



**Horizons Active Cdn Municipal Bond ETF  
(HMP: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 Active Cdn Municipal Bond ETF (“HMP” 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 HMP is to seek to provide unitholders with a high level of income by investing primarily in a portfolio of Canadian municipal bonds denominated in Canadian dollars.

To achieve HMP’s investment objective, the ETF’s portfolio sub-advisor, Fiera Capital Corporation (“Fiera” or the “Sub-Advisor”), uses in-depth credit analysis and other fundamental research to select fixed income securities for HMP’s investment portfolio. HMP primarily invests in a portfolio of Canadian municipal bonds denominated in Canadian dollars and the ETF will be substantially invested under normal conditions.

Municipal bonds, sometimes referred to as “munis,” are debt securities generally issued by cities, municipalities or municipal finance authorities to finance local capital expenditures such as the construction of bridges, highways, airports or schools. Issuers of municipal bonds may or may not be rated by a bond rating agency. The proportion of municipal bonds issued by unrated issuers in the ETF’s portfolio will not exceed 80% of the net assets of HMP.

The Sub-Advisor seeks diversification by issuer, and some diversification by geographic region, but the portfolio will generally be weighted more heavily towards Québec municipal bonds due to the predominance of Québec based issuers in the Canadian municipal bond market. A substantial number of municipal issuers, particularly in Québec, are not rated by any bond rating agency.

## Management Discussion of Fund Performance (continued)

In order to manage the liquidity of the portfolio, HMP may invest up to 20% of its net assets in cash and cash equivalents, Canadian provincial government bonds and/or bonds issued by Canadian federal government agencies.

Please refer to the ETF's most recent prospectus for a complete description of HMP'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.

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.

- Stock market risk
- Specific issuer risk
- Legal and regulatory risk
- Exchange traded funds risk
- Reliance on historical data risk
- Corresponding net asset value risk
- Designated broker/dealer risk
- Cease trading of securities risk
- Exchange risk
- Early closing risk
- No assurance of meeting investment objective
- Tax risk
- Securities lending, repurchase and reverse repurchase transaction risk
- Loss of limited liability
- Reliance on key personnel
- Distributions risk
- Conflicts of interest
- No ownership interest
- Market for units
- Redemption price
- Net asset value fluctuation
- Restrictions on certain unitholders
- Highly volatile markets
- No guaranteed return
- Interest rate risk
- Credit risk
- Income trust investment risk
- High yield bond risk and risk of other lower rated investments
- Call risk
- Risk of difference between quoted and actionable market price
- Liquidity risk
- Municipal bond risk

## Management Discussion of Fund Performance (continued)

### Results of Operations

For the six-month period ended June 30, 2019, units of the ETF returned 2.64%, when including distributions paid to unitholders. This compares to a return of 7.20% for the S&P Canada Provincial & Municipal Bond Index (the “Index”) for the same period.

The Index is a broad, comprehensive, market value-weighted index designed to measure the performance of Canadian dollar-denominated investment grade government-related bonds in provincial and municipal markets.

### General Market Review

The Bank of Canada (the “BoC”) maintained its overnight rate at 1.75% for the first half of the year despite year-over-year inflation rising to 2.4% in May.

Bond markets were strong in the first half of 2019. Weakening global economic growth caused markets to remove the risk of further rate hikes by monetary authorities and pushed longer-term yields lower. While the year started off with the market pricing in just a 13% chance of a U.S. Federal Reserve (the “Fed”) rate cut in 2019, by the end of June, the market was pricing in a 100% chance of at least one cut, with the odds favoring at least 3 cuts. Uncertainties around trade tensions also pushed investors to buy safety through bonds.

Government of Canada 10-year bond (“Canada 10-Year”) yields ended the period at 1.46%, down 50 basis points (“bps”) from the start of the year, while U.S. 10-year Treasury bond yields closed the first half of the year down 68bps to 2.01%. Municipal bonds fared well during the period, as spreads over the Canada 10-Year yield tightened significantly. Long-term municipal bonds were the best performers, while the short end of the curve underperformed, as the yield curve flattened on expectations of future rate cuts by the Fed and the BoC.

Quebec municipal bond issuance for the first six months of 2019 rose 20% year-over-year to \$1.752 billion, though issuance had slowed down in May and June. Nevertheless, that amount was approximately 29% above the long-term average for the first half of the year. The month of June finished 3% above the seasonal average with \$323.8 million raised during the month, as both Ville de Laval and City of Quebec came to market with issues for \$40 million and \$60 million of serial bonds, respectively. Those auctions attracted good buying from overseas.

### Portfolio Review

Security selection within the provincial bonds was the main source of value added in the first half of the year; specifically, the ETF’s holdings of Ontario bonds proved highly beneficial. Security selection within the municipal bonds in fact detracted some value versus the Index but was positive on an absolute basis. Names like Ville de L’Assomption, Ville de Longueuil and Ville de Terrebonne were particularly strong contributors, though an issue from Municipalité de Saint-Hippolyte proved to be the best performer as it gained 5.52% for the ETF.

Term-wise, Fiera kept the ETF’s overweight in non-rated issues in the shorter end of the curve (1-3 years). However, after increasing the portfolio’s non-rated municipal exposure in the first quarter of 2019 when spreads were around +70bps, the ETF lightened up slightly on product to replenish liquidity as municipal spreads quickly returned to an average of 50-55bps over their respective provinces in the second quarter.

## Management Discussion of Fund Performance (continued)

### **Outlook**

Fiera is still managing the ETF with a diversified laddered approach, which translates into a higher yielding strategy along with a well-diversified portfolio. Fiera continues to tactically take advantage of the positive carry offered by the asset class by closely monitoring the municipal market and its underlying cyclical nature.

It is Fiera's base expectation that slower growth will cap inflation expectations and lead to more cautious and 'data dependent' rate decisions from central bankers, which in turn might be more accommodative. Ultimately, it is believed that this approach will help to extend the business cycle and be supportive for credit markets.

### **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 \$2,818,255. This compares to \$989,990 for the six-month period ended June 30, 2018. The ETF incurred management, operating and transaction expenses of \$218,367 (2018 – \$256,686) of which \$40,583 (2018 – \$37,942) 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 \$1,033,618 to unitholders during the period (2018 – \$1,209,903).

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

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 since it effectively began operations on August 12, 2015. 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>Net assets, beginning of period</b>	\$	9.76	9.75	9.87	9.98	10.00
<b>Increase from operations:</b>						
Total revenue		0.12	0.23	0.22	0.24	0.09
Total expenses		(0.02)	(0.04)	(0.04)	(0.04)	(0.02)
Realized gains (losses) for the period		0.03	(0.11)	(0.05)	(0.03)	(0.01)
Unrealized gains (losses) for the period		0.13	0.11	(0.05)	(0.06)	0.01
<b>Total increase from operations</b> <sup>(2)</sup>		0.26	0.19	0.08	0.11	0.07
<b>Distributions:</b>						
From net investment income (excluding dividends)		(0.10)	(0.20)	(0.19)	(0.19)	(0.05)
From return of capital		–	–	(0.02)	(0.04)	(0.01)
<b>Total distributions</b> <sup>(3)</sup>		(0.10)	(0.20)	(0.21)	(0.23)	(0.06)
<b>Net assets, end of period</b> <sup>(4)</sup>	\$	9.92	9.76	9.75	9.87	9.98

- 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>
Total net asset value (000's)	\$ 92,552	105,500	125,119	115,783	36,862
Number of units outstanding (000's)	9,332	10,806	12,828	11,728	3,693
Management expense ratio <sup>(2)</sup>	0.35%	0.36%	0.37%	0.43%	0.42%
Management expense ratio before waivers and absorptions <sup>(3)</sup>	0.44%	0.42%	0.42%	0.50%	1.11%
Trading expense ratio <sup>(4)</sup>	0.00%	0.00%	0.00%	0.00%	0.02%
Portfolio turnover rate <sup>(5)</sup>	20.82%	64.31%	41.92%	132.50%	75.00%
Net asset value per unit, end of period	\$ 9.92	9.76	9.75	9.87	9.98
Closing market price	\$ 9.96	9.76	9.78	9.86	10.01

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. Transaction costs related to the purchase and/or sale of fixed income securities are typically imbedded in the price of those transactions and are therefore not included in the trading expense ratio.
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 0.29%, plus applicable sales taxes, of the net asset value of the ETF's units, calculated and accrued daily and payable monthly in arrears.

The Sub-Advisor is compensated for its services out of the management fees without any further cost to the ETF. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

The 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.

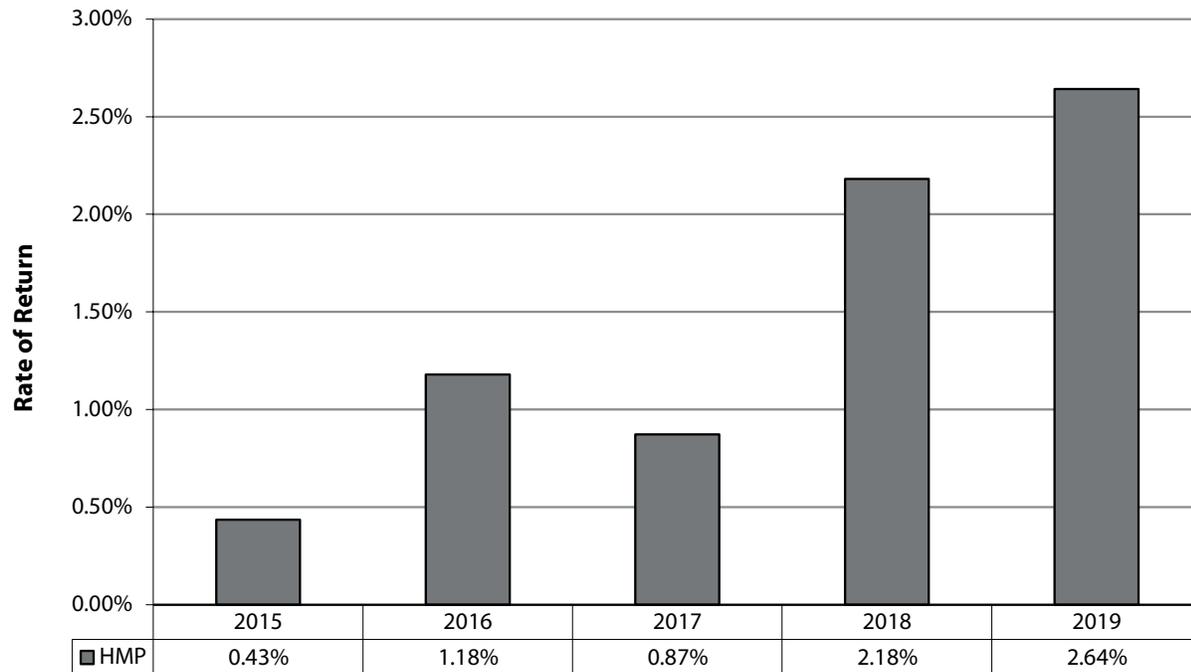
<b>Marketing</b>	<b>Portfolio management fees, general administrative costs and profit</b>	<b>Waived/absorbed expenses of the ETF</b>
3%	72%	25%

## 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 August 12, 2015.

## 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>
Canadian Fixed Income Securities	\$ 91,892,155	99.29%
Cash and Cash Equivalents	311,464	0.34%
Other Assets less Liabilities	348,497	0.37%
	<b>\$ 92,552,116</b>	<b>100.00%</b>

<b>Sector Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
Municipal Bonds	\$ 71,075,289	76.80%
Provincial Bonds	20,816,866	22.49%
Cash and Cash Equivalents	311,464	0.34%
Other Assets less Liabilities	348,497	0.37%
	<b>\$ 92,552,116</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>
Province of Ontario	21.97%
Ville de Longueuil	4.05%
Ville de L'Assomption	3.62%
City of Quebec	3.16%
Ville de Terrebonne	3.14%
Ville de La Tuque	3.01%
City of Montreal	2.99%
City of Mont-Laurier	2.79%
Ville de Laval	2.51%
Ville de Blainville	2.50%
Municipality of Chelsea	2.16%
Ville de Magog	2.14%
Municipalité de Saint-Alphonse	1.98%
Ville de Saint-Jerome	1.69%
Municipalité de St-Isidore	1.60%
Village of Val-David	1.60%
Municipalité de Saint-Mathieu	1.57%
Ville de Candiac	1.51%
Municipality of Levis	1.46%
Ville D'Alma	1.35%
Ville de Granby	1.35%
Ville de Repentigny	1.25%
Municipalité de Saint-Elzéar	1.24%
City of Dorval	1.19%
City of St-Jean-sur-Richelieu	1.18%

\* Note all of the Top 25 Holdings represent the aggregate debt instruments of that issuer in the ETF's portfolio.

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 Active Cdn Municipal Bond 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	\$ 311,464	\$ 522,294
Investments	91,892,155	104,725,768
Amounts receivable relating to accrued income	536,003	569,130
<b>Total assets</b>	<b>92,739,622</b>	<b>105,817,192</b>
<b>Liabilities</b>		
Accrued management fees	25,287	29,214
Accrued operating expenses	2,645	4,380
Amounts payable relating to securities redeemed	–	413
Amounts payable for portfolio assets purchased	–	99,894
Distribution payable	159,574	183,707
<b>Total liabilities</b>	<b>187,506</b>	<b>317,608</b>
<b>Total net assets (note 2)</b>	<b>\$ 92,552,116</b>	<b>\$ 105,499,584</b>
Number of redeemable units outstanding (note 8)	9,331,831	10,806,289
Total net assets per unit	\$ 9.92	\$ 9.76

(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>		
Interest income for distribution purposes	\$ 1,236,159	\$ 1,383,264
Securities lending income (note 7)	1,237	780
Net realized gain (loss) on sale of investments and derivatives	278,508	(499,068)
Net change in unrealized appreciation of investments and derivatives	1,302,351	105,014
	<b>2,818,255</b>	<b>989,990</b>
<b>Expenses (note 9)</b>		
Management fees	165,421	193,544
Audit fees	6,225	6,809
Independent Review Committee fees	371	389
Custodial and fund valuation fees	18,037	25,911
Legal fees	1,415	–
Securityholder reporting costs	10,384	12,550
Administration fees	15,099	15,018
Transaction costs	1,415	515
Other expenses	–	1,950
	<b>218,367</b>	<b>256,686</b>
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(40,583)	(37,942)
	<b>177,784</b>	<b>218,744</b>
<b>Increase in net assets for the period</b>	<b>\$ 2,640,471</b>	<b>\$ 771,246</b>
Increase in net assets per unit	\$ 0.26	\$ 0.06

(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>	\$ 105,499,584	\$ 125,118,688
<b>Increase in net assets</b>	2,640,471	771,246
<b>Redeemable unit transactions</b>		
Proceeds from the issuance of securities of the investment fund	5,660,603	10,220,460
Aggregate amounts paid on redemption of securities of the investment fund	(20,220,284)	(20,896,296)
Securities issued on reinvestment of distributions	5,360	2,260
Distributions:		
From net investment income	(1,033,618)	(1,209,903)
<b>Total net assets at the end of the period</b>	<b>\$ 92,552,116</b>	<b>\$ 114,006,455</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	\$ 2,640,471	\$ 771,246
Adjustments for:		
Net realized loss (gain) on sale of investments and derivatives	(278,508)	499,068
Net change in unrealized appreciation of investments and derivatives	(1,302,351)	(105,014)
Purchase of investments	(20,695,363)	(17,150,776)
Proceeds from the sale of investments	27,750,504	31,142,729
Amounts receivable relating to accrued income	33,127	(2,481)
Accrued expenses	(5,662)	(8,998)
<b>Net cash from operating activities</b>	<b>8,142,218</b>	<b>15,145,774</b>
<b>Cash flows from financing activities:</b>		
Amount received from the issuance of units	5,660,603	6,859,071
Amount paid on redemptions of units	(12,961,260)	(20,897,125)
Distributions paid to unitholders	(1,052,391)	(1,225,386)
<b>Net cash used in financing activities</b>	<b>(8,353,048)</b>	<b>(15,263,440)</b>
<b>Net decrease in cash and cash equivalents during the period</b>	<b>(210,830)</b>	<b>(117,666)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>522,294</b>	<b>220,097</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 311,464</b>	<b>\$ 102,431</b>
Interest received, net of withholding taxes	\$ 1,269,286	\$ 1,380,783

(See accompanying notes to financial statements)

**Schedule of Investments** (unaudited)

As at June 30, 2019

Security	Par Value		Average Cost		Fair Value
<b>CANADIAN FIXED INCOME SECURITIES (99.29%)</b>					
<b>Municipal Bonds (76.80%)</b>					
City of Dorval, 2.25%, 2021/03/16	1,100,000	\$	1,111,715	\$	1,100,847
City of Mirabel, 2.00%, 2020/08/26	650,000		642,356		648,427
City of Mont-Laurier, 1.85%, 2022/04/11	1,600,000		1,575,488		1,582,464
City of Mont-Laurier, 2.30%, 2022/12/19	1,000,000		984,630		1,000,360
City of Montreal, 4.50%, 2021/12/01	2,600,000		2,954,433		2,767,373
City of Quebec, 3.60%, 2021/08/26	150,000		153,765		155,004
City of Quebec, 3.20%, 2022/02/14	1,125,000		1,147,467		1,163,176
City of Quebec, 1.70%, 2022/04/05	297,000		290,478		295,438
City of Quebec, 3.40%, 2022/04/26	835,000		855,528		868,674
City of Quebec, 3.20%, 2022/06/28	418,000		423,643		432,853
City of Sherbrooke, 2.15%, 2021/12/13	329,000		324,776		329,622
City of St-Jean-sur-Richelieu, 2.20%, 2020/12/18	500,000		493,105		500,855
City of St-Jean-sur-Richelieu, 1.60%, 2021/06/13	102,000		100,109		101,143
City of St-Jean-sur-Richelieu, 1.75%, 2022/06/13	500,000		489,300		494,945
Municipalité de Cap-Saint-Ignace, 2.75%, 2023/02/20	147,000		145,286		148,835
Municipalité de la Paroisse de St Barthelemy, 1.75%, 2021/04/18	194,000		192,293		192,332
Municipalité de Lac-Beauport, 2.40%, 2020/12/21	478,000		475,514		479,534
Municipalité de L'islet, 2.40%, 2021/03/05	126,000		125,515		126,460
Municipalité de L'islet, 2.50%, 2022/03/05	130,000		129,229		130,767
Municipalité de Port-Daniel-Gascons, 2.80%, 2024/01/29	481,000		474,973		490,163
Municipalité de Rawdon, 2.35%, 2021/09/26	488,000		483,174		491,133
Municipalité de Saint-Alphonse, 2.80%, 2023/09/18	1,800,000		1,758,798		1,831,032
Municipalité de Saint-Anselme, 2.15%, 2021/01/19	1,000,000		986,750		997,970
Municipalité de Saint-Elzéar, 2.80%, 2023/07/23	1,120,000		1,104,040		1,146,118
Municipalité de Saint-Hippolyte, 2.85%, 2024/01/28	1,000,000		981,090		1,026,270
Municipalité de Saint-Lambert-de-Lauzon, 1.75%, 2021/08/23	799,000		783,659		790,019
Municipalité de Saint-Mathieu, 2.75%, 2023/06/26	1,428,000		1,413,506		1,454,461
Municipalité de Scott, 2.75%, 2023/06/26	1,000,000		989,850		1,012,460
Municipalité de St-Adolphe-d'Howard, 2.85%, 2024/02/07	500,000		490,770		509,690
Municipalité de St-Isidore, 2.00%, 2022/04/05	1,500,000		1,487,880		1,485,030
Municipalité des Coteaux, 2.80%, 2023/02/05	144,000		141,902		146,318
Municipality of Chelsea, 2.35%, 2022/12/18	2,000,000		1,973,280		1,999,720
Municipality of Levis, 2.25%, 2021/11/30	750,000		744,802		753,202
Municipality of Levis, 3.20%, 2022/12/12	588,000		592,998		603,943
Municipality of Saint-Calixte, 2.30%, 2021/01/25	1,000,000		991,350		998,840
Municipality of Saint-Damien, 1.80%, 2020/10/25	129,000		128,329		128,367
Municipality of St. Zotique, 1.85%, 2021/08/03	1,000,000		985,990		990,910
Municipality of St-Apollinaire, 1.75%, 2021/10/18	119,000		114,470		117,806
Reseau de Transport de la Capitale, 2.70%, 2023/06/13	153,000		149,873		155,919
Societe de Transport de l'Outaouais, 1.80%, 2020/09/07	527,000		522,568		525,155

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

As at June 30, 2019

Security	Par Value	Average Cost	Fair Value
Societe de Transport de l'Outaouais, 4.00%, 2020/09/15	100,000	107,087	102,183
Victoriaville, 2.35%, 2020/10/19	220,000	222,156	220,726
Village of Val-David, 2.75%, 2023/06/26	1,460,000	1,445,181	1,481,973
Ville D'Alma, 2.05%, 2021/03/02	1,000,000	983,840	994,700
Ville D'Alma, 1.80%, 2021/07/05	263,000	260,178	261,772
Ville de Beauharnois, 2.05%, 2022/03/29	622,000	615,044	618,112
Ville de Blainville, 2.45%, 2021/07/24	686,000	677,542	689,430
Ville de Blainville, 2.35%, 2021/09/26	488,000	483,174	491,133
Ville de Blainville, 2.75%, 2023/07/24	1,120,000	1,099,952	1,139,813
Ville de Brossard, 3.85%, 2021/11/08	383,000	394,006	396,083
Ville de Brownsburg-Chatham, 2.45%, 2020/10/19	157,000	159,151	157,226
Ville de Candiac, 1.90%, 2021/07/06	1,410,000	1,396,083	1,401,004
Ville de Chateauguay, 4.00%, 2021/10/04	200,000	206,098	207,164
Ville de Cowansville, 2.65%, 2022/07/31	293,000	289,528	295,297
Ville de Fermont, 2.00%, 2021/07/25	262,000	257,546	260,302
Ville de Gatineau, 2.20%, 2020/09/15	500,000	496,015	500,395
Ville de Gatineau, 3.60%, 2021/09/14	222,000	227,046	229,386
Ville de Granby, 4.20%, 2021/02/22	252,000	274,403	260,198
Ville de Granby, 1.75%, 2021/07/06	1,000,000	981,890	991,780
Ville de La Tuque, 2.00%, 2021/09/01	2,800,000	2,771,636	2,786,420
Ville de L'Assomption, 2.95%, 2023/10/10	3,250,000	3,204,597	3,346,850
Ville de Laval, 3.65%, 2021/11/16	1,500,000	1,551,120	1,560,968
Ville de Laval, 3.30%, 2022/06/27	129,000	131,593	134,179
Ville de Laval, 3.95%, 2023/10/30	584,000	611,145	625,336
Ville de Longueuil, 1.65%, 2020/11/16	1,000,000	981,140	993,530
Ville de Longueuil, 1.85%, 2021/07/13	500,000	493,395	498,115
Ville de Longueuil, 2.70%, 2022/07/19	915,000	905,063	929,164
Ville de Longueuil, 2.80%, 2023/07/19	1,300,000	1,282,658	1,329,328
Ville de Magog, 1.85%, 2021/09/01	2,000,000	1,967,960	1,984,540
Ville de Marieville, 2.20%, 2021/12/05	204,000	202,068	204,286
Ville de Marieville, 2.30%, 2022/12/05	400,000	394,224	401,404
Ville de Montréal-Est, 2.70%, 2022/05/30	215,000	213,037	217,890
Ville de Pointe-Claire, 4.00%, 2021/07/19	320,000	333,856	332,043
Ville de Repentigny, 3.60%, 2021/09/27	175,000	178,150	179,699
Ville de Repentigny, 3.35%, 2022/03/28	431,000	450,585	442,266
Ville de Repentigny, 2.00%, 2022/06/26	539,000	536,774	537,340
Ville de Rimouski, 2.30%, 2020/12/01	800,000	788,264	802,400
Ville de Rivière-du-Loup, 2.40%, 2020/11/24	162,000	163,866	162,700
Ville de Rivière-du-Loup, 2.00%, 2020/12/06	395,000	391,721	394,111
Ville de Rivière-du-Loup, 2.15%, 2021/12/06	407,000	402,441	406,565
Ville de Roberval, 2.00%, 2020/09/01	500,000	493,135	498,820
Ville de Saint-Constant, 2.05%, 2022/01/24	500,000	492,520	497,400
Ville de Sainte Marthe-sur-le-Lac, 2.80%, 2023/02/05	151,000	148,877	153,374

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

As at June 30, 2019

Security	Par Value	Average Cost	Fair Value
Ville de Sainte Marthe-sur-le-Lac, 2.85%, 2024/02/05	500,000	490,090	509,790
Ville de Sainte-Agathe-des-Monts, 2.20%, 2021/12/06	179,000	177,231	179,553
Ville de Sainte-Agathe-des-Monts, 2.35%, 2022/12/06	400,000	395,192	402,668
Ville de Saint-Eustache, 3.85%, 2023/11/27	768,000	790,810	816,146
Ville de Saint-Hyacinthe, Series '4', 2.30%, 2020/11/17	637,000	643,332	638,841
Ville de Saint-Jerome, 4.00%, 2021/10/13	625,000	666,525	650,856
Ville de Saint-Jerome, 2.55%, 2022/10/04	900,000	890,154	911,799
Ville de Saint-Lin-Laurentides, 2.35%, 2020/10/20	155,000	156,519	155,138
Ville de Sept-Iles, 4.00%, 2021/10/12	220,000	226,686	229,495
Ville de Sorel-Tracy, 1.90%, 2021/04/19	1,060,000	1,061,950	1,057,106
Ville de Ste-Julie, 2.15%, 2021/11/21	328,000	324,582	327,269
Ville de St-Sauveur, 2.00%, 2020/09/01	600,000	592,554	598,944
Ville de Temiscouata sur-le-Lac, 2.85%, 2024/02/20	500,000	492,785	508,795
Ville de Terrebonne, 2.30%, 2020/12/01	900,000	909,054	899,064
Ville de Terrebonne, 2.40%, 2021/07/10	933,000	920,041	937,180
Ville de Terrebonne, 2.75%, 2024/01/29	1,050,000	1,031,184	1,069,666
Ville de Thetford Mines, 2.20%, 2021/12/06	500,000	496,750	499,760
Ville de Varennes, 2.35%, 2020/10/19	155,000	156,519	155,511
Ville de Westmount, 3.60%, 2023/08/21	225,000	229,302	236,668
		70,231,687	71,075,289
<b>Provincial Bonds (22.49%)</b>			
Province of Ontario, 3.15%, 2022/06/02	305,000	314,909	317,528
Province of Ontario, 2.85%, 2023/06/02	4,320,000	4,357,177	4,497,346
Province of Ontario, 2.60%, 2023/09/08	10,856,000	11,049,083	11,212,530
Province of Ontario, 3.50%, 2024/06/02	4,000,000	4,322,920	4,311,973
Province of Quebec, 4.25%, 2021/12/01	450,000	478,075	477,489
		20,522,164	20,816,866
<b>TOTAL CANADIAN FIXED INCOME SECURITIES</b>		<b>90,753,851</b>	<b>91,892,155</b>
<b>TOTAL INVESTMENT PORTFOLIO (99.29%)</b>		<b>\$ 90,753,851</b>	<b>\$ 91,892,155</b>
<b>Cash and cash equivalents (0.34%)</b>			311,464
<b>Other assets less liabilities (0.37%)</b>			348,497
<b>TOTAL NET ASSETS (100.00%)</b>			<b>\$ 92,552,116</b>

(See accompanying notes to financial statements)

## Notes to Financial Statements (unaudited)

June 30, 2019

### 1. REPORTING ENTITY

Horizons Active Cdn Municipal Bond ETF (“HMP” 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 August 12, 2015. 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 HMP. 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 HMP is to seek to provide unitholders with a high level of income by investing primarily in a portfolio of Canadian municipal bonds denominated in Canadian dollars.

Horizons ETFs Management (Canada) Inc. is the manager, trustee and investment manager of the ETF (“Horizons Management”, the “Manager” or the “Investment Manager”). The Investment Manager is responsible for implementing the ETF’s investment strategies and for engaging the services of Fiera Capital Corporation (“Fiera” or the “Sub-Advisor”), to act as the sub-advisor to the ETF.

### 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.

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

June 30, 2019

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.

#### **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 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.

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	–	46,450	45,978	–	–	92,428
December 31, 2018	571	54,573	50,565	–	–	105,709

The percentage of the ETF's net assets exposed to interest rate risk as at June 30, 2019, was 99.9% (December 31, 2018 – 100.2%). 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 \$2,713,956% (December 31, 2018 – \$3,054,994). 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 Canada Provincial & Municipal Bond Index	\$625,899	\$703,426

**(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	–	0.4%
AA	9.2%	7.7%
A	90.7%	92.1%
<b>Total</b>	<b>99.9%</b>	<b>100.2%</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 22.0% (December 31, 2018 – 23.3%) 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 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

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

June 30, 2019

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>						
Bonds	–	91,892,155	–	–	104,725,768	–
<b>Total Financial Assets</b>	–	<b>91,892,155</b>	–	–	<b>104,725,768</b>	–
<b>Total Financial Liabilities</b>	–	–	–	–	–	–
<b>Net Financial Assets and Liabilities</b>	–	<b>91,892,155</b>	–	–	<b>104,725,768</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	\$6,055,323	\$6,358,334
December 31, 2018	\$7,915,817	\$8,314,002

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	\$1,767		\$1,114	
Lending Agents' fees:				
Canadian Imperial Bank of Commerce	(530)	29.99%	(334)	29.98%
<b>Net securities lending income paid to the ETF</b>	<b>\$1,237</b>	<b>70.01%</b>	<b>\$780</b>	<b>70.02%</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 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.

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

June 30, 2019

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	10,806,289	575,542	(2,050,000)	9,331,831	10,174,889
2018	12,827,973	1,050,230	(2,150,000)	11,728,203	12,117,015

## 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 0.29%, plus applicable sales taxes, of the net asset value of the ETF's units, calculated and accrued daily and payable monthly in arrears. The Sub-Advisor is compensated for its services out of the management fees without any further cost to the ETF. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

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

June 30, 2019

**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	\$nil	\$nil	\$nil
June 30, 2018	\$nil	\$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.

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

June 30, 2019

**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
\$1,026,621	–	–

**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 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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