



Horizons Active International Developed Markets Equity ETF (HADM:TSX)



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Letter from the President and Co-CEO

The first half of 2018 has been remarkable for both the Canadian ETF industry and Horizons ETFs Management (Canada) Inc. (“Horizons ETFs”). The industry reached new heights, surpassing \$156 billion in assets under management (“AUM”), as at June 30, 2018. Horizons ETFs reached a new pinnacle as well, surpassing more than \$10 billion in AUM as at the same date. In addition, we have added two new, innovative ETFs so far this year, giving us a total of 80 different investment tools available for our clients.

In February, we brought to market our second marijuana-focused ETF – the Horizons Emerging Marijuana Growers Index ETF (“HMJR”). HMJR is the first ETF in Canada to give investors direct exposure to blossoming small-cap marijuana cultivation and distribution companies. HMJR provides direct, often referred to as ‘pure-play’, global exposure to the sector, by focusing on the smaller, emerging producers. Our first marijuana ETF – the Horizons Marijuana Life Sciences Index ETF (“HMMJ”) – gives investors broad diversified exposure to the North American marijuana sector.

Speaking of HMMJ, futures on units of this ETF began trading on the Montreal Exchange in June. We view this listing as recognition by the Canadian investor marketplace that HMMJ is a key benchmark for marijuana investing in Canada.

In June, we launched yet another highly innovative ETF – the Horizons Blockchain Technology & Hardware Index ETF (“BKCH”). BKCH provides investors with diversified exposure to companies involved in the new, disruptive technology frontier: blockchain – a shareable digital ledger that logs and tracks valuable information such as transactions or assets, offering virtually endless applications. BKCH provides a diversified way to invest in the blockchain ecosystem and infrastructure without taking on a lot of the risks of buying unknown, early stage technology companies.

Regardless of market conditions, our extensive suite of ETFs gives investors the tools they need to help meet their financial objectives. For more information on all our strategies, please visit www.HorizonsETFs.com where we offer a range of resources designed to inform and educate ETF investors.

Thank you for your continued support.

Sincerely,



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

P.S. On a personal note, I would like to extend my sincere appreciation to the fantastic team of professionals I work with at Horizons ETFs. They played a vital role in helping me win ‘CEO of the Year’ at the 2018 Wealth Professional Awards.

MANAGEMENT REPORT OF FUND PERFORMANCE

This interim management report of fund performance for Horizons Active International Developed Markets Equity ETF (“HADM” or the “ETF”) contains financial highlights and is included with the unaudited interim 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, and 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 HADM is to seek long-term returns consisting of regular dividend income and modest long-term capital growth. HADM invests primarily in equity and equity related securities of large and mid-cap companies based across developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

To achieve HADM’s investment objectives, the ETF’s sub-advisor, Guardian Capital LP (“Guardian Capital” or the “Sub-Advisor”), selects securities that, in the Sub-Advisor’s view, demonstrate a consistent pattern of sustainable or growing dividends. HADM invests in equity securities listed on global exchanges, including American Depositary Receipts (“ADRs”) listed on North American exchanges. The portfolio investments are diversified among industry sectors and companies. HADM may hedge some or all of its non-Canadian dollar currency exposure at the discretion of the Sub-Advisor. The Sub-Advisor may sell short equity securities it believes will underperform on a relative basis or to otherwise assist the ETF in meeting its investment objectives.

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

Management Discussion of Fund Performance (continued)

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 blend of the historical rolling 3-year and 5-year standard deviations of its return (or, generally, commencing with prospectus renewals after September 1, 2017, a rolling 10-year standard deviation), the return of an underlying index, or of an applicable proxy index. 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.

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|---|---|
| <ul style="list-style-type: none">• Stock market risk• Specific issuer risk• Legal and regulatory risk• Exchange traded 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 objective• Tax risk• Securities lending, repurchase and reverse repurchase transaction risk• Loss of limited liability• Reliance on key personnel• Distributions risk | <ul style="list-style-type: none">• Conflicts of interest• No ownership interest• Market for units• Redemption price• Net asset value fluctuation• Limited operating history• Restrictions on certain unitholders• Highly volatile markets• No guaranteed return• Derivatives and counterparty risk• Foreign currency risk• Emerging markets risk• Foreign stock exchange risk• Short selling risk• Risk of difference between quoted and actionable market price• Commodity price volatility risk |
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Management Discussion of Fund Performance (continued)

Results of Operations

For the six-month period ended June 30, 2018, units of the ETF returned -1.03%, when including distributions paid to unitholders. By comparison, the MSCI EAFE Index (the "Index") returned 2.05% for the same period in Canadian dollar terms (-2.75% in U.S. dollars), on a total return basis.

The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

General Market Review

Expectations for the global economy entered 2018 on a high, with anticipation that the robust and synchronized growth that was established in the middle of last year would carry through the end of 2017 and into the New Year. That early optimism gave way to a market correction which was compounded by a material softening in the global macro data flow, again raising concerns over the health and durability of the expansion.

Economic growth slowed markedly among the major developed market economies over the first three months of 2018. The economies of Canada, France, Germany, the U.K. and the U.S. all tapped the brakes, while Japan outright contracted for the first time in two years.

Surprising as it may seem, given the general tone of the narrative in the marketplace, the performance of the major developed economies over the first half of the year has actually remained fairly solid. Outside of the U.S., there has been a moderation year-to-date relative to the strength seen in 2017, but the pace of growth still remains above what prevailed over the previous five years. Although there are risks on the horizon that can have a material impact on the outlook, the expectation remains that the global economy will continue to expand through the second half of the year. Trends in economic data bear this out, with leading indicators (such as the purchasing managers' indices) still pointing to solid growth being sustained.

While the political backdrop in the U.S. continues to dominate the headlines, the sentiment of most Americans is largely swayed by their own economic situation. It is not coincidental that U.S. consumer confidence continues to sit at cycle-highs while the unemployment rate is at a multi-generational low. Tack on the expectation of increased investment from both the public (as part of the fiscal infrastructure plan) and the private sector (as a result of the combination of strong domestic growth and the recent changes to U.S. tax regulations that allow the full expensing of capital expenditures for the next five years) and the world's largest economy is set to be among the best performers in the developed markets for the remainder of year and put in its cycle-best growth rate for the year as a whole.

In continental Europe, politics continue to provide a cloud over the outlook there as well. There are ongoing disputes within the coalition government in Germany over immigration policy. A scandal in Spain prompted a vote of no confidence that resulted in Mariano Rajoy being ousted as Prime Minister with a new minority centre-left government taking over. Italy is now under populist rule. Outside of politics however, the macro fundamentals for the Eurozone are positive. Growth is broad-based across the region and unemployment is at a cycle-low. While leading indicators have moderated throughout the first half of the year, the pullback has come from unsustainable highs and the levels themselves are consistent with above-trend growth rates that will continue to be supported by a central bank that is still adding stimulus through the end of the year.

Management Discussion of Fund Performance *(continued)*

Canada, in contrast, is taking a step back this year after posting a strong performance in 2017. Even with the slump in commodity prices since 2014, Canada has posted the best growth among G-7 economies since the start of this expansion. Consumer spending has moderated since the child tax benefit-supported bounce a year ago and housing has slowed as well, with the less accommodative financial conditions that come with central bank rate increases and tightening mortgage regulation playing a notable role.

Japan's real output contracted over the first three months of 2018, the first negative quarter since the end of 2015, which brought an end to the best stretch of growth since 1986. The more recent dataflow, however, has shown that this weakness appears to be short-lived as the drum-tight labour market and attendant (albeit still quite modest) firming in wage growth is supporting strengthening consumer spending. The Japanese economy, however, still remains far from reaching its inflation target. The Bank of Japan is continuing to pump liquidity into the system with no end in sight while the government is once again planning another infusion of fiscal stimulus (this is in part to cushion the expected blow from the planned increase in the national consumption tax in 2019).

Portfolio Review

The ETF's portfolio underperformed the Index in 6 of the 11 sectors, led by consumer discretionary, health care, industrials, utilities, materials and financials. The consumer staples, real estate, information technology, energy and telecommunication services sectors all outperformed the Index.

The consumer staples sector had the strongest out performance on a relative basis, where Swedish Match AB was up over 37% and led to positive stock selection attribution. Positive stock selection in the real estate sub-sector of financials came from positions in Tag Immobilien AG and ICADE. In the information technology sector, Amadeus IT Group SA, a Spanish information technology company in the tourism and travel industries, had strong performance which led to a positive stock selection effect. Equinor ASA, formally Statoil ASA, and Total SA outperformed in the Energy sector.

The consumer discretionary sector was the largest detractor to relative performance. WPP PLC, Renault SA, Honda Motor Co., Ltd., Daimler AG and LVMH Moët Hennessy Louis Vuitton SE all had negative relative performance. An underweight positioning in this sector also led to a negative allocation effect.

In the health care sector, negative stock selection came from Novo Nordisk AS and Roche Holding AG. Deutsche Post AG, Ferrovial SA and Deutsche Lufthansa AG led the negative stock selection effect in the industrial sector. In the utilities sector, Veolia Environment SA, Enel SPA, and SSE PLC had a negative stock selection effect.

Based on the economic backdrop and outlook on economies and current valuations, Guardian Capital's core view is to own stocks of companies that deploy cash in a shareholder friendly way. We also look to find companies that historically do well in environments such as the one we're in now – late stages of the economic cycle, rising interest rates, de-regulation, increased capital expenditures (capex) and marginal expansion. We look to position in stocks with low price-to-book values, high cash-to-assets ratios, strategic mergers and acquisitions (M&A)-to-assets ratio, sustainable net buyback yields and growing dividend yields. We continue to emphasize higher-yielding names that have the lowest probability of a dividend cut.

The portfolio currently has overweight positions relative to the Index in the consumer discretionary, telecommunication services and real estate sectors. Underweight sectors are in the industrials, information technology and health care sectors. Geographically, the portfolio is overweight North America and Europe and underweight in Asia and the Pacific basin.

Management Discussion of Fund Performance *(continued)*

Outlook

U.S. foreign policy is keeping geopolitical risks high, with concerns stemming from the ongoing negotiations with North Korea over denuclearization and the sanctions against Iran being brought back into relevance with the U.S. withdrawing from the Iran nuclear agreement. The largest risk to the outlook relates to American trade policy. The world's largest economy has made an aggressive shift toward protectionism that began with the withdrawal from the Trans-Pacific Partnership.

An environment in which economies are running up against capacity constraints and price pressures are firming, is one in which a reduction in monetary policy support is justified, if not encouraged, in order to keep risks to the inflation outlook balanced. That said, the risks to the growth outlook suggest that some caution is warranted. With still moderate inflation and well-anchored expectations, central banks have the scope to continue to unwind the financial crisis-era monetary stimulus at a gradual pace.

Despite the fact that there has been a move among developed economies central banks to start to normalize policy, rates remain low globally and financial conditions are still highly accommodative and likely to remain that way for the foreseeable future. The U.S. Federal Reserve (the "Fed") has been the pace-setter among monetary policymaking bodies, but it has been taking a fairly gradual path, having now raised its policy rate seven times since it started tightening in December 2015. Policymakers at the Fed are projecting a pickup in that pace, projecting another five hikes before the end of 2019, when it will move to the "tight" side of policy dial.

The increase in volatility in the market and the ample risks to the outlook speak to taking a more defensive tilt in equity market positioning and adding exposure to income/dividend strategies. These strategies typically outperform in periods of flat and down markets – periods with greater uncertainty in the marketplace, which are generally accompanied by heightened volatility. The dividend cushion softens the downside risks and can create positive total returns as investors are paid to wait in otherwise directionless markets. A willingness to look across borders also permits even better income opportunities. The relative underperformance of international markets, despite strong earnings, has made for a more compelling entry point with respect to valuations, and the geographic diversification from adding international exposure can be beneficial from a risk management standpoint.

In Guardian's opinion, we must buy based upon model fundamentals that cover all three facets of investing – namely, relative opportunities, intrinsic conviction and objective non-human analysis through machine-learning methods. Based on readings from our model, we believe fundamentals should ultimately prevail as companies continue to deliver double-digit earnings growth on the backs of a U.S. tax catalyst and global synchronized growth.

One should also not forget the concept of shareholder yield. If markets play out as we postulate above, investors should benefit from larger stock buybacks and further de-leveraging of debt. Guardian does not believe that yield for yield's sake is the right approach. Rather, we feel stocks exhibiting consistent earnings strength, or those that signal shareholder friendly activities like dividend increases or buybacks with respect to cash flow usage, should allow for the best opportunities to buy.

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

The ETF effectively began operations on October 24, 2017. Therefore, the six-month period ended June 30, 2018 represents the first full interim reporting period for the ETF. For the six-month period ended June 30, 2018, the ETF generated gross comprehensive income (loss) from investments and derivatives of (\$3,589). The ETF incurred management, operating and transaction expenses of \$105,245 of which \$36,192 was either paid or absorbed by the Manager on behalf of

Management Discussion of Fund Performance (continued)

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 \$77,182 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 are no recent industry, management or ETF related developments that are pertinent to the present and future of the ETF.

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.

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 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 statement of comprehensive income in the attached financial statements of the ETF. The management fees payable by the ETF as at June 30, 2018, and December 31, 2017, are disclosed in the statements of financial position.

Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance since it effectively began operations on October 24, 2017. 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

Class A			
Period ⁽¹⁾		2018	2017
Net assets, beginning of period	\$	10.08	10.00
Increase (decrease) from operations:			
Total revenue		0.31	0.05
Total expenses		(0.10)	(0.04)
Realized losses for the period		(0.05)	(0.03)
Unrealized gains (losses) for the period		(0.26)	0.14
Total increase (decrease) from operations ⁽²⁾		(0.10)	0.12
Distributions:			
From net investment income (excluding dividends)		(0.11)	(0.11)
Total distributions ⁽³⁾		(0.11)	(0.11)
Net assets, end of period ⁽⁴⁾	\$	9.87	10.08

1. This information is derived from the ETF's unaudited interim financial statements as at June 30, 2018, and the audited annual financial statements as at December 31, 2017. The ETF effectively began operations on October 24, 2017. Information is presented in accordance with IFRS.
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

Class A			
Period ⁽¹⁾		2018	2017
Total net asset value (000's)	\$	6,909	7,058
Number of units outstanding (000's)		700	700
Management expense ratio ⁽²⁾⁽⁵⁾		1.02%	1.03%
Management expense ratio excluding proportion of expenses from underlying investment funds		0.95%	0.94%
Management expense ratio before waivers and absorptions ⁽³⁾		2.05%	2.24%
Trading expense ratio ⁽⁴⁾⁽⁵⁾		0.19%	0.78%
Trading expense ratio excluding proportion of costs from underlying investment funds		0.19%	0.78%
Portfolio turnover rate ⁽⁶⁾		39.78%	14.11%
Net asset value per unit, end of period	\$	9.87	10.08
Closing market price	\$	9.85	10.10

1. The information for Class A units is provided as at June 30, 2018, and December 31, 2017. Information is presented in accordance with IFRS.
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 to the ETF as investment manager compensation, 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 management expense ratio (MER) and trading expense ratio (TER) include an estimated proportion of the MER and TER for any underlying investment funds held in the ETF's portfolio during the period.
6. 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 0.80%, plus applicable sales taxes, of the net asset value of the ETF's Class A 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.

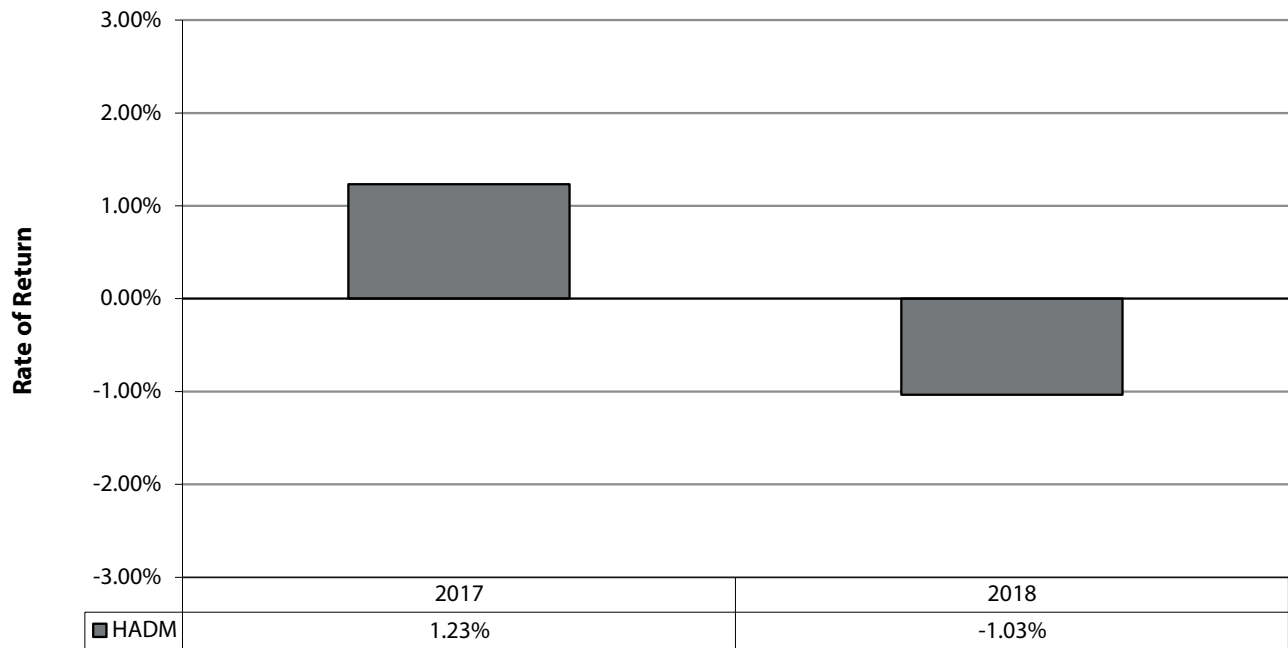
The Manager paid substantially more than 100% of the management fees it received from the ETF during the period towards marketing and promotional costs, and towards the fees associated with the managerial, portfolio management and portfolio advisory services provided to the ETF.

Past Performance

Commissions, trailing commissions, management fees and expenses all may be associated with an investment in the ETF. Please read the prospectus before investing. The indicated rates of return are the historical 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 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 its Class A units for the periods 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.



The ETF effectively began operations on October 24, 2017.

Summary of Investment Portfolio

As at June 30, 2018

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
Global Equities	\$ 6,665,896	96.49%
Global Preferred Securities	70,438	1.02%
Cash and Cash Equivalents	184,630	2.67%
Other Assets less Liabilities	(12,303)	-0.18%
	\$ 6,908,661	100.00%

Sector Mix	Net Asset Value	% of ETF's Net Asset Value
Financials	\$ 1,537,147	22.25%
Global Broad Equity	1,070,981	15.50%
Consumer Discretionary	806,174	11.67%
Consumer Staples	719,662	10.42%
Health Care	547,834	7.93%
Industrials	490,813	7.11%
Materials	444,288	6.43%
Energy	358,908	5.20%
Telecommunication Services	279,394	4.04%
Utilities	245,421	3.55%
Information Technology	235,712	3.41%
Cash and Cash Equivalents	184,630	2.67%
Other Assets less Liabilities	(12,303)	-0.18%
	\$ 6,908,661	100.00%

Summary of Investment Portfolio (continued)

As at June 30, 2018

Top 25 Holdings	% of ETF's Net Asset Value
iShares Asia/Pacific Dividend ETF	8.47%
iShares MSCI Japan ETF	7.03%
Ferrovial SA	3.06%
ORIX Corp., ADR	2.79%
Cash and Cash Equivalents	2.67%
Swedish Match AB	2.41%
Elisa OYJ	2.38%
Nestlé SA	2.37%
NN Group NV	2.36%
Amadeus IT Group SA	2.34%
ICADE	2.32%
WPP PLC	2.12%
Bayer AG	2.10%
Swiss Re AG	2.08%
Novo Nordisk AS, ADR	1.93%
BASF SE	1.80%
AXA SA	1.73%
Freenet AG	1.66%
Novartis AG, ADR	1.56%
Equinor ASA, ADR	1.51%
Vinci SA	1.49%
Boliden AB	1.46%
Enel SPA	1.45%
Total SA, ADR	1.43%
DNB ASA	1.41%

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, 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 unaudited interim financial statements of Horizons Active International Developed Markets Equity 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 using information available and include certain amounts that are based on the Manager’s best estimates and judgments.

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.



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



Taeyong Lee
Director
Horizons ETFs Management (Canada) Inc.

NOTICE TO UNITHOLDERS

The Auditors of the ETF have not reviewed these Financial Statements.

Horizons ETFs Management (Canada) Inc., the Manager of the ETF, appoints an independent auditor to audit the ETF’s annual financial statements.

The ETF’s independent auditors have not performed a review of these interim financial statements in accordance with Canadian generally accepted auditing standards.

Statements of Financial Position (unaudited)

As at June 30, 2018 and December 31, 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 184,630	\$ 98,261
Investments	6,736,334	6,984,925
Amounts receivable relating to accrued income	31,515	9,340
Total assets	6,952,479	7,092,526
Liabilities		
Accrued management fees	4,928	5,465
Accrued operating expenses	2,903	1,346
Distribution payable	35,987	27,230
Total liabilities	43,818	34,041
Total net assets (note 2)	\$ 6,908,661	\$ 7,058,485
Number of redeemable units outstanding, Class A (note 8)	700,001	700,001
Total net assets per unit, Class A	\$ 9.87	\$ 10.08

(See accompanying notes to financial statements)

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



Steven J. Hawkins



Taeyong Lee

Statement of Comprehensive Income (unaudited)

For the Period Ended June 30, 2018

2018
Income

Dividend income	\$	216,502
Interest income for distribution purposes		10
Net realized loss on sale of investments and derivatives		(31,068)
Net realized loss on foreign exchange		(738)
Net change in unrealized depreciation of investments and derivatives		(189,667)
Net change in unrealized appreciation of foreign exchange		1,372
		(3,589)

Expenses

Management fees (note 9)		29,853
Audit fees		6,168
Independent Review Committee fees		389
Custodial fees		82
Securityholder reporting costs		15,726
Administration fees		17,210
Transaction costs		6,856
Withholding taxes		28,939
Other expenses		22

105,245

Amounts that were payable by the investment fund that were paid or absorbed by the Manager		(36,192)
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69,053

Decrease in net assets for the period	\$	(72,642)
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Decrease in net assets per unit, Class A	\$	(0.10)
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(See accompanying notes to financial statements)

Statement of Changes in Financial Position (unaudited)

For the Period Ended June 30, 2018

2018

Total net assets at the beginning of the period	\$ 7,058,485
Decrease in net assets	(72,642)
Redeemable unit transactions	
Distributions:	
From net investment income	(77,182)
Total net assets at the end of the period	\$ 6,908,661

(See accompanying notes to financial statements)

Statement of Cash Flows (unaudited)

For the Period Ended June 30, 2018

2018
Cash flows from operating activities:

Decrease in net assets for the period	\$	(72,642)
Adjustments for:		
Net realized loss on sale of investments and derivatives		31,068
Net change in unrealized depreciation of investments and derivatives		189,667
Net change in unrealized appreciation of foreign exchange		(1,298)
Purchase of investments		(2,759,044)
Proceeds from the sale of investments		2,786,900
Amounts receivable relating to accrued income		(22,175)
Accrued expenses		1,020

Net cash from operating activities		153,496
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Cash flows from financing activities:

Distributions paid to unitholders		(68,425)
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Net cash used in financing activities		(68,425)
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Net increase in cash and cash equivalents during the period		85,071
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Effect of exchange rate fluctuations on cash and cash equivalents		1,298
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Cash and cash equivalents at beginning of period		98,261
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Cash and cash equivalents at end of period	\$	184,630
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Interest received, net of withholding taxes	\$	10
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Dividends received, net of withholding taxes	\$	165,389
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(See accompanying notes to financial statements)

Schedule of Investments (unaudited)

As at June 30, 2018

Security	Shares	Average Cost	Fair Value
GLOBAL EQUITIES (96.49%)			
Financials (22.25%)			
AEGON NV	8,381	\$ 66,140	\$ 65,227
AXA SA	3,700	141,744	119,374
BNP Paribas SA	724	70,961	59,122
Danske Bank AS	2,308	114,113	94,998
Deutsche Euroshop AG	1,500	69,041	69,685
DNB ASA	3,788	95,611	97,405
ICADE	1,300	143,316	160,265
NN Group NV	3,054	179,783	163,352
Nomura Holdings Inc., ADR	7,423	53,155	46,744
Nordea Bank AB	4,733	71,135	59,939
ORIX Corp., ADR	1,856	207,974	192,784
Sumitomo Mitsui Financial Group Inc., ADR	9,191	96,532	93,884
Swiss Life Holding AG	191	89,557	87,477
Swiss Re AG	1,262	147,553	143,576
TAG Immobilien AG	2,882	66,520	83,315
		1,613,135	1,537,147
Global Broad Equity (15.50%)			
iShares Asia/Pacific Dividend ETF	9,947	621,807	585,415
iShares MSCI Japan ETF	6,378	477,822	485,566
		1,099,629	1,070,981
Consumer Discretionary (11.67%)			
Bayerische Motoren Werke (BMW) AG	372	52,842	44,335
Carnival PLC	862	71,040	65,013
Daimler AG, Registered	955	98,883	80,830
Honda Motor Co. Ltd., ADR	2,079	88,923	79,999
LVMH Moët Hennessy-Louis Vuitton SA	125	56,282	54,732
PSA Peugeot Citroën SA	1,735	53,121	52,101
Renault SA	383	52,969	42,824
Sony Corp., ADR	1,200	71,837	80,867
Taylor Wimpey PLC	21,046	71,202	65,325
TUI AG	3,242	77,105	93,498
WPP PLC	7,085	156,224	146,650
		850,428	806,174
Consumer Staples (9.40%)			
Associated British Foods PLC	1,127	53,269	53,538
Diageo PLC, ADR	421	71,974	79,705
Koninklijke Ahold Delhaize NV	2,331	70,434	73,381
Nestlé SA, Registered	1,600	169,954	163,339

Schedule of Investments (unaudited) (continued)

As at June 30, 2018

Security	Shares	Average Cost	Fair Value
Swedish Match AB	2,559	116,865	166,655
Tesco PLC	12,719	53,337	56,647
Unilever PLC, ADR	770	53,099	55,959
		588,932	649,224
Health Care (7.93%)			
Bayer AG, Registered	1,000	173,442	144,851
Novartis AG, ADR	1,085	106,471	107,750
Novo Nordisk AS, ADR	2,200	140,428	133,389
Roche Holding AG Genussscheine	300	89,756	87,836
Smith & Nephew PLC, ADR	1,500	71,491	74,008
		581,588	547,834
Industrials (7.11%)			
Bouygues SA	1,415	85,482	80,182
Deutsche Lufthansa AG, Registered	1,410	53,332	44,593
Deutsche Post AG, Registered	1,200	68,446	51,529
Ferrovial SA	7,837	209,778	211,458
Vinci SA	815	105,810	103,051
		522,848	490,813
Materials (6.43%)			
BASF SE	989	132,963	124,369
Boliden AB	2,358	104,477	100,577
Covestro AG	502	71,896	58,896
Glencore PLC	8,376	52,518	52,607
Stora Enso OYJ, Series 'R'	2,523	50,611	64,919
UPM-Kymmene Corp. OYJ	913	42,456	42,920
		454,921	444,288
Energy (5.20%)			
BP PLC, ADR	1,236	71,092	74,193
Equinor ASA, ADR	3,000	78,112	104,160
Royal Dutch Shell PLC, Class 'A', ADR	900	70,083	81,912
Total SA, ADR	1,239	86,742	98,643
		306,029	358,908
Telecommunication Services (4.04%)			
Elisa OYJ	2,700	141,233	164,439
Freenet AG	3,300	140,443	114,955
		281,676	279,394

Schedule of Investments (unaudited) (continued)

As at June 30, 2018

Security	Shares	Average Cost	Fair Value
Utilities (3.55%)			
Enel SPA	13,738	106,607	100,331
Iberdrola SA	5,265	52,878	53,631
Veolia Environnement SA	3,250	105,649	91,459
		<u>265,134</u>	<u>245,421</u>
Information Technology (3.41%)			
Amadeus IT Group SA	1,559	130,721	161,798
ASML Holding NV, Registered	284	71,586	73,914
		<u>202,307</u>	<u>235,712</u>
TOTAL GLOBAL EQUITIES		<u>6,766,627</u>	<u>6,665,896</u>
GLOBAL PREFERRED SECURITIES (1.02%)			
Consumer Staples (1.02%)			
Henkel AG & Co. KGaA	419	71,363	70,438
TOTAL GLOBAL PREFERRED SECURITIES		<u>71,363</u>	<u>70,438</u>
Transaction Costs		<u>(8,786)</u>	
TOTAL INVESTMENT PORTFOLIO (97.51%)		<u>\$ 6,829,204</u>	<u>\$ 6,736,334</u>
Cash and cash equivalents (2.67%)			184,630
Other assets less liabilities (-0.18%)			<u>(12,303)</u>
TOTAL NET ASSETS (100.00%)			<u>\$ 6,908,661</u>

(See accompanying notes to financial statements)

Notes to Financial Statements (unaudited)

June 30, 2018

1. REPORTING ENTITY

Horizons Active International Developed Markets Equity ETF (“HADM” 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 24, 2017. 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 (“Class A”) which trade on the Toronto Stock Exchange (“TSX”) under the symbol HADM. 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 HADM is to seek long-term returns consisting of regular dividend income and modest long-term capital growth. HADM invests primarily in equity and equity related securities of large and mid-cap companies based across developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

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 Guardian Capital LP (“Guardian Capital” or the “Sub-Advisor”), to act as the sub-advisor to the ETF. The Manager is a member of the Mirae Asset Financial Group (“Mirae Asset”).

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 August 15, 2018, 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

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 (unaudited) (continued)

June 30, 2018

(a) Financial instruments***(i) Recognition, initial measurement and classification***

For fiscal years beginning January 1, 2018, IFRS 9, Financial Instruments (“IFRS 9”) has replaced International Accounting Standard 39, Financial Instruments – Recognition and Measurement (“IAS 39”). IFRS 9 introduces new classification and measurement requirements for financial instruments, including impairment on financial assets and hedge accounting.

This new 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”). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities

There were no changes to the measurement basis of the ETF’s financial instruments as a result of adopting IFRS 9, and consequently, there was no impact to net assets.

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 are classified as loans and receivables
- Financial liabilities mandatorily 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 are classified as 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 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. Deriva-

Notes to Financial Statements (unaudited) (continued)

June 30, 2018

tive 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 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 statements 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 (unaudited) (continued)

June 30, 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 represents the coupon interest received by the ETF accounted for on an accrual basis. The ETF does not amortize premiums paid or discounts received on the purchase of fixed income securities. The ETF does not use the effective interest method. 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 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 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 by class in the statement of comprehensive income represents the change in net assets attributable to holders of redeemable units from operations attributable to each class divided by the weighted average number of units of that class outstanding during the reporting period. Income, expenses other than management fees, and realized and unrealized capital gains (losses) are distributed amongst the different classes of units in proportion to the amount invested in them. For management fees please refer to note 9.

Notes to Financial Statements (unaudited) (continued)

June 30, 2018

(f) Unitholder transactions

The value at which units are issued or redeemed is determined by dividing the net asset value of the class by the total number of units outstanding of that class 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.

(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 for each class of units of the ETF by taking the respective class' proportionate share of the ETF's net assets attributable to holders of redeemable units and dividing by the number of units of that class 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.

Notes to Financial Statements (unaudited) (continued)

June 30, 2018

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 ETF may reduce its foreign currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts. The following tables indicate the foreign currencies to which the ETF had significant exposure as at June 30, 2018, and December 31, 2017, 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:

June 30, 2018	Financial Instruments	Currency Forward and/ or Futures Contracts	Total	Impact on Net Asset Value
Currency	(\$000's)	(\$000's)	(\$000's)	(\$000's)
British Pound	560	–	560	6
Euro Currency	2,752	–	2,752	28
Japanese Yen	499	–	499	5
Swiss Franc	502	–	502	5
U.S. Dollar	1,504	–	1,504	15
Other Currencies*	1,130	–	1,130	11
Total	6,947	–	6,947	70
As % of Net Asset Value	100.6%	–	100.6%	1.0%

Notes to Financial Statements (unaudited) (continued)

June 30, 2018

December 31, 2017	Financial Instruments	Currency Forward and/ or Futures Contracts	Total	Impact on Net Asset Value
Currency	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Norwegian Krone	46	–	46	–
British Pound	755	–	755	8
Euro Currency	2,848	–	2,848	28
Swedish Krona	290	–	290	3
Swiss Franc	468	–	468	5
U.S. Dollar	2,677	–	2,677	27
Total	7,084	–	7,084	71
As % of Net Asset Value	100.4%	–	100.4%	1.0%

* The ETF has exposure to several other foreign currencies through its portfolio holdings, none of which represent more than 5% of the ETF's net assets. A 1% increase or decrease in any one those currencies relative to the Canadian dollar would have an immaterial impact on the ETF.

(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.

As at June 30, 2018, and December 31, 2017, the ETF did not hold any long-term debt instruments and did not have any exposure to interest rate risk.

(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 imposed 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	June 30, 2018	December 31, 2017
MSCI Emerging Market Index	\$45,402	\$29,813

Notes to Financial Statements (unaudited) (continued)

June 30, 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 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 minimise 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 by taking collateral.

As at June 30, 2018, and December 31, 2017, due to the nature of its portfolio investments, the ETF did not have any material credit risk 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. All financial liabilities are generally 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.

Notes to Financial Statements (unaudited) (continued)

June 30, 2018

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 June 30, 2018, and December 31, 2017, in valuing the ETF's investments and derivatives carried at fair values:

	June 30, 2018			December 31, 2017		
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
Financial Assets						
Equities	5,665,353	–	–	5,877,993	–	–
Exchange Traded Funds	1,070,981	–	–	1,106,932	–	–
Total Financial Assets	6,736,334	–	–	6,984,925	–	–
Total Financial Liabilities	–	–	–	–	–	–
Net Financial Assets and Liabilities	6,736,334	–	–	6,984,925	–	–

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 periods shown. In addition, there were no investments or transactions classified in Level 3 for the periods ended June 30, 2018, and December 31, 2017.

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.

As at June 30, 2018, and December 31, 2017, the ETF was not participating in any securities lending transactions. The ETF did not earn any income from securities lending transactions for the period ended June 30, 2018.

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

Notes to Financial Statements (unaudited) (continued)

June 30, 2018

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 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.

Subject to regulatory and other necessary third party approvals, a stock exchange sponsored execution program may become available which would allow investors to purchase and sell Class A units of the ETF based on transaction prices calculated as at the end-of-day net asset value, plus any fee payable to the investor's dealer for the dealer's facilitation of the purchase or sale. The Manager will issue a news release announcing the details of any such stock exchange sponsored execution program.

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 year. 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 statement of changes in financial position.

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

For the period ended June 30, 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	700,001	–	–	700,001	700,001

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; pre-

Notes to Financial Statements (unaudited) (continued)

June 30, 2018

paring 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 0.80%, plus applicable sales taxes, of the net asset value of the ETF's Class A 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.

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 of 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 June 30, 2018, were as follows:

Period Ended	Brokerage Commissions Paid	Soft Dollar Transactions	Amount Paid to Related Parties
June 30, 2018	\$4,384	\$nil	\$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

Notes to Financial Statements (unaudited) (continued)

June 30, 2018

to the Independent Review Committee are disclosed in the statement of comprehensive income. The management fees payable by the ETF as at June 30, 2018, and December 31, 2017, 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.

11. INCOME TAX

As at June 30, 2018, the ETF did not qualify as a mutual fund trust under the *Income Tax Act* (Canada) (the "Tax Act") and instead is considered a "financial institution". The ETF will be considered a financial institution for purposes of the "mark-to-market" rules contained in the Tax Act if, at any time, more than 50% of the fair market value of all interests in the ETF are held at that time by one or more such financial institutions. The Tax Act contains special rules for determining the income of financial institutions. If the ETF qualifies as a mutual fund trust in the future, tax refunds (based on redemptions and realized and unrealized gains during the period) 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, 2017, the ETF had no net capital or non-capital losses available.

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. As at June 30, 2018, and December 31, 2017, the ETF did not have any financial instruments eligible for offsetting.

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.

Notes to Financial Statements (unaudited) (continued)

June 30, 2018

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 June 30, 2018, and December 31, 2017, the ETF had material investments in the subsidiaries (Sub), associates (Assc) and unconsolidated structured entities (SE) listed below:

Investee ETF as at June 30, 2018	Place of Business	Type	Ownership %	Carrying Amount
iShares Asia/Pacific Dividend ETF	U.S.	SE	1.17%	\$585,415
iShares MSCI Japan ETF	U.S.	SE	0.00%	\$485,566

Investee ETF as at December 31, 2017	Place of Business	Type	Ownership %	Carrying Amount
iShares Asia/Pacific Dividend ETF	U.S.	SE	1.17%	\$626,544
iShares MSCI Japan ETF	U.S.	SE	0.00%	\$480,388

15. COMPARATIVE FINANCIAL STATEMENTS

Certain information in the comparative financial statements and/or notes to the financial statements for 2017 has been reclassified to conform to the financial statement presentation adopted for 2018.

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