Baht | – | (1,119) | (1,119) | (11) |
| U.S. Dollar | 339 | (2,833) | (2,494) | (25) |
| Total | 339 | 234 | 573 | 7 |
| As % of Net Asset Value | 3.0% | 2.1% | 5.1% | 0.1% |

(ii) Interest rate risk

As at December 31, 2020 and 2019, the ETF did not hold any long-term debt instruments and did not have any exposure to interest rate risk.

(iii) Market price risk

The table below shows the estimated impact on the ETF of a 1% increase or decrease in a broad-based market index, based on historical correlation, with all other factors remaining constant, as at the dates shown. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

| Comparative Index | December 31, 2020 | December 31, 2019 |
|-------------------|-------------------|-------------------|
| MSCI World Index | \$209,569 | \$34,555 |

This demonstrates the ETF's low correlation to world equity indices.

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

For the Years Ended December 31, 2020 and 2019

(b) Credit risk

As at December 31, 2020 and 2019, due to the nature of its portfolio investments, the ETF did not have any material credit risk exposure.

C. FAIR VALUE MEASUREMENT (NOTE 6)

The following is a summary of the inputs used as at December 31, 2020 and 2019, in valuing the ETF's investments and derivatives carried at fair values:

| | December 31, 2020 | | | December 31, 2019 | | |
|---|-------------------|------------------|--------------|-------------------|------------------|--------------|
| | Level 1 (\$) | Level 2 (\$) | Level 3 (\$) | Level 1 (\$) | Level 2 (\$) | Level 3 (\$) |
| Financial Assets | | | | | | |
| Currency Forward Contracts | – | 2,055,438 | – | – | 596,578 | – |
| Total Financial Assets | – | 2,055,438 | – | – | 596,578 | – |
| Financial Liabilities | | | | | | |
| Currency Forward Contracts | – | (835,757) | – | – | (420,522) | – |
| Total Financial Liabilities | – | (835,757) | – | – | (420,522) | – |
| Net Financial Assets and Liabilities | – | 1,219,681 | – | – | 176,056 | – |

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, 2020 and 2019.

D. SECURITIES LENDING (NOTE 7)

The aggregate closing market value of securities loaned and collateral received as at December 31, 2020 and 2019, was as follows:

| As at | Securities Loaned | Collateral Received |
|-------------------|-------------------|---------------------|
| December 31, 2020 | \$1,349,960 | \$1,417,457 |
| December 31, 2019 | \$3,505,230 | \$3,680,754 |

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

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

For the Years Ended December 31, 2020 and 2019

The table below presents a reconciliation of the securities lending income as presented in the statements of comprehensive income for the years ended December 31, 2020 and 2019. It shows the gross amount of securities lending revenues generated from the securities lending transactions of the ETF, less any taxes withheld and amounts earned by parties entitled to receive payments out of the gross amount as part of any securities lending agreements.

| For the years ended | December 31, 2020 | % of Gross Income | December 31, 2019 | % of Gross Income |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Gross securities lending income | \$3,929 | | \$1,510 | |
| Lending Agents' fees: | | | | |
| Canadian Imperial Bank of Commerce | (1,505) | 38.30% | (452) | 29.93% |
| Net securities lending income paid to the ETF | \$2,424 | 61.70% | \$1,058 | 70.07% |

E. REDEEMABLE SHARES (NOTE 9)

For the years ended December 31, 2020 and 2019, the number of ETF Shares and/or ETF Units (see note 1) issued by subscription, the number of ETF Shares and/or ETF Units redeemed, the total and average number of ETF Shares and/or ETF Units outstanding was as follows:

| Year | Beginning Shares/Units Outstanding | Shares/Units Issued | Shares/Units Redeemed | Ending Shares/Units Outstanding | Average Shares/Units Outstanding |
|-------------|---|----------------------------|------------------------------|--|---|
| 2020 | 517,000 | 1,475,000 | (450,000) | 1,542,000 | 1,189,199 |
| 2019 | 467,000 | 100,000 | (50,000) | 517,000 | 429,740 |

F. BROKER COMMISSIONS, SOFT DOLLARS AND RELATED PARTY TRANSACTIONS (NOTE 11)

Brokerage commissions paid to dealers in connection with investment portfolio transactions, soft dollar transactions incurred and amounts paid to related parties of the Manager, if any, for the years ended December 31, 2020 and 2019, were as follow:

| Year Ended | Brokerage Commissions Paid | Soft Dollar Transactions | Amount Paid to Related Parties |
|-------------------|-----------------------------------|---------------------------------|---------------------------------------|
| December 31, 2020 | \$909 | \$nil | \$nil |
| December 31, 2019 | \$nil | \$nil | \$nil |

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

For the Years Ended December 31, 2020 and 2019

G. OFFSETTING OF FINANCIAL INSTRUMENTS (NOTE 14)

The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at December 31, 2020 and 2019. 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 Assets and Liabilities as at December 31, 2020 | Amounts Offset (\$) | | | Amounts Not Offset (\$) | | Net (\$) |
|--|----------------------------|-----------------------------------|-------------|-------------------------|-------------------------|-----------|
| | Gross Assets (Liabilities) | Gross Assets (Liabilities) Offset | Net Amounts | Financial Instruments | Cash Collateral Pledged | |
| Derivative assets | 2,055,438 | – | 2,055,438 | (835,757) | – | 1,219,681 |
| Derivative liabilities | (835,757) | – | (835,757) | 835,757 | – | – |

| Financial Assets and Liabilities as at December 31, 2019 | Amounts Offset (\$) | | | Amounts Not Offset (\$) | | Net (\$) |
|--|----------------------------|-----------------------------------|-------------|-------------------------|-------------------------|----------|
| | Gross Assets (Liabilities) | Gross Assets (Liabilities) Offset | Net Amounts | Financial Instruments | Cash Collateral Pledged | |
| Derivative assets | 596,578 | – | 596,578 | (420,522) | – | 176,056 |
| Derivative liabilities | (420,522) | – | (420,522) | 420,522 | – | – |

H. INTERESTS IN SUBSIDIARIES, ASSOCIATES AND UNCONSOLIDATED STRUCTURED ENTITIES (NOTE 15)

As at December 31, 2020, the ETF had material investments in the subsidiaries (Sub), associates (Assc) and unconsolidated structured entities (SE) listed below. The ETF did not have any such material investments as at December 31, 2019.

| Investee ETF as at December 31, 2020 | Place of Business | Type | Ownership % | Carrying Amount |
|--------------------------------------|-------------------|------|-------------|-----------------|
| Horizons Cash Maximizer ETF | Canada | SE | 2.76% | \$27,960,900 |

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

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, 2020 and 2019, 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 Merger

On June 23, 2020, a meeting of unitholders of the ETF approved a proposal to proceed with a merger (the “Merger”) of the ETF, structured at the time as a trust (the “ETF Trust”), into a corresponding class of shares (the “Continuing Corporate Class ETF”) of Horizons MFC, a multi-class mutual fund corporation managed by the Manager.

The decision to propose the Merger followed an extensive review by the Manager of the activities and tax positions of the ETF Trust, along with the proposed changes to the *Income Tax Act* (Canada) (the “Tax Act”) contained in the 2019 Federal Budget, as a means to preserve the existing benefits offered by the ETF Trust.

The approved Merger took place at the close of business on June 29, 2020, and units of the ETF Trust (the “ETF Units”) were exchanged on a one-for-one basis for ETF Shares of the applicable corresponding Corporate Class of Horizons MFC. The investment objective, investment strategies and fee structure of the merged ETF did not change as a result of the exchange of ETF Units into the corresponding ETF Shares.

The Merger is not expected to be a taxable event for Canadian resident holders of the ETF, provided that holders with ETF Units that were in an unrealized gain position and were held in taxable accounts prior to the Merger 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.

For more information about making a joint election as indicated above, investors should refer to our website disclosure on this which can be found at: <https://www.horizonsetfs.com/section-85-election>

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

Reporting Periods

While the ETF only became part of the Company after the completion of the Merger, it has received an exemption from its regulators so that it may report information in its financial statements on a combined basis for both the pre- and post-Merger periods into one continuous period for the year ended December 31, 2020, as well as for any comparative information for the year ended December 31, 2019. Post-Merger, the ETF Trust is wholly-owned by the Company. These financial statements are presented on a consolidated basis for the 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 Merger 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 Merger.

These financial statements were authorized for issue on March 12, 2021, 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 through 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 of financial assets and hedge accounting.

IFRS 9 requires assets to be classified based on the ETF's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. The standard includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss ("FVTPL"). IFRS9 requires classification of debt instruments, if any, based solely on payment of principal and interest, and business model tests.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

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 FVTPL: debt securities, equity investments and derivative financial instruments
- Financial assets at amortized cost: All other financial assets
- Financial liabilities classified at FVTPL: 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.

(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.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

Income and expenses are presented on a net basis for gains and losses from financial instruments at FVTPL and foreign exchange gains and losses.

(iv) Specific instruments**Cash**

Cash consists of cash on deposit.

Redeemable shares

The Company has made significant judgments when determining the classification of each ETF's redeemable securities as financial liabilities in accordance with IAS 32 – Financial Instruments – Presentation (“IAS 32”).

Each ETF's redeemable shares are classes in the Company. The classes will not participate pro rata in the residual net assets of the Company in the event of the Company's liquidation and they do not have identical features. Consequently, each ETF's outstanding redeemable shares are classified as financial liabilities in accordance with the requirements of IAS 32.

Derivative agreements

In order to achieve its investment objective, the ETF may enter into derivative agreements (the “Derivative Agreements”) 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.

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

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

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

(c) Foreign currency

Transactions in foreign currencies, if any, are translated into the ETF's reporting currency using the exchange rate prevailing on the trade date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the year-end exchange rate. Foreign exchange gains and losses, 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 year.

(f) Shareholder transactions

The value at which shares 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.

(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 any applicable transfer taxes and duties. Transaction costs are expensed and are included in "Transaction costs" in the statements of comprehensive income.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

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 full extent of the impact that the COVID-19 epidemic will have on the Canadian and U.S. economies and the ETF's business remains uncertain and difficult to predict at this time. By their very nature, the estimates and/or judgements the Manager makes for the purposes of preparing the ETF's financial statements relate to matters that are inherently uncertain. However, the Manager maintains detailed policies and internal controls that are intended to ensure that these estimates and judgements are well controlled, and that they are consistently applied from period to period. It is the Manager's opinion that any estimates and/or judgements used in the preparation of these financial statements are appropriate as at December 31, 2020 and 2019.

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 thereof 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.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

(ii) Interest rate risk

The ETF may be exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. In general, the value of interest-bearing financial instruments will rise if interest rates fall, and conversely, will generally fall if interest rates rise. There is minimal sensitivity to interest rate fluctuation on cash and cash equivalents invested at short-term market rates since those securities are usually held to maturity and are short term in nature.

(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.

(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").

(c) Liquidity risk

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

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

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.

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. 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 year 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, 2020 and 2019, 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.

8. LEVERAGE

The aggregate market exposure of all instruments held directly or indirectly by HARC, calculated daily on a mark-to-market basis, can exceed HARC’s net asset value, and can exceed the amount of cash and securities held as margin on deposit to support the derivatives trading activities of the ETF. Under normal market conditions, the maximum amount of leverage used, directly or indirectly, by the ETF, expressed as a ratio of total underlying notional value of the securities and/or financial derivative positions of HARC divided by the net assets of the ETF (the “Leverage Ratio”), will generally not exceed 3:1.

The following table discloses the minimum and maximum leverage levels for the ETF for the years ended December 31, 2020 and 2019; the ETF’s leverage at the end of the reporting period; and, approximately what that leverage represents as a percentage of the ETF’s net assets.

| Year Ended | Minimum Leverage | Maximum Leverage | Leverage at end of Reporting Period | Approximate Percentage of Net Assets |
|-------------------|------------------|------------------|-------------------------------------|--------------------------------------|
| December 31, 2020 | 1.77:1 | 2.74:1 | 2.34:1 | 234% |
| December 31, 2019 | 1.45:1 | 2.61:1 | 2.36:1 | 236% |

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

9. REDEEMABLE SHARES

The authorized capital of the Company includes an unlimited number of non-cumulative, redeemable, non-voting Corporate Classes, issuable in an unlimited number of series, including the ETF Shares, 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. Each ETF of the Company is a separate Corporate Class.

Each ETF Share entitles the owner to one vote at meetings of shareholders of the applicable Corporate Class to which they are entitled to vote. Each shareholder is entitled to participate equally with all other shares of the same Corporate Class or series of Corporate Class with respect to all payments made to shareholders, other than management fee rebates, including dividends and distributions and, on liquidation, to participate equally in the net assets of the applicable Corporate Class remaining after satisfaction of any outstanding liabilities that are attributable to ETF Shares of the Corporate Class.

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. 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 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 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.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

A summary table of the number of ETF Shares and/or ETF Units issued by subscription, the number of ETF Shares and/or ETF Units redeemed, the total and average number of ETF Shares and/or ETF 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**

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

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.85%, plus applicable sales taxes, of the net asset value of the ETF's shares, calculated and accrued daily and payable monthly in arrears.

The Sub-Advisor is compensated for its services out of the management fees without any further cost to the ETF. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

Other expenses

Unless otherwise waived or reimbursed by the Manager, the ETF pays all of its operating expenses, including but not limited to: audit fees; trustee and custodial expenses; valuation, accounting and record keeping costs; legal expenses; permitted prospectus preparation and filing expenses; costs associated with delivering documents to 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 associated with the Independent Review Committee; income taxes; sales taxes; brokerage expenses and commissions; and withholding taxes.

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

11. BROKER COMMISSIONS, SOFT DOLLARS AND RELATED PARTY TRANSACTIONS

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

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

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

In addition to the information contained in note F of the ETF-specific notes information, the management fees paid to the Manager described in note 10 are related party transactions, as the Manager is considered to be a related party to the ETF. The management fees payable by the ETF as at December 31, 2020 and 2019, are disclosed in the statements of financial position.

Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statements of comprehensive income.

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

12. 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, 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 Merger 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, 2020 and 2019

13. 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, 2020, 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 |
|--------------------|--------------------|--|
| \$1,272,452,068 | \$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 |
| | \$447,405,094 | 2035 |
| | \$74,326,117 | 2036 |
| | \$266,066,173 | 2037 |
| | \$118,767,474 | 2038 |
| | \$225,583,319 | 2039 |
| | \$2,509,007,967 | 2040 |

14. OFFSETTING OF FINANCIAL INSTRUMENTS

In the normal course of business, the ETF may enter into various master netting arrangements or other similar agreements that do not meet the criteria for offsetting in the statements of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts. Amounts eligible for offset, if any, are disclosed in note G of the ETF-specific notes information.

15. INTERESTS IN SUBSIDIARIES, ASSOCIATES AND UNCONSOLIDATED STRUCTURED ENTITIES

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

In determining whether the ETF has control or significant influence over an Investee ETF, the ETF assesses voting rights, the exposure to variable returns, and its ability to use the voting rights to affect the amount of the returns. In instances

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

where the ETF has control over an Investee ETF, the ETF qualifies as an investment entity under IFRS 10 – *Consolidated Financial Statements*, and therefore accounts for investments it controls at fair value through profit and loss. The ETF's primary purpose is defined by its investment objectives and uses the investment strategies available to it as defined in the ETF's prospectus to meet those objectives. The ETF also measures and evaluates the performance of any Investee ETFs on a fair value basis.

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

Investments in Investee ETFs are susceptible to market price risk arising from uncertainty about future values of those Investee ETFs. The maximum exposure to loss from interests in Investee ETFs is equal to the total fair value of the investment in those respective Investee ETFs at any given point in time. The fair value of Investee ETFs, if any, are disclosed in investments in the statements of financial position, listed in the schedule of investments, and further detailed in note H of the ETF-specific notes information.

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