

Annual Report of the Independent Review Committee of the Horizons ETFs Group of Funds

February 28, 2019

IRC Annual Report to Securityholders in the Horizons Exchange Traded Funds (the “Funds”) as listed at the end of this report

Dear Securityholder,

In accordance with National Instrument 81-107 *Independent Review Committee for Investment Funds* (“NI 81-107” or the “Instrument”), the Horizons ETFs Management (Canada) Inc. (the “Manager”) established an Independent Review Committee (the “Committee” or “IRC”) for the Funds in April 2007. As a result of a change in control of the Manager, a new IRC was appointed by the Manager on November 15, 2011. The IRC has functioned in accordance with the applicable securities laws and is composed of three individuals, each of whom is independent of the Funds, the Manager and “each entity related to the Manager” (as such term is defined in the Instrument).

Accordingly, the IRC is pleased to publish its annual report to securityholders, covering the period from January 1, 2018, to December 31, 2018 (the “Reporting Period”).

Mandate of the IRC

In accordance with the Instrument, the mandate of the IRC is to consider and provide decisions to the Manager on conflicts of interest to which the Manager may be subject when managing the Funds. The Manager is required under the Instrument to identify potential conflicts of interest inherent in its management of the Funds, to develop written policies and procedures guiding its management of those conflicts, and to request input from the IRC on those written policies and procedures (referred to as the “Conflict of Interest Matters Manual”)

When a conflict matter arises, the Manager must refer its proposed course of action in respect of such conflict to the IRC for its review. While certain matters require the IRC’s prior approval, in most cases the IRC will simply provide a decision to the Manager as to whether or not, in the opinion of the IRC, the Manager’s proposed action provides a fair and reasonable result for the Funds. For recurring conflict of interest matters, the IRC can provide the Manager with Standing Instructions (“SIs”) that enable the Manager to proceed with certain matters without having to refer them to the IRC each time for approval, provided the Manager deals with the conflicts in accordance with the SIs.

The IRC is empowered to represent the best interests of the Funds in any matter where the Manager has referred a conflict of interest matter to it. In those cases, the IRC has sought to ensure that the Manager’s proposed course of action represents a fair and reasonable result for the Funds.

The IRC has engaged Independent Review Inc. to assist it in its duties in accordance with the provisions of the Instrument and the IRC’s Written Charter, to provide certain administrative and record keeping functions, and also to act as the IRC’s independent Secretariat.

Composition of the IRC

The current members of the IRC, and their principal occupations, are as follows:

| <i>Name and Municipality of Residence</i> | <i>Principal Occupation</i> | <i>Term of Office</i> |
|---|-----------------------------|--|
| Chair: R. Warren Law, Toronto, Ontario | Financial Services Lawyer | Appointed November 15, 2011. Term Renewed: Three years from November 15, 2018 |
| Michael Gratch, Thornhill, Ontario | Portfolio Manager | Appointed November 15, 2011. Term Renewed: Three years from November 15, 2017 |
| Sue Fawcett, Calgary, Alberta | Chartered Financial Analyst | Appointed November 15, 2011. Term Renewed: Three years from November 15, 2016 |

Warren Law was re-appointed on October 16, 2018, for a period of three years with effect from November 15, 2018. The re-appointment extended Mr. Law's total years of service beyond the 6-year term limit set out in the Instrument. However, the Manager has provided its consent to and agreement with the re-appointment beyond the 6-year term limit in accordance with the provisions of the Instrument.

There were no other changes in the composition of the IRC during the Reporting Period.

Compensation and Indemnification

Review of Compensation

At least annually, the IRC reviews its compensation, giving consideration to the following:

- the nature and extent of the workload of each member of the IRC, including the commitment of time and energy expected from each member;
- the number of meetings required by the IRC, including special meetings to consider conflict issues brought to the Committee;
- industry best practices, including industry averages and surveys on IRC compensation; and
- the complexity of the conflict issues brought to the IRC.

Members' Fees

In aggregate, the IRC members were paid \$40,000 in 2018 for the Reporting Period, plus applicable taxes.

Indemnities Granted

The Funds and the Manager have provided each IRC member with a contractual indemnity in keeping with NI 81-107. No payments were paid to the IRC members pursuant to this indemnity by the Funds or the Manager during the Reporting Period.

Disclosure of IRC Members' Holdings

As at December 31, 2018, the IRC members did not beneficially own, directly or indirectly:

- any units in any of the Funds;
- any interests in the Manager; or
- any interests in a company or person that provides services to the Manager or any Fund.

Decisions and Approvals

On April 23, 2018, the Manager proposed changing the underlying index of the Horizons Robotics and Automation Index ETF (the "ETF") from the ROBO Global Robotics and Automation Index to the Global Robotics & Artificial Intelligence Thematic Index. After reasonable enquiry and based on the information provided to the IRC by the Manager (both verbally and in writing) the IRC **RESOLVED** that based upon the review of the information provided to the IRC by the Manager and the answers to the questions asked by the IRC, the Committee concluded that the Manager's proposed course of action to change the underlying index achieved a fair and reasonable result for the ETF.

There were no other decisions or approvals requested by the Manager during the Reporting Period.

Standing Instructions ("SI") Approved

A Standing Instruction constitutes a written approval or decision in each case from the IRC that permits the Manager to proceed with the specific action(s) set out in the SIs on an ongoing basis, without having to refer the conflict of interest matter or its proposed action to the IRC, provided that the Manager complies with the terms and conditions of the SI. In each case, the SI required the Manager to comply with its related policy and procedures and to report periodically to the IRC.

Standing Instruction Number 1: *Allocating Operating Expenses to the Funds*

Standing Instruction Number 2: *Transactions in Debt Securities of Related Issuers*

Standing Instruction Number 3: *Use of Mirae Asset Securities and/or its Affiliates as Executing Broker and/or Derivatives Counterparty*

Standing Instruction Number 4: *Use of Index Funds as Collateral*

Standing Instruction Number 5: *Ownership of Index Funds Following Settlement of Prepaid Share Basket Forwards*

Standing Instruction Number 6: *Allocation of Counterparty Exposure*

Manager's Report on its Standing Instruction

In accordance with the Instrument, the Manager provided a written report to the IRC describing its reliance on the SIs during the Reporting Period.

The Annual Report to Securityholders is available on the Manager's website at www.horizonsetfs.com or you may request a copy, at no cost to you, by contacting Horizons Exchange Traded Funds at 416.933.5745 or Toll Free at 1.866.641.5739, or by email at info@horizonsetfs.com. This document and other information about Horizons Exchange Traded Funds are available on www.sedar.com.

Yours truly,

“Warren Law”

Warren Law, Chair

Horizons ETFs Group IRC

Funds served by the IRC during the Reporting Period

LIST OF FUNDS AS AT DECEMBER 31, 2018

| | |
|---|---|
| Horizons Active Corporate Bond ETF | BetaPro Gold Bullion 2x Daily Bull ETF |
| Horizons Active Cdn Bond ETF | BetaPro Gold Bullion -2x Daily Bear ETF |
| Horizons Seasonal Rotation ETF | BetaPro Silver 2x Daily Bull ETF |
| Horizons Active Global Fixed Income ETF | BetaPro Silver -2x Daily Bear ETF |
| Horizons Active Intl Developed Markets Equity ETF | BetaPro Crude Oil 2x Daily Bull ETF |
| Horizons Active Emerging Markets Dividend ETF | BetaPro Crude Oil -2x Daily Bear ETF |
| Horizons Active Cdn Dividend ETF | BetaPro Natural Gas 2x Daily Bull ETF |
| Horizons Active US Dividend ETF | BetaPro Natural Gas -2x Daily Bear ETF |
| Horizons Active Global Dividend ETF | BetaPro S&P/TSX 60™ 2x Daily Bull ETF |
| Horizons S&P/TSX 60 Equal Weight Index ETF | BetaPro S&P/TSX 60™ -2x Daily Bear ETF |
| Horizons Active Preferred Share ETF | BetaPro S&P/TSX Capped Financials™ 2x Daily Bull ETF |
| Horizons Active Floating Rate Preferred Share ETF | BetaPro S&P/TSX Capped Financials™ -2x Daily Bear ETF |
| Horizons Active Floating Rate Bond ETF | BetaPro S&P/TSX Capped Energy™ 2x Daily Bull ETF |
| Horizons Active US Floating Rate Bond (USD) ETF | BetaPro S&P/TSX Capped Energy™ -2x Daily Bear ETF |
| Horizons Active Floating Rate Senior Loan ETF | BetaPro Canadian Gold Miners 2x Daily Bull ETF |
| Horizons Active High Yield Bond ETF | BetaPro Canadian Gold Miners -2x Daily Bear ETF |
| Horizons Managed Global Opportunities ETF | BetaPro S&P 500® 2x Daily Bull ETF |
| Horizons Active Cdn Municipal Bond ETF | BetaPro S&P 500® -2x Daily Bear ETF |
| Horizons Global Currency Opportunities ETF | BetaPro NASDAQ-100® 2x Daily Bull ETF |
| Horizons Global Risk Parity ETF | BetaPro NASDAQ-100® -2x Daily Bear ETF |
| Horizons Absolute Return Global Currency ETF | BetaPro S&P/TSX 60™ Daily Inverse ETF |
| Horizons Active A.I. Global Equity ETF | BetaPro S&P 500® Daily Inverse ETF |
| Horizons Active Emerging Markets Bond ETF | Horizons Gold ETF |
| Horizons Balanced TRI ETF Portfolio | Horizons Silver ETF |
| Horizons Conservative TRI ETF Portfolio | Horizons Crude Oil ETF |
| Horizons Enhanced Income Equity ETF | Horizons Natural Gas ETF |
| Horizons Enhanced Income Energy ETF | BetaPro S&P 500 VIX Short-Term Futures™ ETF |
| Horizons Enhanced Income Gold Producers ETF | Horizons S&P/TSX 60™ Index ETF |

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| Horizons Enhanced Income Financials ETF | | Horizons S&P 500® Index ETF |
| Horizons Enhanced Income International Equity ETF | | Horizons S&P/TSX Capped Energy Index ETF |
| Horizons Enhanced Income US Equity (USD) ETF | | Horizons S&P/TSX Capped Financials Index ETF |
| Horizons Gold Yield ETF | | Horizons Cdn Select Universe Bond ETF |
| Horizons Natural Gas Yield ETF | | Horizons US 7-10 Year Treasury Bond ETF |
| Horizons Morningstar Hedge Fund Index ETF | | Horizons Cdn High Dividend Index ETF |
| <i>HAP Nexus Hedge Fund Replication Trust</i> | | Horizons NASDAQ-100® Index ETF |
| Horizons US Dollar Currency ETF | | Horizons S&P 500 CAD Hedged Index ETF |
| Horizons Canadian Midstream Oil & Gas Index ETF | | Horizons US 7-10 Year Treasury Bond CAD Hedged ETF |
| Horizons Cdn Insider Index ETF | | Horizons EURO STOXX 50 Index ETF |
| Horizons China High Dividend Yield Index ETF | | Horizons Intl Developed Markets Equity Index ETF |
| Horizons Canadian Dollar Currency ETF | | Horizons Auspice Managed Futures Index ETF |
| Horizons Marijuana Life Sciences Index ETF | | |
| Horizons Emerging Marijuana Growers Index ETF | | |
| Horizons Inoventor Canadian Equity Index ETF | | |
| Horizons Robotics and Automation Index ETF | | |
| Horizons Blockchain Technology & Hardware Index ETF | | |
| Horizons Global Sustainability Leaders Index ETF | | |
| Horizons Industry 4.0 Index ETF | | |
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Schedule of IRC Members who sit on IRCs for other Fund Families

Warren Law serves as a member of the Independent Review Committees for the following funds:

Investment funds that are reporting issuers managed by Auspice Capital Advisors Ltd.;

Investment Funds that are reporting issuers managed by Foresters Financial Investment Corporation of Canada Inc.;

Investment funds that are reporting issuers managed by Hamilton Capital Partners Inc.; and

Investment funds that are reporting issuers managed by Manulife Asset Management Limited.

Sue Fawcett serves as a member of the Independent Review Committees for the following funds:

Investment funds that are reporting issuers managed by the Auspice Capital Advisors Ltd.;

Investment funds that are reporting issuers managed by Hamilton Capital Partners Inc.; and

Investment funds that are reporting issuers managed by Willoughby Asset Management Inc.

Michael Gratch serves as a member of the Independent Review Committees for the following funds:

Investment funds that are reporting issuers managed by the Auspice Capital Advisors Ltd.