Annual Report | December 31, 2018

Horizons Emerging Marijuana Growers Index ETF (HMJR:NEO)

HORIZONS EXCHANGE TRADED FUNDS

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Letter from the President and CEO:

For both Horizons ETFs and the Canadian ETF industry, 2018 marked another great year. The industry surpassed $157 billion in assets under management ("AUM") and now has more than 770 ETF listings. Meanwhile, we launched seven new ETFs, giving us a total of 85 different investment tools available for our clients – and ended the year with $9.9 billion in AUM.

In keeping with our mandate of bringing highly innovative ETF solutions to Canadian investors, we continued to focus on the future by expanding our lineup of thematic, technology-focused ETFs. Along with our existing robotics and artificial intelligence solutions, in 2018 we introduced the Horizons Blockchain Technology & Hardware Index ETF ("BKCH"), as well as the Horizons Industry 4.0 Index ETF ("FOUR").

In 2018, we carried on our tradition of bringing first-of-their-kind ETFs to market in Canada, including the Horizons Conservative TRI ETF Portfolio ("HCON") and the Horizons Balanced TRI ETF Portfolio ("HBAL"). These one-ticket ETF solutions are designed to provide instant diversification and tax-efficient returns for investors. We also launched Canada's first actively managed emerging markets bond ETF – as well as our first socially responsible investing ETF.

This was also a very intriguing year in the cannabis investing space. To complement the world's first and largest marijuana ETF: the Horizons Marijuana Life Sciences Index ETF ("HMMJ"), we introduced a small-cap marijuana ETF – the Horizons Emerging Marijuana Growers Index ETF ("HMJR"). In early September, we saw HMMJ's AUM surpass the $1 billion threshold due to the impending legalization of recreational marijuana in October.

Along with expanding our offerings, we recently lowered the management fees on six of our existing actively managed ETFs – giving unitholders in these funds the opportunity to keep more of their investment dollars.

Regardless of the direction of markets or interest rates, we have ETF solutions that allow investors of all types to customize their portfolio exposure. Markets do change, sometimes quickly, and our family of ETFs gives investors the tools they need to help meet their objectives. For information on all our strategies, please visit our website at www.HorizonsETFs.com where we offer a range of resources designed to help you become a more educated ETF investor.

Thank you for your continued support and wishing you strong returns in 2019.

Steven J. Hawkins, President & CEO
Horizons ETFs Management (Canada) Inc.

PS: I would like to take this opportunity to thank the dedicated team of professionals that I work with here at Horizons ETFs. My recognition as CEO of the Year at the 2018 Wealth Professional Awards is a testament to their tremendous talent and passion for ETFs.

MANAGEMENT REPORT OF FUND PERFORMANCE

This annual management report of fund performance for Horizons Emerging Marijuana Growers Index ETF ("HMJR" 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 investment fund's unaudited interim or audited annual financial statements, interim or annual management report of fund performance, current proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosures, at no cost 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, Ontario, M5J 2H7, 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 Strategy

HMJR seeks to replicate, to the extent possible, the performance of the Emerging Marijuana Growers Index (the "Underlying Index", Bloomberg ticker: EMMAR), net of expenses. The Underlying Index is designed to provide exposure to the performance of a basket of primarily North American publicly-listed small-capitalization companies primarily involved in the cultivation, production, and/or distribution of marijuana.

To achieve its investment objectives, HMJR invests and holds the equity securities of the constituent issuers of the Underlying Index (the "Constituent Issuers") in substantially the same proportion as its Underlying Index.

The Underlying Index is designed to provide exposure to the performance of the securities of a basket of primarily North American publicly-listed small-capitalization companies primarily involved in the cultivation, production, and/or distribution of marijuana. Constituents of the Underlying Index are selected from primarily the North American senior and junior exchanges as well as global exchanges that support the success of early-stage public companies. While some securities may be listed on the Toronto Stock Exchange (the "TSX"), New York Stock Exchange, or Nasdaq Global Market, many of these securities may trade on North American or global junior exchanges that include but are not limited to the TSX Venture Exchange, the Canadian Securities Exchange and the Nasdaq Capital Market.

The Underlying Index is a market capitalization-weighted subset of the growing universe of medical and recreational marijuana companies being listed on North American and global exchanges. For a security to be eligible for the

Management Discussion of Fund Performance (continued)

Underlying Index, the issuer generally needs to have a market capitalization of greater than $50 million, and less than $500 million for initial index inclusion (and up to a maximum of $750 million in market capitalization at the time of rebalancing for that Constituent Issuer thereafter). Non-North American issuers may represent up to 20% of the Underlying Index.

The Underlying Index is ordinarily rebalanced on a quarterly basis on the 14th and 15th business days of March, June, September and December (the "Rebalancing Dates"). The Constituent Issuers of the Underlying Index are market capitalization-weighted on the Rebalancing Dates, subject to a cap for each Constituent Issuer of a maximum of 8% of the net asset value of HMJR on the Rebalancing Dates, with the remainder of the Constituent Issuers' weights to be increased proportionately.

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: high.

Risk ratings are determined based on the historical volatility of the ETF as measured by the standard deviation of its performance against its mean. The risk categorization of the ETF may change over time and historical volatility is not indicative of future volatility. Generally, a risk rating is assigned to the ETF based on a rolling 10-year standard deviation of its returns, the return of 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 calling Horizons ETFs Management (Canada) Inc. directly via the contact information on the back page of this document.

- Stock market risk
- Specific issuer risk
- Sector concentration risk
- Marijuana sector risk
- Regulation of marijuana in Canada risk
- Specific risks associated with the marijuana industry in the United States
- Risk that marijuana laws may be subject to change
- United States anti-money laundering laws and regulations risk
- Investments in the United States may be subject to heightened scrutiny
- U.S. border officials could deny entry into the U.S.
- Risks of transacting on smaller exchanges
- Currency price fluctuations
- Underlying Index risk
- Passive index risk
- Index replication risk
- Sampling risk
- Underlying investment funds risk
- General regulatory risk
- Reliance on historical data risk
- Liquidity risk
- Risk that units will trade at prices other than the net asset value per unit
- Corresponding net asset value risk
- Designated broker/dealer risk
- Cease trading of securities risk
- Exchange risk
- Early closing risk

Management Discussion of Fund Performance (continued)

- No assurance of meeting investment objective
- Tax related risks
- Risks relating to tax changes
- Foreign stock exchange risk
- Securities lending, repurchase and reverse repurchase transaction risk
- Liability of unitholders
- No operating history
- Reliance on key personnel

Results of Operations

For the period from when the ETF effectively began operations on February 13, 2018, to December 31, 2018, units of the ETF returned -44.17%, when including distributions paid to unitholders. By comparison, the Underlying Index returned -45.41% for the same period. Differences in performance between the ETF and the Underlying Index may arise due to the stratified sampling method of index replication, expenses payable by the ETF, which include management fees plus applicable sales taxes, as well as the potential for tracking error arising from the physical index replication risk detailed in the ETF's prospectus.

Key Industry Developments

The year 2018 marked the historic legalization of recreational marijuana in Canada, as it became only the second nation in the world to legalize recreational cannabis use and the first G-7 country to do so. The Canadian federal government announced October 17, 2018 as the date on which the Cannabis Act (the "Act") came into force. The Act was passed by the Senate on June 19, 2018, and on June 21, Bill C-45 received royal assent. Provinces and Territories have already established individual laws for the legal distribution of marijuana within their borders, choosing between private, licensed, and government-run storefronts, as well as set their legal age requirements and established regulations about public and private use.

This past year also marked an important year of liberalization of marijuana-related regulations in the United States. The U.S. saw the end of hemp prohibition, rollout of recreational legalization in key markets such as California and huge wins on during the U.S. mid-term elections for state-legal cannabis and medical marijuana initiatives.

For the period ended December 31, 2018, the top performers in the Underlying Index were TerrAscend Corp., Elixinol Global Ltd., and MPX Bioceutical Corp, gaining 84.76%, 83.15%% and 7.32%, respectively. The worst performers in the Underlying Index for the period were Benchmark Botanics Inc., Heritage Cannabis Holdings Corp., and Vivo Cannabis Inc., returning -84.69%, -75.37% and -73.21%, respectively.

In general, smaller-cap Marijuana stock returns were much more volatile than the larger names in the sector which seemed to attract much more investor interest. In many ways this has created a large gap between the valuations of the stocks with smaller market-capitalizations versus the more established names. This could potentially lead to consolidation within the sector as larger players look to increase the production and distribution capacity.

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

Management Discussion of Fund Performance (continued)

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

For the period from when the ETF effectively began operations on February 13, 2018 to December 31, 2018, the ETF generated gross comprehensive income (loss) from investments and derivatives (which includes changes in the fair value of the ETF's portfolio) of ($6,146,170). The ETF incurred management, operating and transaction expenses of $350,529 of which $85,965 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 $149,326 to unitholders during the period.

Presentation

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

Recent Developments

There have been no recent market developments of particular note, aside from the normal fluctuations of the markets, that are expected to have an undue influence on the portfolio of the ETF when compared to its benchmark.

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. Horizons Management is a member of the Mirae Asset Financial Group based in Seoul, South Korea.

Any management fees paid to the Manager (described in detail on page 7) 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 statement of comprehensive income in the attached financial statements of the ETF. The management fees payable by the ETF as at December 31, 2018, are disclosed in the statement of financial position.

Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance since the effective start of its operations on February 13, 2018. This information is derived from the ETF's audited annual financial statements and the current unaudited interim 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

Period (1)		**2018**
Net assets, beginning of period	$	10.00
Decrease from operations:		
Total revenue		0.19
Total expenses		(0.18)
Realized losses for the period		(2.10)
Unrealized losses for the period		(2.31)
Total decrease from operations (2)		(4.40)
Distributions:		
From net investment income (excluding dividends)		(0.10)
Total annual distributions (3)		(0.10)
Net assets, end of period (4)	$	5.52

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.
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

Period [1]		2018
Total net asset value (000's)	$	7,865
Number of units outstanding (000's)		1,425
Management expense ratio [2]		1.00%
Management expense ratio before waivers and absorptions [3]		1.84%
Trading expense ratio [4]		1.59%
Portfolio turnover rate [5]		109.30%
Net asset value per unit, end of period	$	5.52
Closing market price	$	5.55

1. This information is provided as at December 31, 2018.
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 period. Out of its management fees, the Manager pays for such services as investment manager compensation, administration, service fees 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 period.
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 grater 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 an ETF.

Financial Highlights (continued)

Management Fees

The Manager provides, or oversees the provision of, administrative services required by the ETF including, but not limited to: negotiating contracts with certain third-party service providers, including, but not limited to, investment managers, counterparties, custodians, registrars, transfer agents, valuation agents, designated brokers, dealers, auditors and printers; authorizing the payment of operating expenses incurred on behalf of the ETF; ensuring the maintenance of accounting records for the ETF; preparing the reports to unitholders of the ETF 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 of the ETF 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 such ETF under applicable securities laws; administering purchases, redemptions and other transactions in units of the ETF; and dealing and communicating with unitholders of the ETFs. 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 strategy of the ETF to ensure that the ETF complies with its investment objective, 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 0.85%, plus applicable sales taxes, of the net asset value of the ETF's units, calculated and accrued daily and payable monthly in arrears. 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 period.

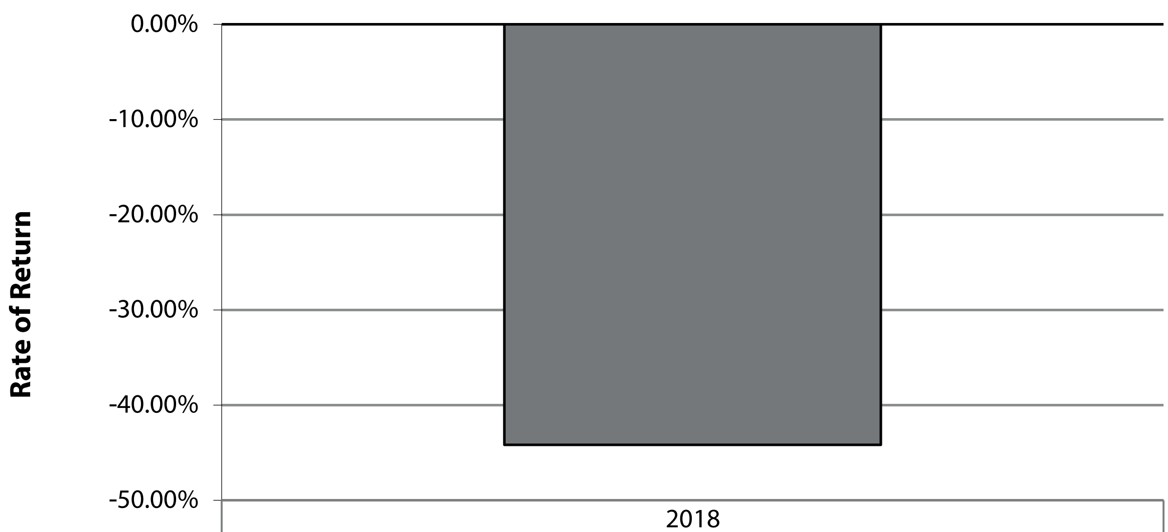
Marketing	Portfolio management fees, general administrative costs and profit	Waived/absorbed expenses of the ETF
5%	6%	89%

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 period shown. 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.



	2018
HMJR	-44.17%

The ETF effectively began operations on February 13, 2018.

Past Performance (continued)

Annual Compound Returns

The following table presents the ETF's total return for the period since inception to December 31, 2018 compared with the ETF's applicable benchmark. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the ETF or future returns on investments in the ETF.

	Since Inception
Horizons Emerging Marijuana Growers Index ETF	-44.17%
Emerging Marijuana Growers Index	-45.41%

The ETF effectively began operations on February 13, 2018.

Summary of Investment Portfolio

As at December 31, 2018

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
Canadian Equities	$ 6,838,963	86.95%
Global Equities	506,136	6.44%
United States Equities	204,000	2.59%
Cash and Cash Equivalents	306,229	3.89%
Other Assets less Liabilities	10,007	0.13%
	$ 7,865,335	**100.00%**

Sector Mix	Net Asset Value	% of ETF's Net Asset Value
Health Care	$ 5,766,654	73.32%
Life Sciences	1,693,845	21.53%
Consumer Staples	88,600	1.13%
Cash and Cash Equivalents	306,229	3.89%
Other Assets less Liabilities	10,007	0.13%
	$ 7,865,335	**100.00%**

Summary of Investment Portfolio (continued)

As at December 31, 2018

Top 25 Holdings	% of ETF's Net Asset Value
TerrAscend Corp.	7.55%
Emerald Health Therapeutics Inc.	6.08%
Harvest Health & Recreation Inc.	5.89%
Supreme Cannabis Co. Inc. (The)	5.60%
MPX Bioceutical Corp.	5.34%
Liberty Health Sciences Inc.	5.03%
FSD Pharma Inc.	4.75%
Cash and Cash Equivalents	3.89%
Neptune Wellness Solutions Inc.	3.87%
Vivo Cannabis Inc.	3.73%
Cann Group Ltd.	3.51%
Aleafia Health Inc.	3.26%
Newstrike Brands Ltd.	3.14%
MariCann Group Inc.	2.96%
Planet 13 Holdings Inc.	2.59%
WeedMD Inc.	2.29%
Emblem Corp.	1.84%
Delta 9 Cannabis Inc.	1.71%
Sunniva Inc.	1.70%
AusCann Group Holdings Ltd.	1.62%
Valens GroWorks Corp.	1.61%
Invictus MD Strategies Corp.	1.51%
Trulieve Cannabis Corp.	1.47%
Choom Holdings Inc.	1.33%
Elixinol Global Ltd.	1.31%

The summary of investment portfolio may change due to the ongoing portfolio transactions of the ETF. The most recent financial statements are available at no cost by calling toll free 1-866-641-5739, or (416) 933-5745, by writing to us at 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 Emerging Marijuana Growers Index ETF (the "ETF") are the responsibility of the manager and the trustee to the ETF, Horizons ETFs Management (Canada) Inc. (the "Manager"). They have been prepared in accordance with International Financial Reporting Standards using information available and include certain amounts that are based on the Manager's best estimates and judgements.

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

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

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

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Horizons Emerging Marijuana Growers Index ETF (the "ETF")

Opinion

We have audited the financial statements of the ETF, which comprise the statement of financial position as at December 31, 2018, the statements of comprehensive income, changes in financial position and cash flows for the period from inception on February 5, 2018 to December 31, 2018, 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, 2018, and its financial performance and its cash flows for the period from inception on February 5, 2018 to December 31, 2018 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the ETF in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in the Management Report of Fund Performance filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the Management Report of Fund Performance filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ETF's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ETF's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the ETF to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
The engagement partner on the audit resulting in this auditors' report is Paritosh Gambhir.
Toronto, Canada
March 13, 2019

Statement of Financial Position

As at December 31,

		2018
Assets		
Cash and cash equivalents	$	306,229
Investments		7,549,099
Amounts receivable relating to accrued income		39,856
Amounts receivable relating to portfolio assets sold		126,774
Total assets		**8,021,958**
Liabilities		
Accrued management fees		6,418
Accrued operating expenses		4,701
Amounts payable for portfolio assets purchased		128,860
Distribution payable		16,644
Total liabilities		**156,623**
Total net assets (note 2)	**$**	**7,865,335**
Number of redeemable units outstanding (note 8)		1,425,001
Total net assets per unit	$	5.52

(See accompanying notes to financial statements)

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

Steven J. Hawkins
Director

Peter Lee
Director

Statement of Comprehensive Income

For the Period from Inception on February 5 to December 31, 2018

		2018
Income		
Securities lending income (note 7)	$	279,605
Net realized loss on sale of investments and derivatives		(3,074,959)
Net realized gain on foreign exchange		12,034
Net change in unrealized depreciation of investments and derivatives		(3,362,968)
Net change in unrealized appreciation of foreign exchange		118
		(6,146,170)
Expenses (note 9)		
Management fees		96,668
Audit fees		3,490
Independent Review Committee fees		379
Custodial and fund valuation fees		24,575
Legal fees		33,900
Securityholder reporting costs		11,704
Administration fees		17,076
Transaction costs		162,708
Other expenses		29
		350,529
Amounts that were payable by the investment fund that were paid or absorbed by the Manager		(85,965)
		264,564
Decrease in net assets for the period	**$**	**(6,410,734)**
Decrease in net assets per unit	$	(4.40)

(See accompanying notes to financial statements)

Statement of Changes in Financial Position

For the Period from Inception on February 5 to December 31, 2018

		2018
Total net assets at the beginning of the period	$	–
Decrease in net assets		(6,410,734)
Redeemable unit transactions		
Proceeds from the issuance of securities of the investment fund		15,195,915
Aggregate amounts paid on redemption of securities of the investment fund		(770,520)
Distributions:		
From net investment income		(149,318)
Return of capital		(8)
Total net assets at the end of the period	**$**	**7,865,335**

(See accompanying notes to financial statements)

Statement of Cash Flows

For the Period from Inception on February 5 to December 31, 2018

		2018
Cash flows from operating activities:		
Decrease in net assets for the period	$	(6,410,734)
Adjustments for:		
Net realized loss on sale of investments and derivatives		3,074,959
Net change in unrealized depreciation of investments and derivatives		3,362,968
Net change in unrealized appreciation of foreign exchange		(119)
Purchase of investments		(26,232,410)
Proceeds from the sale of investments		11,477,473
Amounts receivable relating to accrued income		(39,856)
Accrued expenses		11,119
Net cash used in operating activities		**(14,756,600)**
Cash flows from financing activities:		
Amount received from the issuance of units		15,195,915
Amount paid on redemptions of units		(523)
Distributions paid to unitholders		(132,682)
Net cash from financing activities		**15,062,710**
Net increase in cash and cash equivalents during the period		306,110
Effect of exchange rate fluctuations on cash and cash equivalents		119
Cash and cash equivalents at beginning of period		–
Cash and cash equivalents at end of period	**$**	**306,229**

(See accompanying notes to financial statements)

Schedule of Investments

As at December 31, 2018

Security	Shares	Average Cost	Fair Value
CANADIAN EQUITIES (86.95%)			
Health Care (64.29%)			
1993 Industries Inc.	291,031	$ 146,187	$ 98,951
48North Cannabis Corp.	147,944	104,360	91,725
Aleafia Health Inc.	179,084	370,639	256,090
Ascent Industries Corp.	347,726	260,697	66,068
Beleave Inc.	709,093	219,340	70,909
Benchmark Botanics Inc.	169,321	251,787	41,484
Biome Grow Inc.	77,000	53,321	53,130
Chemesis International Inc.	74,987	116,202	73,487
Choom Holdings Inc.	245,777	283,069	104,455
Eve & Co Inc.	302,000	74,018	72,480
FSD Pharma Inc.	1,311,000	375,130	373,635
GTEC Holdings Ltd.	103,000	51,425	50,470
Harvest Health & Recreation Inc.	64,300	376,575	462,960
Heritage Cannabis Holdings Corp.	357,000	57,956	58,905
Invictus MD Strategies Corp.	150,779	248,238	119,116
James E. Wagner Cultivation Corp.	104,293	122,734	73,005
Khiron Life Sciences Corp.	64,426	105,804	98,572
Liberty Health Sciences Inc.	429,956	410,758	395,560
MPX Bioceutical Corp.	476,982	407,155	419,744
Natures Hemp Corp.	104,113	–	1,041
Neptune Wellness Solutions Inc.	88,000	309,984	304,480
Newstrike Brands Ltd.	633,101	419,755	246,909
Nutritional High International Inc.	370,442	185,839	98,167
Rubicon Organics Inc.	42,500	73,503	80,325
Sproutly Canada Inc.	202,082	147,964	81,843
Sunniva Inc.	40,438	227,009	133,445
TerrAscend Corp.	102,064	400,244	594,013
Trulieve Cannabis Corp.	10,500	99,252	115,500
Valens GroWorks Corp.	84,060	189,598	126,931
Vivo Cannabis Inc.	412,842	854,429	293,118
		6,942,972	5,056,518
Life Sciences (21.53%)			
Delta 9 Cannabis Inc.	110,418	217,395	134,710
Emblem Corp.	158,754	249,794	144,466
Emerald Health Therapeutics Inc.	169,000	382,868	478,270
Harvest One Cannabis Inc.	212,381	217,824	82,828
MariCann Group Inc.	252,890	760,676	232,659
Supreme Cannabis Co. Inc. (The)	333,994	572,300	440,872
WeedMD Inc.	137,435	290,797	180,040
		2,691,654	1,693,845

Schedule of Investments (continued)

As at December 31, 2018

Security	Shares	Average Cost	Fair Value
Consumer Staples (1.13%)			
Hempco Food and Fiber Inc.	83,054	115,813	87,207
Poda Technologies Inc., Class 'A'	139,320	–	1,393
		115,813	88,600
TOTAL CANADIAN EQUITIES		**9,750,439**	**6,838,963**
GLOBAL EQUITIES (6.44%)			
Health Care (6.44%)			
AusCann Group Holdings Ltd.	229,866	324,523	127,095
Cann Group Ltd.	139,847	419,705	275,671
Elixinol Global Ltd.	43,000	102,299	103,370
		846,527	506,136
TOTAL GLOBAL EQUITIES		**846,527**	**506,136**
UNITED STATES EQUITIES (2.59%)			
Health Care (2.59%)			
Planet 13 Holdings Inc.	136,913	353,366	204,000
TOTAL UNITED STATES EQUITIES		**353,366**	**204,000**
Transaction costs		(38,265)	
TOTAL INVESTMENT PORTFOLIO (95.98%)		**$ 10,912,067**	**$ 7,549,099**
Cash and cash equivalents (3.89%)			306,229
Other assets less liabilities (0.13%)			10,007
TOTAL NET ASSETS (100.00%)			**$ 7,865,335**

(See accompanying notes to financial statements)

Notes to Financial Statements

For the Period from Inception on February 5 to December 31, 2018

1. REPORTING ENTITY

Horizons Emerging Marijuana Growers Index ETF ("HMJR" or the "ETF") is an investment trust established under the laws of the Province of Ontario by Declaration of Trust and effectively began operations on February 13, 2018. 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 A units which trade on the Aequitas Exchange Connect ("NEO") under the symbol HMJR. An investor may buy or sell units of the ETF on the NEO 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 NEO, including by using market orders and limit orders and may incur customary brokerage commissions when buying or selling units.

HMJR seeks to replicate, to the extent possible, the performance of the Emerging Marijuana Growers Index (the "Underlying Index", Bloomberg ticker: EMMAR), net of expenses. The Underlying Index is designed to provide exposure to the performance of a basket of primarily North American publicly-listed small-capitalization companies primarily involved in the cultivation, production, and/or distribution of marijuana.

Horizons ETFs Management (Canada) Inc. is the manager, investment manager and trustee of the ETF ("Horizons Management" or the "Manager" or the "Investment Manager"). The Investment Manager is responsible for implementing the ETF's investment strategies.

2. BASIS OF PREPARATION

(i) Statement of compliance

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

These financial statements were authorized for issue on March 13, 2019, 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 though profit or loss, which are measured at fair value.

(iii) Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Notes to Financial Statements (continued)

For the Period from Inception on February 5 to December 31, 2018

(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 on financial assets and hedge accounting.

This standard requires assets to be classified based on the ETF's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. The standard includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit and 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-sale 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 statement 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 fair value through profit or loss: debt securities, equity investments and derivative financial instruments
- Financial assets at amortized cost: All other financial assets
- Financial liabilities classified at fair value through profit or loss: derivative financial instruments and securities sold short, if any
- Financial liabilities at amortized cost: all other financial liabilities

(ii) Fair value measurement

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

Investments are valued at fair value as of the close of business on each day upon which a session of the NEO 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 statement 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 statement 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 fair value through profit or loss and foreign exchange gains and losses.

(iv) Specific instruments

Cash and cash equivalents

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

Forward foreign exchange contracts

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

Redeemable units

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

Notes to Financial Statements (continued)

For the Period from Inception on February 5 to December 31, 2018

(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 statement of comprehensive income as part of the net change in unrealized appreciation (depreciation) of investments and derivatives. Interest income for distribution purposes from investments in bonds and short-term investments, if any, represents the coupon interest received by the ETF accounted for on an accrual basis. Dividend income, if any, is recognized on the ex-dividend date. Distribution income from investments in other funds or ETFs, if any, is recognized when earned.

Income from derivatives is shown in the statement 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 statement 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 statement of comprehensive income.

(c) Foreign currency

Transactions in foreign currencies, if any, are translated into the ETF's reporting currency using the exchange rate prevailing on the trade date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the period-end exchange rate. Foreign exchange gains and losses 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 statement 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 statement 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 period. For management fees please refer to note 9.

(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 Valuation Date. Amounts received on the issuance of units and amounts paid on the redemption of units are included in the statement of changes in financial position.

Notes to Financial Statements (continued)

For the Period from Inception on February 5 to December 31, 2018

(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 transfer taxes and duties. Transaction costs are expensed and are included in "Transaction costs" in the statement of comprehensive income.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The 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 an analysis of how they are managed 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 following table indicates the foreign currencies to which the ETF had significant exposure as at December 31, 2018, in Canadian dollar terms and the potential impact on the ETF's net assets (including the underlying principal amount of future or forward currency contracts, if any), as a result of a 1% change in these currencies relative to the Canadian dollar:

December 31, 2018	Financial Instruments	Currency Forward and/or Futures Contracts	Total	Impact on Net Asset Value
Currency	($000's)	($000's)	($000's)	($000's)
Australian Dollar	624	–	624	6
Total	624	–	624	6
As % of Net Asset Value	7.9%	–	7.9%	0.1%

(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 and other investments with less than one year to maturity invested at short-term market rates since those securities are usually held to maturity and are short term in nature. As at December 31, 2018, the ETF did not hold any long-term debt instruments to which it would have interest rate risk exposure.

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

For the period from when the ETF effectively began operations on February 13, 2018 to December 31, 2018, units of the ETF returned -44.17%, when including distributions paid to unitholders. By comparison, the Underlying Index returned -45.41% for the same period. Differences in performance between the ETF and the Underlying Index may arise due to the stratified sampling method of index replication, expenses payable by the ETF, which include management fees plus applicable sales taxes, as well as the potential for tracking error arising from the physical index replication risk detailed in the ETF's prospectus.

Notes to Financial Statements (continued)

For the Period from Inception on February 5 to December 31, 2018

(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 market value of debt instruments and derivatives, includes consideration of the credit worthiness of the issuer, and accordingly, represents the maximum credit exposure of the ETF. As at December 31, 2018, due to the nature of its portfolio investments, the ETF did not have any material credit exposure.

(c) Liquidity risk

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

6. FAIR VALUE MEASUREMENT

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

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

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following is a summary of the inputs used as at December 31, 2018, in valuing the ETF's investments and derivatives carried at fair value:

	December 31, 2018		
	Level 1 ($)	**Level 2 ($)**	**Level 3 ($)**
Financial Assets			
Equities	7,546,665	2,434	–
Total Financial Assets	**7,546,665**	**2,434**	**–**
Total Financial Liabilities	**–**	**–**	**–**
Net Financial Assets & Liabilities	**7,546,665**	**2,434**	**–**

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 period indicated. In addition, there were no investments or transactions classified in Level 3 for the period ended December 31, 2018.

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 period is disclosed in the ETF's statement of comprehensive income.

The aggregate closing market value of securities loaned and collateral received as at December 31, 2018, was as follows:

As at	Securities Loaned	Collateral Received
December 31, 2018	$3,181,209	$3,342,036

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 period ended December 31, 2018. 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 period ended	December 31, 2018	% of Gross Income
Gross securities lending income	$399,436	
Lending Agents' fees:		
National Bank Financial Inc.	(119,831)	30.00%
Net securities lending income paid to the ETF	**$279,605**	**70.00%**

8. REDEEMABLE UNITS

The ETF is authorized to issue an unlimited number of redeemable, transferable Class A 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 trading day, which is defined as the day that a net asset value of the ETF is being struck, 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 NEO on the effective day of the redemption, where the units being redeemed are not equal to a prescribed number of units ("PNU") or a multiple PNU; or (ii) redeem, less any applicable redemption charge as determined by the Manager in its sole discretion from time to time, a PNU or a multiple PNU of the ETF for cash equal to the net asset value of that number of units.

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

The ETF is required to distribute all of its income (including net realized capital gains) that it has earned in the period to such an extent that the ETF will not be liable for ordinary income tax thereon. The ETF is not expected to make regular taxable cash distributions. Cash distributions, if any, to unitholders of the ETF of income earned on cash and cash equivalents or the ETF's derivatives activity, net of fees and expenses, will be made at the discretion of the Manager. Under the distribution reinvestment plan, the amount actually distributed by the ETF will be paid as a "reinvested distribution", whereby the cash distributions will be used to acquire additional units of the ETF to be credited to the account of the unitholder. Distributions paid to holders of redeemable units, if any, are recognized in the statement 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 period ended December 31, 2018, 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:

Period	Beginning Units Outstanding	Units Issued	Units Redeemed	Ending Units Outstanding	Average Units Outstanding
2018	–	1,525,001	(100,000)	1,425,001	1,458,386

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, including, but not limited to, investment managers, counterparties, custodians, registrars, transfer agents, valuation agents, designated brokers, dealers, auditors and printers;

Notes to Financial Statements (continued)

For the Period from Inception on February 5 to December 31, 2018

authorizing the payment of operating expenses incurred on behalf of the ETF; ensuring the maintenance of accounting records for the ETF; preparing the reports to unitholders of the ETF 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 of the ETF 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 such ETF under applicable securities laws; administering purchases, redemptions and other transactions in units of the ETF; and dealing and communicating with unitholders of the ETFs. 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 strategy of the ETF to ensure that the ETF complies with its investment objective, 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 0.85%, plus applicable sales taxes, of the net asset value of the ETF's units, calculated and accrued daily and payable monthly in arrears. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

Other expenses

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

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

10. BROKER COMMISSIONS, SOFT DOLLARS AND RELATED PARTY TRANSACTIONS

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

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

Total brokerage commissions paid to dealers in connection with investment portfolio transactions, soft dollar transactions incurred and amounts paid to related parties of the Manager for the period ended December 31, 2018 were as follows:

Period Ended	Brokerage Commissions Paid	Soft Dollar Transactions	Amount Paid to Related Parties
December 31, 2018	$155,026	$nil	$nil

Notes to Financial Statements (continued)

For the Period from Inception on February 5 to December 31, 2018

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 transaction. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statement of comprehensive income. The management fees payable by the ETF as at December 31, 2018, are disclosed in the statement of financial position.

11. INCOME TAX

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

12. TAX LOSSES CARRIED FORWARD

Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years. Non-capital losses carried forwards may be applied against future years' taxable income. Non-capital losses that are realized in the current taxation year may be carried forward for 20 years. As at December 31, 2018, 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
$451,911	–	–

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 statement 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. As at December 31, 2018, the ETF did not have any financial instruments eligible for offsetting.

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