



Horizons Active Hybrid Bond and Preferred Share ETF
(Formerly Horizons Active Floating Rate Preferred Share ETF)
(HYBR:TSX)



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A Message from the CEO

As we mark an end to 2022, it's a time to reflect on the year that was for us, our industry and our investors.

While global uncertainty and inflationary pressures resulted in market volatility, Canada's ETF industry continued to grow. As at year-end on December 31, 2022, Canada's ETF industry saw more than \$35 billion in year-to-date inflows.

At Horizons ETFs, our assets under management swelled from approximately \$20.7 billion at the beginning of 2022 to nearly \$23 billion as at December 31, 2022. We continue to solidify our position as one of Canada's top ETF providers, with more than \$4 billion in ETF inflows this year.

We are proud to continue our longstanding commitment to bringing innovative ETFs to market and serving investors' needs. This year alone we have launched five new ETFs.

In February, Horizons ETFs launched the Horizons Carbon Credits ETF ("**CARB**"). CARB is Canada's first ETF that provides exposure solely to carbon credits through the ownership of carbon credit futures: a nascent asset class, CARB, offers investors the potential to benefit from the growing global effort to regulate and reduce carbon emissions.

In another Canadian first, in May, we launched the Horizons Copper Producers Index ETF ("**COPP**"), providing exposure to companies involved in copper ore mining, one of the most in-demand metals today. Copper is a critical component of electrical infrastructure, electric vehicles, and equipment and has an important role in helping achieve a global low-carbon energy future.

In August, we launched the Horizons Canadian Utility Services High Dividend ETF ("**UTIL**"). With UTIL, investors can gain exposure to three major segments of the utility services sector: utilities, pipelines and communications. These segments have historically functioned as defensive industries, offering investors relative stability and consistent dividends, even during periods of volatility and bear markets.

Finally, in September, we expanded our BetaPro ETF suite with the launch of the BetaPro Equal Weight Canadian Bank 2x Daily Bull ETF ("**HBKU**") and the BetaPro Equal Weight Canadian Bank -2x Daily Bear ETF ("**HBKD**"), which offer leveraged and inverse leverage exposure to Canada's "Big Six" banks.

At Horizons ETFs, "Innovation is Our Capital" has long been our motto, and we believe this has allowed us to be nimble enough to adapt while anticipating investor needs. No matter what is next on your horizon, we are confident that our suite of innovative ETFs will be able to help you reach your financial goals.

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

Sincerely,



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

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

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

Management Discussion of Fund Performance

Investment Objective and Strategies

The investment objective of HYBR is to seek to provide unitholders with a high level of income by investing in a portfolio of debt and other debt-like securities, including but not limited to hybrid corporate debt ("Hybrids"), Alternative Tier 1 Capital ("AT1"), such as limited resource capital notes ("LRCNs"), and income generating equities, including but not limited to preferred securities (fixed-rate perpetual, fixed floating rate, retractable and floating rate), of Canadian and U.S. companies. HYBR may hedge some or all of its non-Canadian dollar currency exposure at the discretion of its sub-advisor.

To achieve HYBR's investment objectives, The ETF's sub-advisor, Fiera Capital Corporation ("Fiera" or the "Sub-Advisor"), uses fundamental research to select companies that, based on the Sub-Advisor's view on the company's industry and growth prospects, should be included in the ETF's investment portfolio. An extensive credit analysis for each security as well as an assessment of each company's risk profile is completed in order to confirm the selection and relative weight of each security held by the ETF.

HYBR primarily invests in a portfolio of corporate debt and debt-like securities, including but not limited to, Hybrids, AT1s (such as LRCNs), Non-viability contingent capital ("NVCC") that can be subordinated debt or preferred shares, preferred securities (fixed-rate perpetual, fixed floating rate, retractable and floating rate), and other income-generating securities of North American issuers.

Management Discussion of Fund Performance (continued)

HYBR may, from time to time, also invest in Hybrids, preferred shares and other income generating securities of non-North American issuers as well as Listed Funds. The ETF may, invest in non-investment grade securities which generally in the aggregate will be less than 50% of the ETF's net assets at time of purchase.

In anticipation of, or in response to, adverse conditions or for defensive purposes, or to manage new subscription activity, the ETF may temporarily hold a portion of its assets in cash, money market instruments, or other cash equivalents which, generally, in aggregate, will not exceed 20% of the ETF's net assets. The ETF may also invest in derivatives for currency hedging purposes.

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

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

Risk

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

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

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

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

- Stock market risk
- Specific issuer risk
- Legal and regulatory risk
- Market disruptions risk
- Cyber security risk
- Listed Funds risk
- Reliance on historical data risk
- Corresponding net asset value risk
- Designated broker/dealer risk
- Cease trading of securities risk
- Exchange risk
- Early closing risk
- No assurance of meeting investment objectives
- Tax risk

Management Discussion of Fund Performance (continued)

- Securities lending, repurchase and reverse repurchase transaction risk
 - Loss of limited liability
 - Reliance on key personnel
 - Distributions risk
 - Conflicts of interest
 - No ownership interest
 - Market for units
 - Redemption price
 - Net asset value fluctuation
 - Restrictions on certain unitholders
 - Highly volatile markets
- No guaranteed return
 - Derivatives and counterparty risk
 - Interest rate risk
 - Foreign currency risk
 - Credit risk
 - Income trust investment risk
 - Foreign stock exchange risk
 - Call risk
 - Risk of difference between quoted and actionable market price
 - Liquidity risk

Results of Operations

For the period ended December 31, 2022, units of the ETF returned -17.95% when including distributions paid to unitholders. This compares to a return of -18.08% for the S&P/TSX Preferred Share Index (the "Index") for the same period.

The S&P/TSX Preferred Share Index is designed to track the performance of the Canadian preferred stock market. Preferred stocks pay dividends at a specified rate and receive preference over common stocks in terms of dividend payments and liquidation of assets.

General Market Review

Risk assets were hit hard, and bond yields continued their upward movement in the first half of 2022 as markets adjusted to very hawkish central banks who needed to raise rates significantly to try to bring inflation back under control. At the beginning of the year, interest rates were already experiencing upward pressure as central banks had come to the realization that inflation, caused by pent-up demand and the on-going supply chain issues brought on by the COVID-19 pandemic, was more persistent than first thought.

Up to the point of the Russian invasion of Ukraine, the market was expecting both the U.S. Federal Reserve and the Bank of Canada to increase rates six times to 1.75%, essentially reversing the emergency stimulus put in place at the beginning of the COVID-19 pandemic. However, as the situation in Ukraine evolved, commodity prices spiked even higher and caused more supply chain issues putting further pressure on global inflation. The U.S. Federal Reserve set the tone by raising rates 125 basis points during second quarter of 2022.

The third quarter saw global bond yields increase significantly, especially at the front end of the curves as markets expected central banks would have to be even more aggressive to bring inflation back under control. The European Central Bank, the Bank of England, and the Bank of Australia to name a few, hiked rates 125, 100, and 150 basis points, respectively. In the U.S., core inflation measures were expected to ease but instead moved higher. As a result, the U.S. Federal Reserve raised rates 150 basis points to 3.25% and put the market on notice that more rate hikes were on the way but also said they would keep rates elevated for an extended period, which was at odds with the market expecting rate cuts in 2023.

Management Discussion of Fund Performance (continued)

Global rates continued to generally increase during the fourth quarter especially at the front end of the curves as government bond markets once again maintained their belief that central banks had more work to do to bring inflation back under control. In contrast, most risk assets performed well as expectations grew for a pause and an eventual pivot in monetary policy. U.S. core inflation has peaked and started to fall, but it is still elevated at 6%. As a result, the U.S. Federal Reserve continued hiking, this time raising rates 125 basis points to 4.5% and signalled they were not done but will now also take into consideration the lags in monetary policy. Federal Open Market Committee participants now believe the medium U.S. Federal Reserve funds rate will reach 5.125% in 2023 and remain at this level at least until the end of the year as inflation is expected to be elevated at 3.5%. The U.S. Federal Reserve is now projecting to cut rates 100 basis points in both 2024 and 2025 when inflation finally returns to 2%. However, the market is currently looking for an effective peak of 5% mid-2023 and then for rate cuts to start in the fourth quarter of 2023.

The Bank of Canada increased its target for the overnight rate by 100 basis points to 4.25% over the last 3 months of the year, bringing cumulative rate hikes to 400 basis points for the year. Bond yields moved in the same direction as the central bank, but the curve continued to invert. 2-year Canada bond yields jumped 26 basis points to 4.05%, but 30-year Canada bond yields increased only 19 basis points to 3.28% as the long end is anticipating slower growth, lower inflation and interest rate cuts. Although there has been some improvement in inflation, it is still well above target, so the Bank of Canada is expected to continue to tighten monetary policy. The market has built in an overnight rate of 4.65% by mid-2023, or another 40 basis points of rate hikes and then it is looking for cuts to 4.25% before year end.

The Canadian preferred shares market underperformed in 2022 and continued to be volatile.

The negative flow of funds in the asset class was one of the main drivers of underperformance, as well as the widening of credit spreads across most issuers. The weak credit tone, particularly for limited recourse capital notes and hybrids, continued to be the main factor impacting the market.

The floating rate preferred shares were again the best performer in 2022. Throughout the year, fixed reset issues underperformed, particularly issues with low- or mid-reset level and with reset date after 2024. Perpetual preferred shares were the biggest losers this year with interest rates rising sharply. From a sector perspective, issues in the Real Estate sector underperformed while names in the Energy sector outperformed.

Portfolio Review

2022 was a particularly difficult environment for the preferred shares asset class with interest rates rising globally and with a credit environment that quickly deteriorated, with inflationary pressures ramping up.

Over the first half of the year, the ETF reduced allocation to expensive fixed rate perpetuals, and increased allocation on weakness to banks fixed reset issues. The ETF bought the new TD Bank institutional preferred share and also increased hybrid and limited recourse capital note allocations, mainly with the new Altagas, Algonquin Power & Utility and Bank of Montreal issues.

The second half of the year started with the ETF increasing its allocation into bank fixed resets with low reset levels such as National Bank, Toronto Dominion Bank and Bank of Montreal limited recourse capital notes, as well as buying institutional preferred shares of Toronto Dominion Bank, Canadian Imperial Bank of Commerce and the new Capital Power hybrid issue, while reducing weighting in utilities. During the last few months of the year, the ETF tactically increased positioning in fixed rate perpetuals, hybrids and limited recourse capital notes as that's where the Sub-Advisor saw more value, given the pull-back. The ETF also selectively increased allocation to some Bell Canada Enterprises fixed reset issues with a mid/low reset levels and funded most of these increases through a reduction in names such as Toronto Dominion Bank, Brookfield Infrastructure Partners and Bank of Montreal.

Management Discussion of Fund Performance (continued)

During the year, while the ETF was overweight to floating preferred shares, hybrid and limited recourse capital note securities proved to be the main contributors to performance. The ETF's underweight positioning to the Real Estate sector was also a key driver of performance, given that Real Estate was one of the worst performing sectors during the year.

In terms of what weighed on performance, the overweight to perpetual preferred shares detracted quite a bit of value in the context of rising interest rates. Additionally, the overweight positioning to mid and low resets and an underweight in high-resets with floors also proved to be a key detractor throughout the year.

Outlook

Inflation will continue to be the key indicator for the direction of bond yields and credit tone. The Bank of Canada and the U.S. Federal Reserve were very aggressive in hiking rates in 2022, but the Sub-Advisor now expect this tightening cycle to end sometime during the first half of 2023. With the overnight rate in Canada at 4.25%, monetary policy is well into restrictive territory and is expected to hurt domestic demand throughout the year. Inflation has moderated from the highs of last summer but remains well above 2%. Although the Sub-Advisor expects the Bank of Canada to stop hiking this year, they may have to keep rates elevated for a longer period of time before underlying inflation falls back to target. In Canada, the market expects the first interest rate cut to happen before the end of 2023, whereas the Sub-Advisor expects sticky inflation driven by a tight labour market to make this a 2024 story. Corporate spreads already reflect a base case of a modest recession and are well compensated for the expected volatility.

The Canadian preferred shares asset class has underperformed most North American asset classes in 2022. Most of the recent underperformance was driven by negative flows as hybrid and limited recourse capital note credit spreads and the 5-year Canada rate continued to be volatile in the fourth quarter but finished the year almost unchanged. The average yield of Canadian preferred shares is reaching attractive levels and has important upside over the next few years in this higher 5-year rate environment, which should help stabilize the flow of funds.

Despite the expected volatility in 2023, the Sub-Advisor expects that valuations for Canadian preferred shares are already pricing worse than a modest recession scenario. The Canadian preferred shares market should deliver at least the average yield in 2023. However, the equity environment, the hybrid and limited recourse capital note tone and the flow of funds should continue to be important drivers of daily volatility in 2023. In this environment, the Sub-Advisor expects it is too late to favor defensive preferred shares and therefore expects that fixed reset issues with low- and mid-reset levels should outperform.

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

For the year ended December 31, 2022, the ETF generated gross comprehensive income (loss) from investments and derivatives (which includes changes in the fair value of the ETF's portfolio) of (\$13,875,212). This compares to \$11,879,750 for the year ended December 31, 2021. The ETF incurred management, operating and transaction expenses of \$578,491 (2021 – \$548,268) of which \$59,921 (2021 – \$145,079) was either paid or absorbed by the Manager on behalf of the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

The ETF distributed \$3,639,531 to unitholders during the year (2021 – \$2,190,891).

Management Discussion of Fund Performance (continued)

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 units as reported under IFRS.

Recent Developments

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

Underlying Index, ETF and Ticker Name Changes

Effective at the close of trading on March 3, 2021, there was a change to the ETF’s investment objective. The ETF’s new investment objective is to seek to provide unitholders with a high level of income by investing in a portfolio of debt and other debt-like securities, including but not limited to hybrid corporate debt (“Hybrids”), Alternative Tier 1 Capital (“AT1”) (such as Limited Resource Capital Notes (“LRCNs”)), and income generating equities, including but not limited to preferred securities (fixed-rate perpetual, -fixed floating rate, retractable and floating rate), of Canadian and U.S. companies. The ETF may hedge some or all of its non-Canadian dollar currency exposure at the discretion of the Sub-Advisor.

In addition, based on the implementation of the new investment objective, the Manager changed both the name of the ETF and the ETF’s trading symbol to “Horizons Active Hybrid Bond and Preferred Share ETF” and “HYBR”, respectively, effective March 10, 2021.

Related Party Transactions

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

Manager, Trustee and Investment Manager

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

If the ETF invests in other Horizons Management ETFs, Horizons Management may receive management fees in respect of the ETF’s assets invested in such Horizons Management ETFs. In addition, any management fees paid to the Manager (described in detail on page 15) 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, 2022 and 2021, are disclosed in the statements of financial position.

Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance for the past five fiscal years. This information is derived from the ETF's audited annual financial statements. Please see the front page for information on how you may obtain the ETF's annual or interim financial statements.

The ETF's Net Assets per Unit

Year ⁽¹⁾	2022	2021	2020	2019	2018
Net assets, beginning of year	\$ 9.86	8.08	8.09	8.41	9.78
Increase (decrease) from operations:					
Total revenue	0.43	0.40	0.43	0.43	0.42
Total expenses	(0.06)	(0.07)	(0.05)	(0.06)	(0.07)
Realized gains (losses) for the year	0.05	0.06	(1.08)	(0.74)	(0.06)
Unrealized gains (losses) for the year	(2.16)	1.65	0.68	0.39	(1.42)
Total increase (decrease) from operations ⁽²⁾	(1.74)	2.04	(0.02)	0.02	(1.13)
Distributions:					
From dividends	(0.36)	(0.30)	(0.41)	(0.38)	(0.33)
From return of capital	(0.08)	(0.08)	–	(0.01)	(0.03)
Total annual distributions ⁽³⁾	(0.44)	(0.38)	(0.41)	(0.39)	(0.36)
Net assets, end of year ⁽⁴⁾	\$ 7.69	9.86	8.08	8.09	8.41

1. This information is derived from the ETF's audited annual financial statements.

2. Net assets per unit and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.

3. Income, dividend and/or return of capital distributions, if any, are paid in cash, reinvested in additional units of the ETF, or both. Capital gains distributions, if any, may or may not be paid in cash. Non-cash capital gains distributions are reinvested in additional units of the ETF and subsequently consolidated. They are reported as taxable distributions and increase each unitholder's adjusted cost base for their units. Neither the number of units held by the unitholder, nor the net asset per unit of the ETF change as a result of any non-cash capital gains distributions. Distributions classified as return of capital, if any, decrease each unitholder's adjusted cost base for their units. The characteristics of distributions, if any, are determined subsequent to the end of the ETF's tax year. Until such time, distributions are classified as from net investment income (excluding dividends) for reporting purposes.

4. The Financial Highlights are not intended to act as a continuity of the opening and closing net assets per unit.

Financial Highlights (continued)

Ratios and Supplemental Data

Year ⁽¹⁾	2022	2021	2020	2019	2018
Total net asset value (000's)	\$ 73,516	75,854	44,131	89,624	135,892
Number of units outstanding (000's)	9,560	7,697	5,465	11,085	16,161
Management expense ratio ⁽²⁾	0.64%	0.65%	0.65%	0.65%	0.63%
Management expense ratio before waivers and absorptions ⁽³⁾	0.73%	0.92%	0.75%	0.70%	0.68%
Trading expense ratio ⁽⁴⁾	0.07%	0.12%	0.07%	0.14%	0.08%
Portfolio turnover rate ⁽⁵⁾	32.92%	32.19%	17.34%	53.21%	30.20%
Net asset value per unit, end of year	\$ 7.69	9.86	8.08	8.09	8.41
Closing market price	\$ 7.66	9.84	8.06	8.10	8.40

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

Financial Highlights (continued)

Management Fees

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

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.55%, plus applicable sales taxes, of the net asset value of the ETF's units, calculated and accrued daily and payable monthly in arrears.

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

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

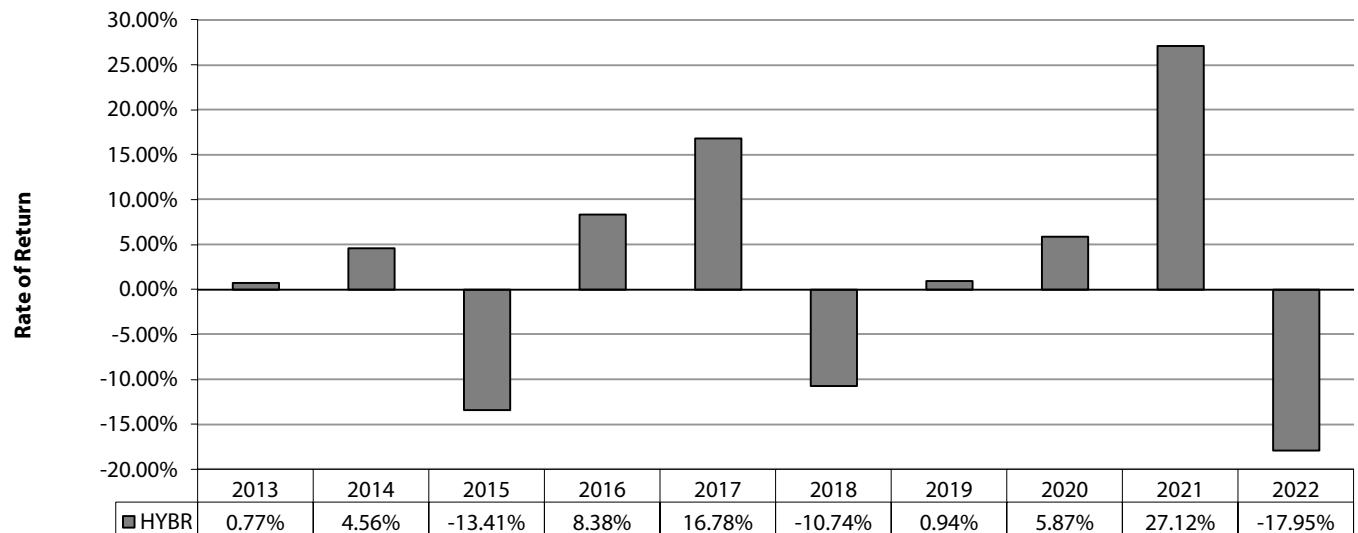
Marketing	Portfolio management fees, general administrative costs and profit	Waived/absorbed expenses of the ETF
6%	80%	14%

Past Performance

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

Year-by-Year Returns

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



The ETF effectively began operations on October 1, 2013.

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, 2022, along with a comparable market index. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the ETF or future returns on investments in the ETF.

	1 Year	3 Year	5 Year	Since Inception
Horizons Active Hybrid Bond and Preferred Share ETF	-17.95%	3.36%	-0.10%	1.51%
S&P/TSX Preferred Share Index™	-18.08%	1.25%	-0.22%	0.93%
Solactive Laddered Canadian Preferred Share Index	-17.75%	2.80%	0.31%	0.60%

The ETF effectively began operations on October 1, 2013.

Summary of Investment Portfolio

As at December 31, 2022

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
Canadian Preferred Securities	\$ 62,279,681	84.72%
Canadian Fixed Income Securities	10,586,015	14.40%
Currency Forward Hedge*	405	0.00%
Cash and Cash Equivalents	677,622	0.92%
Other Assets less Liabilities	(27,670)	-0.04%
	\$ 73,516,053	100.00%

Sector Mix	Net Asset Value	% of ETF's Net Asset Value
Financials	\$ 32,365,061	44.02%
Energy	16,842,557	22.91%
Corporate Bonds	10,586,015	14.40%
Utilities	6,973,230	9.49%
Communication Services	5,862,650	7.98%
Industrials	225,466	0.31%
Consumer Staples	10,717	0.01%
Currency Forward Hedge*	405	0.00%
Cash and Cash Equivalents	677,622	0.92%
Other Assets less Liabilities	(27,670)	-0.04%
	\$ 73,516,053	100.00%

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

Summary of Investment Portfolio (continued)

As at December 31, 2022

Top 25 Holdings*	% of ETF's Net Asset Value
Enbridge Inc.	9.43%
Toronto-Dominion Bank (The)	8.26%
BCE Inc.	7.98%
Royal Bank of Canada	6.35%
Canadian Imperial Bank of Commerce	5.89%
Pembina Pipeline Corp.	5.59%
Manulife Financial Corp.	5.58%
Brookfield Corp.	4.79%
Bank of Montreal	4.74%
TC Energy Corp.	4.39%
Great-West Lifeco Inc.	3.31%
Brookfield Renewable Power Preferred Equity Inc.	3.10%
National Bank of Canada	2.63%
AltaGas Ltd.	2.38%
Cenovus Energy Inc.	2.31%
Bank of Nova Scotia (The)	2.02%
Brookfield Office Properties Inc.	1.82%
Fairfax Financial Holdings Ltd.	1.81%
Canadian Utilities Ltd.	1.61%
Rogers Communications Inc.	1.47%
Laurentian Bank of Canada	1.42%
Fortis Inc.	1.41%
Brookfield Infrastructure Partners L.P.	1.26%
Canadian Western Bank	1.24%
Emera Inc.	0.99%

* Note all of the Top 25 Holdings represent the aggregate preferred securities and debt securities of that issuer in the ETF's portfolio.

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

MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying audited annual financial statements of Horizons Active Hybrid Bond and Preferred Share ETF (*Formerly Horizons Active Floating Rate Preferred Share ETF*) (the "ETF") are the responsibility of the manager and trustee to the ETF, Horizons ETFs Management (Canada) Inc. (the "Manager"). They have been prepared in accordance with International Financial Reporting Standards 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 have been audited by KPMG LLP, Chartered Professional Accountants, Licensed Public Accountants, on behalf of unitholders. The independent auditor's report outlines the scope of their audit and their opinion on the financial statements.



Jasmit Bhandal
Director
Horizons ETFs Management (Canada) Inc.



Thomas Park
Director
Horizons ETFs Management (Canada) Inc.

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Horizons Active Hybrid Bond and Preferred Share ETF (Formerly Horizons Active Floating Rate Preferred Share ETF) (the "ETF")

Opinion

We have audited the financial statements of the ETF, which comprise the statements of financial position as at December 31, 2022 and December 31, 2021, the statements of comprehensive income, changes in financial position and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ETF as at December 31, 2022 and December 31, 2021, 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 "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's 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 auditor's 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 auditor's 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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 auditor's report is Ziad Said.
Toronto, Canada
March 10, 2023

Statements of Financial Position

As at December 31,

	2022	2021
Assets		
Cash and cash equivalents	\$ 677,622	\$ 1,620,919
Investments	72,865,696	74,119,351
Amounts receivable relating to accrued income	315,378	134,538
Amounts receivable relating to portfolio assets sold	197,312	75,555
Amounts receivable relating to securities issued	–	244,913
Derivative assets (note 3)	405	6,215
Total assets	74,056,413	76,201,491
Liabilities		
Accrued management fees	34,725	38,171
Accrued operating expenses	6,735	3,974
Amounts payable for portfolio assets purchased	151,666	59,910
Distribution payable	347,234	245,271
Total liabilities	540,360	347,326
Total net assets	\$ 73,516,053	\$ 75,854,165
Number of redeemable units outstanding (note 8)	9,560,405	7,696,915
Total net assets per unit	\$ 7.69	\$ 9.86

(See accompanying notes to financial statements)

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



Jasmit Bhandal
Director



Thomas Park
Director

Statements of Comprehensive Income

For the Years Ended December 31,

	2022	2021
Income		
Dividend income	\$ 3,024,218	\$ 2,135,723
Interest income for distribution purposes	501,557	122,340
Securities lending income (note 7)	266	125
Net realized gain on sale of investments and derivatives	392,877	337,781
Net realized gain (loss) on foreign exchange	5,309	(2,323)
Net change in unrealized appreciation (depreciation) of investments and derivatives	(17,799,284)	9,286,119
Net change in unrealized depreciation of foreign exchange	(155)	(15)
	(13,875,212)	11,879,750
Expenses (note 9)		
Management fees	438,779	325,614
Audit fees	11,454	12,659
Independent Review Committee fees	447	912
Custodial and fund valuation fees	31,321	31,076
Legal fees	3,501	54,448
Securityholder reporting costs	15,012	31,073
Administration fees	26,420	28,292
Transaction costs	51,557	64,187
Other expenses	–	7
	578,491	548,268
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(59,921)	(145,079)
	518,570	403,189
Increase (decrease) in net assets for the year	\$ (14,393,782)	\$ 11,476,561
Increase (decrease) in net assets per unit	\$ (1.74)	\$ 2.04

(See accompanying notes to financial statements)

Statements of Changes in Financial Position

For the Years Ended December 31,

	2022		2021	
Total net assets at the beginning of the year	\$	75,854,165	\$	44,130,864
Increase (decrease) in net assets		(14,393,782)		11,476,561
Redeemable unit transactions				
Proceeds from the issuance of securities of the investment fund		27,042,356		27,888,454
Aggregate amounts paid on redemption of securities of the investment fund		(11,364,571)		(5,465,797)
Securities issued on reinvestment of distributions		17,416		14,974
Distributions:				
From net investment income		(3,005,885)		(1,730,717)
Return of capital		(633,646)		(460,174)
Total net assets at the end of the year	\$	73,516,053	\$	75,854,165

(See accompanying notes to financial statements)

Statements of Cash Flows

For the Years Ended December 31,

	2022	2021
Cash flows from operating activities:		
Increase (decrease) in net assets for the year	\$ (14,393,782)	\$ 11,476,561
Adjustments for:		
Net realized gain on sale of investments and derivatives	(392,877)	(337,781)
Net realized loss on currency forward contracts	(69,521)	(7,133)
Net change in unrealized depreciation (appreciation) of investments and derivatives	17,799,284	(9,286,119)
Net change in unrealized depreciation of foreign exchange	168	37
Purchase of investments	(27,669,865)	(32,578,863)
Proceeds from the sale of investments	14,875,045	11,881,664
Amounts receivable relating to accrued income	(180,840)	(50,318)
Accrued expenses	(685)	15,439
Net cash used in operating activities	(10,033,073)	(18,886,513)
Cash flows from financing activities:		
Amount received from the issuance of units	15,362,025	22,757,439
Amount paid on redemptions of units	(2,751,929)	(564,825)
Distributions paid to unitholders	(3,520,152)	(2,120,375)
Net cash from financing activities	9,089,944	20,072,239
Net increase (decrease) in cash and cash equivalents during the year	(943,129)	1,185,726
Effect of exchange rate fluctuations on cash and cash equivalents	(168)	(37)
Cash and cash equivalents at beginning of year	1,620,919	435,230
Cash and cash equivalents at end of year	\$ 677,622	\$ 1,620,919
Interest received, net of withholding taxes	\$ 380,308	\$ 102,144
Dividends received, net of withholding taxes	\$ 2,964,627	\$ 2,105,601

(See accompanying notes to financial statements)

Schedule of Investments

As at December 31, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
CANADIAN PREFERRED SECURITIES (84.72%)			
Financials (44.02%)			
Artis REIT, Preferred, Series 'E', Variable Rate, Perpetual	6,264	\$ 119,057	\$ 141,441
Bank of Montreal, Preferred, Class 'B', Series '27', Variable Rate, Convertible, Perpetual	21,791	464,392	388,969
Bank of Montreal, Preferred, Class 'B', Series '29', Variable Rate, Perpetual	72,975	1,546,660	1,277,063
Bank of Montreal, Preferred, Class 'B', Series '31', Variable Rate, Perpetual	17,792	386,857	313,584
Bank of Montreal, Preferred, Class 'B', Series '33', Variable Rate, Perpetual	22,087	489,954	392,486
Bank of Montreal, Preferred, Class 'B', Series '44', Variable Rate, Perpetual	13,528	344,148	279,083
Bank of Nova Scotia (The), Preferred, Series '40', Variable Rate, Perpetual	36,776	755,747	746,185
Brookfield Corp., Preferred, Series '24', Variable Rate, Perpetual	8,509	165,951	124,231
Brookfield Corp., Preferred, Series '26', Variable Rate, Perpetual	6,057	118,101	86,918
Brookfield Corp., Preferred, Series '30', Variable Rate, Perpetual	19,888	447,609	425,603
Brookfield Corp., Preferred, Series '32', Variable Rate, Perpetual	3,148	71,635	57,451
Brookfield Corp., Preferred, Series '34', Variable Rate, Perpetual	44,858	798,454	727,597
Brookfield Corp., Preferred, Class 'A', Series '36', 4.85%, Perpetual	259	6,514	4,693
Brookfield Corp., Preferred, Class 'A', Series '37', 4.90%, Perpetual	259	6,540	4,779
Brookfield Corp., Preferred, Class 'A', Series '38', Variable Rate, Perpetual	29,379	630,768	426,289
Brookfield Corp., Preferred, Class 'A', Series '40', Variable Rate, Perpetual	65,494	1,275,564	1,129,772
Brookfield Corp., Preferred, Class 'A', Series '42', Variable Rate, Perpetual	30,797	656,034	481,203
Brookfield Corp., Preferred, Series '51', 6.45%, Perpetual	3,394	38,751	56,476
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'N', Variable Rate, Perpetual	16,598	296,369	211,791
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'P', Variable Rate, Convertible, Perpetual	21,851	401,357	296,300
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'R', Variable Rate, Perpetual	38,912	742,835	550,799
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'AA', Variable Rate, Perpetual	13,138	246,230	184,063
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'CC', Variable Rate, Perpetual	100	1,978	2,215
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'EE', Variable Rate, Perpetual	1,000	21,530	17,250
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'GG', Variable Rate, Perpetual	4,166	94,036	80,154

Schedule of Investments (continued)

As at December 31, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'II', Variable Rate, Perpetual	35	706	653
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '39', Variable Rate, Perpetual	56,041	1,201,561	981,278
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '41', Variable Rate, Perpetual	15,368	335,314	265,098
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '43', Variable Rate, Perpetual	81,638	1,796,988	1,520,916
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '47', Variable Rate, Perpetual	2,103	49,485	44,478
Canadian Western Bank, Preferred, Series '5', Variable Rate, Perpetual	52,320	942,639	915,600
Fairfax Financial Holdings Ltd., Preferred, Series 'C', Variable Rate, Convertible, Perpetual	3,612	74,664	62,957
Fairfax Financial Holdings Ltd., Preferred, Series 'G', Variable Rate, Perpetual	4,664	75,753	63,430
Fairfax Financial Holdings Ltd., Preferred, Series 'I', Variable Rate, Convertible, Perpetual	3,067	59,949	44,778
Fairfax Financial Holdings Ltd., Preferred, Series 'K', 5.00%, Perpetual	10,168	224,090	188,108
Fairfax Financial Holdings Ltd., Preferred, Series 'M', Variable Rate, Perpetual	48,577	989,574	964,253
Great-West Lifeco Inc., Preferred, Series 'G', 5.20%, Perpetual	5,770	141,805	114,938
Great-West Lifeco Inc., Preferred, Series 'H', 4.85%, Perpetual	19,008	471,496	352,218
Great-West Lifeco Inc., Preferred, Series 'L', 5.65%, Perpetual	752	19,101	16,356
Great-West Lifeco Inc., Preferred, Series 'N', Variable Rate, Perpetual	2,819	45,062	34,166
Great-West Lifeco Inc., Preferred, Series 'P', 5.40%, Perpetual	11,410	288,227	235,731
Great-West Lifeco Inc., Preferred, Series 'Q', 5.15%, Perpetual	882	22,218	17,490
Great-West Lifeco Inc., Preferred, Series 'R', 4.80%, Perpetual	8,890	222,320	164,465
Great-West Lifeco Inc., Preferred, Series 'S', 5.25%, Perpetual	36,712	738,787	741,582
Great-West Lifeco Inc., Preferred, Series 'T', 5.15%, Perpetual	34,805	689,865	690,009
Great-West Lifeco Inc., Preferred, Series 'Y', 4.50%, Perpetual	3,772	94,300	67,858
Industrial Alliance Insurance and Financial Services Inc., Preferred, Class 'A', Series 'I', Variable Rate, Perpetual	20,581	507,596	442,080
Intact Financial Corp., Preferred, Class 'A', Series '3', Variable Rate, Convertible, Perpetual	26,836	583,136	443,331
Intact Financial Corp., Preferred, Class 'A', Series '6', 5.30%, Perpetual	5,604	146,547	119,225
Intact Financial Corp., Preferred, Class 'A', Series '7', Variable Rate, Convertible, Perpetual	6,234	145,226	122,872
Intact Financial Corp., Preferred, Class 'A', Series '9', 5.40%, Perpetual	66	1,441	1,452
Laurentian Bank of Canada, Preferred, Class 'A', Series '13', Variable Rate, Perpetual	47,656	772,501	760,113
Manulife Financial Corp., Preferred, Class 'A', Series '2', 4.65%, Perpetual	2,437	61,213	45,864

Schedule of Investments (continued)

As at December 31, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Manulife Financial Corp., Preferred, Class '1', Series '9', Variable Rate, Convertible, Perpetual	13,142	308,857	294,907
Manulife Financial Corp., Preferred, Class '1', Series '11', Variable Rate, Perpetual	71,644	1,541,807	1,414,969
Manulife Financial Corp., Preferred, Class '1', Series '13', Variable Rate, Perpetual	6,517	145,253	111,767
Manulife Financial Corp., Preferred, Class '1', Series '15', Variable Rate, Perpetual	27,962	609,883	460,534
Manulife Financial Corp., Preferred, Class '1', Series '17', Variable Rate, Perpetual	29,881	658,701	508,575
Manulife Financial Corp., Preferred, Class '1', Series '19', Variable Rate, Perpetual	27,154	572,002	457,545
Manulife Financial Corp., Preferred, Class '1', Series '25', Variable Rate, Perpetual	17,415	430,808	330,014
National Bank of Canada, Preferred, Series '30', Variable Rate, Perpetual	9,613	197,123	172,649
National Bank of Canada, Preferred, Series '32', Variable Rate, Perpetual	16,399	335,182	276,323
National Bank of Canada, Preferred, Series '38', Variable Rate, Perpetual	10,209	246,149	261,861
National Bank of Canada, Preferred, Series '40', Variable Rate, Perpetual	19,800	441,010	401,742
National Bank of Canada, Preferred, Series '42', Variable Rate, Perpetual	13,573	321,493	291,820
Power Corp. of Canada, Preferred, Series 'B', 5.35%, Perpetual	376	9,614	7,727
Power Corp. of Canada, Preferred, Series 'D', 5.00%, Perpetual	2,288	45,142	43,998
Power Financial Corp., Preferred, Series 'K', 4.95%, Perpetual	1,199	26,070	23,021
Power Financial Corp., Preferred, Series 'O', 5.80%, Perpetual	506	12,984	11,360
Power Financial Corp., Preferred, Series 'P', Variable Rate, Perpetual	14,114	218,123	178,542
Power Financial Corp., Preferred, Series 'R', 5.50%, Perpetual	752	19,259	16,078
Power Financial Corp., Preferred, Series 'S', 4.80%, Perpetual	6,536	164,626	122,811
Power Financial Corp., Preferred, Series 'T', Variable Rate, Perpetual	4,407	104,293	78,885
Royal Bank of Canada, Preferred, Series 'AZ', Variable Rate, Perpetual	24,836	575,647	439,349
Royal Bank of Canada, Preferred, Series 'BB', Variable Rate, Perpetual	8,878	200,625	156,253
Royal Bank of Canada, Preferred, Series 'BD', Variable Rate, Perpetual	100,638	2,075,523	1,876,899
Royal Bank of Canada, Preferred, Series 'BF', Variable Rate, Perpetual	48,698	1,043,331	878,999
Royal Bank of Canada, Preferred, Series 'BI', 4.90%, Perpetual	27	588	575
Sun Life Financial Inc., Preferred, Class 'A', Series '5', 4.50%, Perpetual	865	15,899	15,830
Sun Life Financial Inc., Preferred, Class 'A', Series '10R', Variable Rate, Perpetual	20,820	412,991	313,757
Toronto-Dominion Bank (The), Preferred, Series '1', Variable Rate, Convertible, Perpetual	75,766	1,703,552	1,310,752

Schedule of Investments (continued)

As at December 31, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Toronto-Dominion Bank (The), Preferred, Series '3', Variable Rate, Perpetual	58,661	1,275,505	1,022,461
Toronto-Dominion Bank (The), Preferred, Series '5', Variable Rate, Perpetual	30,856	670,181	535,352
Toronto-Dominion Bank (The), Preferred, Series '7', Variable Rate, Perpetual	56,505	1,303,985	1,074,160
Toronto-Dominion Bank (The), Preferred, Series '9', Variable Rate, Perpetual	19,069	430,818	364,599
Toronto-Dominion Bank (The), Preferred, Series '16', Variable Rate, Perpetual	28,001	698,983	693,025
Toronto-Dominion Bank (The), Preferred, Series '20', Variable Rate, Perpetual	19,242	461,881	390,228
		38,106,523	32,365,061
Energy (22.91%)			
AltaGas Ltd., Preferred, Series 'A', Variable Rate, Convertible, Perpetual	38,528	752,043	562,509
AltaGas Ltd., Preferred, Series 'B', Floating Rate, Convertible, Perpetual	2,595	50,237	44,413
AltaGas Ltd., Preferred, Series 'G', Variable Rate, Perpetual	26,611	605,438	468,354
Cenovus Energy Inc., Preferred, Series '1', Variable Rate, Perpetual	10,638	165,591	148,826
Cenovus Energy Inc., Preferred, Series '3', Variable Rate, Perpetual	20,583	458,839	409,808
Cenovus Energy Inc., Preferred, Series '5', Variable Rate, Perpetual	14,012	314,377	297,895
Cenovus Energy Inc., Preferred, Series '7', Variable Rate, Perpetual	42,232	870,290	844,640
Enbridge Inc., Preferred, Series 'A', 5.50%, Perpetual	6,226	133,174	132,738
Enbridge Inc., Preferred, Series 'B', Variable Rate, Perpetual	28,554	456,683	491,985
Enbridge Inc., Preferred, Series 'D', Variable Rate, Perpetual	17,555	324,984	304,930
Enbridge Inc., Preferred, Series 'F', Variable Rate, Perpetual	16,101	304,308	276,776
Enbridge Inc., Preferred, Series 'L', Variable Rate, Perpetual	10,225	280,823	266,094
Enbridge Inc., Preferred, Series 'N', Variable Rate, Perpetual	23,639	401,154	411,319
Enbridge Inc., Preferred, Series 'P', Variable Rate, Perpetual	21,832	418,408	340,579
Enbridge Inc., Preferred, Series 'R', Variable Rate, Perpetual	41,256	774,759	629,979
Enbridge Inc., Preferred, Series '3', Variable Rate, Perpetual	56,361	1,061,114	827,943
Enbridge Inc., Preferred, Series '7', Variable Rate, Perpetual	12,281	213,904	191,706
Enbridge Inc., Preferred, Series '9', Variable Rate, Perpetual	23,401	468,168	363,184
Enbridge Inc., Preferred, Series '11', Variable Rate, Perpetual	84,223	1,627,580	1,265,030
Enbridge Inc., Preferred, Series '13', Variable Rate, Perpetual	40,936	698,236	603,806
Enbridge Inc., Preferred, Series '15', Variable Rate, Perpetual	22,181	376,295	323,843
Enbridge Inc., Preferred, Series '19', Variable Rate, Convertible, Perpetual	13,447	311,433	309,281
Pembina Pipeline Corp., Preferred, Class 'A', Series '3', Variable Rate, Perpetual	5,185	102,685	85,034

Schedule of Investments (continued)

As at December 31, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Pembina Pipeline Corp., Preferred, Class 'A', Series '5', Variable Rate, Perpetual	14,436	271,796	249,021
Pembina Pipeline Corp., Preferred, Class 'A', Series '7', Variable Rate, Perpetual	25,564	544,658	433,310
Pembina Pipeline Corp., Preferred, Class 'A', Series '9', Variable Rate, Perpetual	47,221	1,071,201	915,615
Pembina Pipeline Corp., Preferred, Class 'A', Series '15', Variable Rate, Perpetual	21,051	440,997	415,336
Pembina Pipeline Corp., Preferred, Class 'A', Series '17', Variable Rate, Perpetual	4,288	82,646	74,933
Pembina Pipeline Corp., Preferred, Class 'A', Series '19', Variable Rate, Perpetual	74,948	1,702,143	1,636,864
Pembina Pipeline Corp., Preferred, Class 'A', Series '21', Variable Rate, Perpetual	500	12,720	11,555
Pembina Pipeline Corp., Preferred, Class 'A', Series '25', Variable Rate, Perpetual	11,363	268,224	277,144
TC Energy Corp., Preferred, Series '1', Variable Rate, Convertible, Perpetual	10,484	187,541	142,687
TC Energy Corp., Preferred, Series '3', Variable Rate, Convertible, Perpetual	7,507	115,389	82,952
TC Energy Corp., Preferred, Series '5', Variable Rate, Convertible, Perpetual	48,340	696,646	551,559
TC Energy Corp., Preferred, Series '7', Variable Rate, Convertible, Perpetual	38,229	726,265	586,433
TC Energy Corp., Preferred, Series '9', Variable Rate, Perpetual	61,543	1,213,858	923,145
TC Energy Corp., Preferred, Series '11', Variable Rate, Perpetual	58,359	1,188,400	941,331
		19,693,007	16,842,557
Utilities (9.49%)			
Algonquin Power & Utilities Corp., Preferred, Series 'A', Variable Rate, Convertible, Perpetual	2,068	44,534	38,258
Algonquin Power & Utilities Corp., Preferred, Series 'D', Variable Rate, Perpetual	3,411	67,708	63,786
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '1', Variable Rate, Perpetual	32,555	706,923	553,435
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '9', Variable Rate, Perpetual	5,552	140,232	111,040
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '11*', Variable Rate, Perpetual	13,938	319,299	267,470
Brookfield Renewable Partners L.P., Preferred, Class 'A', Series '7', Variable Rate, Perpetual	5,417	128,242	125,566
Brookfield Renewable Partners L.P., Preferred, Class 'A', Series '15', Variable Rate, Perpetual	2,582	62,798	61,426
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '1', Variable Rate, Convertible, Perpetual	61,433	1,156,338	866,205

Schedule of Investments (continued)

As at December 31, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '2', Variable Rate, Convertible, Perpetual	15,313	305,039	260,015
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '3', Variable Rate, Convertible, Perpetual	55,241	1,149,472	888,275
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '6', 5.00%, Perpetual	14,474	351,262	264,006
Canadian Utilities Ltd., Preferred, Series 'Y', Variable Rate, Perpetual	39,172	817,829	751,123
Canadian Utilities Ltd., Preferred, Series 'AA', 4.90%, Perpetual	10,616	268,579	206,375
Canadian Utilities Ltd., Preferred, Series 'BB', 4.90%, Perpetual	5,982	149,666	115,453
Canadian Utilities Ltd., Preferred, Series 'CC', 4.50%, Perpetual	5,400	136,836	97,443
Canadian Utilities Ltd., Preferred, Series 'DD', 4.50%, Perpetual	402	9,688	7,216
Canadian Utilities Ltd., Preferred, Series 'EE', 5.25%, Perpetual	506	12,954	10,621
Capital Power Corp., Preferred, Series '1', Variable Rate, Convertible, Perpetual	7,636	100,846	100,261
Capital Power Corp., Preferred, Series '3', Variable Rate, Convertible, Perpetual	3,080	57,372	65,912
Capital Power Corp., Preferred, Series '5', Variable Rate, Perpetual	2,611	45,895	54,309
CU Inc., Preferred, Series '1', 4.60%, Perpetual	661	15,956	11,987
Emera Inc., Preferred, Series 'A', Variable Rate, Convertible, Perpetual	11,709	209,416	155,144
Emera Inc., Preferred, Series 'C', Variable Rate, Convertible, Perpetual	13,327	283,014	249,881
Emera Inc., Preferred, Series 'F', Variable Rate, Perpetual	15,727	324,335	271,291
Emera Inc., Preferred, Series 'L', 4.60%, Perpetual	3,072	76,800	52,977
Fortis Inc., Preferred, Series 'G', Variable Rate, Perpetual	5,448	113,427	93,923
Fortis Inc., Preferred, Series 'H', 4.25%, Perpetual	413	6,854	5,148
Fortis Inc., Preferred, Series 'J', 4.75%, Perpetual	240	5,976	4,548
Fortis Inc., Preferred, Series 'K', Variable Rate, Perpetual	6,944	136,740	108,951
Fortis Inc., Preferred, Series 'M', Variable Rate, Perpetual	48,693	1,003,843	815,608
TransAlta Corp., Preferred, Series 'C', Variable Rate, Convertible, Perpetual	9,195	169,412	175,165
TransAlta Corp., Preferred, Series 'E', 5.00%, Perpetual	3,255	57,083	72,293
TransAlta Corp., Preferred, Series 'G', Variable Rate, Perpetual	2,353	41,985	48,119
		8,476,353	6,973,230
Communication Services (7.98%)			
BCE Inc., Preferred, Series 'R', Variable Rate, Perpetual	24,671	445,029	378,700
BCE Inc., Preferred, Series 'T', Variable Rate, Perpetual	6,350	109,813	111,379
BCE Inc., Preferred, Series 'Y', Variable Rate, Perpetual	29,852	593,097	540,620
BCE Inc., Preferred, Series 'Z', Variable Rate, Perpetual	7,162	124,931	132,497
BCE Inc., Preferred, Series 'AA', Variable Rate, Perpetual	59,932	1,116,107	1,048,211
BCE Inc., Preferred, Series 'AB', Variable Rate, Perpetual	18,233	352,522	331,111
BCE Inc., Preferred, Series 'AD', Variable Rate, Perpetual	32,809	592,275	600,733
BCE Inc., Preferred, Series 'AE', Variable Rate, Perpetual	5,821	117,513	105,593

Schedule of Investments (continued)

As at December 31, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
BCE Inc., Preferred, Series 'AF', Variable Rate, Perpetual	32,960	561,140	547,960
BCE Inc., Preferred, Series 'AG', Variable Rate, Perpetual	43,230	809,132	653,205
BCE Inc., Preferred, Series 'AH', Variable Rate, Perpetual	11,000	232,465	202,400
BCE Inc., Preferred, Series 'AI', Variable Rate, Perpetual	32,966	586,462	501,083
BCE Inc., Preferred, Series 'AJ', Floating Rate, Convertible, Perpetual	3,000	60,360	54,390
BCE Inc., Preferred, Series 'AK', Variable Rate, Convertible, Perpetual	16,200	281,458	227,448
BCE Inc., Preferred, Series 'AM', Variable Rate, Perpetual	26,799	433,595	390,193
BCE Inc., Preferred, Series 'AQ', Variable Rate, Convertible, Perpetual	1,953	38,122	37,127
		6,454,021	5,862,650
Industrials (0.31%)			
Element Fleet Management Corp., Preferred, Series 'E', Variable Rate, Perpetual	9,371	225,755	225,466
Consumer Staples (0.01%)			
George Weston Ltd., Preferred, Series 'III', 5.20%, Perpetual	259	6,524	5,162
George Weston Ltd., Preferred, Series 'IV', 5.20%, Perpetual	259	6,483	5,214
George Weston Ltd., Preferred, Series 'V', 4.75%, Perpetual	18	337	341
		13,344	10,717
TOTAL CANADIAN PREFERRED SECURITIES		72,969,003	62,279,681
CANADIAN FIXED INCOME SECURITIES (14.40%)			
Corporate Bonds (14.40%)			
Algonquin Power & Utilities Corp., Callable, 5.25%, 2082/01/18	545,000	534,200	426,055
AltaGas Ltd., Variable Rate, Callable, 5.25%, 2082/01/11	381,000	381,000	310,813
AltaGas Ltd., Variable Rate, Callable, 7.35%, 2082/08/17	375,000	375,000	365,890
Bank of Montreal, Variable Rate, Perpetual, 7.37%, 2027/11/26	190,000	193,895	192,142
Bank of Montreal, Variable Rate, Callable, 5.63%, 2082/05/26	425,000	425,000	396,123
Bank of Montreal, Variable Rate, Callable, 7.33%, 2082/11/26	242,000	243,640	242,136
Bank of Nova Scotia (The), Variable Rate, Perpetual, 4.90%, 2025/06/04	170,000	234,166	221,261
Bank of Nova Scotia (The), Series '1', Variable Rate, Callable, 3.70%, 2081/07/27	250,000	250,000	189,249
Bank of Nova Scotia (The), Variable Rate, Callable, 7.02%, 2082/07/27	339,000	339,000	331,335
Canadian Imperial Bank of Commerce, Variable Rate, Perpetual, 7.37%, 2027/09/28	833,000	833,350	838,110
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 4.00%, 2082/01/28	450,000	438,750	355,184
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 7.15%, 2082/07/28	335,000	334,374	328,885
Capital Power Corp., Variable Rate, Callable, 7.95%, 2082/09/09	355,000	355,000	350,418

Schedule of Investments (continued)

As at December 31, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Enbridge Inc., Variable Rate, Callable, 6.00%, 2077/01/15	20,000	21,218	24,944
Enbridge Inc., Series 'C', Variable Rate, Callable, 6.63%, 2078/04/12	172,000	172,000	165,501
Gibson Energy Inc., Series '20-A', Variable Rate, Callable, 5.25%, 2080/12/22	370,000	374,937	315,303
iA Financial Corp. Inc., Series '22-1', Variable Rate, Callable, 6.61%, 2082/06/30	257,000	257,000	248,160
Inter Pipeline Ltd., Series '19-A', Variable Rate, Callable, 6.88%, 2079/03/26	548,000	548,000	525,135
Keyera Corp., Floating Rate, Callable, 6.88%, 2079/06/13	410,000	410,000	388,354
Laurentian Bank of Canada, Series '1', Variable Rate, Callable, 5.30%, 2081/06/15	350,000	351,750	284,590
Manulife Financial Corp., Variable Rate, Callable, 7.12%, 2082/06/19	490,000	490,000	482,728
National Bank of Canada, Series '1', Variable Rate, Callable, 4.30%, 2080/11/15	195,000	193,635	176,169
National Bank of Canada, Variable Rate, Callable, 7.50%, 2082/11/16	350,000	350,000	346,420
Rogers Communications Inc., Restricted, Variable Rate, Callable, 5.00%, 2081/12/17	1,195,000	1,193,800	1,079,728
Royal Bank of Canada, Series 'BT', Variable Rate, Perpetual, 4.20%, 2027/02/24	1,696,000	1,699,824	1,317,210
Toronto-Dominion Bank (The), Series '27', Variable Rate, Perpetual, 5.75%, 2027/10/01	232,000	232,000	206,066
Toronto-Dominion Bank (The), Variable Rate, Callable, 7.28%, 2082/10/31	481,000	481,388	478,106
		11,712,927	10,586,015
TOTAL CANADIAN FIXED INCOME SECURITIES		11,712,927	10,586,015
DERIVATIVES (0.00%)			
Currency Forwards (0.00%)			
Currency forward contract to buy C\$736,451 for US\$543,904 maturing March 15, 2023		-	405
TOTAL DERIVATIVES		-	405
Transaction Costs		(41,457)	
TOTAL INVESTMENT PORTFOLIO (99.12%)		\$ 84,640,473	\$ 72,866,101
Cash and cash equivalents (0.92%)			677,622
Other assets less liabilities (-0.04%)			(27,670)
TOTAL NET ASSETS (100.00%)			\$ 73,516,053

(See accompanying notes to financial statements)

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

1. REPORTING ENTITY

Horizons Active Hybrid Bond and Preferred Share ETF (*Formerly Horizons Active Floating Rate Preferred Share ETF*) (“HYBR” or the “ETF”) is an investment trust established under the laws of the Province of Ontario by Declaration of Trust and effectively began operations on October 1, 2013. The address of the ETF’s registered office is: c/o Horizons ETFs Management (Canada) Inc., 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7.

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

The investment objective of HYBR is to seek to provide unitholders with a high level of income by investing in a portfolio of debt and other debt-like securities, including but not limited to hybrid corporate debt (“Hybrids”), Alternative Tier 1 Capital (“AT1”), such as limited resource capital notes (“LRCNs”), and income generating equities, including but not limited to preferred securities (fixed-rate perpetual, fixed floating rate, retractable and floating rate), of Canadian and U.S. companies. HYBR may hedge some or all of its non-Canadian dollar currency exposure at the discretion of its Sub-Advisor.

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

Underlying Index, ETF and Ticker Name Changes

Effective at the close of trading on March 3, 2021, there was a change to the ETF’s investment objective. The ETF’s new investment objective is to seek to provide unitholders with a high level of income by investing in a portfolio of debt and other debt-like securities, including but not limited to hybrid corporate debt (“Hybrids”), Alternative Tier 1 Capital (“AT1”) (such as Limited Resource Capital Notes (“LRCNs”)), and income generating equities, including but not limited to preferred securities (fixed-rate perpetual, -fixed floating rate, retractable and floating rate), of Canadian and U.S. companies. The ETF may hedge some or all of its non-Canadian dollar currency exposure at the discretion of the Sub-Advisor.

In addition, based on the implementation of the new investment objective, the Manager changed both the name of the ETF and the ETF’s trading symbol to “Horizons Active Hybrid Bond and Preferred Share ETF” and “HYBR”, respectively, effective March 10, 2021.

2. BASIS OF PREPARATION

(i) Statement of compliance

The 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 units as reported under IFRS.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2022 and 2021

These financial statements were authorized for issue on March 10, 2023, by the Board of Directors of the Manager.

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

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 payments of principal and interests, and business model tests.

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

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

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

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2022 and 2021

(ii) Fair value measurement

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

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

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

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

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

(iii) Offsetting

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

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

(iv) Specific instruments

Cash and cash equivalents

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

Forward foreign exchange contracts

Forward foreign exchange contracts, if any, are valued at the current market value thereof on the Valuation Date. The value of these forward contracts is the gain or loss that would be realized if, on the Valuation Date, the positions were

Notes to Financial Statements (continued)

For the Years Ended December 31, 2022 and 2021

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

Interest rate swaps

Interest rate swaps, if any, are valued at the current market value thereof on the Valuation Date. The value of these interest rate swaps is the gain or loss that would be realized if, on the Valuation Date, the positions were to be closed out and recorded as derivative assets and/or liabilities, plus any amounts relating to accrued income, if applicable, in the statements of financial position, and as a net change in unrealized appreciation (depreciation) of investments and derivatives and interest income for distribution purposes, if applicable, in the statements of comprehensive income. When the interest rate swaps are closed out or mature, realized gains or losses on interest rate swaps are recognized and are included in the statements of comprehensive income.

Redeemable units

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

(b) Investment income

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

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

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

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2022 and 2021

(c) Foreign currency

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

(d) Cost basis

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

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

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

(f) Unitholder transactions

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

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

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

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

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

(i) Transaction costs

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2022 and 2021

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

5. FINANCIAL INSTRUMENTS RISK

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

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

(a) Market risk

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

(i) Currency risk

Currency risk is the risk that financial instruments which are denominated in currencies other than the ETF's reporting currency, the Canadian dollar, will fluctuate due to changes in exchange rates and adversely impact the ETF's income, cash flows or fair values of its investment holdings. The ETF may reduce its foreign currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts. As at December 31, 2022 and 2021, the ETF did not have any material net exposure to foreign currencies due to the ETF's hedging strategies.

(ii) Interest rate risk

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2022 and 2021

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

Investments	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
As at	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
December 31, 2022						
Investments	574	–	–	10,743	62,437	73,754
December 31, 2021						
Investments	725	–	–	5,851	68,403	74,979

The percentage of the ETF's net assets exposed to interest rate risk as at December 31, 2022, was 100.3% (December 31, 2021 – 98.8%). The amount by which the net assets of the ETF would have increased or decreased, as at December 31, 2022, had the prevailing interest rates been lowered or raised by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, was \$2,588,546 (December 31, 2021 – \$2,627,687). The ETF's interest rate sensitivity was determined based on portfolio weighted duration. In practice, actual results may differ from this sensitivity analysis.

(iii) Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. The Manager has implemented internal risk management controls on the ETF which are intended to limit the loss on its trading activities.

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

Comparative Index	December 31, 2022	December 31, 2021
S&P/TSX Preferred Share Index™	\$717,902	\$741,478

(b) Credit risk

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2022 and 2021

Analysis of credit quality

The ETF's credit risk exposure by designated rating of the invested portfolio as at December 31, 2022 and 2021, is listed as follows:

Canadian Securities by Credit Rating	Percentage of Net Asset Value (%)	
	December 31, 2022	December 31, 2021
P-1 - Best credit	–	1.9%
P-2 - Second best credit	0.1%	48.3%
P-3 - Third best credit	8.7%	35.5%
Total	8.8%	85.7%
U.S. Securities by Credit Rating	Percentage of Net Asset Value (%)	
	December 31, 2022	December 31, 2021
AAA	0.8%	1.0%
A	5.0%	–
BBB	66.8%	4.5%
BB	18.4%	7.6%
B	0.4%	–
Total	91.4%	13.1%

Designated ratings are obtained by Standard & Poor's, Moody's and/or Dominion Bond Rating Services. Where more than one rating is obtained for a security, the lowest rating has been used. Credit risk is managed by dealing with counterparties the ETF believes to be creditworthy and by regular monitoring of credit exposures. The maximum exposure to any one debt issuer as of December 31, 2022, was 9.4% (December 31, 2021 – 10.1%) of the net assets of the ETF.

(c) Liquidity risk

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2022 and 2021

6. FAIR VALUE MEASUREMENT

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

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

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following is a summary of the inputs used as at December 31, 2022 and 2021, in valuing the ETF's investments and derivatives carried at fair values:

	December 31, 2022			December 31, 2021		
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
Financial Assets						
Bonds	–	10,586,015	–	–	5,813,859	–
Equities	62,279,681	–	–	68,305,492	–	–
Currency Forward Contracts	–	405	–	–	6,215	–
Total Financial Assets	62,279,681	10,586,420	–	68,305,492	5,820,074	–
Net Financial Assets and Liabilities	62,279,681	10,586,420	–	68,305,492	5,820,074	–

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, 2022 and 2021.

7. SECURITIES LENDING

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2022 and 2021

The aggregate closing market value of securities loaned and collateral received as at December 31, 2022 and 2021, was as follows:

As at	Securities Loaned	Collateral Received
December 31, 2022	\$455,990	\$479,399
December 31, 2021	\$209,987	\$220,661

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

The table below presents a reconciliation of the securities lending income as presented in the statements of comprehensive income for the years ended December 31, 2022 and 2021. It shows the gross amount of securities lending revenues generated from the securities lending transactions of the ETF, less any taxes withheld and amounts earned by parties entitled to receive payments out of the gross amount as part of any securities lending agreements.

For the years ended	December 31, 2022	% of Gross Income	December 31, 2021	% of Gross Income
Gross securities lending income	\$474		\$238	
Withholding taxes	(31)	6.54%	(30)	12.61%
Lending Agents' fees:				
Canadian Imperial Bank of Commerce	(177)	37.34%	(83)	34.87%
Net securities lending income paid to the ETF	\$266	56.12%	\$125	52.52%

8. REDEEMABLE UNITS

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

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

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2022 and 2021

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

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

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

For the years ended December 31, 2022 and 2021, the number of units issued by subscription and/or distribution reinvestment, the number of units redeemed, the total and average number of units outstanding was as follows:

Year	Beginning Units Outstanding	Units Issued	Units Redeemed	Ending Units Outstanding	Average Units Outstanding
2022	7,696,915	3,188,490	(1,325,000)	9,560,405	8,267,587
2021	5,464,531	2,857,384	(625,000)	7,696,915	5,612,966

9. EXPENSES
Management fees

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

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.55%, plus applicable sales taxes, of the net asset value of the ETF's units, calculated and accrued daily and payable monthly in arrears. The Sub-Advisor is compensated for its services out of the management fees without any further cost to the ETF. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

Notes to Financial Statements (continued)

For the Years Ended December 31, 2022 and 2021

Other expenses

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

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

10. BROKER COMMISSIONS, SOFT DOLLARS AND RELATED PARTY TRANSACTIONS

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

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

Brokerage commissions paid to dealers in connection with investment portfolio transactions, soft dollar transactions incurred and amounts paid to related parties of the Manager, if any, for the years ended December 31, 2022 and 2021, were as follow:

Year Ended	Brokerage Commissions Paid	Soft Dollar Transactions	Amount Paid to Related Parties
December 31, 2022	\$25,683	\$1,543	\$nil
December 31, 2021	\$28,100	\$1,124	\$nil

In addition to the information contained in the table above, the management fees paid to the Manager described in note 9 are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statements of comprehensive income. The management fees payable by the ETF as at December 31, 2022 and 2021, are disclosed in the statements of financial position.

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

Notes to Financial Statements (continued)

For the Years Ended December 31, 2022 and 2021

11. INCOME TAX

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

12. TAX LOSSES CARRIED FORWARD

Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years. Non-capital losses carried forward may be applied against future years' taxable income. Non-capital losses that are realized in the current taxation year may be carried forward for 20 years. As at December 31, 2022, the ETF had net capital losses and/or non-capital losses, with the year of expiry of the non-capital losses as follows:

Net Capital Losses	Non-Capital Losses	Year of Expiry of the Non-Capital Losses
\$10,160,304	–	–

13. OFFSETTING OF FINANCIAL INSTRUMENTS

In the normal course of business, the ETF may enter into various master netting arrangements or other similar agreements that do not meet the criteria for offsetting in the statements of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts. The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at December 31, 2022 and 2021. The "Net" column displays what the net impact would be on the ETF's statements of financial position if all amounts were set-off.

Financial Assets and Liabilities as at December 31, 2022	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	405	–	405	–	–	405
Derivative liabilities	–	–	–	–	–	–

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	6,215	–	6,215	–	–	6,215
Derivative liabilities	–	–	–	–	–	–

Notes to Financial Statements (continued)

For the Years Ended December 31, 2022 and 2021

14. INTERESTS IN SUBSIDIARIES, ASSOCIATES AND UNCONSOLIDATED STRUCTURED ENTITIES

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

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

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

Investments in Investee ETFs are susceptible to market price risk arising from uncertainty about future values of those Investee ETFs. The maximum exposure to loss from interests in Investee ETFs is equal to the total fair value of the investment in those respective Investee ETFs at any given point in time. The fair value of Investee ETFs, if any, are disclosed in investments in the statements of financial position and listed in the schedule of investments. As at December 31, 2022 and 2021, the ETF had no exposure to subsidiaries, associates or unconsolidated structured entities.

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