



**Horizons Seasonal Rotation ETF  
(HAC:TSX)**



**HORIZONS** ETFs  
by Mirae Asset

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**Interim Letter from the President and CEO:**

The first six months of 2019 has been a very exciting period for both Horizons ETFs and the Canadian ETF industry. The industry now exceeds \$181 billion in assets under management (“AUM”) across more than 800 ETF listings. Meanwhile, we launched seven new ETFs in the first half of the year, giving us a total of 90 different investment tools available for our clients. Our AUM continues to grow as well, now exceeding \$10 billion.

In 2019, we have continued to focus on expanding our lineup of marijuana-focused ETFs to give investors more ways to access this exciting, burgeoning sector. To complement our existing cannabis ETFs – the Horizons Marijuana Life Sciences Index ETF (“HMMJ”), the world’s first and largest marijuana ETF, and the Horizons Emerging Marijuana Growers Index ETF (“HMJR”), Canada’s first small-cap marijuana ETF – we introduced three additional cannabis funds. In April, we brought to market the world’s first U.S.-focused marijuana index ETF – the Horizons US Marijuana Index ETF (“HMUS”); and in May, we launched the world’s first leveraged and inverse marijuana ETFs – the BetaPro Marijuana Companies 2x Daily Bull ETF (“HMJU”) and the BetaPro Marijuana Companies Inverse ETF (“HMJI”).

Horizons ETFs is continuing to innovate in areas outside of the Cannabis space. In May, we unveiled Canada’s first uranium ETF – the Horizons Global Uranium Index ETF (“HURA”). In addition, we expanded our suite of Total Return Index ETFs to 15 with the launch of the Horizons Equal Weight Canada REIT Index ETF (“HCRE”), Horizons Laddered Canadian Preferred Share Index ETF (“HLPR”) and Horizons Equal Weight Canada Banks Index ETF (“HEWB”).

Despite any direction that markets or interest rates take, we have ETF solutions that allow investors of all types to customize their portfolio exposure. For information on all our strategies, please visit our website at [www.HorizonsETFs.com](http://www.HorizonsETFs.com) where we offer a range of resources designed to help you become a more educated ETF investor.

Thank you for your continued support and wishing you strong returns for the remainder of 2019 and beyond.



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

## MANAGEMENT REPORT OF FUND PERFORMANCE

This interim management report of fund performance for Horizons Seasonal Rotation ETF (“HAC” 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](http://www.horizonsetfs.com) or 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 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 HAC is to seek to provide long term capital appreciation in all market cycles by tactically allocating its exposure amongst equities, fixed income, commodities and currencies during periods that have historically demonstrated seasonal trends.

HAC invests primarily in exchange-traded funds and/or exchange-traded notes (together “Exchange Traded Products”) and futures contracts to gain exposure to the performance of major North American markets (“Broad Markets”) or specific commodity, currency, fixed-income or equity sectors located anywhere in the world (“Sector Markets”) that at various times of the year have historically performed favourably.

During historically favourable periods of the year that a given Broad Market has produced higher rates of return and/or a higher frequency of positive performance compared with other periods of the year, HAC may allocate some or all of its exposure to Broad Markets.

During historically favourable periods of the year that one or more Sector Markets have produced higher rates of return and/or have a higher frequency of positive performance compared with Broad Markets over the same period, HAC may allocate some of its exposure to those Sector Markets.

## Management Discussion of Fund Performance (continued)

During periods of the year when Broad Markets have historically underperformed when compared with Broad Markets during other periods of the year, HAC may allocate some of its portfolio to cash, cash equivalents or Exchange Traded Products that provide inverse exposure (including inverse leveraged exposure) to Broad Markets or one or more Sector Markets.

In order to implement these investment strategies, the ETF's investment manager may employ investment techniques that include: (a) investing directly in securities, often referred to as a "long position"; (b) taking a position in security whereby HAC will agree with another party to deliver that security to that party at a future date and future price, often referred to as a "short position"; and (c) take a long position and a short position in different securities or financial instruments that, in the opinion of the ETF's investment manager, reflect Broad Markets or Sector Markets that are traditionally inversely or directly correlated, often referred to as a "pair trade".

At times, HAC seeks to profit from short-term strategic opportunities with long or short exposure to Broad Markets or Sector Markets. At any time, HAC may have a significant amount of its portfolio in fixed-income securities, cash or cash equivalents in order to react to market conditions and/or preserve capital.

While HAC may seek to achieve its investment objective and implement these investment strategies by investing primarily in Exchange Traded Products that provide exposure to Broad Markets, Sector Markets, and fixed income securities, HAC may seek exposure by investing directly or by employing indirect alternatives that are consistent with HAC's investment objectives. Any investment in futures contracts for non-hedging purposes, including commodity futures by HAC is subject to investment restrictions which ensure that HAC holds cash cover in an amount that, together with margin on account for the futures contract and the market value of the futures contract is not less than, on a daily mark to market basis, the underlying market exposure of the commodity future.

Please refer to the most recent prospectus for a complete explanation of HAC's investment restrictions.

### Risk

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

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

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

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

## Management Discussion of Fund Performance (continued)

- Stock market risk
  - Equity risk
  - Interest rate risk
  - Commodity risk
  - Market and market volatility risk
  - Aggressive investment technique risk
  - Short selling risk
  - Leverage risk
  - No assurance of meeting investment objective
  - Reliance on key personnel
  - Reliance on historical data risk
  - Foreign currency risk
  - Hedging risk
  - Risks relating to use of derivatives
  - Liquidity risk
  - Commodity market risk
- Credit risk
  - Foreign security and exchange risk
  - Risk relating to the failure of futures commission merchant
  - Exchange traded products risk
  - Leveraged ETFs risk
  - Securities lending risk/repurchase and reverse repurchase transaction risk
  - Regulatory risk
  - Exchange risk
  - Tax risk
  - Early closing risk
  - Price limit risk
  - Corresponding net asset value risk
  - Cease trading of securities risk
  - Designated broker/dealer risk
  - Risk of loss of limited liability of unitholders

### Results of Operations

For the six-month period ended June 30, 2019, units of the ETF returned 13.85%. This compares to the S&P/TSX Composite Index™ (the “TSX Composite”) and the S&P 500® (the “S&P 500”) which returned 16.22% and 18.54%, respectively, for the same period, both on a total return basis in local currency terms.

The TSX Composite contains stocks of the largest companies listed on the Toronto Stock Exchange captured by market capitalization. The listed companies in this index account for approximately 70% of market capitalization for all Canadian-based companies listed on the Toronto Stock Exchange.

The S&P 500 is widely regarded as the best single-gauge of large-cap U.S. equities. This index includes 500 leading companies and captures approximately 80% coverage of available U.S. market capitalization.

### General Market Review

After correcting sharply in the fourth quarter of 2018, the S&P 500 rallied strongly from January until late April. One of the major drivers of the rally was the U.S. Federal Reserve (the “Fed”) switching from a hawkish bias, with investors anticipating federal funds interest rate increases in late 2018, to a dovish viewpoint, where investors began expecting the Fed to pause its interest rate hiking cycle and perhaps actually begin lowering rates in the future. The U.S. Treasury 10-year yield dropped throughout most of the first half of the year, even managing to close below 2% late in the period - an important psychological threshold for many investors. U.S. government bonds generally increased in value for most of the first half of the year. In comparison, equities were more volatile. After a strong rally from January into late April, the S&P 500 corrected sharply in May, largely on investor concerns of slowing global growth. In June, the S&P 500 rebounded sharply as the Fed communicated a more dovish approach to the economy.

## Management Discussion of Fund Performance (continued)

In the fourth quarter of 2018, it was the technology sector that led the overall stock market lower. The trend reversed and for most of the first half of 2019, it was this sector that led markets higher. The cyclical sectors of the stock market were generally underperformers. Throughout the first six months of the year, the U.S.-China trade issues weighed on the stock market, which negatively impacted the cyclical sectors of the stock market.

The Canadian stock market followed the same general pattern as the U.S. stock market with a rally from the beginning of the year into April, a correction in May and a rally in June. The Canadian market underperformed its U.S. counterpart largely due to weaker performance in the Canadian banking and energy sectors. Although both sectors were positive in the first half of 2019, they generally lagged the TSX Composite.

### ***Portfolio Review***

In the first part of 2019, the ETF held positions that are typically strong at the start of the year, such as gold bullion, silver bullion, and the small- and mid-cap sectors. The ETF profited from its gold and silver bullion positions, selling them in early January. The ETF also benefitted from its investment in the small- and mid-cap sectors as they both outperformed during their seasonally strong period, which typically lasts from mid-December until early March.

A position was entered into in the energy sector just prior to the start of its usual period of seasonal strength from late February to early May. Although the sector was positive during this period, it underperformed the broader stock market.

Early in the year, the ETF entered a position in the broader Canadian financial sector and then rotated the position more specifically into the Canadian banking sector. Typically, the Canadian banking sector performs well from late January into mid-April. The ETF exited its Canadian banking position in mid-March, before the end of its strong seasonal period, as the sector was underperforming the TSX Composite.

On the U.S. sector side, the ETF took a position in the U.S. materials sector in late January. The position size was relatively small compared to past allocations at this same time of the year. The position was sold before reaching the end of its seasonal period as it was underperforming the broader U.S. market.

Generally, the ETF maintained a reduced allocation to cyclical sectors in the first four months of the year compared to allocations made in previous years, as overall, the cyclical sectors underperformed the broader market.

In terms of broad market exposure, the ETF maintained a larger exposure to the Canadian market versus the U.S. market for the first couple of months of 2019. In March, that broad market exposure was flipped, allocating a larger exposure to the U.S. broad market.

Towards the end of April, the ETF began reducing its equity allocation as markets were starting to show weakness just ahead of the usually unfavorable six-month period for stocks. In early May, the ETF substantially reduced its allocations to equities and made investments in the fixed income markets in both Canada and the U.S. The period of seasonal strength for government bonds typically runs from early May until early October.

The ETF also took positions in the Canadian real estate investment trust ("REIT") sector, which tends to perform well from late May until late September, as well as the consumer staples sector, which tends to be seasonally strong from late April to late October. Towards the end of the first half of the year, the ETF entered the biotech sector, which tends to perform well from late June into mid-September. The ETF returned to the gold bullion sector based on improving technical performance ahead of its usual period for seasonal strength from early July to early October.

## Management Discussion of Fund Performance (continued)

The ETF adjusted its currency exposure between the U.S. and Canadian dollars at various times in the first half depending on seasonal trends. Overall, the currency adjustments did not have a material impact on performance.

### **Outlook**

The “trade war” between the U.S. and China is expected to continue to put a damper on North American stock markets in the second half of the year. Global economic growth was weak in the first half and is expected to continue into the second half of the year. The Fed, and recently the European Central Bank have indicated their intention to increase monetary liquidity if their respective economies show signs of further weakness. Despite central bank support, economies could still falter, which would most likely have a negative impact on the stock market.

Historically, over the long-term, the third quarter of the year tends to be weakest for equity markets and it also tends to be one of the most volatile quarters. On a seasonal basis, stock markets tend to be stronger in the last part of the year, starting in late October. The expectation is that this pattern will stay true to form this year.

Given the lack of obvious positive catalysts in the second half of the year, both the S&P 500 and TSX Composite are not expected to have significantly strong rallies in the second half of 2019. The concerns over a worsening economic outlook will likely mean a period of higher volatility than the average over the last few years. While this may be of concern, increased volatility can provide opportunities for active strategies such as seasonal investing. On the fixed income side, government bonds are expected to produce positive returns during their period of seasonal strength in the third quarter of the year, largely based upon expectations of slowing economies and dovish positions by central banks.

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

For the six-month period ended June 30, 2019, the ETF generated gross comprehensive income (loss) from investments and derivatives (which includes changes in the fair value of the ETF’s portfolio) of \$32,558,850. This compares to \$9,549,248 for the six-month period ended June 30, 2018. The ETF incurred management, operating and transaction expenses of \$3,299,355 (2018 – \$1,213,737) of which \$50,906 (2018 – \$22,109) was either paid or absorbed by the Manager on behalf of the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

The ETF did not make any distributions to unitholders during the periods ended June 30, 2019 and 2018.

### **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.

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**Management Discussion of Fund Performance** (continued)**Related Party Transactions**

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

***Manager, Trustee and Investment Manager***

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

If the ETF invests in other Horizons Management ETFs, Horizons Management may receive management fees in respect of the ETF's assets invested in such Horizons Management ETFs. In addition, any management fees paid to the Manager (described in detail on page 9) are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statements of comprehensive income in the attached financial statements of the ETF. The management fees payable by the ETF as at June 30, 2019, and December 31, 2018, are disclosed in the statements of financial position.

## Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance for the current interim reporting period and for the past five fiscal years. 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

<i>Period</i> <sup>(1)</sup>		<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Net assets, beginning of period</b>	\$	18.95	19.13	18.21	16.66	15.13	14.30
<b>Increase (decrease) from operations:</b>							
Total revenue		0.07	0.14	0.10	0.07	0.14	0.10
Total expenses		(0.27)	(0.24)	(0.28)	(0.40)	(0.40)	(0.28)
Realized gains for the period		1.81	0.49	0.80	1.72	2.28	1.24
Unrealized gains (losses) for the period		0.86	(0.67)	0.22	0.08	(0.52)	(0.26)
<b>Total increase (decrease) from operations</b> <sup>(2)</sup>		2.47	(0.28)	0.84	1.47	1.50	0.80
<b>Distributions:</b>							
From net realized capital gains		–	(1.35)	(0.13)	(1.05)	(1.10)	(0.57)
<b>Total distributions</b> <sup>(3)</sup>		–	(1.35)	(0.13)	(1.05)	(1.10)	(0.57)
<b>Net assets, end of period</b> <sup>(4)</sup>	\$	21.56	18.95	19.13	18.21	16.66	15.13

- This information is derived from the ETF's unaudited interim financial statements and audited annual financial statements.
- 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.
- 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.
- 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**

<i>Period</i> <sup>(1)</sup>		<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total net asset value (000's)	\$	274,448	205,042	206,754	190,363	148,300	105,179
Number of units outstanding (000's)		12,728	10,820	10,809	10,455	8,900	6,950
Management expense ratio <sup>(2)(5)</sup>		2.69%	1.27%	1.53%	2.32%	2.48%	1.57%
Management expense ratio excluding performance fees <sup>(2)</sup>		1.07%	1.14%	1.11%	1.10%	1.26%	1.22%
Management expense ratio excluding performance fees and security borrowing costs		1.07%	1.13%	1.08%	1.08%	1.16%	1.20%
Management expense ratio excluding performance fees, security borrowing costs and proportion of expenses from underlying investment funds		0.85%	0.89%	0.89%	0.89%	0.91%	0.92%
Management expense ratio before waivers and absorptions <sup>(3)</sup>		2.73%	1.29%	1.53%	2.32%	2.48%	1.57%
Trading expense ratio <sup>(4)(5)</sup>		0.17%	0.22%	0.20%	0.24%	0.25%	0.69%
Trading expense ratio excluding proportion of costs from underlying investment funds		0.10%	0.13%	0.11%	0.14%	0.14%	0.57%
Portfolio turnover rate <sup>(6)</sup>		248.63%	700.04%	645.60%	879.74%	874.25%	1,350.69%
Net asset value per unit, end of period	\$	21.56	18.95	19.13	18.21	16.66	15.13
Closing market price	\$	21.56	18.93	19.15	18.18	16.65	15.18

1. This information is provided as at June 30, 2019, and December 31 of the other years shown.
2. Management expense ratio is based on total expenses, including sales tax, (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. Out of its management fees, the Manager pays for such services to the ETF as investment manager compensation and marketing.
3. The Manager, at its discretion, may waive and/or absorb a portion of the fees and/or expenses otherwise payable by the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.
4. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the 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 0.75%, plus applicable sales taxes, of the net asset value of the ETF's units, calculated and accrued daily and payable monthly in arrears. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

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

<b>Marketing</b>	<b>Portfolio management fees, general administrative costs and profit</b>	<b>Waived/absorbed expenses of the ETF</b>
3%	92%	5%

### Performance fees

The ETF will pay to the Manager a performance fee (the "Performance Fee"), if any, equal to 20% of the amount by which the performance of the ETF at any date on which the fee is payable (i) exceeds the High Water Mark (as defined in the ETF's prospectus) and (ii) is greater than an annualized return of five percent (5%). The Performance Fee will be determined in accordance with the definitions and the formula outlined in the prospectus and shall be calculated and accrued daily on each class of units.

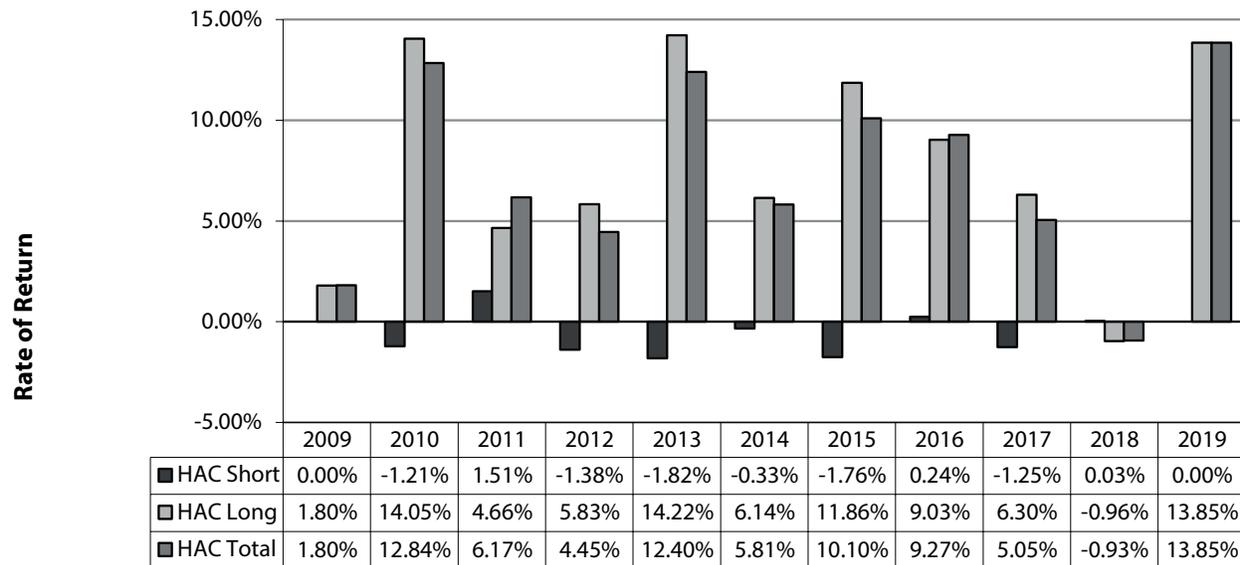
The Performance Fee shall be calculated and accrued daily and shall be payable at least quarterly in arrears on dates determined by the Manager, together with applicable taxes. The ETF accrued \$2,010,718 in performance fees for the period ended June 30, 2019 (2018 – \$107,152), and is disclosed in the statements of comprehensive income. Of this total, performance fees payable to the Manager as at June 30, 2019, were \$1,028,474 (December 31, 2018 - \$nil) and is included in accrued operating expenses on the statements of financial position, where applicable.

## Past Performance

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

## Year-by-Year Returns

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



The ETF effectively began operations on November 20, 2009.

## Summary of Investment Portfolio

As at June 30, 2019

<b>Asset Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
U.S. Fixed Income Securities	\$ 136,014,000	49.56%
Canadian Fixed Income Securities	59,008,500	21.50%
U.S. Equities	39,119,532	14.25%
Canadian Equities	21,362,250	7.78%
Commodity ETFs	10,858,750	3.96%
Currency Forward Hedge*	2,707,506	0.99%
Cash and Cash Equivalents	4,962,038	1.81%
Other Assets less Liabilities	415,291	0.15%
	<b>\$ 274,447,867</b>	<b>100.00%</b>

<b>Sector Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
U.S. Broad Fixed Income	\$ 136,014,000	49.56%
Canadian Broad Fixed Income	59,008,500	21.50%
Consumer Staples	25,475,265	9.28%
Canadian Broad Equity	21,362,250	7.78%
Health Care	13,644,267	4.97%
Materials	10,858,750	3.96%
Currency Forward Hedge*	2,707,506	0.99%
Cash and Cash Equivalents	4,962,038	1.81%
Other Assets less Liabilities	415,291	0.15%
	<b>\$ 274,447,867</b>	<b>100.00%</b>

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

**Summary of Investment Portfolio** (continued)

As at June 30, 2019

<b>Top Holdings</b>	<b>% of ETF's Net Asset Value</b>
Horizons US 7-10 Year Treasury Bond ETF	48.48%
Horizons Active Floating Rate Bond ETF	17.58%
Consumer Staples Select Sector SPDR® Fund	9.28%
Horizons Equal Weight Canada REIT Index ETF	7.78%
iShares Nasdaq Biotechnology ETF	4.97%
Horizons Gold ETF	3.96%
Horizons Cdn Select Universe Bond ETF	3.92%
Cash and Cash Equivalents	1.81%
Horizons Active US Floating Rate Bond (USD) ETF	1.08%

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

### MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements of Horizons Seasonal Rotation 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 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.



Peter 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, 2019 and December 31, 2018

	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 4,962,038	\$ 4,156,704
Investments	266,363,032	203,215,243
Amounts receivable relating to accrued income	245,338	–
Amounts receivable relating to portfolio assets sold	65,724,684	–
Accounts receivable relating to securities issued	1,617,154	–
Derivative assets (note 3)	2,753,203	174,142
<b>Total assets</b>	<b>341,665,449</b>	<b>207,546,089</b>
<b>Liabilities</b>		
Accrued management fees	184,499	151,402
Accrued operating expenses	1,036,036	13,676
Amounts payable for portfolio assets purchased	65,951,350	–
Derivative liabilities (note 3)	45,697	2,339,387
<b>Total liabilities</b>	<b>67,217,582</b>	<b>2,504,465</b>
<b>Total net assets (note 2)</b>	<b>\$ 274,447,867</b>	<b>\$ 205,041,624</b>
Number of redeemable units outstanding (note 8)	12,728,421	10,819,883
Total net assets per unit	\$ 21.56	\$ 18.95

(See accompanying notes to financial statements)

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



 Steven J. Hawkins  
 Director



 Peter Lee  
 Director

**Statements of Comprehensive Income** (unaudited)

For the Periods Ended June 30,

	<b>2019</b>	<b>2018</b>
<b>Income</b>		
Dividend income	\$ 639,792	\$ 232,539
Interest income for distribution purposes	180,985	179,608
Securities lending income (note 8)	13,564	32,818
Net realized gain on sale of investments and derivatives	21,351,229	10,734,570
Net realized gain on foreign exchange	162,170	74,074
Net change in unrealized appreciation (depreciation) of investments and derivatives	10,211,468	(1,699,536)
Net change in unrealized depreciation of foreign exchange	(358)	(4,825)
	<b>32,558,850</b>	<b>9,549,248</b>
<b>Expenses (note 9)</b>		
Management fees	1,017,312	837,364
Performance fees	2,010,718	107,152
Audit fees	4,213	7,327
Independent Review Committee fees	371	389
Custodial and fund valuation fees	35,521	31,391
Legal fees	12,396	19,774
Securityholder reporting costs	13,819	15,351
Administration fees	13,753	14,595
Borrowing fees for securities sold short	99	4,767
Transaction costs	128,734	135,017
Withholding taxes	56,652	37,338
Other expenses	5,767	3,272
	<b>3,299,355</b>	<b>1,213,737</b>
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(50,906)	(22,109)
	<b>3,248,449</b>	<b>1,191,628</b>
<b>Increase in net assets for the period</b>	<b>\$ 29,310,401</b>	<b>\$ 8,357,620</b>
Increase in net assets per unit	\$ 2.47	\$ 0.79

(See accompanying notes to financial statements)

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

For the Periods Ended June 30,

	<b>2019</b>	<b>2018</b>
<b>Total net assets at the beginning of the period</b>	\$ 205,041,624	\$ 206,754,488
<b>Increase in net assets</b>	29,310,401	8,357,620
<b>Redeemable unit transactions</b>		
Proceeds from the issuance of securities of the investment fund	46,417,136	4,444,458
Aggregate amounts paid on redemption of securities of the investment fund	(6,321,294)	(12,712,755)
<b>Total net assets at the end of the period</b>	<b>\$ 274,447,867</b>	<b>\$ 206,843,811</b>

(See accompanying notes to financial statements)

**Statements of Cash Flows** (unaudited)

For the Periods Ended June 30,

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Increase in net assets for the period	\$ 29,310,401	\$ 8,357,620
Adjustments for:		
Net realized gain on sale of investments and derivatives	(21,351,229)	(10,734,570)
Net realized loss on currency forward contracts	(1,656,655)	(419,661)
Net change in unrealized depreciation (appreciation) of investments and derivatives	(10,211,468)	1,699,536
Net change in unrealized depreciation of foreign exchange	358	4,311
Purchase of investments	(563,702,961)	(656,733,223)
Proceeds from the sale of investments	529,128,439	665,802,045
Amounts receivable relating to accrued income	(245,338)	42,327
Accrued expenses	1,055,457	106,116
<b>Net cash from (used in) operating activities</b>	<b>(37,672,996)</b>	<b>8,124,501</b>
<b>Cash flows from financing activities:</b>		
Amount received from the issuance of units	44,799,982	4,444,458
Amount paid on redemptions of units	(6,321,294)	(12,712,755)
<b>Net cash from (used in) financing activities</b>	<b>38,478,688</b>	<b>(8,268,297)</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>805,692</b>	<b>(143,796)</b>
Effect of exchange rate fluctuations on cash and cash equivalents	(358)	(4,311)
<b>Cash and cash equivalents at beginning of period</b>	<b>4,156,704</b>	<b>3,786,571</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,962,038</b>	<b>\$ 3,638,464</b>
Interest received, net of withholding taxes	\$ 180,985	\$ 179,608
Dividends received, net of withholding taxes	\$ 337,802	\$ 237,528

(See accompanying notes to financial statements)

**Schedule of Investments** (unaudited)

As at June 30, 2019

Security	Shares/ Contracts	Average Cost	Fair Value
<b>U.S. FIXED INCOME SECURITIES (49.56%)</b>			
<b>U.S. Broad Fixed Income (49.56%)</b>			
Horizons Active US Floating Rate Bond (USD) ETF	225,000	\$ 3,049,380	\$ 2,954,250
Horizons US 7-10 Year Treasury Bond ETF	2,325,000	132,439,138	133,059,750
		135,488,518	136,014,000
<b>TOTAL U.S. FIXED INCOME SECURITIES</b>		<b>135,488,518</b>	<b>136,014,000</b>
<b>CANADIAN FIXED INCOME SECURITIES (21.50%)</b>			
<b>Canadian Broad Fixed Income (21.50%)</b>			
Horizons Active Floating Rate Bond ETF	4,800,000	48,260,504	48,240,000
Horizons Cdn Select Universe Bond ETF	225,000	10,506,134	10,768,500
		58,766,638	59,008,500
<b>TOTAL CANADIAN FIXED INCOME SECURITIES</b>		<b>58,766,638</b>	<b>59,008,500</b>
<b>U.S. EQUITIES (14.25%)</b>			
<b>Consumer Staples (9.28%)</b>			
Consumer Staples Select Sector SPDR® Fund	335,000	24,990,371	25,475,265
<b>Health Care (4.97%)</b>			
iShares Nasdaq Biotechnology ETF	95,500	13,548,109	13,644,267
<b>TOTAL U.S. EQUITIES</b>		<b>38,538,480</b>	<b>39,119,532</b>
<b>CANADIAN EQUITIES (7.78%)</b>			
<b>Canadian Broad Equity (7.78%)</b>			
Horizons Equal Weight Canada REIT Index ETF	975,000	21,105,533	21,362,250
<b>TOTAL CANADIAN EQUITIES</b>		<b>21,105,533</b>	<b>21,362,250</b>
<b>COMMODITY ETFs (3.96%)</b>			
<b>Materials (3.96%)</b>			
Horizons Gold ETF	875,000	10,845,937	10,858,750
<b>TOTAL COMMODITY ETFs</b>		<b>10,845,937</b>	<b>10,858,750</b>

**Schedule of Investments** (unaudited) (continued)

As at June 30, 2019

<b>Security</b>	<b>Shares/ Contracts</b>	<b>Average Cost</b>	<b>Fair Value</b>
<b>DERIVATIVES (0.99%)</b>			
<b>Currency Forwards (0.99%)</b>			
Currency forward contract to buy C\$185,596,110 for US\$139,650,000 maturing July 11, 2019		–	2,753,203
Currency forward contract to buy US\$6,100,000 for C\$8,032,390 maturing July 11, 2019		–	(45,697)
		–	2,707,506
<b>TOTAL DERIVATIVES</b>		–	<b>2,707,506</b>
Transaction Costs		(27,449)	
<b>TOTAL INVESTMENT PORTFOLIO (98.04%)</b>		<b>\$ 264,717,657</b>	<b>\$ 269,070,538</b>
<b>Cash and cash equivalents (1.81%)</b>			4,962,038
<b>Other assets less liabilities (0.15%)</b>			415,291
<b>TOTAL NET ASSETS (100.00%)</b>			<b>\$ 274,447,867</b>

(See accompanying notes to financial statements)

## Notes to Financial Statements (unaudited)

June 30, 2019

### 1. REPORTING ENTITY

Horizons Seasonal Rotation ETF (“HAC” 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 November 20, 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 E units (“Class E”) which trade on the Toronto Stock Exchange (“TSX”) under the symbol HAC. 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 HAC is to seek to provide long term capital appreciation in all market cycles by tactically allocating its exposure amongst equities, fixed income, commodities and currencies during periods that have historically demonstrated seasonal trends.

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.

### 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 14, 2019, by the Board of Directors of the Manager.

#### *(ii) Basis of measurement*

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

#### *(iii) Functional and presentation currency*

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

June 30, 2019

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

The ETF is subject to IFRS 9, Financial Instruments (“IFRS 9”) for the classification and measurement requirements for financial instruments, including impairment on financial assets and hedge accounting.

This standard requires assets to be classified based on the ETF’s business model for managing the financial assets and contractual cash flow characteristics of the financial assets. The standard includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit and loss (“FVTPL”). IFRS 9 requires classification of debt instruments, if any, based solely on payments of principal and interests, and business model tests.

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

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, at fair value (see below), with transaction costs recognized in the 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
- Financial liabilities classified at fair value through profit or loss: derivative financial instruments and securities sold short, if any
- Financial liabilities at amortized cost: all other financial liabilities

***(ii) Fair value measurement***

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

Investments are valued at fair value as of the close of business on each day upon which a session of the 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, 2019

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 statements of comprehensive income. When the forward contracts are closed out or mature, realized gains or losses on forward contracts are recognized and are included in the statements of comprehensive income in net realized gain (loss) on sale of investments and derivatives. The Canadian dollar value of forward foreign exchange contracts is determined using forward currency exchange rates supplied by an independent service provider.

**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, 2019

**(b) Investment income**

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

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

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

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

**(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 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 9.

**(f) Unitholder transactions**

The value at which units are issued or redeemed is determined by dividing the net asset value of the ETF by the total number of units outstanding of the ETF on the Valuation Date. Amounts received on the issuance of units and amounts paid on the redemption of units are included in the statements of changes in financial position.

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

June 30, 2019

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

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

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

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

**(i) Transaction costs**

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

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

June 30, 2019

**(a) Market risk**

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

**(i) Currency risk**

Currency risk is the risk that financial instruments which are denominated in currencies other than the ETF's reporting currency, the Canadian dollar, will fluctuate due to changes in exchange rates and adversely impact the ETF's income, cash flows or fair values of its investment holdings. The ETF may reduce its foreign currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts. As at June 30, 2019, and December 31, 2018, the ETF did not have any material net exposure to foreign currencies due to the ETF's hedging strategies.

**(ii) Interest rate risk**

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

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

<b>Investments</b>	<b>Less than 1 year</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>&gt; 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
As at	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
June 30, 2019	3,299	21,084	17,521	152,921	–	194,825
December 31, 2018	–	–	–	–	–	–

The percentage of the ETF's net assets exposed to interest rate risk as at June 30, 2019, was 71.0% (December 31, 2018 – nil). The amount by which the net assets of the ETF would have increased or decreased, as at June 30, 2019, had the prevailing interest rates been lowered or raised by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, was \$11,469,391 (December 31, 2018 – \$nil). The ETF's interest rate sensitivity was determined based on portfolio weighted duration. In practice, actual results may differ from this sensitivity analysis.

**(iii) Other market risk**

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

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

June 30, 2019

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, 2019	December 31, 2018
S&P/TSX Composite Index™	\$1,615,688	\$1,201,168

**(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.

***Analysis of credit quality***

The ETF's credit risk exposure by designated rating of the invested portfolio as at June 30, 2019, and December 31, 2018, is listed as follows:

Debt or Derivative Securities by Credit Rating	Percentage of Net Asset Value (%)	
	June 30, 2019	December 31, 2018
AAA	50.4%	–
AA	4.1%	–
A	5.5%	–
BBB	10.6%	–
BB	0.4%	–
<b>Total</b>	<b>71.0%</b>	–

Designated ratings are obtained by Standard & Poor's, Moody's and/or Dominion Bond Rating Services. Where more than one rating is obtained for a security, the lowest rating has been used. Credit risk is managed by dealing with counterparties the ETF believes to be creditworthy and by regular monitoring of credit exposures. The maximum exposure to any one debt issuer as of June 30, 2019, was 48.5% (December 31, 2018 – nil) of the net assets of the ETF.

**(c) Liquidity risk**

Liquidity risk is the risk that the ETF will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The ETF's policy and the Investment Manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of shares, without incurring unaccept-

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

June 30, 2019

able losses or risking damage to the ETF's reputation. Generally, liabilities of the ETF are due within 90 days. Liquidity risk is managed by investing the majority of the ETF's assets in investments that are traded in an active market and can be readily disposed. The ETF aims to retain sufficient cash and cash equivalent positions to maintain liquidity; therefore, the liquidity risk for the ETF is considered minimal.

**6. FAIR VALUE MEASUREMENT**

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

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

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following is a summary of the inputs used as at June 30, 2019, and December 31, 2018, in valuing the ETF's investments and derivatives carried at fair values:

	June 30, 2019			December 31, 2018		
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
<b>Financial Assets</b>						
Exchange Traded Funds	266,363,032	–	–	203,215,243	–	–
Currency Forward Contracts	–	2,753,203	–	–	174,142	–
<b>Total Financial Assets</b>	<b>266,363,032</b>	<b>2,753,203</b>	<b>–</b>	<b>203,215,243</b>	<b>174,142</b>	<b>–</b>
<b>Financial Liabilities</b>						
Currency Forward Contracts	–	(45,697)	–	–	(2,339,387)	–
<b>Total Financial Liabilities</b>	<b>–</b>	<b>(45,697)</b>	<b>–</b>	<b>–</b>	<b>(2,339,387)</b>	<b>–</b>
<b>Net Financial Assets and Liabilities</b>	<b>266,363,032</b>	<b>2,707,506</b>	<b>–</b>	<b>203,215,243</b>	<b>(2,165,245)</b>	<b>–</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, 2019, and for the year ended December 31, 2018.

**7. SECURITIES LENDING**

In order to generate additional returns, the ETF is authorized to enter into securities lending agreements with borrowers deemed acceptable in accordance with National Instrument 81-102 – *Investment Funds* ("NI 81-102"). Under a securities lending agreement, the borrower must pay the ETF a negotiated securities lending fee, provide compensation to the ETF equal to any distributions received by the borrower on the securities borrowed, and the ETF must receive an acceptable form of collateral in excess of the value of the securities loaned. Although such collateral is marked to market, the ETF

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

June 30, 2019

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.

The aggregate closing market value of securities loaned and collateral received as at June 30, 2019, and December 31, 2018, was as follows:

As at	Securities Loaned	Collateral Received
June 30, 2019	\$4,614,687	\$4,777,922
December 31, 2018	\$9,109,986	\$12,582,617

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

The table below presents a reconciliation of the securities lending income as presented in the statements of comprehensive income for the periods ended June 30, 2019 and 2018. It shows the gross amount of securities lending revenues generated from the securities lending transactions of the ETF, less any taxes withheld and amounts earned by parties entitled to receive payments out of the gross amount as part of any securities lending agreements.

For the periods ended	June 30, 2019	% of Gross Income	June 30, 2018	% of Gross Income
Gross securities lending income	\$27,128		\$65,636	
Lending Agents' fees:				
National Bank Financial Inc.	(13,564)	50.00%	(32,818)	50.00%
<b>Net securities lending income paid to the ETF</b>	<b>\$13,564</b>	<b>50.00%</b>	<b>\$32,818</b>	<b>50.00%</b>

## 8. REDEEMABLE UNITS

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

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

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

June 30, 2019

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 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 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, 2019 and 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:

<b>Period</b>	<b>Beginning Units Outstanding</b>	<b>Units Issued</b>	<b>Units Redeemed</b>	<b>Ending Units Outstanding</b>	<b>Average Units Outstanding</b>
2019	10,819,883	2,208,538	(300,000)	12,728,421	11,874,239
2018	10,808,883	225,000	(650,000)	10,383,883	10,545,347

## 9. EXPENSES

### Management fees

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

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

June 30, 2019

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.75%, plus applicable sales taxes, of the net asset value of the ETF's units, calculated and accrued daily and payable monthly in arrears. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

**Other expenses**

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

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

**Performance fees**

The ETF will pay to the Manager a performance fee (the "Performance Fee"), if any, equal to 20% of the amount by which the performance of the ETF at any date on which the fee is payable (i) exceeds the High Water Mark (as defined in the ETF's prospectus) and (ii) is greater than an annualized return of five percent (5%). The Performance Fee will be determined in accordance with the definitions and the formula outlined in the prospectus and shall be calculated and accrued daily on each class of units.

The Performance Fee shall be calculated and accrued daily and shall be payable at least quarterly in arrears on dates determined by the Manager, together with applicable taxes. The ETF accrued \$2,010,718 in performance fees for the period ended June 30, 2019 (2018 – \$107,152), and is disclosed in the statements of comprehensive income. Of this total, performance fees payable to the Manager as at June 30, 2019, were \$1,028,474 (December 31, 2018 - \$nil) and is included in accrued operating expenses on the statements of financial position, where applicable.

**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, if any, for the periods ended June 30, 2019 and 2018, were as follow:

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

June 30, 2019

<b>Period Ended</b>	<b>Brokerage Commissions Paid</b>	<b>Soft Dollar Transactions</b>	<b>Amount Paid to Related Parties</b>
June 30, 2019	\$123,101	\$nil	\$nil
June 30, 2018	\$132,572	\$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 to the Independent Review Committee are disclosed in the statements of comprehensive income. The management fees payable by the ETF as at June 30, 2019, and December 31, 2018, 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**

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

**12. TAX LOSSES CARRIED FORWARD**

Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years. Non-capital losses carried forwards may be applied against future years' taxable income. Non-capital losses that are realized in the current taxation year may be carried forward for 20 years. As at December 31, 2018, the ETF had 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. The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at June 30, 2019, and December 31, 2018. The "Net" column displays what the net impact would be on the ETF's statements of financial position if all amounts were set-off.

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

June 30, 2019

Financial Assets and Liabilities as at June 30, 2019	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	2,753,203	–	2,753,203	(45,697)	–	2,707,506
Derivative liabilities	(45,697)	–	(45,697)	45,697	–	–

Financial Assets and Liabilities as at December 31, 2018	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	174,142	–	174,142	(174,142)	–	–
Derivative liabilities	(2,339,387)	–	(2,339,387)	174,142	–	(2,165,245)

**14. INTERESTS IN SUBSIDIARIES, ASSOCIATES AND UNCONSOLIDATED STRUCTURED ENTITIES**

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

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

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

Investments in Investee ETFs are susceptible to market price risk arising from uncertainty about future values of those Investee ETFs. The maximum exposure to loss from interests in Investee ETFs is equal to the total fair value of the investment in those respective Investee ETFs at any given point in time. The fair value of Investee ETFs, if any, are disclosed in investments in the statements of financial position and listed in the schedule of investments. As at June 30, 2019, and December 31, 2018, the ETF had material investments in the subsidiaries (Sub), associates (Assc) and unconsolidated structured entities (SE) listed below:

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

June 30, 2019

<b>Investee ETF as at June 30, 2019</b>	<b>Place of Business</b>	<b>Type</b>	<b>Ownership %</b>	<b>Carrying Amount</b>
Horizons US 7-10 Year Treasury Bond ETF	Canada	Sub	75.82%	\$133,059,750
Horizons Active Floating Rate Bond ETF	Canada	SE	6.81%	\$48,240,000
Consumer Staples Select Sector SPDR Fund	U.S.	SE	0.16%	\$25,475,265
Horizons Equal Weight Canada REIT Index ETF	Canada	Sub	57.24%	\$21,362,250

<b>Investee ETF as at December 31, 2018</b>	<b>Place of Business</b>	<b>Type</b>	<b>Ownership %</b>	<b>Carrying Amount</b>
Horizons S&P/TSX 60™ Index ETF	Canada	SE	4.98%	\$88,048,200
iShares Russell 1000 Value ETF	U.S.	SE	0.04%	\$22,734,676
Horizons NASDAQ-100® Index ETF	Canada	Assc	37.68%	\$20,721,700
iShares Russell 2000 ETF	U.S.	SE	0.04%	\$20,566,567
Horizons S&P 500® Index ETF	Canada	SE	2.95%	\$20,497,050
Horizons S&P/TSX Capped Energy Index ETF	Canada	Assc	26.03%	\$10,402,000

**15. COMPARATIVE FINANCIAL STATEMENTS**

Certain information in the comparative financial statements and/or notes to the financial statements for 2018 has been reclassified to conform to the financial statement presentation adopted for 2019.

Manager

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