

**BetaPro Silver -2x Daily Bear ETF**  
**(HZD: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](http://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 BetaPro Silver -2x Daily Bear ETF (“HZD” 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 investment fund’s unaudited interim or audited annual financial statements, interim or annual management report of fund performance, current proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosures, at no cost, by calling (toll free) 1-866-641-5739, or (416) 933-5745, by writing to Horizons ETFs Management (Canada) Inc. (“Horizons Management” or the “Manager”), at 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7, by visiting our website at [www.horizonsetfs.com](http://www.horizonsetfs.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).

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

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

## Management Discussion of Fund Performance

### Investment Objective and Strategy

HZD seeks **daily investment results**, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to two times (200%) the inverse (opposite) of the daily performance of the Solactive Silver Front Month MD Rolling Futures Index ER (the “Referenced Futures Index”, Bloomberg ticker: SOLCSIER). HZD is denominated in Canadian dollars. Any U.S. dollar gains or losses as a result of the ETF’s investment will be hedged back to the Canadian dollar to the best of its ability.

If HZD is successful in meeting its investment objective, its net asset value should gain approximately two times as much on a given day, on a percentage basis, as its Referenced Futures Index declines on that given day. Conversely, HZD’s net asset value should lose approximately two times as much on a given day, on a percentage basis, as its Referenced Futures Index rises on that given day.

HZD takes positions in financial instruments that, in combination, should have similar daily return characteristics to two times (200%) the inverse (opposite) of the daily performance of its Referenced Futures Index, which tracks a rolling position in the silver futures contract traded on the Chicago Mercantile Exchange (the “Referenced Futures Contract”) for a subsequent delivery month. In order to achieve this objective, the total underlying notional value of these instruments will typically not exceed two times the total assets of the ETF. As such, HZD employs absolute leverage. Assets not invested in financial instruments may be invested in debt instruments or money market instruments with a term not to exceed 365 days, or reverse repurchase agreements with a term not to exceed 30 days.

## Management Discussion of Fund Performance *(continued)*

### *Value of the Referenced Futures Index*

HZD's Referenced Futures Index will use, in its closing calculation on any trading day, the closing price of its Referenced Futures Contract for a subsequent delivery month. The Referenced Futures Contract typically trades on the Chicago Mercantile Exchange until 1:25 p.m. (EST), and the closing price of the Referenced Futures Contract is typically not available until at least 15 minutes after the close of trading. The performance of the Referenced Futures Index will be based on a rolling position of the Referenced Futures Contract for a subsequent delivery month. On a periodic basis, the Referenced Futures Index rolls positions in a Referenced Futures Contract specifying delivery on a nearby date, which means the position must be sold, and a different position in a Referenced Futures Contract that has not yet reached the delivery period must be purchased.

### **Risk**

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

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

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

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

Investments in the units of the ETF are speculative, involve a high degree of risk and are suitable only for persons who are able to assume the risk of losing their entire investment. The Manager, as a summary for existing investors, is providing the list below of the risks to which an investment in the ETF may be subject. **Prospective investors should read the ETF's most recent prospectus and consider the full description of the risks contained therein before purchasing 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](http://www.horizonsetfs.com) or from [www.sedar.com](http://www.sedar.com), or by calling Horizons ETFs Management (Canada) Inc. at (toll free) 1-866-641-5739, or at (416) 933-5745.

## Management Discussion of Fund Performance (continued)

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Commodity risk</li> <li>• Leverage risk</li> <li>• Long term performance risk</li> <li>• Price volatility risk</li> <li>• Spot v. futures risk</li> <li>• Aggressive investment technique risk</li> <li>• Concentration risk</li> <li>• Trading in derivatives is highly leveraged</li> <li>• Corresponding net asset value risk</li> <li>• Counterparty risk</li> <li>• Inverse correlation risk</li> <li>• Liquidity risk</li> <li>• Market risk</li> <li>• Early closing risk</li> <li>• Unit consolidation and unit split risk</li> <li>• Regulatory risk</li> </ul> | <ul style="list-style-type: none"> <li>• Commodity market risk</li> <li>• No assurance of meeting investment objective</li> <li>• Tax risk</li> <li>• Conflicts of interest</li> <li>• Price limit risk</li> <li>• Liability of unitholders</li> <li>• Reliance on the manager</li> <li>• Reverse repurchase transaction risk</li> <li>• Designated broker/dealer risk</li> <li>• Exchange risk</li> <li>• Borrowing risk</li> <li>• Changes to the Referenced Futures Index</li> <li>• Foreign exchange risk</li> <li>• Exchange rate risk</li> <li>• Securities lending risk</li> </ul> |
|---|---|

The degree of the price volatility risk will vary from period to period depending on the volatility of the Referenced Futures Index. Please refer to the Results of Operations section for further discussion on the impact of price volatility on the performance of the ETF relative to its Referenced Futures Index.

### Results of Operations

For the six-month period ended June 30, 2018, units of the ETF returned 9.69%. This compares to a return of -6.74% for the Referenced Futures Index (see *Value of the Referenced Futures Index*) for the same period. The above figures are adjusted for distributions, if any. **This ETF does not seek to meet its investment objective over any period other than daily, as the ETF is rebalanced daily to ensure an investor's risk is limited to the current value of their investment.**

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

A perfect daily correlation of 200% of the daily inverse return of the Referenced Futures Index would be a correlation of 1.0. The ETF has achieved a perfect daily correlation to its stated Referenced Futures Index for the period ended June 30, 2018, of 1.0000.

For the first half of 2018, the continuous 1-month silver futures contracts ("Silver Futures") returned -6.07%. Volatility was lower than normal with an 18.28% annualized standard deviation for the six-month period ended June 30, 2018.

As the U.S. tax cuts enacted in late 2017 began to take effect in early 2018, Silver Futures saw an initial run-up to hit a high for the first half of the year of U.S.\$17.62 per ounce (/oz) on January 25, 2018, a return of 2.74% from the beginning of the year. This was based on the expectation of both higher inflation and increased demand for industrial metals caused by this government stimulus. From the end of January to the middle of June, Silver Futures mostly traded in a range between U.S.\$16.04/oz and U.S.\$17.26/oz, returning -2.00% from January 25 to June 14, 2018.

## Management Discussion of Fund Performance (continued)

As the escalating rhetoric and saber-rattling of an impending trade war between the U.S. and China really began to take hold in June, both industrial and precious metals sold off. Silver Futures were no exception. From June 14 to June 30, 2018, Silver Futures returned -6.71% to finish the first half of the year at U.S.\$16.10/oz.

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 silver futures market 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.

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

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

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

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

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

The annualized volatility of each of the Referenced Futures Index and the ETF was 19.16% and 36.74%, respectively, for the period ended June 30, 2018.

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

## Management Discussion of Fund Performance (continued)

### **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.

### **Leverage**

The ETF measures leverage in terms of the total underlying notional value of the securities and/or financial derivative positions as a ratio of the total assets held by such ETF. The ETF, unlike a mutual fund that is not subject to National Instrument 81-104 ("NI 81-104"), is permitted by NI 81-104 to lever its assets: that is, the aggregate underlying market exposure of all derivatives held by the ETF calculated on a daily mark-to-market basis can exceed the ETF's cash and cash equivalents, including cash and securities held as margin on deposit to support the ETF's derivatives trading activities. The ETF will generally not use leverage in excess of 2.0 times its net asset value. If the ETF uses leverage in excess of 2.0 times its net asset value, it shall generally reduce its leverage to 2.0 times its net asset value within 10 business days.

To achieve its investment objective and leverage, the ETF has entered into multiple forward agreements (the "Forward Agreements") with one or more bank counterparties (each a "Forward Counterparty"). The Forward Agreements provide both positive exposure to the Referenced Futures Index and negative exposure to the Referenced Futures Index. The ETF generally invests its assets in interest bearing accounts and short-term Canadian federal or provincial treasury bills to earn prevailing short-term market interest rates to serve as collateral for the Forward Agreements. Prior to April 26, 2017, the Forward Agreements provided direct exposure to the Referenced Futures Contract that they now provide via the Referenced Futures Index (*see Recent Developments*).

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

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

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

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

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



## Management Discussion of Fund Performance *(continued)*

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

The following table discloses the minimum and maximum leverage levels for the ETF for the period ended June 30, 2018, and for the year ended December 31, 2017; the ETF's leverage at the end of those reporting periods; and, approximately what that leverage represents as a percentage of the ETF's net assets.

Period/Year Ended	Minimum Leverage	Maximum Leverage	Leverage at end of Reporting Period	Approximate Percentage of Net Assets
June 30, 2018	2.00:1	2.00:1	2.00:1	200%
December 31, 2017	2.00:1	2.00:1	2.00:1	200%

Maximum and minimum leverage factors are not adjusted for capital stock activity. Leverage is adjusted daily to be within limits set out in the prospectus.

### 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

There were no related party portfolio transactions during the current reporting period. Certain services have been provided to the ETF by related parties, and those relationships are described below.

#### *Manager, 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. The Manager 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 10) are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statements of comprehensive income in the attached financial statements of the ETF. The management fees payable by the ETF as at June 30, 2018, and December 31, 2017, are disclosed in the statements of financial position.

### National Bank of Canada Relationship

While not related parties to the ETF, National Bank of Canada ("NBC") and National Bank Financial Inc. ("NBF") may have acted as a Forward Counterparty, designated broker, an underwriter and/or a registered trader (market maker) of the ETF during the period. These relationships may have created actual or perceived conflicts of interest which investors may have considered in relation to an investment in the ETF. In particular, by virtue of these relationships, NBF or NBC may have profited from the sale and trading of the ETF's units. NBF, as market maker of the ETF in the secondary market, may therefore have had economic interests which may have differed from and were adverse to those of the ETF's unitholders.

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## Management Discussion of Fund Performance *(continued)*

NBF's potential roles as a designated broker and a dealer of the ETF was not as an underwriter of the ETF in connection with the primary distribution of units under the ETF's prospectus. NBF was not involved in the preparation of, nor did it perform any review of, the contents of the ETF's prospectus.

NBF and its affiliates may, at present or in the future, engage in business with the ETF, the issuers of securities making up the investment portfolio of the ETF, or with the Manager or any funds sponsored by the Manager or its affiliates, including by making loans, entering into derivative transactions or providing advisory or agency services. In addition, the relationship between NBF and its affiliates, and the Manager and its affiliates may have extended to other activities, such as being part of a distribution syndicate for other funds sponsored by the Manager or its affiliates.

## Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance for the current interim reporting period and for the past five fiscal years. This information is derived from the ETF's annual audited 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 <sup>(1)</sup>	2018	2017	2016	2015	2014	2013
<b>Net assets, beginning of period</b>	\$ 5.97	7.27	11.72	11.09	8.43	4.78
<b>Increase (decrease) from operations:</b>						
Total revenue	0.05	0.06	0.04	0.06	0.05	0.01
Total expenses	(0.07)	(0.14)	(0.15)	(0.23)	(0.19)	(0.16)
Realized gains (losses) for the period	0.11	2.49	(1.62)	6.09	3.72	4.01
Unrealized gains (losses) for the period	0.46	(2.08)	0.13	(2.62)	(1.65)	0.15
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	0.55	0.33	(1.60)	3.30	1.93	4.01
<b>Total distributions <sup>(3)</sup></b>	–	–	–	–	–	–
<b>Net assets, end of period <sup>(4)</sup></b>	\$ 6.55	5.97	7.27	11.72	11.09	8.43

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 of the other years shown. The ETF effectively began operations on June 29, 2009. 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. Distributions, if any, were paid in cash, reinvested in additional units of the ETF, or both.
4. The Financial Highlights are not intended to act as a continuity of the opening and closing net assets per unit.

**Financial Highlights** (continued)

**Ratios and Supplemental Data**

<b>Period</b> <sup>(1)</sup>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Total net asset value (000's)	\$ 4,566	1,027	2,888	2,309	3,360	7,902
Number of units outstanding (000's)	697	172	397	197	303	938
Management expense ratio <sup>(2)</sup>	1.52%	1.53%	1.49%	1.50%	1.50%	1.46%
Management expense ratio before waivers and absorptions <sup>(2)</sup>	3.04%	5.01%	2.26%	2.16%	1.99%	1.52%
Trading expense ratio <sup>(3)</sup>	0.82%	0.80%	0.81%	0.81%	0.81%	0.84%
Portfolio turnover rate <sup>(4)</sup>	0.00%	0.00%	0.00%	0.00%	0.00%	267.15%
Net asset value per unit, end of period	\$ 6.55	5.97	7.27	11.72	11.09	8.43
Closing market price	\$ 6.63	6.07	7.24	11.70	10.92	8.37

1. This information is provided as at June 30, 2018, and December 31 of the other years shown. The ETF effectively began operations on June 29, 2009. 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 portfolio advisor compensation, administration, service fees and marketing. The Manager, at its discretion, waived and/or absorbed a portion of the fees and/or expenses otherwise payable by the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.
3. The trading expense ratio represents total commissions, forward agreement fees and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
4. The ETF's portfolio turnover rate indicates how actively the ETF trades its portfolio investments. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of a year. The higher an ETF's portfolio turnover rate in a year, the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of an ETF.

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**Financial Highlights** (continued)**Management Fees**

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

The ETF is also responsible for all of its operating expenses, unless waived or reimbursed by the Manager, including but not limited to: audit fees; trustee and custodial expenses; valuation, accounting and record keeping costs; legal expenses; permitted prospectus preparation and filing expenses; costs associated with delivering documents to 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 tax; brokerage expenses and commissions; and withholding taxes. The Manager bears the costs relating to the investment management, advertising, marketing, sponsorship and promotion of the ETF.

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

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

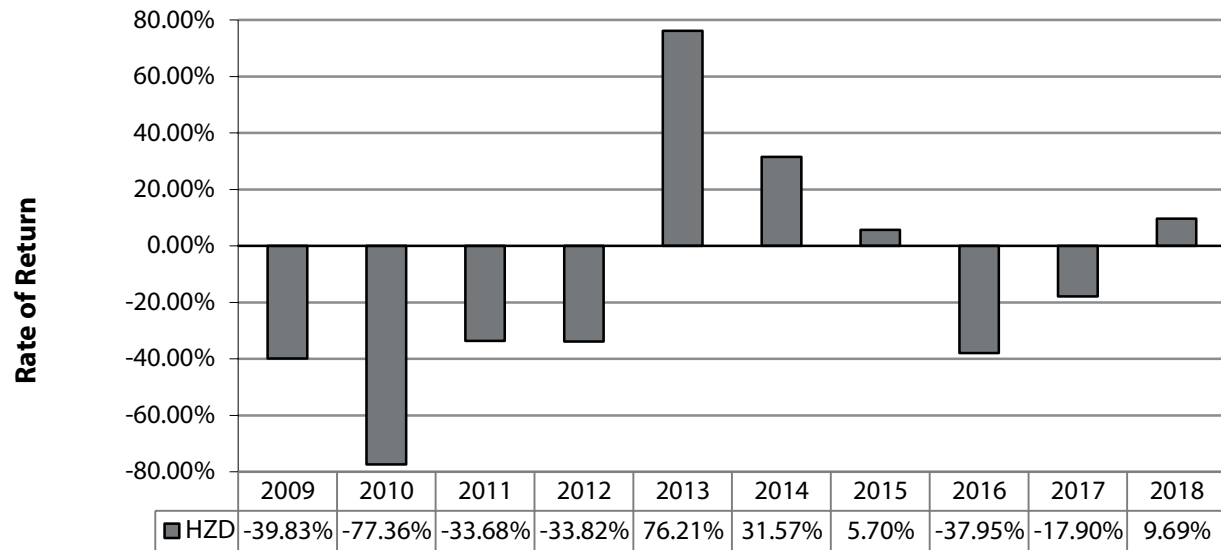
The Manager paid substantially more than 100% of the management fees it received from the ETF during the period towards marketing and promotional costs, and towards the fees associated with the managerial, portfolio management and portfolio advisory services provided to the ETF.

## Past Performance

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

### Year-by-Year Returns

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



The ETF effectively began operations on June 29, 2009.

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

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

A perfect daily correlation of 200% of the daily inverse return of the Referenced Futures Index would be a correlation of 1.0. The ETF has achieved a perfect daily correlation to its stated Referenced Futures Index for the period ended June 30, 2018, of 1.0000.

## Summary of Investment Portfolio

As at June 30, 2018

<b>Asset Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
Investments	\$ 338,153	7.40%
Cash and Cash Equivalents held for Collateral	4,137,538	90.61%
Cash and Cash Equivalents - Other	89,956	1.97%
Other Assets less Liabilities	719	0.02%
	<b>\$ 4,566,366</b>	<b>100.00%</b>

<b>Top Holdings</b>	<b>% of ETF's Net Asset Value</b>
Cash and Cash Equivalents held for Collateral	90.61%
Forward Agreements (net notional value US\$6,942,544)	7.40%
Cash and Cash Equivalents - Other	1.97%

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

### MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements of BetaPro Silver -2x Daily Bear 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.



\_\_\_\_\_  
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

	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Cash and cash equivalents held for collateral	\$ 4,137,538	\$ 1,022,480
Cash and cash equivalents - other	89,956	22,083
Amounts receivable relating to accrued income	5,607	–
Amounts receivable relating to portfolio assets sold	1,447	–
Derivative assets (note 3)	391,100	9,539
<b>Total Assets</b>	<b>4,625,648</b>	<b>1,054,102</b>
<b>Liabilities</b>		
Accrued management fees	5,182	1,969
Accrued operating expenses	1,153	486
Derivative liabilities (note 3)	52,947	24,463
<b>Total Liabilities</b>	<b>59,282</b>	<b>26,918</b>
<b>Total net assets (note 2)</b>	<b>\$ 4,566,366</b>	<b>\$ 1,027,184</b>
Number of redeemable units outstanding (note 10)	697,000	172,000
Total net assets per unit	\$ 6.55	\$ 5.97

(See accompanying notes to financial statements)

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



 Steven J. Hawkins  
 Director



 Taeyong Lee  
 Director

**Statements of Comprehensive Income** (unaudited)

For the Periods Ended June 30,

	<b>2018</b>	<b>2017</b>
<b>Income</b>		
Interest income for distribution purposes	\$ 39,865	\$ 10,317
Securities lending income (note 9)	–	153
Net realized gain on sale of investments and derivatives	93,173	687,835
Net change in unrealized appreciation (depreciation) of investments and derivatives	373,849	(570,825)
	<b>506,887</b>	<b>127,480</b>
<b>Expenses</b>		
Management fees (note 11)	31,562	14,675
Annual stock exchange listing fees	1,260	2,568
Index licensing fees	852	1,007
Audit fees	4,556	4,534
Filing fees	11,380	19,535
Independent Review Committee fees	389	12
Custodial fees	4,404	538
Legal fees	126	–
Securityholder reporting costs	6,501	6,999
Administration fees	16,148	15,987
Transaction costs	20,772	9,439
	<b>97,950</b>	<b>75,294</b>
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(38,590)	(48,069)
	<b>59,360</b>	<b>27,225</b>
<b>Increase in net assets for the period</b>	<b>\$ 447,527</b>	<b>\$ 100,255</b>
Increase in net assets per unit	\$ 0.55	\$ 0.26

(See accompanying notes to financial statements)

**Statements of Changes in Financial Position** (unaudited)

For the Periods Ended June 30,

	<b>2018</b>		<b>2017</b>	
<b>Total net assets at the beginning of the period</b>	\$	1,027,184	\$	2,887,526
<b>Increase in net assets</b>		447,527		100,255
<b>Redeemable unit transactions</b>				
Proceeds from the issuance of securities of the investment fund		6,399,887		6,372,888
Aggregate amounts paid on redemption of securities of the investment fund		(3,308,232)		(7,900,888)
<b>Total net assets at the end of the period</b>	<b>\$</b>	<b>4,566,366</b>	<b>\$</b>	<b>1,459,781</b>

(See accompanying notes to financial statements)

**Statements of Cash Flows** (unaudited)

For the Periods Ended June 30,

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Increase in net assets for the period	\$ 447,527	\$ 100,255
Adjustments for:		
Net realized gain on sale of investments and derivatives	(93,173)	(687,835)
Net change in unrealized depreciation (appreciation) of investments and derivatives	(373,849)	570,825
Purchase of investments	20,772	9,439
Proceeds from the sale of investments	91,726	687,835
Amounts receivable relating to accrued income	(5,607)	313
Accrued expenses	3,880	(1,011)
<b>Net cash from operating activities</b>	<b>91,276</b>	<b>679,821</b>
<b>Cash flows from financing activities:</b>		
Amount received from the issuance of units	6,399,887	6,372,888
Amount paid on redemptions of units	(3,308,232)	(7,900,888)
<b>Net cash from (used in) financing activities</b>	<b>3,091,655</b>	<b>(1,528,000)</b>
<b>Net increase (decrease) in cash and cash equivalents for the period</b>	<b>3,182,931</b>	<b>(848,179)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,044,563</b>	<b>2,195,918</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,227,494</b>	<b>\$ 1,347,739</b>
Interest received	\$ 34,306	\$ 10,669
<b>Total Cash and Cash Equivalents are composed of:</b>		
Cash and cash equivalents held for collateral	\$ 4,137,538	\$ 1,320,152
Cash and cash equivalents - other	89,956	27,587
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,227,494</b>	<b>\$ 1,347,739</b>

(See accompanying notes to financial statements)

**Schedule of Investments** (unaudited)

As at June 30, 2018

<b>Security</b>	<b>Fair Value</b>
<b>FORWARD AGREEMENTS (7.40%)</b>	
<b>Positive Exposure Forward Agreements (-1.16%)</b>	
Silver Forward Agreement	
Payment Date August 18, 2021 (notional value US\$594,357)	\$ (15,297)
Silver Forward Agreement	
Payment Date October 15, 2022 (notional value US\$1,341,570)	(37,650)
	<u>(52,947)</u>
<b>Negative Exposure Forward Agreements (8.56%)</b>	
Silver Forward Agreement	
Payment Date August 18, 2021 (notional value US\$2,748,548)	129,437
Silver Forward Agreement	
Payment Date October 1, 2022 (notional value US\$6,129,923)	261,663
	<u>391,100</u>
<b>TOTAL FORWARD AGREEMENTS</b>	<b><u>338,153</u></b>
<b>CASH AND CASH EQUIVALENTS HELD FOR COLLATERAL (90.61%)</b>	<b><u>4,137,538</u></b>
<b>TOTAL INVESTMENT PORTFOLIO (98.01%) (note 8)</b>	<b><u>\$ 4,475,691</u></b>
<b>Cash and cash equivalents - other (1.97%)</b>	89,956
<b>Other assets less liabilities (0.02%)</b>	719
<b>TOTAL NET ASSETS (100.00%)</b>	<b><u>\$ 4,566,366</u></b>

(See accompanying notes to financial statements)

**Notes to Financial Statements** (unaudited)

June 30, 2018

**1. REPORTING ENTITY**

BetaPro Silver -2x Daily Bear ETF ("HZD" 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 June 29, 2009. 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 Toronto Stock Exchange ("TSX") under the symbol HZD. 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.

HZD seeks **daily investment results**, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to two times (200%) the inverse (opposite) of the daily performance of the Solactive Silver Front Month MD Rolling Futures Index ER (the "Referenced Futures Index", Bloomberg ticker: SOLCSIER). HZD is denominated in Canadian dollars. Any U.S. dollar gains or losses as a result of the ETF's investment will be hedged back to the Canadian dollar to the best of its ability.

If HZD is successful in meeting its investment objective, its net asset value should gain approximately two times as much on a given day, on a percentage basis, as its Referenced Futures Index declines on that given day. Conversely, HZD's net asset value should lose approximately two times as much on a given day, on a percentage basis, as its Referenced Futures Index rises on that given day.

Horizons ETFs Management (Canada) Inc. ("Horizons Management" or the "Manager", the "Investment Manager", or the "Trustee") is the manager, investment manager and trustee of the ETF. 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 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 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.

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2018

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

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

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 statements of comprehensive income. Other financial assets and financial liabilities are recognized on the date on which they are originated at fair value.

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

- Financial assets mandatorily classified at 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.

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2018

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

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

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

***(iii) Offsetting***

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

Income and expenses are presented on a net basis for gains and losses from financial instruments at 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. Cash and cash equivalents held for collateral consists of cash and/or short-term investments posted as collateral to the Forward Agreements as described in note 8.

**Redeemable units**

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

**(b) Investment income**

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



**Notes to Financial Statements** (unaudited) (continued)

June 30, 2018

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

Income from securities lending, if any, is included in "Securities lending income" on the statements of comprehensive income and is recognized when earned. Any securities on loan continue to be displayed in the schedule of investments and the market value of the securities loaned and collateral held is determined daily (see note 9).

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

**(c) Foreign currency**

Transactions in foreign currencies, if any, are translated into the ETF's reporting currency using the exchange rate prevailing on the trade date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the 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 statements of comprehensive income.

**(d) Cost basis**

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

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

The increase (decrease) in net assets per unit in the statements of comprehensive income represents the change in net assets attributable to holders of redeemable units from operations divided by the weighted average number of units of the ETF outstanding during the reporting period. For management fees please refer to note 11.

**(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 statements 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 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.

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2018

**(i) Transaction costs**

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

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

The 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 ETF, to the best of its ability, hedges all of its foreign currency exposure back to the Canadian dollar as part of any Forward Agreement (see note 8) so that it has no net foreign currency exposure.

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2018

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

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

A perfect daily correlation of 200% of the daily inverse return of the Referenced Futures Index would be a correlation of 1.0. The ETF has achieved a perfect daily correlation to its stated Referenced Futures Index for the period ended June 30, 2018, of 1.0000.

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

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

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2018

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

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

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

The annualized volatility of each of the Referenced Futures Index and the ETF was 19.16% and 36.74%, respectively, for the period ended 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, including any positive mark-to-market of the ETF's Forward Agreement(s). This amount is included in "Derivative assets" (if any) in the statements of financial position. The credit risk related to any one Forward Agreement is concentrated in the Forward Counterparty to that particular Forward Agreement.

Credit risk is managed by dealing with counterparties the Manager believes to be creditworthy and which meet the designated rating requirements of National Instrument 81-102 ("NI 81-102"), please see note 8.

**(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 may, at times, have very large purchase and redemption activity. However, the performance of the ETF is primarily affected by the performance of its Forward Agreement(s), which are rebalanced daily and is tied to the performance of the Referenced Futures Index. The performance and liquidity of the ETF is unaffected by the asset size of the ETF, purchases or redemptions as these transactions are taken into account during the daily rebalancing of the Forward Agreement(s).

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2018

**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 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 (\$)
<b>Financial Assets</b>						
Forward Agreements	–	391,100	–	–	9,539	–
<b>Total Financial Assets</b>	–	<b>391,100</b>	–	–	<b>9,539</b>	–
<b>Financial Liabilities</b>						
Forward Agreements	–	(52,947)	–	–	(24,463)	–
<b>Total Financial Liabilities</b>	–	<b>(52,947)</b>	–	–	<b>(24,463)</b>	–
<b>Net Financial Assets &amp; Liabilities</b>	–	<b>338,153</b>	–	–	<b>(14,924)</b>	–

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

**7. LEVERAGE**

The ETF measures leverage in terms of the total underlying notional value of the securities and/or financial derivative positions as a ratio of the total assets held by such ETF. The ETF, unlike a mutual fund that is not subject to National Instrument 81-104 ("NI 81-104"), is permitted by NI 81-104 to lever its assets: that is, the aggregate underlying market exposure of all derivatives held by the ETF calculated on a daily mark-to-market basis can exceed the ETF's cash and cash equivalents, including cash held as margin on deposit to support the ETF's derivatives trading activities. The ETF will generally not use leverage in excess of 2.0 times its net asset value. If the ETF uses leverage in excess of 2.0 times its net asset value, it shall generally reduce its leverage to 2.0 times its net asset value within 10 business days.

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2018

The following table discloses the minimum and maximum leverage levels for the ETF for the period ended June 30, 2018, and for the year ended December 31, 2017; the ETF's leverage at the end of those reporting periods; and, approximately what that leverage represents as a percentage of the ETF's net assets.

<b>Period/Year Ended</b>	<b>Minimum Leverage</b>	<b>Maximum Leverage</b>	<b>Leverage at end of Reporting Period</b>	<b>Approximate Percentage of Net Assets</b>
June 30, 2018	2.00:1	2.00:1	2.00:1	200%
December 31, 2017	2.00:1	2.00:1	2.00:1	200%

Maximum and minimum leverage factors are not adjusted for capital stock activity. Leverage is adjusted daily to be within limits set out in the prospectus.

## 8. FORWARD AGREEMENTS AND COLLATERAL PLEDGED

### (a) Forward Agreements

In order to achieve its investment objective, the ETF has entered into multiple forward agreements (the "Forward Agreements") with one or more bank counterparties (each a "Forward Counterparty"). The Forward Agreements provide both positive exposure to the Referenced Futures Index and negative exposure to the Referenced Futures Index. The ETF seeks to achieve its investment objective through the net exposure (the "Net Notional Exposure") of these Forward Agreements. The ETF generally invests its assets in interest bearing accounts and short-term Canadian federal or provincial treasury bills ("T-Bills") to earn prevailing short-term market interest rates.

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

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

Prior to April 26, 2017, the Forward Agreements provided direct exposure to a rolling position in the silver futures contract traded on the Chicago Mercantile Exchange (the "Referenced Futures Contract") for a subsequent delivery month that they now provide via the Referenced Futures Index.

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2018

On April 26, 2017, the Manager introduced a new benchmark index – the Referenced Futures Index – for the purposes of tracking the Referenced Futures Contract. The change in benchmark from a specified futures contract to a specified index which seeks to track the applicable specified futures contract, provides investors with the identical exposure to the asset class to which the ETF is exposed, in a more cost efficient and transparent manner. There is no change to the futures contract roll methodologies that the ETF is exposed to.

In all other respects, the investment objectives, strategies, restrictions, risk factors and fee structure (including the management fee and expenses payable by the ETF related to the Forward Agreements) remain the same. The change in benchmark did not affect or change the investment sectors, management fee, distribution policy or risk assessment relating to the ETF.

**(b) Forward Counterparty Restrictions**

The one or more Forward Counterparties to the Forward Agreements entered into by the ETF must be a chartered Canadian bank or an affiliate of a chartered Canadian bank whose obligations are guaranteed by a chartered Canadian bank, and which has a designated rating. The ETF's exposure to Forward Agreements by Forward Counterparty is disclosed in the next section.

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

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

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

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

**(c) Forward Agreements Exposure**

The table below shows the notional exposure of the ETF to Forward Agreements as at June 30, 2018, and December 31, 2017, as measured by the Net Notional Exposure. In addition, designated ratings for the Forward Counterparties at each reporting date are presented, as is the credit risk exposure (see note 5) of derivative assets as shown in the statements of financial position.

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2018

As at	Counter-party <sup>(1) (2)</sup>	Notional Exposure	Credit Risk	DBRS Rating	Fitch Rating	Moody's Rating	S&P Rating
June 30, 2018	NBC	US\$4,788,353	\$261,663	AA (low)	A+	Aa3	A
June 30, 2018	CIBC	US\$2,154,191	\$129,437	AA	AA-	Aa3	A+
Dec. 31, 2017	NBC	US\$1,038,346	\$5,281	AA (low)	A+	Aa3	A
Dec. 31, 2017	CIBC	US\$600,609	\$4,258	AA	AA-	Aa3	A+

<sup>(1)</sup> NBC refers to National Bank of Canada

<sup>(2)</sup> CIBC refers to Canadian Imperial Bank of Commerce

## 9. 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 statements of comprehensive income.

As at June 30, 2018, and December 31, 2017, the ETF was not participating in any securities lending transactions.

The table below presents a reconciliation of the securities lending income as presented in the statements of comprehensive income for the periods ended June 30, 2018 and 2017. 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 periods ended	June 30, 2018	% of Gross Income	June 30, 2017	% of Gross Income
Gross securities lending income	–		\$153	
<b>Net securities lending income paid to the ETF</b>	–	–	<b>\$153</b>	<b>100.00%</b>

## 10. 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.



**Notes to Financial Statements** (unaudited) (continued)

June 30, 2018

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 and 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 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.

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 year to such an extent that the ETF will not be liable for ordinary income tax thereon. Income earned by the ETF is distributed to unitholders at least once per year, if necessary, and any such amount distributed by the ETF will be paid as a "reinvested distribution". Reinvested distributions on units of the ETF will be reinvested automatically in additional units of the ETF at a price equal to the net asset value per unit of the ETF on such day and the units of the ETF will be immediately consolidated such that the number of outstanding units of the ETF held by each unitholder on such day following the distribution will equal the number of units of the ETF held by the unitholder prior to the distribution. Reinvested distributions are reported as taxable distributions and used to increase each unitholder's adjusted cost base for the ETF. Distributions paid to holders of redeemable units, if any, are recognized in the statements of changes in financial position.

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

For the periods ended June 30, 2018 and 2017, the number of units issued by subscription, 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	172,000	1,050,000	(525,000)	697,000	816,061
2017	397,000	1,075,000	(1,250,000)	222,000	387,193

**11. EXPENSES AND OTHER RELATED PARTY TRANSACTIONS**
**Management fees**

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

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2018

**Other expenses**

The ETF is also responsible for all of its operating expenses, unless waived or reimbursed by the Manager, including but not limited to: audit fees; 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 tax; brokerage expenses and commissions; and withholding taxes. The Manager bears the costs relating to the investment management, advertising, marketing, sponsorship and promotion of the ETF.

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

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

**Other related party transactions**

The management fees paid to the Manager and fees paid to the Independent Review Committee ("IRC") are considered related party transactions, as the Manager and IRC are related parties to the ETF. Both the management fees and fees paid to the IRC are disclosed in the statements of comprehensive income. The management fees payable by the ETF as at June 30, 2018, and December 31, 2017, are disclosed in the statements of financial position.

**12. INCOME TAX**

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

**13. 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 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
\$5,173,422	\$627,414	2036

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2018

**14. OFFSETTING OF FINANCIAL INSTRUMENTS**

In the normal course of business, the ETF may enter into various master netting arrangements or other similar agreements that do not meet the criteria for offsetting in the statements of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts. The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at June 30, 2018, and December 31, 2017. The "Net" column displays what the net impact would be on the ETF's statements of financial position if all amounts were set-off. "Financial Instruments" may include non-cash collateral pledged by the ETF.

Financial Assets and Liabilities as at June 30, 2018	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	391,100	–	391,100	(52,947)	–	338,153
Derivative liabilities	(52,947)	–	(52,947)	52,947	–	–

Financial Assets and Liabilities as at December 31, 2017	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	9,539	–	9,539	(9,539)	–	–
Derivative liabilities	(24,463)	–	(24,463)	9,539	14,924	–

**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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