

Horizons Active High Yield Bond ETF
(HYI:TSX)



HORIZONS ETFs
by Mirae Asset

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

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

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

Management Discussion of Fund Performance

Investment Objective and Strategies

HYI’s investment objectives are to provide unitholders with: (i) high total return income; and (ii) monthly distributions. HYI invests, directly or indirectly, primarily in high-yield debt securities of North American companies. HYI may also invest, directly or indirectly, in convertible debentures, preferred shares (including securities convertible into preferred shares) and mortgage back securities and other income generating debt (including debt-like securities).

The ETF’s sub-advisor, DMAT Capital Management Inc. (“DMAT” or the “Sub-Advisor”) (see *Recent Developments*), actively manages a portfolio consisting primarily of debt (including debt-like securities) of North American high yield issuers. HYI’s portfolio seeks to be primarily exposed, directly or indirectly, to high yield fixed income securities at all times.

The ETF’s Sub-Advisor uses fundamental credit research to select companies that, based on the Sub-Advisor’s view on the company’s industry and growth prospects, are believed to offer attractive risk adjusted returns.

The Sub-Advisor seeks diversification by industry sector and geographic region. In order to select securities for HYI, the Sub-Advisor relies on its in-depth fundamental credit research, view of market trends, analysis of the company’s competitive position and review of the return relative to the company’s risk and general market conditions.

Management Discussion of Fund Performance (continued)

The Sub-Advisor may, from time to time, invest the ETF in investment grade debt (including debt-like securities), convertible debentures, preferred shares (including securities convertible into preferred shares), mortgage back securities, Canadian and foreign government debt, Listed Funds, as they defined in the ETF's prospectus, cash and cash equivalents which, generally, in aggregate will not exceed 40% of the ETF's net assets. The Sub-Advisor may sell short debt (including debt-like securities) it believes will underperform on a relative basis or to otherwise assist HYI in meeting its investment objectives.

The Sub-Advisor of HYI may rely on exemptions from the securities regulatory authorities allowing it to purchase securities of a related issuer of the Sub-Advisor if certain conditions are met. The investment must also be approved by the Independent Review Committee ("IRC") and is subject to certain other provisions of National Instrument 81-107 ("NI 81-107").

In lieu of specific security selections, from time to time the Sub-Advisor may purchase fixed income related exchange traded funds including those managed by the Manager or its affiliates. HYI may also use inverse exchange traded funds as well as both long and short derivative instruments, including future contracts and credit default swaps, to manage duration, credit exposure, portfolio yield, market risk and currency risk.

Please refer to the ETF's most recent prospectus for a complete description of HYI'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 units.**

The risks to which an investment in the ETF is subject are listed below and have not changed from the list of risks found in the ETF's most recent prospectus. A full description of each risk listed below may also be found in the most recent prospectus. The most recent prospectus is available at www.horizonsetfs.com or from www.sedar.com, or by contacting Horizons ETFs Management (Canada) Inc. directly via the contact information on the back page of this document.

- Stock market risk
 - Specific issuer risk
 - Legal and regulatory risk
 - Market disruptions risk
 - Cyber security risk
 - Listed Funds risk
- Reliance on historical data risk
 - Corresponding net asset value risk
 - Designated broker/dealer risk
 - Cease trading of securities risk
 - Exchange risk
 - Early closing risk

Management Discussion of Fund Performance (continued)

- No assurance of meeting investment objective
 - Tax risk
 - Securities lending, repurchase and reverse repurchase transaction risk
 - Loss of limited liability
 - Reliance on key personnel
 - Distributions risk
 - Conflicts of interest
 - No ownership interest
 - Market for units
 - Redemption price
 - Net asset value fluctuation
 - Restrictions on certain unitholders
 - Highly volatile markets
 - No guaranteed return
- Derivatives and counterparty risk
 - Interest rate risk
 - Foreign currency risk
 - Credit risk
 - Foreign stock exchange risk
 - Short selling risk
 - High yield bond risk and risk of other lower rated investments
 - Senior loan credit risk
 - Senior loan risk
 - Senior loan settlement risk
 - Income risk
 - Call risk
 - Risk of difference between quoted and actionable market price
 - Liquidity risk

Results of Operations

For the year ended December 31, 2020, units of the ETF returned 0.78% when including distributions paid to unitholders. This compares to a return of 5.87% for the Barclays Capital US High Yield Very Liquid Index (the “Index”) for the same period.

The Index is designed to track the more liquid components of the U.S. dollar-denominated, high-yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P are Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk are excluded.

General Market Review

As with most financial markets in 2020, the high-yield market rallied strongly in January and February, experienced a major drawdown in March and April and rallied strongly for the remainder of the year. The high-yield spread over similarly date U.S. Treasury bonds began 2020 at 360 basis points (“bps”), rose to 1,087 bps during the height of the COVID-19 pandemic lockdown phase, and ended the year at 347 bps.

The trigger for the rally in the high-yield market was the announcement by the U.S. Federal Reserve (the “Fed”) in late March 2020, that in addition to buying large amounts of U.S. Treasury bonds, they would also purchase ETFs holding investment grade corporate bonds and, in limited cases, high-yield bonds that had been downgraded from investment-grade. It is important to note that the Fed only purchased a small amount of ETFs, but its willingness to purchase corporate bonds, which it had never done before, was enough to instill confidence in the corporate credit markets and bring in large institutional buyers.

It will be interesting to see whether buying corporate credit will be part of the Fed’s response to future market panics or if this was unique to this global pandemic. The Fed’s charter does not allow it to take on default risk and buying ETFs rather than individual corporate bonds technically allows them to circumvent this restriction.

Management Discussion of Fund Performance (continued)

Portfolio Review

With the change in the ETF's Sub-Advisor to DMAT Capital Management Inc. in November 2020 (see *Recent Developments*), a gradual repositioning of the ETF's portfolio has begun. The two major focus points of this rebalancing are to reduce the duration of the portfolio and to increase the credit quality. High-yield bonds are virtually always callable, which means when markets are strong and most bonds trade at a premium to par, the duration of the portfolio falls (as most bonds trade to their earlier call dates). In periods of widening credit spreads, that process reverses. Duration naturally increases as bonds move from trading to early call dates back towards their maturity dates. Lowering the duration of the portfolio should help to protect against this phenomenon.

DMAT is also reducing the ETF's exposure to CCC-rated names in favour of stronger B and BB-rated credits. This is also a strategy to lower volatility and preserve capital, given that yields and credit spreads are close to record lows.

Outlook

The market is currently expensive by historical norms, although it is debatable whether historical norms are meaningful in this environment. We are facing unprecedented parameters where leverage is elevated, the default rate is above average and the market is priced with record low yields and near record low credit spreads. There are good reasons for these valuations: huge monetary printing, even greater fiscal stimulus, vaccine development and massive pent up demand for services. All of which suggest economic growth in 2021 will be extremely strong. This may be the case, but there are also many reasons to temper this enthusiasm somewhat. The virus appears to be mutating, unemployment figures remain very elevated, and some parts of consumer behaviour are unlikely to return to pre-pandemic practices.

In DMAT's view, it is not appropriate to have a bearish view on corporate credit markets given the strength of the positives noted above. However, many decades of experience suggests that caution is the more sensible approach, as opposed to outright bullishness, at these record valuations. We do expect volatility to remain, and likely increase, in 2021. Maintaining a below average risk profile will permit the ETF, in periods of rapid spread widening, to a) preserve capital and control volatility; and b) add duration and ratings risk at much more attractive spreads.

The one area where we are willing to take on somewhat more credit risk is in the energy complex. This is due to the very attractive spread opportunities currently amid a positive outlook on energy commodities.

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

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 \$1,085,413. This compares to \$15,200,898 for the year ended December 31, 2019. The ETF incurred management, operating and transaction expenses of \$661,172 (2019 – \$817,898) of which \$67,083 (2019 – \$55,281) 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 distributed \$5,492,575 to unitholders during the year (2019 – \$6,534,038).

Management Discussion of Fund Performance (continued)

Presentation

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

Recent Developments

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

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.

Sub-Advisor Change

Effective November 4, 2020, DMAT Capital Management Inc. has assumed the sub-advisory duties and responsibilities for the ETF. There was no change to the ETF’s investment objectives and strategies or the management fee, as a result of these changes.

Related Party Transactions

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

Manager, Trustee and Investment Manager

The manager, trustee and investment manager of the ETF is Horizons ETFs Management (Canada) Inc., 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7, a corporation incorporated under the laws of Ontario.

If the ETF invests in other Horizons Management ETFs, Horizons Management may receive management fees in respect of the ETF’s assets invested in such Horizons Management ETFs. In addition, any management fees paid to the Manager (described in detail on page 8) are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statements of comprehensive income in the attached financial statements of the ETF. The management fees payable by the ETF as at December 31, 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 for the past five fiscal years. This information is derived from the ETF's audited annual financial statements. Please see the front page for information on how you may obtain the ETF's annual or interim financial statements.

The ETF's Net Assets per Unit

Year ⁽¹⁾	2020	2019	2018	2017	2016
Net assets, beginning of year	\$ 9.70	9.05	10.09	10.09	9.27
Increase (decrease) from operations:					
Total revenue	0.58	0.66	0.69	0.66	0.64
Total expenses	(0.06)	(0.07)	(0.07)	(0.07)	(0.07)
Realized gains (losses) for the year	(0.40)	(0.11)	(0.31)	0.24	0.36
Unrealized gains (losses) for the year	(0.07)	0.81	(0.72)	(0.30)	0.48
Total increase (decrease) from operations ⁽²⁾	0.05	1.29	(0.41)	0.53	1.41
Distributions:					
From net investment income (excluding dividends)	(0.54)	(0.59)	(0.62)	(0.57)	(0.55)
From net realized capital gains	–	–	–	(0.11)	(0.03)
From return of capital	(0.05)	–	–	–	–
Total annual distributions ⁽³⁾	(0.59)	(0.59)	(0.62)	(0.68)	(0.58)
Net assets, end of year ⁽⁴⁾	\$ 9.15	9.70	9.05	10.09	10.09

1. This information is derived from the ETF's audited annual financial statements.
2. Net assets per unit and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.
3. Income, dividend and/or return of capital distributions, if any, are paid in cash, reinvested in additional units of the ETF, or both. Capital gains distributions, if any, may or may not be paid in cash. Non-cash capital gains distributions are reinvested in additional units of the ETF and subsequently consolidated. They are reported as taxable distributions and increase each unitholder's adjusted cost base for their units. Neither the number of units held by the unitholder, nor the net asset per unit of the ETF change as a result of any non-cash capital gains distributions. Distributions classified as return of capital, if any, decrease each unitholder's adjusted cost base for their units. The characteristics of distributions, if any, are determined subsequent to the end of the ETF's tax year. Until such time, distributions are classified as from net investment income (excluding dividends) for reporting purposes.
4. The Financial Highlights are not intended to act as a continuity of the opening and closing net assets per unit.

Financial Highlights (continued)

Ratios and Supplemental Data

Year ⁽¹⁾	2020	2019	2018	2017	2016
Total net asset value (000's)	\$ 80,895	103,471	119,243	138,941	86,448
Number of units outstanding (000's)	8,844	10,671	13,180	13,765	8,565
Management expense ratio ⁽²⁾⁽⁵⁾	0.70%	0.71%	0.70%	0.70%	0.71%
Management expense ratio excluding proportion of expenses from underlying investment funds	0.70%	0.71%	0.69%	0.70%	0.69%
Management expense ratio before waivers and absorptions ⁽³⁾	0.78%	0.76%	0.75%	0.77%	0.81%
Trading expense ratio ⁽⁴⁾⁽⁵⁾	0.00%	0.01%	0.01%	0.01%	0.02%
Trading expense ratio excluding proportion of costs from underlying investment funds	0.00%	0.01%	0.01%	0.01%	0.02%
Portfolio turnover rate ⁽⁶⁾	55.10%	41.59%	82.60%	67.78%	78.62%
Net asset value per unit, end of year	\$ 9.15	9.70	9.05	10.09	10.09
Closing market price	\$ 9.15	9.65	9.05	10.08	10.09

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.
3. The Manager, at its discretion, may waive and/or absorb a portion of the fees and/or expenses otherwise payable by the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.
4. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year. Transaction costs related to the purchase and/or sale of fixed income securities are typically imbedded in the price of those transactions and are therefore not included in the trading expense ratio.
5. 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.
6. The ETF's portfolio turnover rate indicates how actively its portfolio investments are traded. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of the year. Generally, the higher the ETF's portfolio turnover rate in a year, the greater the trading costs payable by the ETF in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the ETF.

Financial Highlights (continued)

Management Fees

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

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.60%, plus applicable sales taxes, of the net asset value of the ETF's units, 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.

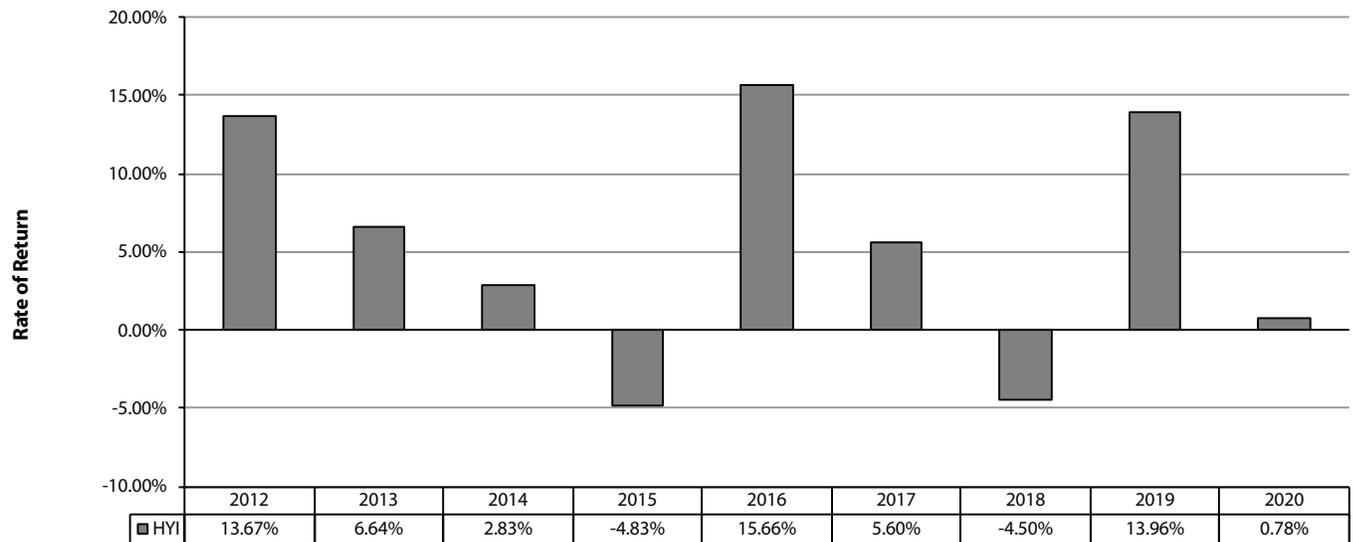
Marketing	Portfolio management fees, general administrative costs and profit	Waived/absorbed expenses of the ETF
4%	84%	12%

Past Performance

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

Year-by-Year Returns

The following chart presents the ETF's performance for the periods shown, and illustrates how the performance has changed from period to period. In percentage terms, the chart shows how much an investment made on the first day of the financial period would have grown or decreased by the last day of the financial period.



The ETF effectively began operations on February 14, 2012.

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 market index. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the ETF or future returns on investments in the ETF.

	1 Year	3 Year	5 Year	Since Inception
Horizons Active High Yield Bond ETF	0.78%	3.13%	6.02%	5.36%
Barclays Capital US High Yield Very Liquid Index	5.87%	5.93%	8.17%	6.08%

The ETF effectively began operations on February 14, 2012.

Summary of Investment Portfolio

As at December 31, 2020

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
U.S. Fixed Income Securities	\$ 43,849,001	54.21%
Canadian Fixed Income Securities	13,153,029	16.26%
Global Fixed Income Securities	7,073,470	8.74%
U.S. Equities	150,671	0.18%
Currency Forward Hedge*	128,584	0.16%
Cash and Cash Equivalents	16,048,724	19.84%
Other Assets less Liabilities	491,345	0.61%
	\$ 80,894,824	100.00%

Sector Mix	Net Asset Value	% of ETF's Net Asset Value
Corporate Bonds	\$ 57,701,553	71.33%
Government Bonds	6,373,947	7.88%
Communication Services	150,671	0.18%
Currency Forward Hedge*	128,584	0.16%
Cash and Cash Equivalents	16,048,724	19.84%
Other Assets less Liabilities	491,345	0.61%
	\$ 80,894,824	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.

Summary of Investment Portfolio (continued)

As at December 31, 2020

Top 25 Holdings*	% of ETF's Net Asset Value
Cash and Cash Equivalents	19.84%
United States Treasury Bond	7.88%
HCA Inc.	3.57%
First Quantum Minerals Ltd.	2.32%
Delta Air Lines Inc. / SkyMiles IP Ltd.	2.30%
Ford Motor Credit Co. LLC	2.11%
General Motors Financial Co. Inc.	2.09%
Iron Mountain Inc.	1.99%
Endo DAC / Endo Finance LLC / Endo Finco Inc.	1.76%
Mattamy Group Corp.	1.76%
Rain CII Carbon LLC / CII Carbon Corp.	1.76%
Sprint Corp.	1.64%
T-Mobile USA Inc.	1.61%
Navient Corp.	1.56%
Mercer International Inc.	1.54%
Videotron Ltd.	1.50%
Foxtrot Escrow Issuer LLC / Foxtrot Escrow Corp.	1.48%
Sigma Holdco BV	1.42%
Brookfield Residential Properties Inc. / Brookfield Residential US Corp.	1.35%
Keyera Corp.	1.35%
MGM Resorts International	1.32%
Uber Technologies Inc.	1.22%
Superior Plus L.P. / Superior General Partner Inc.	1.19%
Open Text Corp.	1.17%
Archrock Partners L.P. / Archrock Partners Finance Corp.	1.12%

* Note all of the Top 25 Holdings, excluding Cash and Cash Equivalents, represent the aggregate debt instruments of that issuer in the ETF's portfolio.

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

MANAGER’S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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



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



Thomas Park
Director
Horizons ETFs Management (Canada) Inc.

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Horizons Active High Yield Bond ETF (the "ETF")

Opinion

We have audited the financial statements of the ETF, which comprise the statements of financial position as at December 31, 2020 and 2019, the statements of comprehensive income, changes in financial position and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ETF as at December 31, 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

Statements of Financial Position

As at December 31,

	2020	2019
Assets		
Cash and cash equivalents	\$ 16,048,724	\$ 4,412,557
Investments	64,226,171	95,634,629
Amounts receivable relating to accrued income	950,869	1,745,902
Derivative assets (note 3)	138,859	2,238,993
Total assets	81,364,623	104,032,081
Liabilities		
Accrued management fees	46,136	60,324
Accrued operating expenses	2,519	5,957
Distribution payable	410,869	433,244
Derivative liabilities (note 3)	10,275	61,310
Total liabilities	469,799	560,835
Total net assets (note 2)	\$ 80,894,824	\$ 103,471,246
Number of redeemable units outstanding (note 8)	8,843,502	10,671,038
Total net assets per unit	\$ 9.15	\$ 9.70

(See accompanying notes to financial statements)

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



 Steven J. Hawkins
 Director



 Thomas Park
 Director

Statements of Comprehensive Income

For the Years Ended December 31,

	2020	2019
Income		
Interest income for distribution purposes	\$ 5,428,367	\$ 7,320,227
Securities lending income (note 7)	6,959	27,171
Net realized loss on sale of investments and derivatives	(3,713,851)	(1,371,248)
Net realized gain (loss) on foreign exchange	(14,457)	111,329
Net change in unrealized appreciation (depreciation) of investments and derivatives	(629,771)	9,220,383
Net change in unrealized appreciation (depreciation) of foreign exchange	8,166	(106,964)
	1,085,413	15,200,898
Expenses (note 9)		
Management fees	567,627	712,281
Audit fees	12,827	11,639
Independent Review Committee fees	726	883
Custodial and fund valuation fees	32,930	37,501
Legal fees	2,571	1,730
Securityholder reporting costs	17,243	16,685
Administration fees	27,787	26,542
Transaction costs	6	6,270
Withholding taxes	(558)	1,474
Other expenses	13	2,893
	661,172	817,898
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(67,083)	(55,281)
	594,089	762,617
Increase in net assets for the year	\$ 491,324	\$ 14,438,281
Increase in net assets per unit	\$ 0.05	\$ 1.29

(See accompanying notes to financial statements)

Statements of Changes in Financial Position

For the Years Ended December 31,

	2020	2019
Total net assets at the beginning of the year	\$ 103,471,246	\$ 119,242,956
Increase in net assets	491,324	14,438,281
Redeemable unit transactions		
Proceeds from the issuance of securities of the investment fund	9,670,970	12,677,814
Aggregate amounts paid on redemption of securities of the investment fund	(27,444,997)	(36,504,919)
Securities issued on reinvestment of distributions	198,856	151,152
Distributions:		
From net investment income	(5,007,554)	(6,534,038)
Return of capital	(485,021)	–
Total net assets at the end of the year	\$ 80,894,824	\$ 103,471,246

(See accompanying notes to financial statements)

Statements of Cash Flows

For the Years Ended December 31,

	2020	2019
Cash flows from operating activities:		
Increase in net assets for the year	\$ 491,324	\$ 14,438,281
Adjustments for:		
Net realized loss on sale of investments and derivatives	3,713,851	1,371,248
Net realized gain (loss) on currency forward contracts	1,892,653	(1,388,825)
Net change in unrealized depreciation (appreciation) of investments and derivatives	629,771	(9,220,383)
Net change in unrealized depreciation (appreciation) of foreign exchange	(1,235)	2,111
Purchase of investments	(43,300,259)	(44,610,868)
Proceeds from the sale of investments	70,518,174	67,399,813
Amounts receivable relating to accrued income	795,033	575,836
Accrued expenses	(17,626)	(11,981)
Net cash from operating activities	34,721,686	28,555,232
Cash flows from financing activities:		
Amount received from the issuance of units	9,626,393	12,677,814
Amount paid on redemptions of units	(27,397,053)	(36,516,598)
Distributions paid to unitholders	(5,316,094)	(6,729,646)
Net cash used in financing activities	(23,086,754)	(30,568,430)
Net increase (decrease) in cash and cash equivalents during the year	11,634,932	(2,013,198)
Effect of exchange rate fluctuations on cash and cash equivalents	1,235	(2,111)
Cash and cash equivalents at beginning of year	4,412,557	6,427,866
Cash and cash equivalents at end of year	\$ 16,048,724	\$ 4,412,557
Interest received, net of withholding taxes	\$ 6,223,958	\$ 7,870,112
Dividends received, net of withholding taxes	\$ –	\$ 24,477

(See accompanying notes to financial statements)

Schedule of Investments

As at December 31, 2020

Security	Par Value/ Shares/Contracts		Average Cost		Fair Value
U.S. FIXED INCOME SECURITIES (54.21%)					
Corporate Bonds (46.33%)					
AMN Healthcare Inc., Callable, 4.63%, 2027/10/01	340,000	\$	453,785	\$	454,185
Archrock Partners L.P. / Archrock Partners Finance Corp., Callable, 6.25%, 2028/04/01	684,000		918,087		908,503
BCD Acquisition Inc., Callable, 9.63%, 2023/09/15	575,000		780,198		751,130
Beazer Homes USA Inc., Callable, 7.25%, 2029/10/15	565,000		754,658		813,154
Boise Cascade Co., Callable, 4.88%, 2030/07/01	250,000		340,225		345,075
CSC Holdings LLC, Callable, 6.50%, 2029/02/01	426,000		610,648		613,250
Dell International LLC / EMC Corp., Callable, 7.13%, 2024/06/15	485,000		671,359		640,893
Delta Air Lines Inc. / SkyMiles IP Ltd., Sinkable, Callable, 4.50%, 2025/10/20	675,000		901,024		918,809
Delta Air Lines Inc. / SkyMiles IP Ltd., Sinkable, Callable, 4.75%, 2028/10/20	675,000		907,683		938,880
DISH DBS Corp., 5.88%, 2024/11/15	646,000		746,500		863,408
Entercom Media Corp., Callable, 7.25%, 2024/11/01	580,000		781,936		737,821
Ford Motor Credit Co. LLC, Callable, 5.11%, 2029/05/03	1,200,000		1,662,131		1,703,064
Foxtrot Escrow Issuer LLC / Foxtrot Escrow Corp., Callable, 12.25%, 2026/11/15	822,000		1,076,126		1,194,604
General Motors Co., Callable, 6.13%, 2025/10/01	250,000		349,646		386,318
General Motors Financial Co. Inc., Series 'C', Variable Rate, Perpetual, 5.70%, 2030/09/30	1,200,000		1,619,517		1,687,865
Golden Nugget Inc., Callable, 6.75%, 2024/10/15	250,000		273,940		316,338
Great Lakes Dredge & Dock Corp., Callable, 8.00%, 2022/05/15	675,000		911,694		884,206
HCA Inc., Callable, 5.88%, 2029/02/01	1,000,000		1,358,651		1,534,080
HCA Inc., Callable, 3.50%, 2030/09/01	1,000,000		1,342,885		1,353,616
Iron Mountain Inc., Callable, 4.88%, 2029/09/15	1,200,000		1,627,612		1,613,019
Kaiser Aluminum Corp., Callable, 4.63%, 2028/03/01	609,000		808,173		805,576
LGI Homes Inc., Callable, 6.88%, 2026/07/15	542,000		725,746		726,132
M/I Homes Inc., Callable, 4.95%, 2028/02/01	374,000		488,172		505,426
Match Group Holdings II LLC, Callable, 4.63%, 2028/06/01	500,000		703,025		668,272
Mercer International Inc., Callable, 6.50%, 2024/02/01	144,000		194,272		186,276
Mercer International Inc., Callable, 7.38%, 2025/01/15	800,000		1,085,925		1,061,614
MGM Resorts International, 7.75%, 2022/03/15	789,000		1,124,733		1,071,482
Moss Creek Resources Holdings Inc., Callable, 7.50%, 2026/01/15	862,000		1,020,438		836,645
Navient Corp., 6.13%, 2024/03/25	788,000		994,190		1,073,875
Navient Corp., Callable, 5.00%, 2027/03/15	145,000		191,647		186,440
Netflix Inc., 4.88%, 2028/04/15	572,000		710,101		822,264
Nuance Communications Inc., Callable, 5.63%, 2026/12/15	520,000		693,538		701,619
Par Petroleum LLC / Petroleum Finance Corp., Callable, 7.75%, 2025/12/15	325,000		414,512		398,653
Penn National Gaming Inc., Callable, 5.63%, 2027/01/15	476,000		634,101		633,227

Schedule of Investments (continued)

As at December 31, 2020

Security	Par Value/ Shares/Contracts	Average Cost	Fair Value
Pilgrim's Pride Corp., Callable, 5.88%, 2027/09/30	630,000	797,064	870,780
Prime Security Services Borrower LLC / Prime Finance Inc., Callable, 6.25%, 2028/01/15	267,000	351,868	365,354
Rain CII Carbon LLC / CII Carbon Corp., Callable, 7.25%, 2025/04/01	1,096,000	1,458,359	1,420,371
Sirius XM Radio Inc., Callable, 4.13%, 2030/07/01	250,000	334,275	339,109
Sotheby's, Callable, 7.38%, 2027/10/15	315,000	418,391	430,210
Southwestern Energy Co., Callable, 4.95%, 2025/01/23	282,000	355,801	373,989
Sprint Capital Corp., 6.88%, 2028/11/15	311,000	422,939	522,691
Sprint Corp., Callable, 7.63%, 2025/02/15	871,000	1,164,346	1,327,896
Tenet Healthcare Corp., Callable, 7.50%, 2025/04/01	125,000	177,263	174,056
T-Mobile USA Inc., Callable, 4.50%, 2026/02/01	544,000	674,459	709,222
T-Mobile USA Inc., Callable, 3.88%, 2030/04/15	400,000	563,145	590,346
TransDigm Inc., Callable, 6.25%, 2026/03/15	576,000	785,289	781,768
Uber Technologies Inc., Callable, 8.00%, 2026/11/01	712,000	943,032	990,813
W&T Offshore Inc., Callable, 9.75%, 2023/11/01	267,636	353,794	242,730
		36,676,903	37,475,054
Government Bonds (7.88%)			
United States Treasury Bond, 0.38%, 2025/11/30	5,000,000	6,378,503	6,373,947
		6,378,503	6,373,947
TOTAL U.S. FIXED INCOME SECURITIES		43,055,406	43,849,001
CANADIAN FIXED INCOME SECURITIES (16.26%)			
Corporate Bonds (16.26%)			
Air Canada, Callable, 4.75%, 2023/10/06	383,000	392,535	390,022
Brookfield Residential Properties Inc. / Brookfield Residential US Corp., Callable, 6.25%, 2027/09/15	808,000	1,071,496	1,095,999
Cascades Inc. / Cascades USA Inc., Callable, 5.13%, 2025/01/15	408,000	408,963	427,805
CES Energy Solutions Corp., Callable, 6.38%, 2024/10/21	350,000	350,000	345,260
Clearwater Seafoods Inc., Callable, 6.88%, 2025/05/01	424,000	572,331	566,692
Crew Energy Inc., Callable, 6.50%, 2024/03/14	340,000	327,318	239,417
First Quantum Minerals Ltd., Callable, 7.25%, 2023/04/01	1,000,000	1,128,640	1,313,887
First Quantum Minerals Ltd., Callable, 6.50%, 2024/03/01	433,000	553,842	567,356
Hudbay Minerals Inc., Callable, 7.63%, 2025/01/15	426,000	582,926	564,285
Keyera Corp., Floating Rate, Callable, 6.88%, 2079/06/13	1,005,605	1,012,663	1,090,696
Mattamy Group Corp., Callable, 4.63%, 2028/03/01	1,375,000	1,333,093	1,422,266
MCAP Commercial L.P., 5.00%, 2022/12/14	800,000	802,266	861,691
Nuvista Energy Ltd., Callable, 6.50%, 2023/03/02	290,000	288,013	215,023
Open Text Corp., Callable, 5.88%, 2026/06/01	713,000	969,162	943,881
Parkland Corp., Restricted, Callable, 6.00%, 2028/06/23	600,000	606,600	645,000
Superior Plus L.P. / Superior General Partner Inc., Callable, 7.00%, 2026/07/15	707,000	935,050	964,061

Schedule of Investments (continued)

As at December 31, 2020

Security	Par Value/ Shares/Contracts	Average Cost	Fair Value
Vesta Energy Corp., Callable, 8.13%, 2023/07/24	700,000	566,825	289,625
Videotron Ltd., Callable, 4.50%, 2030/01/15	1,113,000	1,081,438	1,210,063
		12,983,161	13,153,029
TOTAL CANADIAN FIXED INCOME SECURITIES		12,983,161	13,153,029
GLOBAL FIXED INCOME SECURITIES (8.74%)			
Ireland (3.36%)			
Ardagh Packaging Finance PLC / Ardagh MP Holdings USA Inc., Callable, 4.13%, 2026/08/15	420,000	552,384	559,344
Endo DAC / Endo Finance LLC / Endo Finco Inc., Callable, 9.50%, 2027/07/31	1,000,000	1,435,784	1,423,261
James Hardie International Finance Ltd., Callable, 5.00%, 2028/01/15	545,000	694,819	739,330
		2,682,987	2,721,935
Netherlands (2.31%)			
Sigma Holdco BV, Callable, 7.88%, 2026/05/15	881,000	1,167,821	1,152,057
Stars Group Holdings BV / Stars Group US Co-Borrower LLC, Callable, 7.00%, 2026/07/15	325,000	436,604	436,187
Teva Pharmaceutical Finance Netherlands III BV, 2.80%, 2023/07/21	222,000	280,593	280,306
		1,885,018	1,868,550
Australia (0.83%)			
FMG Resources (August 2006) Pty. Ltd., Callable, 5.13%, 2024/05/15	485,249	637,781	671,334
Austria (0.66%)			
JBS Investments II GmbH, Callable, 7.00%, 2026/01/15	389,000	537,716	535,241
Bermuda (0.58%)			
VOC Escrow Ltd., Callable, 5.00%, 2028/02/15	370,000	511,418	468,531
Luxembourg (0.56%)			
Dana Financing Luxembourg SARL, Callable, 5.75%, 2025/04/15	340,000	453,454	450,368
United Kingdom (0.44%)			
Pizzaexpress Financing 2 PLC, Callable, 6.63%, 2021/08/01	341,000	563,660	355,789
France (0.00%)			
Altice France SA, Callable, 7.38%, 2026/05/01	1,284	1,682	1,722
TOTAL GLOBAL FIXED INCOME SECURITIES		7,273,716	7,073,470

Schedule of Investments (continued)

As at December 31, 2020

Security	Par Value/ Shares/Contracts	Average Cost	Fair Value
U.S. EQUITIES (0.18%)			
Communication Services (0.18%)			
iHeartMedia Inc., Warrants	9,151	200,170	150,671
TOTAL U.S. EQUITIES		200,170	150,671
DERIVATIVES (0.16%)			
Currency Forwards (0.16%)			
Currency forward contract to buy C\$67,449,756 for US\$52,885,805 maturing January 14, 2021		–	133,953
Currency forward contract to buy US\$8,320,847 for C\$10,588,278 maturing January 14, 2021		–	2,929
Currency forward contract to buy GB£59,000 for C\$100,890 maturing January 14, 2021		–	1,814
Currency forward contract to buy C\$459,891 for GB£270,000 maturing January 14, 2021		–	(10,112)
		–	128,584
TOTAL DERIVATIVES		–	128,584
Transaction Costs		(9)	
TOTAL INVESTMENT PORTFOLIO (79.55%)		\$ 63,512,444	\$ 64,354,755
Cash and cash equivalents (19.84%)			16,048,724
Other assets less liabilities (0.61%)			491,345
TOTAL NET ASSETS (100.00%)			\$ 80,894,824

(See accompanying notes to financial statements)

Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

1. REPORTING ENTITY

Horizons Active High Yield Bond ETF (“HYI” or the “ETF”) is an investment trust established under the laws of the Province of Ontario by Declaration of Trust and effectively began operations on February 14, 2012. The address of the ETF’s registered office is: c/o Horizons ETFs Management (Canada) Inc., 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7.

The ETF is offered for sale on a continuous basis by its prospectus in Class E units (“Class E”) which trade on the Toronto Stock Exchange (“TSX”) under the symbol HYI. An investor may buy or sell units of the ETF on the TSX only through a registered broker or dealer in the province or territory where the investor resides. Investors are able to trade units of the ETF in the same way as other securities traded on the TSX, including by using market orders and limit orders and may incur customary brokerage commissions when buying or selling units.

HYI’s investment objectives are to provide unitholders with: (i) high total return income; and (ii) monthly distributions. HYI invests, directly or indirectly, primarily in high-yield debt securities of North American companies. HYI may also invest, directly or indirectly, in convertible debentures, preferred shares (including securities convertible into preferred shares) and mortgage back securities and other income generating debt (including debt-like securities).

Horizons ETFs Management (Canada) Inc. is the manager, trustee and investment manager of the ETF (“Horizons Management”, the “Manager” or the “Investment Manager”). The Investment Manager is responsible for implementing the ETF’s investment strategies and for engaging the services of DMAT Capital Management Inc. (“DMAT” or the “Sub-Advisor”), to act as the sub-advisor to the ETF.

Sub-Advisor Change

Effective November 4, 2020, DMAT Capital Management Inc. has assumed the sub-advisory duties and responsibilities for the ETF. There was no change to the ETF’s investment objectives and strategies or the management fee, as a result of these changes.

2. BASIS OF PREPARATION

(i) Statement of compliance

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

These financial statements were authorized for issue on March 12, 2021, by the Board of Directors of the Manager.

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

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”). IFRS 9 requires classification of debt instruments, if any, based solely on payments of principal and interests, and business model tests.

The ETF’s financial assets and financial liabilities are managed and its performance is evaluated on a fair value basis. The contractual cash flows of the ETF’s debt securities, if any, consist solely of principal and interest, however, these securities are neither held in held-to-collect, or held-to-collect-and-sell business models in IFRS 9.

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, at fair value (see below), with transaction costs recognized in the statements of comprehensive income. Other financial assets and financial liabilities are recognized on the date on which they are originated at fair value.

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

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

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

Fair value policies used for financial reporting purposes are the same as those used to measure the net asset value (“NAV”) for transactions with unitholders.

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

(iii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

(iv) Specific instruments

Cash and cash equivalents

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

Forward foreign exchange contracts

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

Redeemable units

The redeemable units are measured at the present value of the redemption amounts and are considered a residual amount of the net assets attributable to holders of redeemable units. They are classified as financial liabilities as a result of the ETF’s requirement to distribute net income and capital gains to unitholders.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

(b) Investment income

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

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

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

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

(c) Foreign currency

Transactions in foreign currencies are translated into the ETF's reporting currency using the exchange rate prevailing on the trade date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the year-end exchange rate. Foreign exchange gains and losses are presented as "Net realized gain (loss) on foreign exchange", except for those arising from financial instruments at fair value through profit or loss, which are recognized as a component within "Net realized gain (loss) on sale of investments and derivatives" and "Net change in unrealized appreciation (depreciation) of investments and derivatives" in the statements of comprehensive income.

(d) Cost basis

The cost of portfolio investments is determined on an average cost basis.

(e) Increase (decrease) in net assets attributable to holders of redeemable units per unit

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

(f) Unitholder transactions

The value at which units are issued or redeemed is determined by dividing the net asset value of the ETF by the total number of units outstanding of the ETF on the applicable Valuation Date. Amounts received on the issuance of units and amounts paid on the redemption of units are included in the statements of changes in financial position. Orders for subscriptions or redemptions are only permissible on valid trading days, as defined in the ETF's prospectus.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

(g) Amounts receivable (payable) relating to portfolio assets sold (purchased)

In accordance with the ETF's policy of trade date accounting for sale and purchase transactions, sales/purchase transactions awaiting settlement represent amounts receivable/payable for securities sold/purchased, but not yet settled as at the reporting date.

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

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

(i) Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and any applicable transfer taxes and duties. Transaction costs are expensed and are included in "Transaction costs" in the statements of comprehensive income.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these financial statements, the Manager has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The 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.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

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

(a) Market risk

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

(i) Currency risk

Currency risk is the risk that financial instruments which are denominated in currencies other than the ETF's reporting currency, the Canadian dollar, will fluctuate due to changes in exchange rates and adversely impact the ETF's income, cash flows or fair values of its investment holdings. The ETF may reduce its foreign currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts. As at December 31, 2020 and 2019, the ETF did not have any material net exposure to foreign currencies due to the ETF's hedging strategies.

(ii) Interest rate risk

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

The following table summarizes the ETF's exposure to interest rate risk, including the ETF's assets categorized by the remaining term to maturity:

Investments	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
As at	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
December 31, 2020	356	6,422	20,320	37,928	–	65,026
December 31, 2019	4,915	11,962	24,770	59,892	–	101,539

The percentage of the ETF's net assets exposed to interest rate risk as at December 31, 2020, was 80.4% (December 31, 2019 – 98.1%). The amount by which the net assets of the ETF would have increased or decreased, as at December 31, 2020, had the prevailing interest rates been lowered or raised by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, was \$1,586,643 (December 31, 2019 – \$3,999,716). The ETF's interest rate sensitivity was determined based on portfolio weighted duration. In practice, actual results may differ from this sensitivity analysis.

(iii) Other market risk

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

investment, its issuer, or all factors affecting all instruments traded in a market or market segment. The Manager has implemented internal risk management controls on the ETF which are intended to limit the loss on its trading activities.

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

Comparative Index	December 31, 2020	December 31, 2019
Barclays Capital US High Yield Very Liquid Index	\$716,372	\$858,008

(b) Credit risk

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

Analysis of credit quality

The ETF's credit risk exposure by designated rating of the invested portfolio as at December 31, 2020 and 2019, is listed as follows:

Debt, Preferred or Derivative Securities by Credit Rating	Percentage of Net Asset Value (%)	
	December 31, 2020	December 31, 2019
AAA	7.9%	4.8%
BBB	4.6%	6.0%
BB	38.0%	36.1%
B	20.2%	41.1%
CCC	8.7%	9.7%
D	–	0.4%
Unrated	1.0%	–
Total	80.4%	98.1%

Designated ratings are obtained by Standard & Poor's, Moody's and/or Dominion Bond Rating Services. Where more than one rating is obtained for a security, the lowest rating has been used. Credit risk is managed by dealing with counterparties the ETF believes to be creditworthy and by regular monitoring of credit exposures. The maximum exposure to any one debt issuer as of December 31, 2020, was 7.9% (December 31, 2019 – 1.8%) of the net assets of the ETF.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

(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.

6. FAIR VALUE MEASUREMENT

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

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

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following is a summary of the inputs used as at December 31, 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						
Short-Term Investments	–	–	–	–	566,654	–
Bonds	–	64,075,500	–	–	94,665,153	–
Senior Loans	–	–	–	–	217,150	–
Equities	150,671	–	–	185,672	–	–
Currency Forward Contracts	–	138,859	–	–	2,238,993	–
Total Financial Assets	150,671	64,214,359	–	185,672	97,687,950	–
Financial Liabilities						
Currency Forward Contracts	–	(10,275)	–	–	(61,310)	–
Total Financial Liabilities	–	(10,275)	–	–	(61,310)	–
Net Financial Assets and Liabilities	150,671	64,204,084	–	185,672	97,626,640	–

Notes to Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

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.

7. SECURITIES LENDING

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

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

As at	Securities Loaned	Collateral Received
December 31, 2020	\$7,857,337	\$8,250,402
December 31, 2019	\$9,338,956	\$9,906,049

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

The table below presents a reconciliation of the securities lending income as presented in the statements of comprehensive income for the years ended December 31, 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	\$13,711		\$53,596	
Withholding taxes	(3,320)	24.21%	(14,781)	27.58%
Lending Agents’ fees:				
Canadian Imperial Bank of Commerce	(3,432)	25.03%	(11,644)	21.72%
Net securities lending income paid to the ETF	\$6,959	50.76%	\$27,171	50.70%

Notes to Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

8. REDEEMABLE UNITS

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

The redeemable units issued by the ETF provide an investor with the right to require redemption for cash at a value proportionate to the investor's share in the ETF's net assets at each redemption date. They are classified as liabilities as a result of the ETF's requirement to distribute net income and capital gains to unitholders. The ETF's objectives in managing the redeemable units are to meet the ETF's investment objective, and to manage liquidity risk arising from redemptions. The ETF's management of liquidity risk arising from redeemable units is discussed in note 5.

On any valid trading day, as defined in the ETF's prospectus, unitholders of the ETF may (i) redeem units of the ETF for cash at a redemption price per unit equal to 95% of the closing price for units of the ETF on the TSX on the effective day of the redemption, where the units being redeemed are not equal to a prescribed number of units ("PNU") or a multiple PNU; or (ii) redeem, less any applicable redemption charge as determined by the Manager in its sole discretion from time to time, a PNU or a multiple PNU of the ETF for cash equal to the net asset value of that number of units.

Units of the ETF are issued or redeemed on a daily basis at the net asset value per security that is determined as at 4:00 p.m. (Eastern Time) each business day. Purchase and redemption orders are subject to a 9:30 a.m. (Eastern Time) cut-off time.

The ETF is required to distribute any net income and capital gains that it has earned in the year. Income earned by the ETF is distributed to unitholders at least once per year, if necessary, and these distributions are either paid in cash or reinvested by unitholders into additional units of the ETF. Net realized capital gains, if any, are typically distributed in December of each year to unitholders. The annual capital gains distributions are not paid in cash but rather, are reinvested and reported as taxable distributions and used to increase each unitholder's adjusted cost base for the ETF. Distributions paid to holders of redeemable units are recognized in the statements of changes in financial position.

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

For the years ended December 31, 2020 and 2019, the number of units issued by subscription and/or distribution reinvestment, the number of units redeemed, the total and average number of units outstanding was as follows:

Year	Beginning Units Outstanding	Units Issued	Units Redeemed	Ending Units Outstanding	Average Units Outstanding
2020	10,671,038	1,172,464	(3,000,000)	8,843,502	9,420,455
2019	13,180,193	1,340,845	(3,850,000)	10,671,038	11,149,313

Notes to Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

9. EXPENSES**Management fees**

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

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.60%, plus applicable sales taxes, of the net asset value of the ETF's units, 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 unitholders; listing and annual stock exchange fees; index licensing fees, if applicable; fees payable to CDS Clearing and Depository Services Inc.; bank related fees and interest charges; extraordinary expenses; unitholder reports and servicing costs; registrar and transfer agent fees; costs associated with the Independent Review Committee; income taxes; sales taxes; brokerage expenses and commissions; and withholding taxes.

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

10. BROKER COMMISSIONS, SOFT DOLLARS AND RELATED PARTY TRANSACTIONS

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

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

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	\$6	\$nil	\$nil
December 31, 2019	\$168	\$nil	\$nil

In addition to the information contained in the table above, the management fees paid to the Manager described in note 9 are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statements of comprehensive income. The management fees payable by the ETF as at December 31, 2020 and 2019, are disclosed in the statements of financial position.

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

11. INCOME TAX

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

12. TAX LOSSES CARRIED FORWARD

Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years. Non-capital losses carried forwards may be applied against future years' taxable income. Non-capital losses that are realized in the current taxation year may be carried forward for 20 years. As at December 31, 2020, the ETF had net capital losses and/or non-capital losses, with the year of expiry of the non-capital losses as follows:

Net Capital Losses	Non-Capital Losses	Year of Expiry of the Non-Capital Losses
\$9,005,688	–	–

13. OFFSETTING OF FINANCIAL INSTRUMENTS

In the normal course of business, the ETF may enter into various master netting arrangements or other similar agreements that do not meet the criteria for offsetting in the statements of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts. The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at December 31, 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.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2020 and 2019

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	138,859	–	138,859	(10,275)	–	128,584
Derivative liabilities	(10,275)	–	(10,275)	10,275	–	–

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	2,238,993	–	2,238,993	(61,310)	–	2,177,683
Derivative liabilities	(61,310)	–	(61,310)	61,310	–	–

14. INTERESTS IN SUBSIDIARIES, ASSOCIATES AND UNCONSOLIDATED STRUCTURED ENTITIES

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

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

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

Investments in Investee ETFs are susceptible to market price risk arising from uncertainty about future values of those Investee ETFs. The maximum exposure to loss from interests in Investee ETFs is equal to the total fair value of the investment in those respective Investee ETFs at any given point in time. The fair value of Investee ETFs, if any, are disclosed in investments in the statements of financial position and listed in the schedule of investments. As at December 31, 2020 and 2019, the ETF had no exposure to subsidiaries, associates or unconsolidated structured entities.

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