



**Horizons Tactical Absolute Return Bond ETF  
(HARB, HARB.J, HARB.U:TSX)**



**HORIZONS** ETFs  
by Mirae Asset

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## A Message from the CEO

After 2020's challenges and uncertainty, we have seen continued success in the global fight against the COVID-19 pandemic throughout 2021.

Despite the emergence of the new Omicron COVID-19 variant in the later part of 2021, across the world, vaccination rollouts are continuing, and there is growing optimism that a 'return to normal' is on the horizon. While we mourn the COVID-19 pandemic's toll at Horizons ETFs and reflect on its lessons, we continue to work diligently to best serve our investors and clients.

While the pandemic has impacted many businesses and sectors, Canada's ETF industry and the marketplace have shown few signs of slowing down. In 2021, Canada's ETF industry has seen more than \$52 billion of inflows – a new annual record.

Horizons ETFs is proud to continue our longstanding commitment to bringing innovative ETFs to market. In 2021, that commitment resulted in eighteen new ETF launches – another new record for Horizons ETFs. Ranging from first-in-the-world ETFs to expansions of our most popular mandates, we are proud of the innovation and access we've delivered to our investors in 2021.

In January, Horizons ETFs launched the Horizons Psychedelic Stock Index ETF ("**PSYK**"). PSYK is the world's first psychedelics ETF; an emerging industry that has the potential to disrupt the pharmaceutical sector and revolutionize the treatment of numerous mental health conditions.

Another global first: in April, we launched our inverse Bitcoin ETF, the BetaPro Inverse Bitcoin ETF ("**BITI**"), offering investors a unique opportunity to potentially profit from volatility in what has become 2021's most-watched asset class.

In June, we launched the Horizons S&P Green Bond Index ETF ("**HGGB**"), Canada's first global green bond ETF. We also continued to expand our footprint within the growing renewable energy space by launching the Horizons Global Hydrogen Index ETF ("**HYDR**") and the Horizons Global Lithium Producers Index ETF ("**HLIT**"); respectively, Canada's first hydrogen and lithium ETFs – two crucial alternative energy sources that are helping to fuel our future.

Also launched in June was the Horizons Global Semiconductor Index ETF ("**CHPS**"). CHPS offers direct exposure to companies involved in the production and development of semiconductors. Despite semiconductor supply being interrupted by COVID-19, we are bullish on the potential of this sector as semiconductors are at the core of all technology.

In the final weeks of 2021, we also launched three ETFs designed to provide investors with exposure to emerging and essential future-forward technological themes: the Horizons Global Metaverse Index ETF ("**MTAV**"), the Horizons GX Cybersecurity Index ETF ("**HBUG**"), and the Horizons GX Telemedicine and Digital Health Index ETF ("**HDOC**").

In addition to this noteworthy growth in the size our ETF suite, now totaling 104 ETFs, we saw significant growth in our assets under management, from approximately \$16.5 billion at the start of the year to more than \$20.7 billion by its end. We continue to entrench our position as one of Canada's top ETF providers.

I am also proud to announce that we hosted the 10th edition of our Biggest Winner Trading Competition, which offers investors the chance to educate themselves about trading by managing a virtual ETF portfolio while competing for cash prizes in a risk-free environment. After more than a decade of the Biggest Winner, this event has become near and dear to my heart, as I believe it has for the thousands of participants, many of whom return each year to compete to become the Biggest Winner.

At Horizons ETFs, "Innovation is Our Capital" has long been our motto and it is what has driven us to remain nimble and to adapt quickly to what Canadian investors are looking for. With one of the largest and most diversified suites of ETFs in Canada, I believe that our ETFs empower investors to do the same: be nimble and adaptable, no matter the market conditions. While the road ahead is still uncertain, we remain confident in our ability to respond to your investment needs and believe there are brighter days on the horizon.

As always, we thank you for your continued support and hope you're staying safe and healthy during this time.

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 Tactical Absolute Return Bond ETF (“HARB” or the “ETF”), a corporate class of shares (a “Corporate Class”) of Horizons ETF Corp. (the “Company”), contains financial highlights and is included with the audited annual consolidated financial statements (“financial statements” or “annual financial statements”) for the investment fund. You may request a copy of the investment fund’s unaudited interim or audited annual financial statements, interim or annual management report of fund performance, current proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosures, at no cost, by calling (toll free) 1-866-641-5739, or (416) 933-5745, by writing to Horizons ETFs Management (Canada) Inc. (“Horizons Management” or the “Manager”), at 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7, by visiting our website at [www.horizonsetfs.com](http://www.horizonsetfs.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).

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

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

## Management Discussion of Fund Performance

### Investment Objective and Strategy

HARB’s investment objective is to seek to provide positive absolute returns with low volatility over a market cycle regardless of market conditions or general market direction. The ETF will tactically take long and short positions in North American and global debt instruments and derivatives across the credit spectrum. In respect of the Dividend Series Shares, the ETF will also seek to provide consistent income.

The ETF consists of three series of exchange traded fund shares: (i) a total return series of exchange traded fund shares offered for sale in Canadian dollars (the “Total Return Series Shares”); (ii) a dividend series of exchange traded fund shares offered for sale in Canadian dollars (the “Dividend Series Shares”); and (iii) an unhedged total return series of exchange traded fund shares offered for sale in U.S. dollars (the “USD Unhedged Total Return Series Shares”, and together with the Total Return Series Shares and Dividend Series Shares, the “ETF Shares”). Each ETF Share of a series represents an equal, undivided interest in the portion of the ETF’s assets attributable to that series. In respect of the Dividend Series Shares, the ETF’s investment objective will also seek to provide consistent income.

To achieve the ETF’s investment objective, the ETF’s sub-advisor, DMAT Capital Management Inc. (“DMAT” or the “Sub-Advisor”) employs a variety of strategies based on the investment cycle at the time of investment. Some of the strategies include, but are not limited to, the following: long/short high yield bond strategies to hedge default risk and hedge

## Management Discussion of Fund Performance (continued)

interest rate risk, long positions in investment grade bonds/short positions in government bonds to hedge interest rate risk, long positions in short duration high yield bonds and investment grade bonds/short positions in government bonds and Credit Default Swap Index swaps to produce positive yield without capital losses from rising interest rates, and positions in long duration government bonds to mitigate market risk.

The ETF trades primarily in North American and global debt instruments across the credit spectrum including, but not limited to, cash and cash equivalents, government debt, convertible bonds, government agency securities, inflation-linked bonds, investment grade corporate debt, high yield corporate debt, preferred shares, limited recourse capital notes, fixed income derivatives, private debt and other income-producing instruments.

The Sub-Advisor has full flexibility with regards to duration positioning and seeks to provide optimal exposure through changing market conditions. Investment grade corporate debt securities may be of issuers located in Canada, the United States, Europe or Japan. High yield corporate debt securities will vary by quality, liquidity and duration, and will be primarily of issuers located in Canada or the United States, with the intention of creating interest income and capital gains from narrowing credit spreads. The ETF could, at times, primarily be exposed to very short-term government debt, such as U.S. Treasury securities (cash equivalents) and, to a lesser extent, cash. The Sub-Advisor has full flexibility and discretion regarding portfolio exposure, credit risk and yield.

The ETF may be exposed to multiple foreign currencies. The Sub-Advisor will choose tactically whether to hedge the foreign currency exposure of the Total Return Series Shares and the Dividend Series Shares. The USD Unhedged Total Return Series Shares will not hedge any non-U.S. dollar exposure back to the U.S. dollar.

Please refer to the ETF's most recent prospectus for a complete description of HARB'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 its Underlying Index, or of an applicable proxy. In cases where the Manager believes that this methodology produces a result that is not indicative of the ETF's future volatility, the risk rating may be determined by the ETF's category. Risk ratings are not intended for use as a substitute for undertaking a proper and complete suitability or financial assessment by an investment advisor.

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

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

## Management Discussion of Fund Performance (continued)

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Investment and trading risks in general</li> <li>• General economic and market conditions</li> <li>• Market risk</li> <li>• Fixed income securities risk</li> <li>• Specific issuer risk</li> <li>• Legal and regulatory risk</li> <li>• Exchange traded funds risk</li> <li>• Reliance on historical data risk</li> <li>• Corresponding net asset value risk</li> <li>• Designated broker/dealer risk</li> <li>• Cease trading of securities risk</li> <li>• Exchange risk</li> <li>• Early closing risk</li> <li>• No assurance of meeting investment objectives</li> <li>• Tax-related risks</li> <li>• Securities lending, repurchase and reverse repurchase transaction risk</li> <li>• Reliance on key personnel</li> <li>• Distributions risk</li> <li>• Conflicts of interest</li> <li>• Possible effect of performance fee</li> <li>• Securities believed to be undervalued or incorrectly valued risk</li> <li>• Liquidity risk</li> <li>• No ownership interest</li> <li>• Absence of an active market for the ETF shares and lack of operating history risk</li> <li>• Redemption price</li> </ul> | <ul style="list-style-type: none"> <li>• Fluctuations in NAV and market price of the ETF shares risk</li> <li>• Restrictions on certain shareholders</li> <li>• Highly volatile markets</li> <li>• Market disruptions risk</li> <li>• Cyber security risk</li> <li>• No guaranteed return</li> <li>• Derivatives risk and counterparty risk</li> <li>• Futures trading risk</li> <li>• Margin trading risk; short sales risk</li> <li>• Hedging</li> <li>• Interest rate risk</li> <li>• Foreign currency risk</li> <li>• Emerging markets risk</li> <li>• Credit risk</li> <li>• Income trust investments risks</li> <li>• Foreign stock exchange risk</li> <li>• High yield bond risk and risks of other lower rated investments</li> <li>• Call risk</li> <li>• Risk of difference between quoted and actionable market price</li> <li>• Commodity price volatility risk</li> <li>• Alternative mutual fund risk</li> <li>• Leverage risk</li> <li>• Fund corporation and multi-class/series structure risk</li> <li>• Aggressive investment technique risk</li> <li>• Short selling risk</li> </ul> |
|---|---|

### Results of Operations

For the year ended December 31, 2021, the Total Return Series Shares and the Dividend Series Shares of the ETF, which trade on the TSX under the symbols HARB and HARB.J, returned 1.72% and 1.77%, respectively. This compares to a return of -2.13% for the Solactive Canadian Select Universe Bond Index (the "Index") for the same period. HARB.U, the U.S. dollar series (US\$ Shares) of the ETF effectively began operations on April 21, 2021, at a net asset value ("NAV") of US\$8.00 per US\$ Share, and finished the period on December 31, 2021, at a NAV of US\$8.30 per US\$ Share.

The Index is designed to measure the performance of the Canadian investment-grade bond market (government and corporate) by selecting a representative group of bonds from the available universe.

## Management Discussion of Fund Performance (continued)

### **General Market Review**

In the first two quarters of 2021, we saw U.S. bond yields rise as a result of economic optimism following the global shutdowns seen in 2020. Market sentiment was positive with the release and distribution of COVID-19 vaccines, signaling a potential end to the pandemic. Many had the outlook that the pent-up demand from shuttered industries, such as airlines, cruises, and casinos, would fuel a market rally throughout the year.

It is the goal of the ETF to provide positive absolute returns while keeping volatility low. In 2021, that has meant trying to remain negatively correlated to the major equity indices. This is contrary to most fixed income funds, which are at their highest ever level of positive correlation to stocks. While this created some drawdown for the ETF in the first quarter of 2021, it still outperformed the major fixed income indices.

In 2021, we also saw the highest increase in inflation since 1982. The 7% rise resulted from supply chain issues during the pandemic, a global semiconductor shortage, and government stimulus programs. Widespread labour shortages also contributed to inflation, although wage data shows that real wage inflation remains negative.

Concerns surrounding new COVID-19 variants, led to higher volatility in the equity markets during the third and fourth quarters of 2021. During this time, there was also growing concern of the more hawkish tone set by the U.S. Federal Reserve (the “Fed”), suggesting rate hikes in 2022. The ETF is well positioned to take advantage of these market factors.

### **Portfolio Review**

In 2021, HARB outperformed traditional fixed income indices. During the first quarter of 2021, the ETF maintained a consistent strategy of holding a 30% weighting in shorter duration, higher quality, high yield bonds, and 70% in various maturities of U.S. Treasury bonds. The ETF has been largely focused on holding shorter duration maturities in the 2 to 5 year range, but also included material weightings in 30-year maturities, especially when the market was oversold.

In the second quarter of the year, the ETF targeted long duration U.S. Treasury bonds and high yield bonds, which benefitted from the economic reopening in sectors such as airlines, hotels, restaurants, and cruise lines. The biggest sector overweight in the portfolio at the time was in energy, focusing on the declining U.S. oil inventories and capital constrained shale producers.

In the third quarter, the ETF maintained a core strategy of focusing on U.S. Treasury bonds and high yield bonds. When oil hit \$80 per barrel, the ETF trimmed its energy positions. This shifted the ETF’s portfolio balance, with high yield representing 20%. The ETF maintained its positions in reopening themes, such as airlines and cruise lines.

In the fourth quarter of 2021, HARB generated a 2.43% return, outperforming most fixed income indices, many of which yielded negative returns. Market positioning in the U.S. Treasury market was near record on the short side, which then produced a short covering rally as we neared year-end.

### **Outlook**

DMAT expects high volatility levels in 2022. The world is still feeling the effects of the initial COVID-19 shutdowns in 2020, which caused supply chain issues and the semi-conductor shortage. Industries such as automobiles, consumer electronics, and utilities are all still being impacted. Furthermore, the high transmissibility of the Omicron variant is placing additional strain on an already diminished labour market, forcing millions of workers into mandatory isolation.



## Management Discussion of Fund Performance (continued)

DMAT expects inflation to be very sticky in 2022, even if growth slows as expected. Inflation is a lagging indicator and only comes down slowly, even in the face of weaker growth and lower oil prices. However COVID-19 will ultimately prove to be deflationary based on the adoption of technology and massive increases of debt. It may take 2-3 years before this unfolds. Additionally, the Fed has signaled its intention to raise interest rates and reduce its balance sheet simultaneously. A correction in equity markets is highly possible in this environment.

DMAT is continuing to focus the ETF on U.S. Treasury bonds and short duration high quality, high yield, credit. The strategy is to keep HARB positioned to be negatively correlated to stocks. Should equity markets suffer a 15-20% correction, the ETF will act as an efficient hedge in such an environment. Duration will be kept close to zero or even negative in the first quarter of 2022, as markets digest Fed policy and will be extended if equity volatility rises.

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

For the year ended December 31, 2021, the ETF generated gross comprehensive income (loss) from investments and derivatives (which includes changes in the fair value of the ETF's portfolio) of \$2,155,083. This compares to \$89,021 for the period from when the ETF effectively began operations on December 7, 2020 to December 31, 2020. The ETF incurred management, operating and transaction expenses of \$609,810 (2020 – \$25,081) of which \$124,447 (2020 – \$10,245) 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 \$79,480 to shareholders during the year (2020 – \$nil).

### **Recent Developments**

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

### ***Impact of COVID-19***

The COVID-19 virus is an ongoing but fading risk to the global recovery and as such it continues to have an impact and is a risk in the markets in which the ETF operates. COVID variants are still causing economic uncertainty, and may impact estimates and/or judgements the Manager makes for the purposes of preparing the ETF's financial statements related 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, 2021 and 2020, and for the year ended December 31, 2021 and for the period ended December 31, 2020.

### **Presentation**

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

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

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

***Manager and Investment Manager***

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

Any management fees paid to the Manager (described in detail on page 15) are related party transactions, as the Manager is considered to be a related party to the ETF. The management fees are disclosed in the statements of comprehensive income in the attached financial statements of the ETF. The management fees payable by the ETF as at December 31, 2021 and 2020, are disclosed in the statements of financial position.

## Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance since it effectively began operations on December 7, 2020. This information is derived from the ETF's audited annual financial statements and the current audited annual financial statements. Please see the front page for information on how you may obtain the ETF's annual or interim financial statements.

### The ETF's Net Assets per Share

#### Total Return Series Shares

<b>Year/Period</b> <sup>(1)</sup>	<b>2021</b>	<b>2020</b>
<b>Net assets, beginning of year/period</b>	\$ 10.03	10.00
<b>Increase from operations:</b>		
Total revenue	0.23	0.01
Total expenses	(0.10)	(0.01)
Realized gains for the year/period	0.12	0.07
Unrealized losses for the year/period	–	(0.04)
<b>Total increase from operations</b> <sup>(2)</sup>	0.25	0.03
<b>Total annual distributions</b> <sup>(3)</sup>	–	–
<b>Net assets, end of year/period</b> <sup>(4)</sup>	\$ 10.20	10.03

#### Dividend Series Shares

<b>Year/Period</b> <sup>(1)</sup>	<b>2021</b>	<b>2020</b>
<b>Net assets, beginning of year/period</b>	\$ 10.03	10.00
<b>Increase from operations:</b>		
Total revenue	0.22	0.01
Total expenses	(0.09)	(0.01)
Realized gains (losses) for the year/period	(0.01)	0.07
Unrealized losses for the year/period	(0.03)	(0.04)
<b>Total increase from operations</b> <sup>(2)</sup>	0.09	0.03
<b>Distributions:</b>		
From return of capital	(0.50)	–
<b>Total annual distributions</b> <sup>(3)</sup>	(0.50)	–
<b>Net assets, end of year/period</b> <sup>(4)</sup>	\$ 9.69	10.03

**Financial Highlights** (continued)

**USD Unhedged Total Return Series Shares**

<b>Period</b> <sup>(1)</sup>		<b>2021</b>
<b>Net assets, beginning of period</b>	\$	10.00
<b>Increase from operations:</b>		
Total revenue		0.16
Total expenses		(0.09)
Realized gains for the period		0.50
Unrealized gains for the period		–
<b>Total increase from operations</b> <sup>(2)</sup>		0.57
<b>Total annual distributions</b> <sup>(3)</sup>		–
<b>Net assets, end of period (Cdn\$ shares)</b> <sup>(4)</sup>	\$	10.49
<b>Net assets, end of period (US\$ shares)</b> <sup>(4)</sup>	\$	8.29

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

**Financial Highlights** (continued)

**Ratios and Supplemental Data**
**Total Return Series Shares**

<b>Year/Period</b> <sup>(1)</sup>	<b>2021</b>	<b>2020</b>
Total net asset value (000's)	\$ 47,917	23,068
Number of shares outstanding (000's)	4,700	2,300
Management expense ratio <sup>(2)(4)</sup>	0.93%	0.90%
Management expense ratio excluding proportion of expenses from underlying investment funds	0.92%	0.90%
Management expense ratio excluding performance fees <sup>(2)</sup>	0.93%	0.90%
Management expense ratio excluding performance fees and security borrowing costs	0.93%	0.90%
Management expense ratio excluding performance fees, security borrowing costs and proportion of expenses from underlying investment funds	0.92%	0.90%
Management expense ratio before waivers and absorptions <sup>(2)</sup>	1.19%	1.53%
Trading expense ratio <sup>(3)(4)</sup>	0.06%	0.00%
Trading expense ratio excluding proportion of costs from underlying investment funds	0.06%	0.00%
Portfolio turnover rate <sup>(5)</sup>	1093.11%	51.84%
Net asset value per share, end of year/period	\$ 10.20	10.03
Closing market price	\$ 10.21	10.04

**Dividend Series Shares**

<b>Year/Period</b> <sup>(1)</sup>	<b>2021</b>	<b>2020</b>
Total net asset value (000's)	\$ 1,454	2,006
Number of shares outstanding (000's)	150	200
Management expense ratio <sup>(2)(4)</sup>	0.92%	0.90%
Management expense ratio excluding proportion of expenses from underlying investment funds	0.91%	0.90%
Management expense ratio excluding performance fees <sup>(2)</sup>	0.92%	0.90%
Management expense ratio excluding performance fees and security borrowing costs	0.92%	0.90%
Management expense ratio excluding performance fees, security borrowing costs and proportion of expenses from underlying investment funds	0.91%	0.90%
Management expense ratio before waivers and absorptions <sup>(2)</sup>	1.20%	1.53%
Trading expense ratio <sup>(3)(4)</sup>	0.06%	0.00%
Trading expense ratio excluding proportion of costs from underlying investment funds	0.06%	0.00%
Portfolio turnover rate <sup>(5)</sup>	1093.11%	51.84%
Net asset value per share, end of year/period	\$ 9.69	10.03
Closing market price	\$ 9.69	10.04

**Financial Highlights** (continued)

**USD Unhedged Total Return Series Shares**

<b>Period</b> <sup>(1)</sup>	<b>2021</b>
Total net asset value (000's)	\$ 14,943
Number of shares outstanding (000's)	1,425
Management expense ratio <sup>(2)(4)</sup>	1.22%
Management expense ratio excluding proportion of expenses from underlying investment funds	1.21%
Management expense ratio excluding performance fees <sup>(2)</sup>	0.92%
Management expense ratio excluding performance fees and security borrowing costs	0.92%
Management expense ratio excluding performance fees, security borrowing costs and proportion of expenses from underlying investment funds	0.90%
Management expense ratio before waivers and absorptions <sup>(2)</sup>	1.51%
Trading expense ratio <sup>(3)(4)</sup>	0.04%
Trading expense ratio excluding proportion of costs from underlying investment funds	0.04%
Portfolio turnover rate <sup>(5)</sup>	1093.11%
Net asset value per share, end of period (Cdn\$ shares)	\$ 10.49
Net asset value per share, end of period (US\$ shares)	8.29
Closing market price (US\$ shares)	8.28

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

## Financial Highlights (continued)

### Management Fees

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

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.75%, plus applicable sales taxes, of the net asset value of the ETF's shares, calculated and accrued daily and payable monthly in arrears.

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

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

Marketing	Portfolio management fees, general administrative costs and profit	Waived/absorbed expenses of the ETF
4%	64%	32%

### Performance Fees

The ETF shall pay to the Manager a performance fee (the "Performance Fee"), if any, equal to 10% of the amount by which the performance of the ETF, at any date on which the Performance Fee is payable, (i) exceeds the greater of: (a) the initial net asset value per ETF Share; and (b) the highest net asset value per ETF Share previously utilized for the purposes of calculating a Performance Fee that was paid (the "High Water Mark") and (ii) is greater than an annualized hurdle rate (the "Hurdle Rate") that will begin at 3%, and will increase or decrease with each increase or decrease in the Bank of Canada overnight rate, provided that the Hurdle Rate will always be no less than 3% and no greater than 5%.

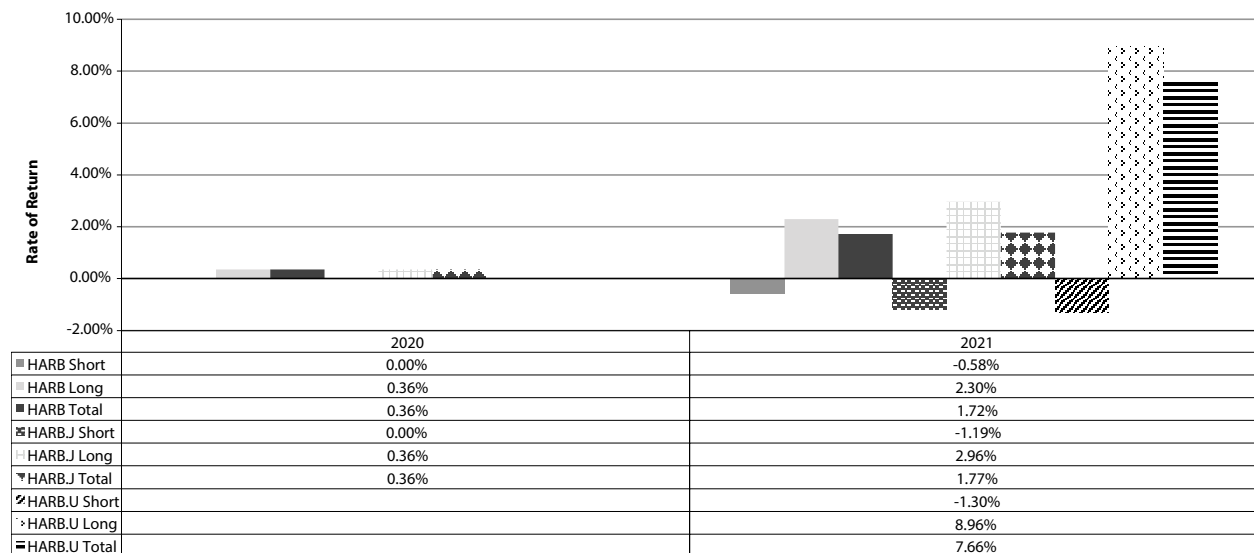
The Performance Fee shall be calculated and accrued daily and shall be payable at least quarterly in arrears on dates determined by the Manager, together with applicable taxes. The ETF accrued \$30,007 in performance fees for the year ended December 31, 2021, and is disclosed in the statement of comprehensive income. Performance fees payable to the Manager as at December 31, 2021, were \$15,729 (December 31, 2020 - \$nil) and are included in accrued operating expenses on the statements of financial position, where applicable.

## Past Performance

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

## Year-by-Year Returns

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



The ETF effectively began operations on December 7, 2020.



**Past Performance** (continued)

**Annual Compound Returns**

The following table presents the ETF's annual compound total return since inception and for the period ended December 31, 2021, 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.

	<b>1 Year</b>	<b>Since Inception</b>
Horizons Tactical Absolute Return Bond ETF - Total Return Series	1.72%	1.95%
Long	2.30%	2.50%
Short	-0.58%	-0.54%
Horizons Tactical Absolute Return Bond ETF - Dividend Series	1.77%	2.00%
Long	2.96%	3.12%
Short	-1.19%	-1.12%
Horizons Tactical Absolute Return Bond ETF - USD Unhedged Total Return Series	–	7.66%
Long	–	8.95%
Short	–	-1.30%
Solactive Canadian Select Universe Bond Index		
Total Return and Dividend Series	-2.13%	-1.21%
USD Unhedged Total Return Series	–	2.36%

The ETF effectively began operations on December 7, 2020. The USD Unhedged Total Return Series Shares effectively began operations on April 21, 2021.

## Summary of Investment Portfolio

As at December 31, 2021

<b>Asset Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
<b>Long Positions</b>		
U.S. Fixed Income Securities	\$ 54,249,275	84.35%
Canadian Fixed Income Securities	2,151,130	3.35%
Global Fixed Income Securities	1,279,743	1.99%
Currency Forward Hedge*	441,008	0.69%
Cash and Cash Equivalents	4,742,748	7.37%
Margin Deposits	1,275,274	1.98%
Other Assets less Liabilities	161,890	0.26%
<b>Short Positions</b>		
Futures Contracts–Interest Rate Hedge*	12,650	0.01%
	<b>\$ 64,313,718</b>	<b>100.00%</b>

<b>Sector Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
<b>Long Positions</b>		
Government Bonds	\$ 47,142,888	73.30%
Corporate Bonds	10,537,260	16.39%
Currency Forward Hedge*	441,008	0.69%
Cash and Cash Equivalents	4,742,748	7.37%
Margin Deposits	1,275,274	1.98%
Other Assets less Liabilities	161,890	0.26%
<b>Short Positions</b>		
Futures Contracts–Interest Rate Hedge*	12,650	0.01%
	<b>\$ 64,313,718</b>	<b>100.00%</b>

\* Positions in forward and futures 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, 2021

<b>Top Holdings*</b>	<b>% of ETF's Net Asset Value</b>
<b>Long Positions</b>	
United States Treasury Bond	73.30%
Cash and Cash Equivalents	7.37%
Tenet Healthcare Corp.	2.60%
Delta Air Lines Inc.	2.02%
Realogy Group LLC / Realogy Co-Issuer Corp.	2.02%
Tullow Oil PLC	1.99%
Brookfield Property REIT Inc. / BPR Cumulus LLC / BPR Nimbus LLC / GGSII Sellco LLC	1.93%
Bausch Health Cos. Inc.	1.74%
Precision Drilling Corp.	1.61%
MicroStrategy Inc.	0.99%
Kontoor Brands Inc.	0.98%
SCIL IV LLC / SCIL USA Holdings LLC	0.51%
<b>Short Positions</b>	
U.S. 20-Year Treasury Bond Futures	-47.33%

\* Note all of the Top Holdings, excluding Cash and Cash Equivalents and futures positions, 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 interim and annual reports are available at no cost by calling toll free 1-866-641-5739, or (416) 933-5745, by writing to us at Horizons ETFs Management (Canada) Inc., 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7, or by visiting our website at [www.horizonsetfs.com](http://www.horizonsetfs.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).

### **MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying audited annual consolidated financial statements ("financial statements") of Horizons Tactical Absolute Return Bond ETF (the "ETF") are the responsibility of the manager to the ETF, Horizons ETFs Management (Canada) Inc. (the "Manager"). They have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board using information available and include certain amounts that are based on the Manager's best estimates and judgements.

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

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



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



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Thomas Park  
Director  
Horizons ETFs Management (Canada) Inc.

## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of Horizons Tactical Absolute Return Bond ETF (the "ETF")

#### *Opinion*

We have audited the consolidated financial statements of the ETF, which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, the consolidated statements of comprehensive income, changes in financial position and cash flows for the year ended December 31, 2021 and for the period from inception on November 27, 2020, to December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ETF as at December 31, 2021 and 2020, and its financial performance and its cash flows for the year ended December 31, 2021 and for the period from inception on November 27, 2020, to December 31, 2020, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### *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) as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.  
  
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ETF's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ETF's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the ETF to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Chartered Professional Accountants, Licensed Public Accountants  
The engagement partner on the audit resulting in this auditors' report is Ziad Said.  
Toronto, Canada  
March 11, 2022

## Consolidated Statements of Financial Position

As at December 31,

	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 4,742,748	\$ 3,229,413
Investments	57,680,148	21,817,909
Margin deposits (note 11)	1,275,275	–
Amounts receivable relating to accrued income	235,694	78,720
Amounts receivable relating to portfolio assets sold	–	364,468
Amounts receivable relating to securities issued	–	501,775
Derivative assets (note 3)	461,710	–
<b>Total assets</b>	<b>64,395,575</b>	<b>25,992,285</b>
<b>Liabilities</b>		
Accrued management fees	40,932	13,902
Accrued operating expenses	26,685	934
Amounts payable relating to securities redeemed	–	501,775
Amounts payable for portfolio assets purchased	–	359,549
Distribution payable	6,188	–
Derivative liabilities (note 3)	8,052	41,940
<b>Total liabilities</b>	<b>81,857</b>	<b>918,100</b>
<b>Total net assets (note 2)</b>	<b>\$ 64,313,718</b>	<b>\$ 25,074,185</b>
Total net assets, Total Return Series Shares	47,916,885	23,068,251
Number of redeemable shares outstanding, Total Return Series Shares (note 8)	4,700,000	2,300,000
Total net assets per share, Total Return Series Shares (note 1)	\$ 10.20	\$ 10.03
Total net assets, Dividend Series Shares	1,453,784	2,005,934
Number of redeemable shares outstanding, Dividend Series Shares (note 8)	150,000	200,000
Total net assets per share, Dividend Series Shares (note 1)	\$ 9.69	\$ 10.03
Total net assets, USD Unhedged Total Return Series Shares	14,943,049	–
Number of redeemable shares outstanding, USD Unhedged Total Return Series Shares (note 8)	\$ 1,425,000	\$ –
Total net assets per share, USD Unhedged Total Return Series Shares (Cdn\$ shares) (note 1)	\$ 10.49	\$ –
Total net assets per share, USD Unhedged Total Return Series Shares (US\$ shares) (note 1)	\$ 8.29	–

(See accompanying notes to financial statements)

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



Steven J. Hawkins  
Director



Kevin S. Beatson  
Director



## Consolidated Statements of Comprehensive Income

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

	2021	2020
<b>Income</b>		
Interest income for distribution purposes	\$ 1,041,913	\$ 28,728
Net realized gain on sale of investments and derivatives	1,489,238	177,194
Net realized gain (loss) on foreign exchange	(356,148)	5,498
Net change in unrealized depreciation of investments and derivatives	(29,443)	(119,911)
Net change in unrealized appreciation (depreciation) of foreign exchange	9,523	(2,488)
	<b>2,155,083</b>	<b>89,021</b>
<b>Expenses (note 9)</b>		
Management fees	387,009	13,902
Performance fees	30,007	–
Audit fees	11,535	–
Independent Review Committee fees	912	–
Custodial and fund valuation fees	28,325	2,088
Legal fees	73,302	–
Securityholder reporting costs	11,077	8,475
Administration fees	31,205	616
Borrowing fees for securities sold short	23	–
Transaction costs	32,454	–
Other expenses	3,961	–
	<b>609,810</b>	<b>25,081</b>
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(124,447)	(10,245)
	<b>485,363</b>	<b>14,836</b>
<b>Increase in net assets for the year/period</b>	<b>\$ 1,669,720</b>	<b>\$ 74,185</b>
Increase in net assets, Total Return Series Shares	\$ 858,679	\$ 68,251
Increase in net assets per share, Total Return Series Shares	\$ 0.25	\$ 0.03
Increase in net assets, Dividend Series Shares	\$ 14,906	\$ 5,934
Increase in net assets per share, Dividend Series Shares	\$ 0.09	\$ 0.03
Increase in net assets, USD Unhedged Total Return Series Shares	\$ 796,135	\$ –
Increase in net assets per share, USD Unhedged Total Return Series Shares	\$ 0.57	\$ –

(See accompanying notes to financial statements)

## Consolidated Statements of Changes in Financial Position

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

	<b>2021</b>		<b>2020</b>	
<b>Total net assets at the beginning of the year/period</b>	\$	25,074,185	\$	–
<b>Increase in net assets</b>		1,669,720		74,185
<b>Redeemable share transactions</b>				
Proceeds from the issuance of securities of the investment fund		68,158,402		28,499,192
Aggregate amounts paid on redemption of securities of the investment fund		(30,509,109)		(3,499,192)
Distributions:				
Return of capital		(79,480)		–
<b>Total net assets at the end of the year/period</b>	<b>\$</b>	<b>64,313,718</b>	<b>\$</b>	<b>25,074,185</b>
<b>Total net assets at the beginning of the year/period, Total Return Series Shares</b>	\$	23,068,251	\$	–
<b>Increase in net assets, Total Return Series Shares</b>		858,679		68,251
<b>Redeemable share transactions</b>				
Proceeds from the issuance of securities of the investment fund		50,856,789		26,248,304
Aggregate amounts paid on redemption of securities of the investment fund		(26,866,834)		(3,248,304)
<b>Total net assets at the end of the year/period, Total Return Series Shares</b>	<b>\$</b>	<b>47,916,885</b>	<b>\$</b>	<b>23,068,251</b>
<b>Total net assets at the beginning of the year/period, Dividend Series Shares</b>	\$	2,005,934	\$	–
<b>Increase in net assets, Dividend Series Shares</b>		14,906		5,934
<b>Redeemable share transactions</b>				
Proceeds from the issuance of securities of the investment fund		2,670,821		2,250,888
Aggregate amounts paid on redemption of securities of the investment fund		(3,158,397)		(250,888)
Distributions:				
Return of capital		(79,480)		–
<b>Total net assets at the end of the year/period, Dividend Series Shares</b>	<b>\$</b>	<b>1,453,784</b>	<b>\$</b>	<b>2,005,934</b>
<b>Total net assets at the beginning of the year/period, USD Unhedged Total Return Series Shares</b>	\$	–	\$	–
<b>Increase in net assets, USD Unhedged Total Return Series Shares</b>		796,135		–
<b>Redeemable share transactions</b>				
Proceeds from the issuance of securities of the investment fund		14,630,792		–
Aggregate amounts paid on redemption of securities of the investment fund		(483,878)		–
<b>Total net assets at the end of the year/period, USD Unhedged Total Return Series Shares</b>	<b>\$</b>	<b>14,943,049</b>	<b>\$</b>	<b>–</b>

(See accompanying notes to financial statements)

## Consolidated Statements of Cash Flows

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

	2021	2020
<b>Cash flows from operating activities:</b>		
Increase in net assets for the year/period	\$ 1,669,720	\$ 74,185
Adjustments for:		
Net realized gain on sale of investments and derivatives	(1,489,238)	(177,194)
Net realized gain (loss) on currency forward contracts	(733,368)	140,525
Net change in unrealized depreciation of investments and derivatives	29,443	119,911
Net change in unrealized depreciation (appreciation) of foreign exchange	(9,274)	2,052
Purchase of investments	(465,872,926)	(32,810,805)
Proceeds from the sale of investments	431,713,171	10,946,675
Margin deposits	(1,275,275)	–
Amounts receivable relating to accrued income	(156,974)	(78,720)
Accrued expenses	52,781	14,836
<b>Net cash used in operating activities</b>	<b>(36,071,940)</b>	<b>(21,768,535)</b>
<b>Cash flows from financing activities:</b>		
Amount received from the issuance of shares	68,660,177	27,997,417
Amount paid on redemptions of shares	(31,010,884)	(2,997,417)
Distributions paid to shareholders	(73,292)	–
<b>Net cash from financing activities</b>	<b>37,576,001</b>	<b>25,000,000</b>
<b>Net increase in cash and cash equivalents during the year/period</b>	<b>1,504,061</b>	<b>3,231,465</b>
Effect of exchange rate fluctuations on cash and cash equivalents	9,274	(2,052)
<b>Cash and cash equivalents at beginning of year/period</b>	<b>3,229,413</b>	<b>–</b>
<b>Cash and cash equivalents at end of year/period</b>	<b>\$ 4,742,748</b>	<b>\$ 3,229,413</b>
Interest received, net of withholding taxes	\$ 884,939	\$ (49,992)

(See accompanying notes to financial statements)

## Schedule of Investments

As at December 31, 2021

Security	Par Value/ Contracts	Average Cost	Fair Value
<b>U.S. FIXED INCOME SECURITIES (84.35%)</b>			
<b>Government Bonds (73.30%)</b>			
United States Treasury Bond, 1.00%, 2024/12/15	15,000,000	\$ 19,206,742	\$ 19,000,192
United States Treasury Bond, 1.25%, 2026/11/30	5,000,000	6,399,249	6,325,738
United States Treasury Bond, 1.88%, 2051/11/15	17,300,000	22,295,524	21,816,958
		47,901,515	47,142,888
<b>Corporate Bonds (11.05%)</b>			
Brookfield Property REIT Inc. / BPR Cumulus LLC / BPR Nimbus LLC / GGSI Sellco LLC, Callable, 4.50%, 2027/04/01	1,000,000	1,212,280	1,242,529
Delta Air Lines Inc., Callable, 3.75%, 2029/10/28	1,000,000	1,257,711	1,298,883
Kontoor Brands Inc., Callable, 4.13%, 2029/11/15	500,000	624,750	633,531
MicroStrategy Inc., Callable, 6.13%, 2028/06/15	500,000	645,667	634,708
Realogy Group LLC / Realogy Co-Issuer Corp., Callable, 5.75%, 2029/01/15	1,000,000	1,283,464	1,298,503
SCIL IV LLC / SCIL USA Holdings LLC, Callable, 5.38%, 2026/11/01	250,000	309,212	324,934
Tenet Healthcare Corp., Callable, 6.13%, 2028/10/01	1,250,000	1,668,348	1,673,299
		7,001,432	7,106,387
<b>TOTAL U.S. FIXED INCOME SECURITIES</b>		<b>54,902,947</b>	<b>54,249,275</b>
<b>CANADIAN FIXED INCOME SECURITIES (3.35%)</b>			
<b>Corporate Bonds (3.35%)</b>			
Bausch Health Cos. Inc., Callable, 5.00%, 2029/02/15	1,000,000	1,182,903	1,118,298
Precision Drilling Corp., Callable, 6.88%, 2029/01/15	800,000	981,669	1,032,832
		2,164,572	2,151,130
<b>TOTAL CANADIAN FIXED INCOME SECURITIES</b>		<b>2,164,572</b>	<b>2,151,130</b>
<b>GLOBAL FIXED INCOME SECURITIES (1.99%)</b>			
<b>Corporate Bonds (1.99%)</b>			
Tullow Oil PLC, Callable, 10.25%, 2026/05/15	1,000,000	1,216,400	1,279,743
<b>TOTAL GLOBAL FIXED INCOME SECURITIES</b>		<b>1,216,400</b>	<b>1,279,743</b>
<b>DERIVATIVES (0.70%)</b>			
<b>Currency Forwards (0.69%)</b>			
Currency forward contract to buy C\$46,114,140 for US\$36,100,000 maturing January 13, 2022		–	449,060
Currency forward contract to buy US\$300,000 for C\$387,540 maturing January 13, 2022		–	(8,052)
		–	441,008

**Schedule of Investments** (continued)

As at December 31, 2021

<b>Security</b>	<b>Par Value/ Contracts</b>	<b>Average Cost</b>	<b>Fair Value</b>
<b>Treasury Bond Futures (0.01%)</b>			
<b>Short Positions (0.01%)</b>			
U.S. 20-Year Treasury Bond Futures March 2022 at US\$160.44. Notional Value (US\$24,065,625)	(150)	–	12,650
<b>TOTAL DERIVATIVES</b>		–	<b>453,658</b>
Transaction Costs		(759)	
<b>TOTAL INVESTMENT PORTFOLIO (90.39%)</b>		<b>\$ 58,283,160</b>	<b>\$ 58,133,806</b>
<b>Cash and cash equivalents (7.37%)</b>			4,742,748
<b>Margin deposits (1.98%)</b>			1,275,274
<b>Other assets less liabilities (0.26%)</b>			161,890
<b>TOTAL NET ASSETS (100.00%)</b>			<b>\$ 64,313,718</b>

(See accompanying notes to financial statements)

## Notes to Consolidated Financial Statements - ETF Specific Information

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

### A. ETF INFORMATION (NOTE 1)

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

ETF Name	TSX Ticker(s)	Reporting Currency	Effective Start of Operations
Horizons Tactical Absolute Return Bond ETF	HARB, HARB.J, HARB.U	CAD	December 7, 2020

#### *Investment Objective*

HARB's investment objective is to seek to provide positive absolute returns with low volatility over a market cycle regardless of market conditions or general market direction. The ETF will tactically take long and short positions in North American and global debt instruments and derivatives across the credit spectrum.

### B. FINANCIAL INSTRUMENTS RISK (NOTE 5)

#### (a) Market risks

##### (i) Currency risk

As at December 31, 2021 and 2020, the ETF did not have any material net exposure to foreign currencies due to the ETF's hedging strategies.

##### (ii) Interest rate risk

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, 2021	–	19,009	7,957	30,950	–	57,916
December 31, 2020	–	8,421	8,261	5,218	–	21,900

The percentage of the ETF's net assets exposed to interest rate risk as at December 31, 2021, was 90.1% (December 31, 2020 - 87.3%). The amount by which the net assets of the ETF would have increased or decreased, as at December 31, 2021, 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 \$2,490,381 (December 31, 2020 - \$938,964). The ETF's interest rate sensitivity was determined based on portfolio weighted duration. In practice, actual results may differ from this sensitivity analysis.

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

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

**(iii) Market price risk**

The table below shows the estimated impact on the ETF of a 1% increase or decrease 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.

<b>Underlying Index</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Solactive Canadian Select Universe Bond Index	\$320,823	\$153,131

**(b) Credit risk**
**Analysis of credit quality**

The ETF's credit risk exposure by designated rating of the invested portfolio as at December 31, 2021, is listed as follows:

<b>Debt or Derivative Securities by Credit Rating</b>	<b>Percentage of Net Asset Value (%)</b>	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>
AAA	73.4%	55.6%
A	0.1%	–
BBB	0.0%	–
BB	3.5%	17.3%
B	10.5%	14.4%
CCC	2.6%	–
<b>Total</b>	<b>90.1%</b>	<b>87.3%</b>

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, 2021, was 26.0% (December 31, 2020 - 55.7%) of the net assets of the ETF.

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

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

**C. FAIR VALUE MEASUREMENT (NOTE 6)**

The following is a summary of the inputs used as at December 31, 2021 and 2020, in valuing the ETF's investments and derivatives carried at fair values:

	December 31, 2021			December 31, 2020		
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
<b>Financial Assets</b>						
Bonds	–	57,680,148	–	–	21,817,909	–
Futures	12,650	–	–	–	–	–
Currency Forward Contracts	–	449,060	–	–	–	–
<b>Total Financial Assets</b>	<b>12,650</b>	<b>58,129,208</b>	<b>–</b>	<b>–</b>	<b>21,817,909</b>	<b>–</b>
<b>Financial Liabilities</b>						
Currency Forward Contracts	–	(8,052)	–	–	(41,940)	–
<b>Total Financial Liabilities</b>	<b>–</b>	<b>(8,052)</b>	<b>–</b>	<b>–</b>	<b>(41,940)</b>	<b>–</b>
<b>Net Financial Assets and Liabilities</b>	<b>12,650</b>	<b>58,121,156</b>	<b>–</b>	<b>–</b>	<b>21,775,969</b>	<b>–</b>

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 year or period shown. In addition, there were no investments or transactions classified in Level 3 for the year ended December 31, 2021, and for the period ended December 31, 2020.

**D. SECURITIES LENDING (NOTE 7)**

As at December 31, 2021 and 2020, the ETF was not participating in any securities lending transactions. The ETF did not earn any income from securities lending transactions for the year ended December 31, 2021 and for the period ended December 31, 2020.

**E. REDEEMABLE SHARES (NOTE 8)**

For the year ended December 31, 2021, and for the period ended December 31, 2020, the number of ETF Shares issued by subscription, the number of ETF Shares redeemed, the total and average number of ETF Shares outstanding was as follows:

Series of Shares	Period	Beginning Shares Outstanding	Shares Issued	Shares Redeemed	Ending Shares Outstanding	Average Shares Outstanding
HARB	2021	2,300,000	5,100,000	(2,700,000)	4,700,000	3,500,205
	2020	–	2,625,000	(325,000)	2,300,000	2,300,000
HARB.J	2021	200,000	275,000	(325,000)	150,000	162,466
	2020	–	225,000	(25,000)	200,000	200,000
HARB.U	2021	–	1,475,000	(50,000)	1,425,000	1,404,134



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

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

**F. BROKER COMMISSIONS, SOFT DOLLARS AND RELATED PARTY TRANSACTIONS (NOTE 10)**

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 year ended December 31, 2021, and for the period ended December 31, 2020, were as follow:

Year/Period Ended	Brokerage Commissions Paid	Soft Dollar Transactions	Amount Paid to Related Parties
December 31, 2021	\$21,284	\$nil	\$nil
December 31, 2020	\$nil	\$nil	\$nil

**G. OFFSETTING OF FINANCIAL INSTRUMENTS (NOTE 14)**

The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at December 31, 2021 and 2020. The "Net" column displays what the net impact would be on the ETF's statements of financial position if all amounts were set-off.

Financial Assets and Liabilities as at December 31, 2021	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	449,060	–	449,060	(8,052)	–	441,008
Derivative liabilities	(8,052)	–	(8,052)	8,052	–	–

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	–	–	–	–	–	–
Derivative liabilities	(41,940)	–	(41,940)	–	–	(41,940)

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

As at December 31, 2021 and 2020, the ETF had no exposure to subsidiaries, associates or unconsolidated structured entities.

## Notes to Consolidated Financial Statements

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

### 1. REPORTING ENTITY

Horizons ETF Corp. (the “Company”) is a mutual fund corporation established on October 10, 2019, under the federal laws of Canada. The authorized capital of the Company includes an unlimited number of non-cumulative, redeemable, non-voting classes of shares (each, a “Corporate Class” or “ETF”), issuable in an unlimited number of series, and one class of voting shares designated as “Class J Shares”. Each Corporate Class is a separate investment fund having specific investment objectives and is specifically referable to a separate portfolio of investments. These consolidated financial statements (the “financial statements”) as at December 31, 2021 and 2020, and for the year ended December 31, 2021 and for the period ended December 31, 2020, comprise the Company and its wholly-owned entities and are presented on the basis outlined below. ETF-specific information and the investment objectives for each ETF in the Company are disclosed in the ETF-specific notes information to the consolidated financial statements of each ETF. Each ETF is a separate Corporate Class and currently consists of a single series of exchange traded fund shares (“ETF Shares”) of the applicable Corporate Class of the Company.

Each ETF is offered for sale on a continuous basis by the Company’s prospectus in ETF Shares which trade on the Toronto Stock Exchange (“TSX”) in Canadian dollars (“Cdn\$ Shares”) and, where applicable, in U.S. dollars (“US\$ Shares”). Subscriptions for US\$ Shares can be made in either U.S. or Canadian dollars. An investor may buy or sell shares of the ETF on the TSX through a registered broker or dealer in the province or territory where the investor resides. Investors are able to trade shares of the ETF in the same way as other securities traded on the TSX, including by using market orders and limit orders and may incur customary brokerage commissions when buying or selling shares.

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

#### Investment Objective

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

### 2. BASIS OF PREPARATION

#### (i) *Statement of compliance*

The ETF’s financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. Any mention of total net assets, net assets, net asset value or increase (decrease) in net assets is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable shares as reported under IFRS.

These financial statements were authorized for issue on March 11, 2022, by the Board of Directors of the Company.

#### (ii) *Basis of measurement*

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

## Notes to Consolidated Financial Statements (continued)

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

### 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 financial 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 payment of principal and interest, and business model tests.

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

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

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

- Financial assets mandatorily classified at FVTPL: debt securities, equity investments and derivative financial instruments
- Financial assets at amortized cost: all other financial assets
- Financial liabilities classified at FVTPL: derivative financial instruments and securities sold short, if any
- Financial liabilities at amortized cost: all other financial liabilities

##### *(ii) Fair value measurement*

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

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

## Notes to Consolidated Financial Statements (continued)

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

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

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

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

### ***(iii) Offsetting***

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

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

### ***(iv) Specific instruments***

#### **Cash**

Cash consists of cash on deposit.

#### **Redeemable shares**

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

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

#### **Futures contracts**

Futures contracts are valued at the current market value thereof on the Valuation Date. The value of these futures 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 futures contracts are closed out or mature, realized gains or losses on futures contracts are recognized and are included in the statements of comprehensive income in net realized gain (loss) on sale of investments and derivatives.

## Notes to Consolidated Financial Statements (continued)

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

### Derivative agreements

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

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

### (b) Investment income

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

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

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

### (d) Cost basis

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

## Notes to Consolidated Financial Statements (continued)

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

### (e) Increase (decrease) in net assets attributable to holders of redeemable shares per share

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

### (f) Shareholder transactions

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

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

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

### (h) Net assets attributable to holders of redeemable shares per share

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

### (i) Transaction costs

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

## 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 COVID-19 virus is an ongoing but fading risk to the global recovery and as such it continues to have an impact and is a risk in the markets in which the ETF operates. COVID variants are still causing economic uncertainty, and may impact estimates and/or judgements the Manager makes for the purposes of preparing the ETF's financial statements related 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, 2021 and 2020, and for the year ended December 31, 2021 and for the period ended December 31, 2020.

**Notes to Consolidated Financial Statements** (continued)

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

The ETF may hold financial instruments that are not quoted in active markets, including derivatives. The determination of the fair value of these instruments is the area with the most significant accounting judgements and estimates that the ETF has made in preparing the financial statements. See note 6 for more information on the fair value measurement of the ETF's financial instruments.

**5. FINANCIAL INSTRUMENTS RISK**

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

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

**(a) Market risks**

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

**(i) Currency risk**

Currency risk is the risk that financial instruments which are denominated in currencies other than the ETF's reporting currency will fluctuate due to changes in exchange rates and adversely impact the ETF's income, cash flows or fair values of its investment holdings.

**(ii) Interest rate risk**

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

**(iii) Market price risk**

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

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

## Notes to Consolidated Financial Statements (continued)

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

### (b) Credit risk

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

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

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

### (c) Liquidity risk

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

## 6. FAIR VALUE MEASUREMENT

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

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

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

## 7. SECURITIES LENDING

In order to generate additional returns, the ETF is authorized to enter into securities lending agreements with borrowers deemed acceptable in accordance with NI 81-102. Under a securities lending agreement, the borrower must pay the ETF a negotiated securities lending fee, provide compensation to the ETF equal to any distributions received by the borrower on the securities borrowed, and the ETF must receive an acceptable form of collateral in excess of the value of the securities loaned. Although such collateral is marked to market, the ETF may be exposed to the risk of loss should a borrower default on its obligations to return the borrowed securities and the collateral is insufficient to reconstitute the



## Notes to Consolidated Financial Statements (continued)

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

portfolio of loaned securities. Revenue, if any, earned on securities lending transactions during the period is disclosed in the ETF's statements of comprehensive income.

The aggregate closing market value of securities loaned and collateral received, if any, as at December 31, 2021 and 2020, and a reconciliation of the securities lending income for the years then ended, if any, as presented in the statements of comprehensive income are presented in note D of the ETF-specific notes information.

### 8. REDEEMABLE SHARES

The authorized capital of the Company includes an unlimited number of non-cumulative, redeemable, non-voting Corporate Classes, issuable in an unlimited number of series, including the ETF Shares, and one class of voting shares designated as "Class J Shares". Each Corporate Class is a separate investment fund having specific investment objectives and is specifically referable to a separate portfolio of investments. Each ETF of the Company is a separate Corporate Class.

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

The redeemable shares issued by the ETF provide an investor with the right to require redemption for cash at a value proportionate to the investor's share in the ETF's net assets at each redemption date. The ETF's objectives in managing the redeemable shares are to meet the ETF's investment objective, and to manage liquidity risk arising from redemptions. The ETF's liquidity risk arising from redeemable shares is discussed in note 5.

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

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

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

## Notes to Consolidated Financial Statements (continued)

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

to such distribution, except where there are non-resident shareholders to the extent tax is required to be withheld in respect of the distribution.

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

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

### 9. EXPENSES AND OTHER RELATED PARTY TRANSACTIONS

#### Management fees

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

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.75%, plus applicable sales taxes, of the net asset value of the ETF's shares, calculated and accrued daily and payable monthly in arrears.

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

#### Performance Fees

The ETF shall pay to the Manager a performance fee (the "Performance Fee"), if any, equal to 10% of the amount by which the performance of the ETF, at any date on which the Performance Fee is payable, (i) exceeds the greater of: (a) the initial net asset value per ETF Share; and (b) the highest net asset value per ETF Share previously utilized for the purposes of calculating a Performance Fee that was paid (the "High Water Mark") and (ii) is greater than an annualized hurdle rate (the "Hurdle Rate") that will begin at 3%, and will increase or decrease with each increase or decrease in the Bank of Canada overnight rate, provided that the Hurdle Rate will always be no less than 3% and no greater than 5%.

The Performance Fee shall be calculated and accrued daily and shall be payable at least quarterly in arrears on dates determined by the Manager, together with applicable taxes. The ETF accrued \$30,007 in performance fees for the year ended December 31, 2021, and is disclosed in the statement of comprehensive income. Performance fees payable to the Manager as at December 31, 2021, were \$15,729 (December 31, 2020 - \$nil) and are included in accrued operating expenses on the statements of financial position, where applicable.

## Notes to Consolidated Financial Statements (continued)

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

### Other expenses

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

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.

In addition to the information contained in note F of the ETF-specific notes information, the management fees paid to the Manager described in note 9 are related party transactions, as the Manager is considered to be a related party to the ETF. The management fees payable by the ETF as at December 31, 2021 and 2020, are disclosed in the statements of financial position.

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

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

### 11. COLLATERAL WITH FUTURES COMMISSION MERCHANTS

The ETF may maintain accounts with Futures Commission Merchants ("FCMs") to conduct futures trading activities. The futures trading activities, where applicable, are typically, but not limited to, fixed income and currency futures for the purposes of hedging. The FCMs require the maintenance of minimum margin deposits. These requirements are met by the collateral from the ETF held at the FCMs. Collateral held with FCMs is included as part of "Margin deposits" in the statements of financial position. The collateral held with FCMs as at December 31, 2021 and 2020, is as follows:

As at	Collateral Held With FCMs
December 31, 2021	\$1,275,275
December 31, 2020	–

**Notes to Consolidated Financial Statements** (continued)

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

**12. INCOME TAX**

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

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

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

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

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

**13. TAX LOSSES CARRIED FORWARD**

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

**Notes to Consolidated Financial Statements** (continued)

For the Year Ended December 31, 2021 and

For the Period from Inception on November 27, 2020 to December 31, 2020

As at December 31, 2021, the Company and its wholly-owned entities had net capital losses and/or non-capital losses, with the year of expiry of the non-capital losses as follows:

<b>Net Capital Losses</b>	<b>Non-Capital Losses</b>	<b>Year of Expiry of the Non-Capital Losses</b>
\$1,326,394,679	\$126,121	2028
	\$1,961,149	2029
	\$5,668,871	2030
	\$3,237,571	2031
	\$3,138,653	2032
	\$153,021,428	2033
	\$230,454,838	2034
	\$447,405,094	2035
	\$74,326,117	2036
	\$266,066,173	2037
	\$118,767,474	2038
	\$191,271,535	2039
	\$1,903,168,633	2040

**14. OFFSETTING OF FINANCIAL INSTRUMENTS**

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

**15. INTERESTS IN SUBSIDIARIES, ASSOCIATES AND UNCONSOLIDATED STRUCTURED ENTITIES**

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

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

**Notes to Consolidated Financial Statements** (continued)

For the Year Ended December 31, 2021 and

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

Manager

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