



BetaPro S&P/TSX Capped Energy™ -2x Daily Bear ETF
(HED:TSX)



HORIZONS ETFs
by Mirae Asset

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A Message from the CEO

Since the emergence of the COVID-19 virus and subsequent lockdowns that began in 2020, the pandemic has impacted numerous sectors and industries and investors have been forced to navigate a disjointed capital marketplace that has become increasingly untethered from traditional economic indicators.

Despite the emergence of the Omicron COVID-19 variant in the later part of 2021, there is growing optimism around continued success in the fight against the virus, boosted by robust global vaccination efforts, strengthening sentiment of an economic rebound and a 'return to normal'.

While these market dynamics – with little historical precedent – have resulted in complex risks in today's marketplace, they have also conceived novel opportunities for investors to capitalize on, particularly through our suite of BetaPro ETFs.

For investors in our BetaPro ETFs – which are designed to provide market-savvy investors with leveraged, inverse and inverse-leveraged exposure to various indices or commodities on a daily basis – the significant market volatility has offered an opportunity to make potentially profitable trades from both positive and negative market events. Additionally, supply constraints, coupled with increased demand fueled by the pandemic's impact on global logistics, have created several short-term trading opportunities for those investors with a strong-conviction perspective.

As Canada's only provider of leveraged, inverse and inverse-leveraged ETF products, we provide exposure to high-conviction trading vehicles for sophisticated traders' strategic daily investment decisions, whether on the S&P 500, commodities like oil, gold and natural gas, or themes and sectors like marijuana, financials and real estate.

In April 2021, we added two ETFs with Bitcoin exposure to our suite of BetaPro ETFs. Investors can now get unique exposure to the performance of Bitcoin futures through the BetaPro Bitcoin ETF ("**HBIT**") or potentially profit from downward movements in the price of Bitcoin futures through the BetaPro Inverse Bitcoin ETF ("**BITI**"). BITI remains the only inverse Bitcoin ETF in the world.

In September 2021, we further expanded our BetaPro ETFs suite with the additions of the BetaPro Equal Weight Canadian REIT 2x Daily Bull ETF ("**HREU**") and the BetaPro Equal Weight Canadian REIT -2x Daily Bear ETF ("**HRED**") – the first-ever leveraged and inverse leveraged Canadian REIT ETFs.

Looking ahead toward 2022, COVID-19's impacts on global markets and sectors will likely continue to cause volatility and create numerous short-term trading opportunities for BetaPro investors. We are also excited to bring to market other first-of-their-kind ETFs within our BetaPro suite – stay tuned for more information in the new year.

At Horizons ETFs, we have four guiding principles: innovation, accessibility, liquidity and education as empowerment. As our oldest product lineup, our BetaPro suite encapsulates all of these principles: they are innovative, easy to trade, provide a unique investment opportunity, and we continue to educate investors on how they can be used within their portfolios. We stand by our BetaPro ETF suite and our commitment to serving the many Canadian investors that use these products every day.

"Innovation is Our Capital," has long been our corporate motto and it is what has driven us to remain nimble and to adapt quickly to what Canadian investors are looking for. I believe that our suite of BetaPro ETFs empowers 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 that brighter days are 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.

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MANAGEMENT REPORT OF FUND PERFORMANCE

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

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

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

Management Discussion of Fund Performance

Investment Objective and Strategy

HED seeks **daily investment results**, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to two times (200%) the inverse (opposite) of the daily performance of the S&P/TSX Capped Energy Index™ (the “Underlying Index”, Bloomberg ticker: TTENAR).

If HED is successful in meeting its investment objective, its net asset value should gain approximately twice as much on a given day, on a percentage basis, as any decrease in the S&P/TSX Capped Energy Index™ when this Underlying Index declines on that given day. Conversely, HED’s net asset value should lose approximately twice as much on a given day, on a percentage basis, as any increase in the S&P/TSX Capped Energy Index™ when this Underlying Index rises on that given day.

HED invests in financial instruments that have similar daily return characteristics as two times (200%) the inverse (opposite) of the S&P/TSX Capped Energy Index™. In order to achieve this objective, the total underlying notional value of these instruments will typically not exceed two times the total assets of the ETF. As such, HED employs leverage. Assets not invested in financial instruments may be invested in debt instruments or money market instruments with a term not to exceed 365 days, or reverse repurchase agreements with a term not to exceed 30 days.

Management Discussion of Fund Performance (continued)

Value of the Underlying Index

HED typically uses the price of the S&P/TSX Capped Energy Index™ as determined at approximately 4:00 p.m. (EST) as the reference for its daily investment objective.

About the Underlying Index

The S&P/TSX Capped Energy Index™ provides a liquid and tradable benchmark for related derivative products of the Canadian energy sector. Constituent securities are selected from a pool of S&P/TSX Composite stocks using Standard & Poor's guidelines for evaluating company capitalization, liquidity and fundamentals. The relative weight of any single index constituent security is capped at 25%.

Risk

The ETF is very different from most other exchange-traded funds. The ETF uses leverage, and is riskier than funds that do not. The ETF does not and should not be expected to return twice the inverse return of the Underlying Index over any period of time other than **daily**. Investors should monitor their investment in the ETF as often as daily.

The ETF's returns over periods longer than one day will likely differ in amount and possibly direction from the inverse performance of the Underlying Index for the same period. This effect becomes more pronounced as the volatility of the Underlying Index increases.

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

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

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

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

Management Discussion of Fund Performance (continued)

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

Results of Operations

For the year ended December 31, 2021, shares of the ETF returned -79.31%. This compares to a return of 85.18% for the Underlying Index for the same period. The above figures are adjusted for distributions, if any. **This ETF does not seek to meet its investment objective over any period other than daily, as the ETF is rebalanced daily to ensure an investor's risk is limited to the current value of their investment.**

The ETF's returns over periods longer than one day will likely differ in amount and possibly direction from the inverse performance of the Underlying Index for the same period. This effect becomes more pronounced as the volatility of the Underlying Index increases.

A perfect daily correlation of 200% of the daily inverse return of the Underlying Index would be a correlation of 1.0000. The ETF's daily correlation to its stated Underlying Index for the year ended December 31, 2021, was 1.0000.

The S&P/TSX Capped Energy Index™ is comprised of stocks from the Canadian energy equity sector. For the year ended December 31, 2021, the top performers in the Underlying Index were Baytex Energy Corp., Paramount Resources Ltd., and Advantage Energy Ltd., gaining 466.67%, 396.81%, and 333.33%, respectively. The worst performers in the Underlying Index for the year were Parex Resources Inc., PrairieSky Royalty Ltd., and Topaz Energy Corp, returning 26.26%, 38.12%, and 38.43%, respectively.

Management Discussion of Fund Performance (continued)

Horizons Management does not endeavour to predict market direction, changes that may occur in global fiscal and monetary policies, the effect of additional geopolitical concerns or other unforeseen crises. Horizons Management and the ETF are agnostic as to their impact on global equity, fixed income, currency and commodity markets generally, and the Canadian energy sector specifically. They are only of concern to the ETF in so much as there is some minimal risk that could affect its ability to meet its investment objective. Please refer to the risk factors section in the ETF's prospectus for more detailed information.

While the objective of the ETF is to seek **daily** investment results, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to two times (200%) the daily inverse performance of the Underlying Index, when performance is measured over periods other than daily, the ETF may experience greater volatility than the Underlying Index or the securities comprising the Underlying Index due to the compounding effect inherent in seeking a multiple of the Underlying Index, and thus has the potential for greater losses.

When comparing the returns of the ETF and the Underlying Index over any period **other than daily**, the volatility of the Underlying Index is a significant factor as a result of the rebalancing process. The following table illustrates the impact of two factors, benchmark volatility and benchmark performance, on a leveraged fund's period performance. The table shows estimated fund returns for a number of combinations of benchmark performance and benchmark volatility over a one year period.

Assumptions used in the table include: a) no ETF expenses and b) borrowing/lending rates (to obtain leverage) of zero percent. If the ETF's expenses were included, the ETF's performance would be lower than shown.

One Year Benchmark Performance	-200% One Year Benchmark Performance	Benchmark Volatility			
		0%	25%	50%	75%
-40%	80%	177.8%	130.3%	31.2%	-48.6%
-20%	40%	56.3%	29.5%	-26.2%	-71.1%
0%	0%	0.0%	-17.1%	-52.8%	-81.5%
20%	-40%	-30.6%	-42.4%	-67.2%	-87.2%
40%	-80%	-49.0%	-57.7%	-75.9%	-90.6%

Per the above, it can be concluded that for any given benchmark return, increased volatility will negatively impact the relative period performance of the ETF to the Underlying Index.

The annualized volatility of each of the Underlying Index and the ETF was 32.52% and 65.75%, respectively, for the year ended December 31, 2021.

The ETF may, at times, have very large purchase and redemption activity. However, the performance of the ETF is primarily affected by the performance of its forward agreement, which is rebalanced daily and is tied to the performance of the ETF's Underlying Index. The performance and liquidity of the ETF is unaffected by the asset size of the ETF, or by purchase and redemption activity, as these transactions are taken into account during the daily rebalancing of the forward agreement.

Management Discussion of Fund Performance (continued)

Forward Agreements

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

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

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

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

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

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

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

Leverage

The ETF measures leverage in terms of the total underlying notional value of the securities and/or financial derivative positions as a ratio of the total assets held by such ETF. The ETF is considered an "alternative mutual fund", as defined in amendments to National Instrument 81-102 ("NI 81-102") which came into force on January 3, 2019, and, as such, is permitted to lever its assets: that is, the aggregate underlying market exposure of all derivatives held by the ETF calculated on a daily mark-to-market basis can exceed the ETF's cash and cash equivalents, including cash and securities held as margin on deposit to support the ETF's derivatives trading activities. The ETF will generally not use leverage in excess of 2.0 times its net asset value. If the ETF uses leverage in excess of 2.0 times its net asset value, it shall generally reduce its leverage to 2.0 times its net asset value within 10 business days.

Management Discussion of Fund Performance (continued)

The following table discloses the minimum and maximum leverage levels for the ETF for the years ended December 31, 2021 and 2020; the ETF's leverage at the end of those reporting periods; and, approximately what that leverage represents as a percentage of the ETF's net assets. Leverage is adjusted daily to be within limits set out in the prospectus.

Year Ended	Minimum Leverage	Maximum Leverage	Leverage at end of Reporting Period	Approximate Percentage of Net Assets
December 31, 2021	2.00:1	2.00:1	2.00:1	200%
December 31, 2020	1.82:1	2.00:1	2.00:1	200%

Recent Developments

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

Impact of COVID-19

The 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 years ended December 31, 2021 and 2020.

Share Consolidation Transaction

The shares of the ETF were consolidated on a one-for-five basis effective July 5, 2021. All relevant share and per share historical data prior to July 5, 2021, has been adjusted to reflect the consolidation.

Interest Rate Benchmark Reform

A fundamental reform of major interest rate benchmarks has been taking place globally aimed at replacing interbank offered rates (IBOR) with alternative nearly risk-free rates. The ETF has exposure to the IBOR reform as it holds forward and banking contracts with cash flows references to the 1-month Canadian Dollar Offered Rate (CDOR). The Bank of Canada has recommended to cease publication of all CDOR rates by the end of June 2024. As a result of this development, the ETF is expected to transition any cash flows that benchmark the 1-month CDOR rate to track the Canadian Overnight Repo Rate Average (CORRA) before the end of Q1 2022. The manager continues to oversee the transition away from IBORs in coordination with its counterparties and administrators. There are potential risks related to this transition as a result of changes in the manager's internal operations, capabilities and systems (e.g. valuation models).

Management Discussion of Fund Performance (continued)

The below chart provides information on the number of unreformed contracts still outstanding for the ETF as at December 31, 2021.

Asset Type	Benchmark before Reform	Benchmark after Reform	Number of Unreformed Contracts
Derivative	CDOR	CORRA	2
Non-Derivative	CDOR	CORRA	1

On January 19, 2022, the ETF successfully converted any remaining cash-flows benchmarked to IBOR rates with alternative nearly risk-free rates.

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.

While the Company only effectively began operations after the completion of a reorganization in 2019, it has received an exemption from its regulators so that each ETF may report information in its management report of fund performance and financial statements on a combined basis for both the pre- and post-reorganization periods as though it were one continuous reporting entity.

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 16) are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statements of comprehensive income in the attached financial statements of the ETF. The management fees payable by the ETF as at December 31, 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 for the past five fiscal years. This information is derived from the ETF's annual audited financial statements. Please see the front page for information on how you may obtain the ETF's annual or interim financial statements.

The ETF's Net Assets per Share

Year ⁽¹⁾	2021	2020	2019	2018	2017
Net assets, beginning of year	\$ 28.04	49.20	69.15	43.85	39.45
Increase (decrease) from operations:					
Total revenue	0.06	0.35	1.20	0.75	0.40
Total expenses	(0.29)	(1.50)	(1.50)	(1.10)	(1.25)
Realized gains (losses) for the year	(9.82)	(53.55)	(38.40)	23.50	13.30
Unrealized gains (losses) for the year	(6.79)	7.65	4.95	0.10	(2.95)
Total increase (decrease) from operations ⁽²⁾	(16.84)	(47.05)	(33.75)	23.25	9.50
Total distributions ⁽³⁾	–	–	–	–	–
Net assets, end of year ⁽⁴⁾	\$ 5.80	28.04	49.20	69.15	43.85

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

Financial Highlights (continued)

Ratios and Supplemental Data

Year ⁽¹⁾	2021	2020	2019	2018	2017
Total net asset value (000's)	\$ 5,818	10,173	3,633	6,626	3,629
Number of shares outstanding (000's)	1,003	363	74	96	83
Management expense ratio ⁽²⁾	1.65%	1.61%	1.53%	1.52%	1.53%
Management expense ratio before waivers and absorptions ⁽²⁾	2.52%	2.31%	3.02%	2.82%	2.94%
Trading expense ratio ⁽³⁾	0.99%	1.02%	1.01%	1.00%	0.99%
Portfolio turnover rate ⁽⁴⁾	0.00%	0.00%	0.00%	0.00%	0.00%
Net asset value per share, end of year	\$ 5.80	28.04	49.20	69.15	43.85
Closing market price	\$ 5.80	28.15	49.30	69.15	43.85

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

Financial Highlights (continued)

Management Fees

In consideration for management services and investment advice provided to the ETF, the Manager is entitled to a management fee. The management fee, inclusive of sales tax, is applied on a daily basis to the net asset value of the ETF. The management fees, exclusive of sales tax, are charged at the annual rate of 1.15%. Approximately 100% of management fees were used for investment management, other general administration and profit.

The ETF is also responsible for all of its operating expenses, unless waived or reimbursed by the Manager, including but not limited to: audit fees; trustee and custodial expenses; valuation, accounting and record keeping costs; legal expenses; permitted prospectus preparation and filing expenses; costs associated with delivering documents to shareholders; listing and annual stock exchange fees; index licensing fees, if applicable; fees payable to CDS Clearing and Depository Services Inc.; bank related fees and interest charges; extraordinary expenses; shareholder reports and servicing costs; registrar and transfer agent fees; costs of the independent review committee; income taxes; sales tax; brokerage expenses and commissions; and withholding taxes. The Manager bears the costs relating to the investment management, advertising, marketing, sponsorship and promotion of the ETF.

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

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

The 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.

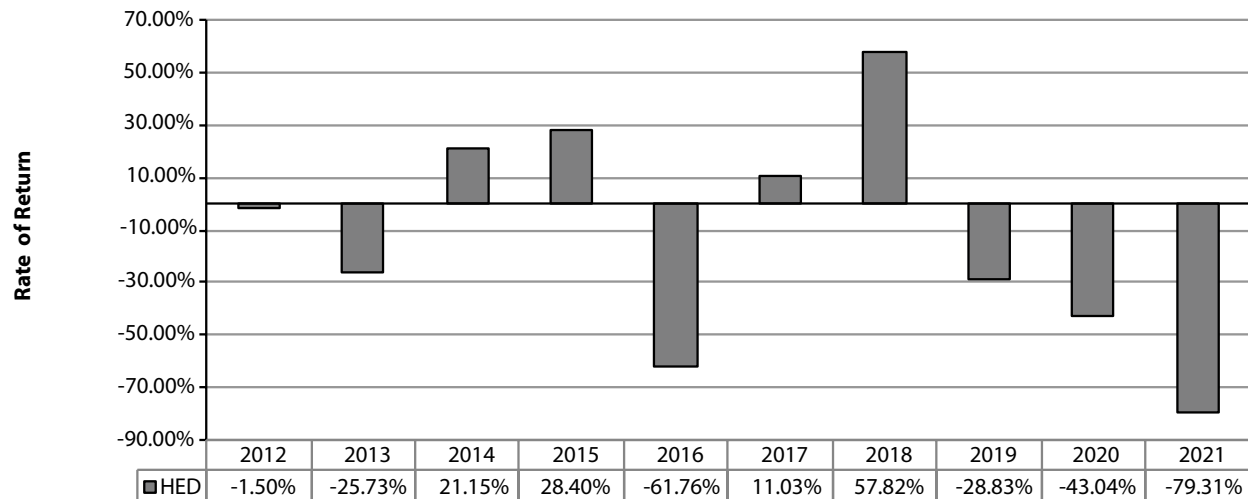
Marketing	Portfolio management fees, general administrative costs and profit	Waived/absorbed expenses of the ETF
4%	27%	69%

Past Performance

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

Year-by-Year Returns

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



The ETF effectively began operations on June 18, 2007.

Past Performance (continued)

Annual Compound Returns

The following table presents the ETF's annual compound total return since inception and for the periods shown ended December 31, 2021 compared with the ETF's applicable benchmark. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the ETF or future returns on investments in the ETF.

	1 Year	3 Year	5 Year	10 Year	Since Inception
BetaPro S&P/TSX Capped Energy™ -2x Daily Bear ETF	-79.31%	-56.22%	-31.85%	-24.04%	-25.26%
S&P/TSX Capped Energy Index™	85.18%	9.91%	-2.70%	-1.80%	-2.48%

The ETF effectively began operations on June 18, 2007.

This ETF does not seek to meet its investment objective over any period other than daily, as the ETF is rebalanced daily to ensure an investor's risk is limited to the current value of their investment.

The ETF's returns over periods longer than one day will likely differ in amount and possibly direction from the inverse performance of the Underlying Index for the same period. This effect becomes more pronounced as the volatility of the Underlying Index increases.

A perfect daily correlation of 200% of the daily inverse return of the Underlying Index would be a correlation of 1.0000. The ETF's daily correlation to its stated Underlying Index for the year ended December 31, 2021, was 1.0000.

Summary of Investment Portfolio

As at December 31, 2021

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
Investments	\$ (3,600,745)	-61.88%
Cash held for Collateral	9,263,963	159.22%
Cash - Other	162,309	2.79%
Other Assets less Liabilities	(7,049)	-0.13%
	\$ 5,818,478	100.00%

Top Holdings	% of ETF's Net Asset Value
Cash held for Collateral	159.22%
Cash - Other	2.79%
Forward Agreements (net notional value \$11,636,956)	-61.88%

Top Securities In the Underlying Index*—S&P/TSX Capped Energy Index™	% Weighting in Underlying Index
Suncor Energy Inc.	25.11%
Canadian Natural Resources Ltd.	25.00%
Cenovus Energy Inc.	11.29%
Tourmaline Oil Corp.	7.16%
Imperial Oil Ltd.	5.79%
ARC Resources Ltd.	4.69%
Whitecap Resources Inc.	2.14%
Crescent Point Energy Corp.	2.13%
MEG Energy Corp.	2.05%
Enerplus Corp.	1.94%
PrairieSky Royalty Ltd.	1.66%
Parex Resources Inc.	1.53%
Vermilion Energy Inc.	1.47%
Baytex Energy Corp.	1.26%
Paramount Resources Ltd.	1.02%
Birchcliff Energy Ltd.	0.98%
Peyto Exploration & Development Corp.	0.90%
Topaz Energy Corp.	0.82%
Advantage Oil & Gas Ltd.	0.81%
Freehold Royalties Ltd.	0.78%
Tamarack Valley Energy Ltd.	0.74%
Secure Energy Services Inc.	0.73%

*These positions represent the top 25 constituents of the Underlying Index. The ETF was exposed to two times the daily inverse performance of the Underlying Index through the Forward Agreements.

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

MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying audited annual consolidated financial statements ("financial statements") of BetaPro S&P/TSX Capped Energy™ -2x Daily Bear 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.



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



Thomas Park
Director
Horizons ETFs Management (Canada) Inc.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of BetaPro S&P/TSX Capped Energy™ -2x Daily Bear 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 years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ETF as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended 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
Assets		
Cash held for collateral	\$ 9,263,963	\$ 9,070,178
Cash - other	162,309	186,122
Amounts receivable relating to accrued income	1,882	1,995
Derivative assets (note 3)	–	942,451
Total Assets	9,428,154	10,200,746
Liabilities		
Accrued management fees	6,883	10,673
Accrued operating expenses	2,048	6,191
Derivative liabilities (note 3)	3,600,745	11,220
Total Liabilities	3,609,676	28,084
Total net assets (note 2)	\$ 5,818,478	\$ 10,172,662
Number of redeemable shares outstanding (note 9)	1,002,800	362,800
Total net assets per share (note 1)	\$ 5.80	\$ 28.04

(See accompanying notes to financial statements)

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



 Steven J. Hawkins
 Director



 Kevin S. Beatson
 Director

Consolidated Statements of Comprehensive Income

For the Years Ended December 31,

	2021	2020
Income		
Interest income for distribution purposes	\$ 41,526	\$ 53,360
Net realized loss on sale of investments and derivatives	(6,448,822)	(7,987,734)
Net change in unrealized appreciation (depreciation) of investments and derivatives	(4,459,569)	1,142,187
	(10,866,865)	(6,792,187)
Expenses (note 10)		
Management fees	92,757	108,663
Audit fees	6,752	6,965
Independent Review Committee fees	912	726
Custodial and fund valuation fees	31,862	32,532
Legal fees	2,908	2,114
Securityholder reporting costs	12,592	9,567
Administration fees	36,636	38,085
Transaction costs	72,407	87,593
	256,826	286,245
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(64,063)	(60,560)
	192,763	225,685
Decrease in net assets for the year	\$ (11,059,628)	\$ (7,017,872)
Decrease in net assets per share	\$ (16.84)	\$ (47.05)

(See accompanying notes to financial statements)

Consolidated Statements of Changes in Financial Position

For the Years Ended December 31,

	2021		2020	
Total net assets at the beginning of the year	\$	10,172,662	\$	3,632,687
Decrease in net assets		(11,059,628)		(7,017,872)
Redeemable share transactions				
Proceeds from the issuance of securities of the investment fund		13,977,736		25,018,077
Aggregate amounts paid on redemption of securities of the investment fund		(7,272,292)		(11,460,230)
Total net assets at the end of the year	\$	5,818,478	\$	10,172,662

(See accompanying notes to financial statements)

Consolidated Statements of Cash Flows

For the Years Ended December 31,

	2021	2020
Cash flows from operating activities:		
Decrease in net assets for the year	\$ (11,059,628)	\$ (7,017,872)
Adjustments for:		
Net realized loss on sale of investments and derivatives	6,448,822	7,987,734
Net change in unrealized depreciation (appreciation) of investments and derivatives	4,459,569	(1,142,187)
Purchase of investments	72,407	(105,363)
Proceeds from the sale of investments	(6,448,822)	(7,987,734)
Amounts receivable relating to accrued income	113	6,169
Accrued expenses	(7,933)	7,936
Net cash used in operating activities	(6,535,472)	(8,251,317)
Cash flows from financing activities:		
Amount received from the issuance of shares	13,977,736	25,214,971
Amount paid on redemptions of shares	(7,272,292)	(11,460,230)
Net cash from financing activities	6,705,444	13,754,741
Net increase in cash for the year	169,972	5,503,424
Cash at beginning of year	9,256,300	3,752,876
Cash at end of year	\$ 9,426,272	\$ 9,256,300
Interest received	\$ 41,639	\$ 59,529
Total Cash are composed of		
Cash held for collateral	\$ 9,263,963	\$ 9,070,178
Cash - other	162,309	186,122
Cash at end of year	\$ 9,426,272	\$ 9,256,300

(See accompanying notes to financial statements)

Schedule of Investments

As at December 31, 2021

Security	Fair Value
FORWARD AGREEMENTS (-61.88%)	
Positive Exposure Forward Agreement (-0.10%)	
S&P/TSX Capped Energy Index™ Forward Agreement	
Payment Date October 15, 2026 (notional value \$206,355)	\$ (6,029)
Negative Exposure Forward Agreement (-61.78%)	
S&P/TSX Capped Energy Index™ Forward Agreement	
Payment Date October 1, 2026 (notional value \$11,843,311)	(3,594,716)
TOTAL FORWARD AGREEMENTS	(3,600,745)
CASH HELD FOR COLLATERAL (159.22%)	9,263,963
TOTAL INVESTMENT PORTFOLIO (97.34%) (note 7)	\$ 5,663,218
Cash - other (2.79%)	162,309
Other assets less liabilities (-0.13%)	(7,049)
TOTAL NET ASSETS (100.00%)	\$ 5,818,478

(See accompanying notes to financial statements)

Notes to Consolidated Financial Statements - ETF Specific Information

For the Years Ended December 31, 2021 and 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 pre-existing ETF Trust participating in the reorganization.

ETF Name	TSX Ticker(s)	Reporting Currency	Effective Start of Operations
BetaPro S&P/TSX Capped Energy™ -2x Daily Bear ETF	HED	CAD	June 18, 2007

Investment Objective

HED seeks daily investment results, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to two times (200%) the inverse (opposite) of the daily performance of the S&P/TSX Capped Energy Index™ (the “Underlying Index”, Bloomberg ticker: TTENAR).

If HED is successful in meeting its investment objective, its net asset value should gain approximately twice as much on a given day, on a percentage basis, as any decrease in the S&P/TSX Capped Energy Index™ when this Underlying Index declines on that given day. Conversely, HED’s net asset value should lose approximately twice as much on a given day, on a percentage basis, as any increase in the S&P/TSX Capped Energy Index™ when this Underlying Index rises on that given day.

Share Consolidation Transaction

The shares of the ETF were consolidated on a one-for-five basis effective July 5, 2021. All relevant share and per share historical data prior to July 5, 2021, has been adjusted to reflect the consolidation.

B. FINANCIAL INSTRUMENTS RISK (NOTE 5)

(a) Market risks

(i) Currency risk

The ETF has no exposure to foreign currencies.

(ii) Interest rate risk

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

(iii) Market price risk

The ETF does not seek to meet its investment objective over any period other than daily, as the ETF is rebalanced daily to ensure an investor’s risk is limited to the current value of their investment.

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

For the Years Ended December 31, 2021 and 2020

The ETF's returns over periods longer than one day will likely differ in amount and possibly direction from the inverse performance of the Underlying Index for the same period. This effect becomes more pronounced as the volatility of the Underlying Index increases.

The table below shows the estimated impact on the ETF of a 1% increase or decrease in the Underlying Index, based on daily historical correlation during the reporting period, with all other factors remaining constant, as at the dates shown. In practice, actual results may differ from this sensitivity analysis and the difference could be material. A perfect daily correlation of 200% of the daily inverse return of the Underlying Index would be a correlation of 1.0000. The historical daily correlation may not be representative of future correlation.

Underlying Index	December 31, 2021	December 31, 2020
S&P/TSX Capped Energy Index™	\$58,185	\$101,707
Daily Correlation	1.0000	0.9998

(iv) Price volatility risk

When comparing the returns of the ETF and the Underlying Index over any period **other than daily**, the volatility of the Underlying Index is a significant factor as a result of the rebalancing process. The following table illustrates the impact of two factors, benchmark volatility and benchmark performance, on a leveraged fund's period performance. The table shows estimated fund returns for a number of combinations of benchmark performance and benchmark volatility over a one year period.

Assumptions used in the table include: a) no ETF expenses and b) borrowing/lending rates (to obtain leverage) of zero percent. If the ETF's expenses were included, the ETF's performance would be lower than shown.

One Year Benchmark Performance	-200% One Year Benchmark Performance	Benchmark Volatility			
		0%	25%	50%	75%
-40%	80%	177.8%	130.3%	31.2%	-48.6%
-20%	40%	56.3%	29.5%	-26.2%	-71.1%
0%	0%	0.0%	-17.1%	-52.8%	-81.5%
20%	-40%	-30.6%	-42.4%	-67.2%	-87.2%
40%	-80%	-49.0%	-57.7%	-75.9%	-90.6%

The annualized volatility of each of the Underlying Index and the ETF for the years ended December 31, 2021 and 2020, were as follows:

	Underlying Index	ETF
December 31, 2021	32.52%	65.75%
December 31, 2020	70.67%	135.16%

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

For the Years Ended December 31, 2021 and 2020

(b) Credit risk

The table below shows the notional exposure of the ETF to Derivative Agreements (as described in note 7) as at December 31, 2021 and 2020, as measured by the Net Notional Exposure. In addition, designated ratings for any Counterparties at each reporting date are presented, as is the credit risk exposure (see note 5) of derivative assets as shown in the statements of financial position.

As at	Counter-party ⁽¹⁾	Notional Exposure	Credit Risk	DBRS Rating	Fitch Rating	Moody's Rating	S&P Rating
Dec. 31, 2021	NBC	\$11,636,956	–	AA (low)	A+	Aa3	A
Dec. 31, 2020	NBC	\$20,345,324	\$942,451	AA (low)	A+	Aa3	A

⁽¹⁾ NBC refers to National Bank of Canada

(c) Leverage risk

The ETF measures leverage in terms of the total underlying notional value of the securities and/or financial derivative positions as a ratio of the total assets held by such ETF. The ETF is considered an “alternative mutual fund”, as defined in amendments to National Instrument 81-102 (“NI 81-102”) which came into force on January 3, 2019, and, as such, is permitted to lever its assets: that is, the aggregate underlying market exposure of all derivatives held by the ETF calculated on a daily mark-to-market basis can exceed the ETF’s cash and cash equivalents, including cash and securities held as margin on deposit to support the ETF’s derivatives trading activities. The ETF will generally not use leverage in excess of 2.0 times its net asset value. If the ETF uses leverage in excess of 2.0 times its net asset value, it shall generally reduce its leverage to 2.0 times its net asset value within 10 business days.

The following table discloses the minimum and maximum leverage levels for the ETF for the years ended December 31, 2021 and 2020; the ETF’s leverage at the end of those reporting periods; and, approximately what that leverage represents as a percentage of the ETF’s net assets. Leverage is adjusted daily to be within limits set out in the prospectus.

Year Ended	Minimum Leverage	Maximum Leverage	Leverage at end of Reporting Period	Approximate Percentage of Net Assets
December 31, 2021	2.00:1	2.00:1	2.00:1	200%
December 31, 2020	1.82:1	2.00:1	2.00:1	200%

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

For the Years Ended December 31, 2021 and 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 (\$)
Financial Assets						
Forward Agreements	–	–	–	–	942,451	–
Total Financial Assets	–	–	–	–	942,451	–
Financial Liabilities						
Forward Agreements	–	(3,600,745)	–	–	(11,220)	–
Total Financial Liabilities	–	(3,600,745)	–	–	(11,220)	–
Net Financial Assets & Liabilities	–	(3,600,745)	–	–	931,231	–

There were no significant transfers made between Levels 1 and 2 as a result of changes in the availability of quoted market prices or observable market inputs during the years shown. In addition, there were no investments or transactions classified in Level 3 for the years ended December 31, 2021 and 2020.

D. SECURITIES LENDING (NOTE 8)

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 years ended December 31, 2021 and 2020.

E. REDEEMABLE SHARES (NOTE 9)

For the years ended December 31, 2021 and 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:

Year	Beginning Shares Outstanding	Shares Issued	Shares Redeemed	Ending Shares Outstanding	Average Shares Outstanding
2021	362,800	1,460,000	(820,000)	1,002,800	656,663
2020	73,800	444,000	(155,000)	362,800	149,163

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

For the Years Ended December 31, 2021 and 2020

F. OFFSETTING OF FINANCIAL INSTRUMENTS (NOTE 13)

The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at December 31, 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 Instruments” may include non-cash collateral pledged by the ETF.

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	–	–	–	–	–	–
Derivative liabilities	(3,600,745)	–	(3,600,745)	–	3,600,745	–

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	942,451	–	942,451	(11,220)	–	931,231
Derivative liabilities	(11,220)	–	(11,220)	11,220	–	–

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2021 and 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 and for the years ended December 31, 2021 and 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.

Reporting Periods

While the Company only effectively began operations after the completion of a reorganization in 2019, it has received an exemption from its regulators so that each Corporate Class may report information in its financial statements on a combined basis for both the pre- and post-reorganization periods as though it were one continuous reporting entity for comparative purposes. Post-reorganization, all of the ETF Trusts are wholly-owned by the Company. These financial statements are presented on a consolidated basis for each individual ETF and the corresponding ETF Trusts.

Investment Objective

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

2. BASIS OF PREPARATION

(i) Statement of compliance

The ETF’s financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) 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.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2021 and 2020

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.

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.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2021 and 2020

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

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

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

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

(iii) Offsetting

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

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

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.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2021 and 2020

Derivative agreements

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

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

(b) Investment income

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

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

Income from securities lending, if any, is included in “Securities lending income” on the statements of comprehensive income and is recognized when earned. Any securities on loan continue to be displayed in the schedule of investments and the market value of the securities loaned and collateral held is determined daily (see note 8).

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

(c) Foreign currency

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

(d) Cost basis

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

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2021 and 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 year.

(f) Shareholder transactions

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

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

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

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

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

(i) Transaction costs

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

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 years ended December 31, 2021 and 2020.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2021 and 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.

Interest Rate Benchmark Reform

A fundamental reform of major interest rate benchmarks has been taking place globally aimed at replacing interbank offered rates (IBOR) with alternative nearly risk-free rates. The ETF has exposure to the IBOR reform as it holds forward and banking contracts with cash flows references to the 1-month Canadian Dollar Offered Rate (CDOR). The Bank of Canada has recommended to cease publication of all CDOR rates by the end of June 2024. As a result of this development, the ETF is expected to transition any cash flows that benchmark the 1-month CDOR rate to track the Canadian Overnight Repo Rate Average (CORRA) before the end of Q1 2022. The manager continues to oversee the transition away from IBORs in coordination with its counterparties and administrators. There are potential risks related to this transition as a result of changes in the manager's internal operations, capabilities and systems (e.g. valuation models).

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2021 and 2020

The below chart provides information on the number of unreformed contracts still outstanding for the ETF as at December 31, 2021.

Asset Type	Benchmark before Reform	Benchmark after Reform	Number of Unreformed Contracts
Derivative	CDOR	CORRA	2
Non-Derivative	CDOR	CORRA	1

(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 does not seek to meet its investment objective over any period other than daily, as the ETF is rebalanced daily to ensure an investor's risk is limited to the current value of their investment.

The ETF's returns over periods longer than one day will likely differ in amount and possibly direction from the inverse performance of the Underlying Index for the same period. This effect becomes more pronounced as the volatility of the Underlying Index increases.

(iv) Price volatility risk

While the objective of the ETF is to seek **daily** investment results, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to two times (200%) the daily inverse performance of the Underlying Index, when performance is measured over periods other than daily, the ETF may experience greater volatility than its Underlying Index or the securities comprising the Underlying Index due to the compounding effect inherent in seeking a multiple of the Underlying Index, and thus has the potential for greater losses.

(b) Credit risk

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

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

Credit risk is managed by dealing with counterparties the Manager believes to be creditworthy and which meet the designated rating requirements of National Instrument 81-102 ("NI 81-102"), see note 7. Collateral for any Derivative Agreements is received in the form of cash and is reflected as "Cash held for collateral" on the statements of financial position.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2021 and 2020

(c) Leverage risk

Leverage offers a means of magnifying market movements into larger changes in an investment's value and provides greater investment exposure than an unleveraged investment. Leverage should cause an ETF to lose more money in market environments adverse to its daily investment objective than an ETF that does not employ leverage.

Using leverage involves special risks and should be considered to be speculative. Leverage exists when an ETF achieves the right to a return on a capital base that exceeds the amount the ETF has invested. An ETF using leverage creates the potential for greater gains to its shareholders during favourable market conditions and the risk of magnified losses during adverse market conditions. Leverage should increase the volatility of the net asset value of the ETF. Leverage may involve the creation of a liability that does not entail any interest costs or the creation of a liability that requires the ETF to pay interest, which decreases the ETF's total return to its shareholders. If the ETF achieves its investment objective, during adverse market conditions, shareholders of the ETF may experience a loss greater than they would have incurred had the ETF not been leveraged.

The ETF employs absolute leverage that will generally not exceed 2.0 times the net asset value of the ETF and that leverage is **rebalanced daily** in order to ensure each shareholder's risk is limited to the capital invested.

(d) Liquidity risk

Liquidity risk is the risk that the ETF will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The ETF may, at times, have very large purchase and redemption activity. However, the performance of the ETF is primarily affected by the performance of its Derivative Agreements, which are rebalanced daily, and is tied to the performance of the Underlying Index. The performance and liquidity of the ETF is unaffected by the asset size of the ETF, purchases or redemptions as these transactions are taken into account during the daily rebalancing of the Derivative Agreements. Generally, liabilities of the ETF are due within 90 days.

6. FAIR VALUE MEASUREMENT

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

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

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.

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2021 and 2020

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

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

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

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

(b) Counterparty Restrictions

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

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

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

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

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2021 and 2020

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

8. SECURITIES LENDING

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

The aggregate closing market value of securities loaned and collateral received, if any, as at December 31, 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.

9. REDEEMABLE SHARES

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

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

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

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

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2021 and 2020

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

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

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

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

A summary table of the number of shares 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.

10. EXPENSES AND OTHER RELATED PARTY TRANSACTIONS

Management fees

In consideration for management services and investment advice provided to the ETF, the Manager is entitled to a management fee. The management fee, inclusive of sales tax, is applied on a daily basis to the net asset value of the ETF. The management fees, exclusive of sales tax, are charged at the annual rate of 1.15%.

Other expenses

The ETF is also responsible for all of its operating expenses, unless waived or reimbursed by the Manager, including but not limited to: audit fees; custodial expenses; valuation, accounting and record keeping costs; legal expenses; permitted prospectus preparation and filing expenses; costs associated with delivering documents to shareholders; listing and annual stock exchange fees; index licensing fees, if applicable; fees payable to CDS Clearing and Depository Services Inc.; bank related fees and interest charges; extraordinary expenses; shareholder reports and servicing costs; registrar and transfer agent fees; costs of the independent review committee; income taxes; sales tax; brokerage expenses and commissions; and withholding taxes. The Manager bears the costs relating to the investment management, advertising, marketing, sponsorship and promotion of the ETF.

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

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2021 and 2020

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

Other related party transactions

The management fees paid to the Manager and fees paid to the Independent Review Committee (“IRC”) are considered related party transactions, as the Manager and IRC are related parties to the ETF. Both the management fees and fees paid to the IRC are disclosed in the statements of comprehensive income. The management fees payable by the ETF as at December 31, 2021 and 2020, are disclosed in the statements of financial position.

11. INCOME TAX

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

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

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

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

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

Notes to Consolidated Financial Statements (continued)

For the Years Ended December 31, 2021 and 2020

12. TAX LOSSES CARRIED FORWARD

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

As at December 31, 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:

Net Capital Losses	Non-Capital Losses	Year of Expiry of the Non-Capital Losses
\$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

13. OFFSETTING OF FINANCIAL INSTRUMENTS

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

14. SUBSEQUENT EVENT

On January 19, 2022, the ETF successfully converted any remaining cash-flows benchmarked to IBOR rates with alternative nearly risk-free rates.

Manager

Horizons ETFs Management (Canada) Inc.

55 University Avenue, Suite 800

Toronto, Ontario

M5J 2H7

Tel: 416-933-5745

Fax: 416-777-5181

Toll Free: 1-866-641-5739

info@horizonsetfs.com

www.horizonsetfs.com

Auditors

KPMG LLP

Bay Adelaide Centre

333 Bay Street, Suite 4600

Toronto, Ontario

M5H 2S5

Custodian

CIBC Mellon Trust Company

1 York Street, Suite 900

Toronto, Ontario

M5J 0B6

Registrar and Transfer Agent

TSX Trust Company

100 Adelaide Street West, Suite 301

Toronto, Ontario

M5H 4H1

Innovation is our capital. Make it yours.

Horizons Exchange Traded Funds | 55 University Avenue, Suite 800 | Toronto, Ontario, M5J 2H7

T 416 933 5745 | **TF** 1 866 641 5739 | **w** horizonsetfs.com



HORIZONS ETFs
by Mirae Asset