

Horizons Enhanced Income Energy ETF  
(HEE: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 Enhanced Income Energy ETF (“HEE” 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 HEE is to provide unitholders with: (a) exposure to the performance of an equal weighted portfolio of Canadian companies that are involved in the crude oil and natural gas industry; and (b) monthly distributions of dividend and call option income. HEE invests primarily in a portfolio of equity and equity related securities of Canadian companies that are primarily involved in the crude oil and natural gas industry and that, as at the Constituent Reset Date (see below), are amongst the largest and most liquid issuers on the Toronto Stock Exchange (“TSX”) in their sector. To mitigate downside risk and generate income, the ETF’s investment manager actively manages a covered call strategy that generally writes out of the money covered call options on up to 100% of the portfolio securities. The level of covered call option writing may vary based on market volatility and other factors.

To achieve its investment objective, HEE invests in an equal weighted portfolio of Canadian companies that are involved in the crude oil and natural gas industry. Semi-annually, the investment manager selects from the largest and most liquid Canadian issuers listed on the TSX in this sector and invests HEE in each issuer equally (the “Constituent Reset Date”). HEE rebalances, on an equal weight basis, the portfolio of constituent securities on each Constituent Reset Date. The number of issuers included in the equal weighted portfolio may change on a Constituent Reset Date. Between Constituent Reset Dates, the allocation between each of these constituent securities will change due to market movement and the investment manager will not re-allocate, include or exclude issuers from HEE’s portfolio until its next rebalance date or Constituent Reset Date, other than when, in the opinion of the investment manager, circumstances necessitate a change.

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

## Management Discussion of Fund Performance (continued)

### Risk

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

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

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

The risks to which an investment in the ETF is subject are listed below and have not changed from the list of risks found in the ETF's most recent prospectus. A full description of each risk listed below may also be found in the most recent prospectus. The most recent prospectus is available at [www.horizonsetfs.com](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.

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| <ul style="list-style-type: none"><li>• Use of options risk</li><li>• Stock market risk</li><li>• Specific issuer risk</li><li>• Sector risk</li><li>• Concentration risk</li><li>• Regulatory risk</li><li>• Corresponding net asset value risk</li><li>• Designated broker/dealer risk</li><li>• Cease trading or securities risk</li><li>• Exchange risk</li><li>• Early closing risk</li></ul> | <ul style="list-style-type: none"><li>• No assurance of meeting investment objectives</li><li>• No guaranteed return</li><li>• Tax risk</li><li>• Securities lending, repurchase and reverse repurchase transaction risk</li><li>• Liability of unitholders</li><li>• Reliance on key personnel</li><li>• Derivatives risk</li><li>• Foreign stock exchange risk</li><li>• Suitability of investment in units</li><li>• Conflicts of interest</li></ul> |
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### Results of Operations

For the six-month period ended June 30, 2019, units of the ETF returned 0.34%, when including distributions paid to unitholders. This compares to the S&P/TSX Capped Energy Index™ (the "Index"), which returned 2.82% for the same period on a total return basis. The units had an average annualized distribution yield of 6.37% when including distributions of \$0.27. The underlying equity portfolio return, exclusive of the covered call strategy, was -0.95% over the same period.

The Index imposes capped weights on the index constituents included in the S&P/TSX Composite Index that are classified in the Global Industry Classification Standard (GICS) energy sector. The relative weight of any single Index constituent security is capped at 25%.

## Management Discussion of Fund Performance (continued)

### **Market Review**

After a difficult end to 2018, in which the Index declined 28% during the fourth quarter, Canadian energy stocks started 2019 on a much better footing. The Index returned 12.19% during the first quarter of 2019 ("Q1"), its best performance since the second quarter of 2018. The Alberta Government mandated production reductions that took effect at the beginning of the year, helping to further reduce the large spread between Canadian crude prices and the international benchmarks. As well, crude prices were sharply higher both in Canada and globally. Western Canadian Select ("WCS") increased from \$29.66 to \$50.86 in Q1 while West Texas Intermediate ("WTI") increased by over 30% during the same time frame.

The second quarter of 2019 ("Q2") saw the energy markets return to old habits. After continuing the Q1 trend higher during the month of April, the Index declined in May and June, ending the quarter down 8.35%. The weakness in the second quarter was driven by both the general weakness in crude oil prices, as well as fears that the ongoing China/U.S. trade dispute will lower Chinese growth and demand for all commodities. Canadian energy companies still trade at a discount to their foreign peers, as a lack of pipeline capacity continues to plague the sector.

Volatility levels in the options market continues to be elevated, which is generally beneficial for the covered call strategy. Higher volatility in the options market usually translates into higher premiums when call options are sold.

### **Option Writing Strategy**

During each month, options are generally written on up to 100% of the equities in the portfolio of the ETF. The premiums are received from selling call options approximately one standard deviation out-of-the-money. The ETF's monthly distributions are not fixed, but vary as the premiums generated from covered call writing are earned and passed through, and will change with changes in implied volatility and time to option expiration. Distributions also vary based on the dividends received from the securities in the ETF's portfolio during the period.

### **Rebalancing**

The equity positions in the ETF are rebalanced to equal weightings semi-annually with the objective of maintaining an equity basket of large cap Canadian energy securities. There were no changes to the constituents in the ETF's portfolio during the most recent rebalance in March 2019.

### **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 \$207,301. This compares to \$232,702 for the six-month period ended June 30, 2018. The ETF incurred management, operating and transaction expenses of \$156,044 (2018 – \$185,555) of which \$30,765 (2018 – \$32,314) was either paid or absorbed by the Manager on behalf of the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

The ETF distributed \$561,847 to unitholders during the period (2018 – \$692,095).

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**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.

**Recent Developments**

There are no recent industry, management or ETF related developments that are pertinent to the present and future of the ETF.

**Related Party Transactions**

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

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

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

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 7) are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the 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>	\$	7.85	12.10	15.77	12.96	21.55	30.40
<b>Increase (decrease) from operations:</b>							
Total revenue		0.15	0.32	0.31	0.31	0.52	0.95
Total expenses		(0.06)	(0.14)	(0.17)	(0.25)	(0.29)	(0.40)
Realized losses for the period		(0.22)	(1.45)	(0.52)	(3.85)	(4.90)	(0.50)
Unrealized gains (losses) for the period		0.17	(2.29)	(2.36)	7.43	(2.10)	(5.70)
<b>Total increase (decrease) from operations</b> <sup>(2)</sup>		0.04	(3.56)	(2.74)	3.64	(6.77)	(5.65)
<b>Distributions:</b>							
From net investment income (excluding dividends)		(0.27)	–	–	–	–	–
From dividends		–	(0.17)	(0.16)	(0.19)	(0.35)	(0.65)
From return of capital		–	(0.49)	(0.68)	(0.57)	(1.65)	(1.85)
<b>Total distributions</b> <sup>(3)</sup>		(0.27)	(0.66)	(0.84)	(0.76)	(2.00)	(2.50)
<b>Net assets, end of period</b> <sup>(4)</sup>	\$	7.63	7.85	12.10	15.77	12.96	21.55

1. This information is derived from the ETF's unaudited interim financial statements and audited annual financial statements.
2. Net assets per unit and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.
3. Income, dividend and/or return of capital distributions, if any, are paid in cash, reinvested in additional units of the ETF, or both. Capital gains distributions, if any, may or may not be paid in cash. Non-cash capital gains distributions are reinvested in additional units of the ETF and subsequently consolidated. They are reported as taxable distributions and increase each unitholder's adjusted cost base for their units. Neither the number of units held by the unitholder, nor the net asset per unit of the ETF change as a result of any non-cash capital gains distributions. Distributions classified as return of capital, if any, decrease each unitholder's adjusted cost base for their units. The characteristics of distributions, if any, are determined subsequent to the end of the ETF's tax year. Until such time, distributions are classified as from net investment income (excluding dividends) for reporting purposes.
4. The Financial Highlights are not intended to act as a continuity of the opening and closing net assets per unit.



**Financial Highlights** (continued)

**Ratios and Supplemental Data**

<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)	\$	16,014	15,642	24,238	28,069	21,539	27,660
Number of units outstanding (000's)		2,098	1,991	2,003	1,780	1,662	1,282
Management expense ratio <sup>(2)</sup>		0.84%	0.84%	0.83%	0.82%	0.80%	0.80%
Management expense ratio before waivers and absorptions <sup>(3)</sup>		1.20%	1.09%	1.03%	1.05%	1.01%	0.95%
Trading expense ratio <sup>(4)</sup>		0.61%	0.43%	0.47%	0.94%	0.82%	0.55%
Portfolio turnover rate <sup>(5)</sup>		21.12%	36.85%	56.32%	97.84%	85.21%	171.25%
Net asset value per unit, end of period	\$	7.63	7.85	12.10	15.77	12.96	21.55
Closing market price	\$	7.61	7.86	12.10	15.79	13.00	21.70

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 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 0.65%, 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.

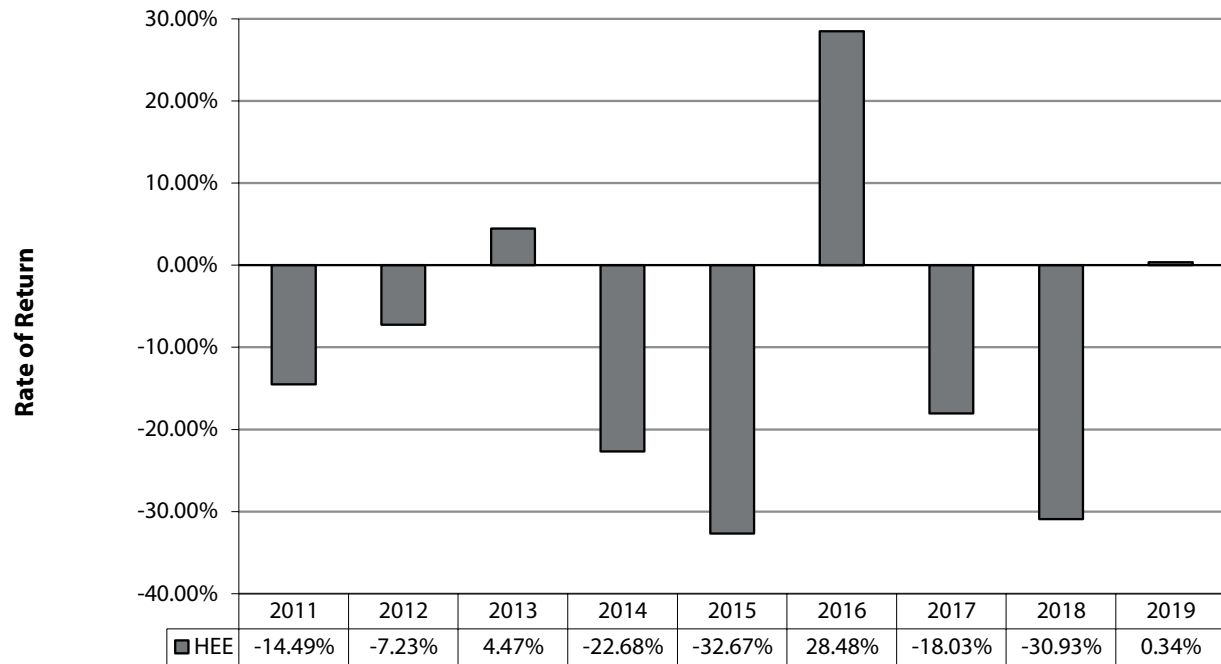
<b>Marketing</b>	<b>Portfolio management fees, general administrative costs and profit</b>	<b>Waived/absorbed expenses of the ETF</b>
3%	47%	50%

## 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 April 11, 2011.

## 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>
<b>Long Positions</b>		
Canadian Equities	\$ 15,642,645	97.68%
Cash and Cash Equivalents	442,065	2.76%
Other Assets less Liabilities	(59,421)	-0.37%
<b>Short Positions</b>		
Equity Call Options	(11,663)	-0.07%
	<b>\$ 16,013,626</b>	<b>100.00%</b>

<b>Sector Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
<b>Long Positions</b>		
Energy	\$ 15,642,645	97.68%
Cash and Cash Equivalents	442,065	2.76%
Other Assets less Liabilities	(59,421)	-0.37%
<b>Short Positions</b>		
Equity Call Options	(11,663)	-0.07%
	<b>\$ 16,013,626</b>	<b>100.00%</b>

**Summary of Investment Portfolio** (continued)

As at June 30, 2019

<b>Top 25 Holdings</b>	<b>% of ETF's Net Asset Value</b>
<b>Long Positions</b>	
Crescent Point Energy Corp.	8.00%
Imperial Oil Ltd.	7.29%
Cenovus Energy Inc.	7.27%
Enbridge Inc.	7.22%
PrairieSky Royalty Ltd.	7.12%
Canadian Natural Resources Ltd.	7.06%
Whitecap Resources Inc.	6.89%
Husky Energy Inc.	6.77%
Suncor Energy Inc.	6.71%
Enerplus Corp.	6.54%
Vermilion Energy Inc.	6.29%
Tourmaline Oil Corp.	5.87%
Encana Corp.	5.05%
ARC Resources Ltd.	4.96%
Seven Generations Energy Ltd.	4.64%
Cash and Cash Equivalents	2.76%
<b>Short Positions</b>	
Seven Generations Energy Ltd., Call Options	0.00%
Vermilion Energy Inc., Call Options	0.00%
Encana Corp., Call Options	0.00%
Enbridge Inc., Call Options	0.00%
ARC Resources Ltd., Call Options	0.00%
Canadian Natural Resources Ltd., Call Options	0.00%
Whitecap Resources Inc., Call Options	-0.01%
Suncor Energy Inc., Call Options	-0.01%
Crescent Point Energy Corp., Call Options	-0.01%

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 Enhanced Income Energy 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

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 442,065	\$ 85,835
Investments	15,642,645	15,655,738
Amounts receivable relating to accrued income	59,402	55,932
Amounts receivable relating to portfolio assets sold	–	6,450
<b>Total assets</b>	<b>16,144,112</b>	<b>15,803,955</b>
<b>Liabilities</b>		
Accrued management fees	9,253	9,786
Accrued operating expenses	4,511	5,517
Amounts payable for portfolio assets purchased	17,500	–
Distribution payable	87,559	100,131
Derivative liabilities (note 3)	11,663	46,350
<b>Total liabilities</b>	<b>130,486</b>	<b>161,784</b>
<b>Total net assets (note 2)</b>	<b>\$ 16,013,626</b>	<b>\$ 15,642,171</b>
Number of redeemable units outstanding (note 8)	2,098,216	1,991,461
Total net assets per unit	\$ 7.63	\$ 7.85

(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	\$ 310,962	\$ 319,670
Interest income for distribution purposes	640	213
Securities lending income (note 7)	306	231
Net realized loss on sale of investments and derivatives	(441,435)	(2,838,229)
Net realized gain (loss) on foreign exchange	(40)	72
Net change in unrealized appreciation of investments and derivatives	336,870	2,750,745
Net change in unrealized depreciation of foreign exchange	(2)	–
	<b>207,301</b>	<b>232,702</b>
<b>Expenses (note 9)</b>		
Management fees	61,356	81,335
Audit fees	3,705	6,253
Independent Review Committee fees	371	389
Custodial and fund valuation fees	15,538	17,676
Legal fees	2,328	–
Securityholder reporting costs	4,963	6,329
Administration fees	15,208	15,210
Transaction costs	52,574	58,363
Other expenses	1	–
	<b>156,044</b>	<b>185,555</b>
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(30,765)	(32,314)
	<b>125,279</b>	<b>153,241</b>
<b>Increase in net assets for the period</b>	<b>\$ 82,022</b>	<b>\$ 79,461</b>
Increase in net assets per unit	\$ 0.04	\$ 0.04

(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>	\$ 15,642,171	\$ 24,238,224
<b>Increase in net assets</b>	82,022	79,461
<b>Redeemable unit transactions</b>		
Proceeds from the issuance of securities of the investment fund	1,199,652	4,367,660
Aggregate amounts paid on redemption of securities of the investment fund	(405,071)	(1,795,123)
Securities issued on reinvestment of distributions	56,699	76,043
Distributions:		
From net investment income	(561,847)	(692,095)
<b>Total net assets at the end of the period</b>	<b>\$ 16,013,626</b>	<b>\$ 26,274,170</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	\$ 82,022	\$ 79,461
Adjustments for:		
Net realized loss on sale of investments and derivatives	441,435	2,838,229
Net change in unrealized appreciation of investments and derivatives	(336,870)	(2,750,745)
Net change in unrealized depreciation of foreign exchange	2	–
Purchase of investments	(3,733,449)	(6,609,065)
Proceeds from the sale of investments	3,631,240	5,307,053
Amounts receivable relating to accrued income	(3,470)	(5,347)
Accrued expenses	(1,539)	3,261
<b>Net cash from (used in) operating activities</b>	<b>79,371</b>	<b>(1,137,153)</b>
<b>Cash flows from financing activities:</b>		
Amount received from the issuance of units	1,199,652	4,076,628
Amount paid on redemptions of units	(405,071)	(2,097,666)
Distributions paid to unitholders	(517,720)	(634,274)
<b>Net cash from financing activities</b>	<b>276,861</b>	<b>1,344,688</b>
<b>Net increase in cash and cash equivalents during the period</b>	<b>356,232</b>	<b>207,535</b>
Effect of exchange rate fluctuations on cash and cash equivalents	(2)	–
<b>Cash and cash equivalents at beginning of period</b>	<b>85,835</b>	<b>121,232</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 442,065</b>	<b>\$ 328,767</b>
Interest received, net of withholding taxes	\$ 640	\$ 213
Dividends received, net of withholding taxes	\$ 307,492	\$ 314,323

(See accompanying notes to financial statements)

**Schedule of Investments** (unaudited)

As at June 30, 2019

Security	Shares/ Contracts	Average Cost	Fair Value
<b>CANADIAN EQUITIES (97.68%)</b>			
<b>Energy (97.68%)</b>			
ARC Resources Ltd.	123,818	\$ 1,979,551	\$ 793,673
Canadian Natural Resources Ltd.	32,028	1,390,425	1,130,909
Cenovus Energy Inc.	100,878	1,376,956	1,165,141
Crescent Point Energy Corp.	295,874	3,093,490	1,281,135
Enbridge Inc.	24,436	1,333,627	1,155,823
Encana Corp.	120,260	1,686,092	808,147
Enerplus Corp.	106,273	1,459,760	1,046,789
Husky Energy Inc.	87,353	1,878,549	1,084,051
Imperial Oil Ltd.	32,219	1,475,767	1,168,261
PrairieSky Royalty Ltd.	61,975	1,741,595	1,140,340
Seven Generations Energy Ltd., Class 'A'	115,765	2,132,695	743,211
Suncor Energy Inc.	26,317	1,157,239	1,075,050
Tourmaline Oil Corp.	56,377	1,715,848	940,368
Vermilion Energy Inc.	35,392	1,800,926	1,006,902
Whitecap Resources Inc.	259,493	1,938,619	1,102,845
		26,161,139	15,642,645
<b>TOTAL CANADIAN EQUITIES</b>		<b>26,161,139</b>	<b>15,642,645</b>
<b>DERIVATIVES (-0.07%)</b>			
<b>SHORT POSITIONS (-0.07%)</b>			
<b>Equity Call Options (-0.07%)</b>			
ARC Resources Ltd., July 2019, \$9.00 CAD	(250)	(4,250)	(375)
ARC Resources Ltd., July 2019, \$10.00 CAD	(200)	(4,500)	(300)
Canadian Natural Resources Ltd., August 2019, \$42.00 CAD	(50)	(3,925)	(425)
Canadian Natural Resources Ltd., August 2019, \$44.00 CAD	(100)	(5,850)	(450)
Crescent Point Energy Corp., July 2019, \$5.00 CAD	(200)	(5,100)	(1,000)
Crescent Point Energy Corp., July 2019, \$6.00 CAD	(200)	(3,400)	(400)
Enbridge Inc., July 2019, \$51.00 CAD	(100)	(4,800)	(250)
Encana Corp., October 2019, \$13.00 CAD	(100)	(2,100)	(200)
Enerplus Corp., July 2019, \$10.00 CAD	(100)	(3,600)	(2,700)
Imperial Oil Ltd., August 2019, \$40.00 CAD	(100)	(3,800)	(1,350)
Imperial Oil Ltd., August 2019, \$44.00 CAD	(100)	(3,200)	(250)
PrairieSky Royalty Ltd., July 2019, \$19.00 CAD	(100)	(1,900)	(1,850)
Seven Generations Energy Ltd., Class 'A', July 2019, \$12.00 CAD	(100)	(2,400)	(150)
Suncor Energy Inc., September 2019, \$46.00 CAD	(50)	(2,575)	(925)
Vermilion Energy Inc., July 2019, \$38.00 CAD	(75)	(3,637)	(188)
Whitecap Resources Inc., July 2019, \$6.00 CAD	(200)	(3,000)	(300)
Whitecap Resources Inc., October 2019, \$6.00 CAD	(100)	(1,400)	(550)
		(59,437)	(11,663)
<b>TOTAL DERIVATIVES</b>		<b>(59,437)</b>	<b>(11,663)</b>

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

As at June 30, 2019

Security	Shares/ Contracts	Average Cost	Fair Value
Transaction Costs		(105,277)	
<b>TOTAL INVESTMENT PORTFOLIO (97.61%)</b>		<b>\$ 25,996,425</b>	<b>\$ 15,630,982</b>
<b>Cash and cash equivalents (2.76%)</b>			442,065
<b>Other assets less liabilities (-0.37%)</b>			(59,421)
<b>TOTAL NET ASSETS (100.00%)</b>			<b>\$ 16,013,626</b>

(See accompanying notes to financial statements)

## Notes to Financial Statements (unaudited)

June 30, 2019

### 1. REPORTING ENTITY

Horizons Enhanced Income Energy ETF (“HEE” 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 April 11, 2011. 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 HEE. 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 HEE is to provide unitholders with: (a) exposure to the performance of an equal weighted portfolio of Canadian companies that are involved in the crude oil and natural gas industry; and (b) monthly distributions of dividend and call option income. HEE invests primarily in a portfolio of equity and equity related securities of Canadian companies that are primarily involved in the crude oil and natural gas industry and that, as at the Constituent Reset Date (see below), are amongst the largest and most liquid issuers on the Toronto Stock Exchange (“TSX”) in their sector. To mitigate downside risk and generate income, the ETF’s investment manager actively manages a covered call strategy that generally writes out of the money covered call options on up to 100% of the portfolio securities. The level of covered call option writing may vary based on market volatility and other factors.

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.

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

June 30, 2019

**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***

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

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

June 30, 2019

from recent trading activity or by incorporating other relevant information that may not have been reflected in pricing obtained from external sources. Short-term investments, including notes and money market instruments, are valued at amortized cost which approximates fair value.

Investments held that are not traded in an active market, including some derivative financial instruments, are valued using observable market inputs where possible, on such basis and in such manner as established by the Manager. Derivative financial instruments are recorded in the 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.

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

June 30, 2019

**Options**

As part of the ETF's investment strategy, call options are written on the equities in the ETF's portfolio. The premium received from writing a call option is recorded as a derivative liability in the statements of financial position. These call options are valued at the current market value thereof on the Valuation Date. The difference between the premium received when the option was written and its current market value is recorded as a net change in unrealized appreciation (depreciation) of investments and derivatives in the statements of comprehensive income.

When a written call option expires, the ETF will realize a gain equal to the premium received. When a written option is bought back, the ETF will realize a gain or loss equal to the difference between the cost at which the contract was re-purchased and the premium received. When a written call option is exercised, the premium received is added to the proceeds from the sale of the underlying investments to determine the realized gain or loss. In all three cases, the gains or losses realized on call option premiums written is recorded as a net realized gain (loss) on sale of investments and derivatives in the statements of comprehensive income.

**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 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



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

June 30, 2019

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.

**(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.

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

June 30, 2019

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 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 exposure to foreign currencies.

##### (ii) *Interest rate risk*

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

As at June 30, 2019, and December 31, 2018, the ETF did not hold any long-term debt instruments and did not have any exposure to interest rate risk.

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

June 30, 2019

**(iii) Other market risk**

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

The table below shows the estimated impact on the ETF of a 1% increase or decrease in a broad-based market index, based on historical correlation, with all other factors remaining constant, as at the dates shown. In practice, actual results may differ from this sensitivity analysis and the difference could be material. The historical correlation may not be representative of future correlation.

Comparative Index	June 30, 2019	December 31, 2018
S&P/TSX Composite Index™	\$25,571	\$24,783

**(b) Credit risk**

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the ETF. It arises principally from debt securities held, and also from derivative financial assets, cash and cash equivalents, and other receivables. The ETF's maximum credit risk exposure as at the reporting date is represented by the respective carrying amounts of the financial assets in the statements of financial position. The ETF's credit risk policy is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out in the ETF's prospectus and by taking collateral.

As at June 30, 2019, and December 31, 2018, due to the nature of its portfolio investments, the ETF did not have any material credit risk exposure.

**(c) Liquidity risk**

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

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

June 30, 2019

**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>						
Equities	15,642,645	–	–	15,655,738	–	–
<b>Total Financial Assets</b>	<b>15,642,645</b>	–	–	<b>15,655,738</b>	–	–
<b>Financial Liabilities</b>						
Options	(11,663)	–	–	(46,350)	–	–
<b>Total Financial Liabilities</b>	<b>(11,663)</b>	–	–	<b>(46,350)</b>	–	–
<b>Net Financial Assets and Liabilities</b>	<b>15,630,982</b>	–	–	<b>15,609,388</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 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.

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

June 30, 2019

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	\$718,444	\$755,353
December 31, 2018	\$379,206	\$398,173

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	\$437		\$330	
Lending Agents' fees:				
Canadian Imperial Bank of Commerce	(131)	29.98%	(99)	30.00%
<b>Net securities lending income paid to the ETF</b>	<b>\$306</b>	<b>70.02%</b>	<b>\$231</b>	<b>70.00%</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.

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

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

June 30, 2019

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:

Period	Beginning Units Outstanding	Units Issued	Units Redeemed	Ending Units Outstanding	Average Units Outstanding
2019	1,991,461	156,755	(50,000)	2,098,216	2,048,668
2018	2,002,947	381,755	(150,000)	2,234,702	2,012,021

## 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.

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.65%, plus applicable sales taxes, of the net asset value of the ETF's units, calculated and accrued daily and payable

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June 30, 2019

monthly in arrears. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

**Other expenses**

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

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

**10. BROKER COMMISSIONS, SOFT DOLLARS AND RELATED PARTY TRANSACTIONS**

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

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

Total brokerage commissions paid to dealers in connection with investment portfolio transactions, soft dollar transactions incurred and amounts paid to related parties of the Manager, if any, for the periods ended June 30, 2019 and 2018, were as follow:

<b>Period Ended</b>	<b>Brokerage Commissions Paid</b>	<b>Soft Dollar Transactions</b>	<b>Amount Paid to Related Parties</b>
June 30, 2019	\$46,274	\$nil	\$nil
June 30, 2018	\$51,697	\$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.

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

June 30, 2019

**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 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
\$12,723,384	–	–

**13. OFFSETTING OF FINANCIAL INSTRUMENTS**

In the normal course of business, the ETF may enter into various master netting arrangements or other similar agreements that do not meet the criteria for offsetting in the statements of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts. As at June 30, 2019 and December 31, 2018, the ETF did not have any financial instruments eligible for offsetting.

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

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

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

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

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



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

June 30, 2019

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 no exposure to subsidiaries, associates or unconsolidated structured entities.

**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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