Interim Report | June 30, 2019

Horizons US 7-10 Year Treasury Bond ETF (HTB, HTB.U:TSX)

HORIZONS ETFs by Mirae Asset

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Contents

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 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 US 7-10 Year Treasury Bond ETF ("HTB" or the "ETF") contains financial highlights and is included with the unaudited interim financial statements for the investment fund. You may request a copy of the investment fund's unaudited interim or audited annual financial statements, interim or annual management report of fund performance, current proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosures, at no cost, by calling (toll free) 1-866-641-5739, or (416) 933-5745, by writing to Horizons ETFs Management (Canada) Inc. ("Horizons Management" or the "Manager"), at 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7, by visiting our website at www.horizonsetfs.com or through SEDAR at www.sedar.com.

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

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

Management Discussion of Fund Performance

Investment Objective and Strategy

HTB seeks to replicate, to the extent possible, the performance of the Solactive US 7-10 Year Treasury Bond Index (Total Return) (the "Underlying Index", Bloomberg ticker: SOLUTB), net of expenses. The Underlying Index is designed to measure the performance of the US 7-10 Year Treasury Bond market. Units of the ETF trade on the Toronto Stock Exchange ("TSX") in Canadian dollars ("C$ units") and U.S. dollars ("US$ units") under the symbols HTB and HTB.U, respectively.

To achieve the ETF's investment objective and obtain direct or indirect exposure to securities of its Underlying Index's constituent issuers, the ETF may use equity securities and derivatives, including swap agreements (see Swap Agreements below), provided that the use of such derivative instruments is in compliance with National Instrument 81-102 ("NI 81-102") and is consistent with the investment objective of the ETF.

The ETF may also invest in and hold the securities of the issuers contained in its Underlying Index in substantially the same proportion as they are reflected in the Underlying Index or the ETF may invest in and hold index participation units of exchange traded funds that are based on its Underlying Index. The ETF will remain fully invested in or exposed to the markets at all times. The ETF may also invest in futures contracts and forward agreements in order to provide market exposure for other cash held by the ETF and may also hold money market instruments, securities of money market funds or cash to meet its current obligations.

Management Discussion of Fund Performance (continued)

The Investment Manager does not invest the assets of the ETF on a discretionary basis or select securities based on the Investment Manager's view of the investment merit of a particular security or company, nor does it conduct conventional stock research or analysis, or forecast stock market movement or trends in managing the assets of the ETF.

About the Underlying Index

The Solactive US 7-10 Year Treasury Bond Index is a rules-based index which is designed to measure the performance of the U.S. 7-10 Year Treasury bond market. The Solactive US 7-10 Year Treasury Bond Index constituents are selected based on size and maturity criteria, and generally have a maturity between 7 and 10 years at the time of inclusion.

The eligible universe is made up of those U.S. Treasury securities which are U.S. dollar denominated, have a maturity between 7 and 10 years, have a fixed coupon, and are not convertible or callable. Solactive US 7-10 Year Treasury Bond Index constituent securities are generally deliverable against the U.S. 10-Year Treasury Note futures contract.

The U.S. federal government finances its expenditures in excess of tax receipts through the sale of debt obligations. The market for U.S. Treasury securities is one of largest, most active debt market in the world. Treasuries are debt obligations issued and backed by the full faith and credit of the U.S. government. Because they are considered to have low credit or default risk, they generally offer lower yields relative to other bonds.

Risk

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

Risk ratings are determined based on the historical volatility of the ETF as measured by the standard deviation of its performance against its mean. The risk categorization of the ETF may change over time and historical volatility is not indicative of future volatility. Generally, a risk rating is assigned to the ETF based on a rolling 10-year standard deviation of its returns, the return of its 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 or from www.sedar.com, or by calling Horizons ETFs Management (Canada) Inc. at (toll free) 1-866-641-5739, or at (416) 933-5745.

Management Discussion of Fund Performance (continued)

- General risks of investments
- General risks of investing in an index fund and passive investment risk
- Risk relating to index replication strategies
- Calculation of index levels and termination of the Underlying Index
- The Underlying Index
- Derivatives investments
- Risk that units will trade at prices other than net asset value per unit
- Issuer concentration risk
- Fixed income risk
- U.S. Treasury securities risk
- Currency price fluctuations
- Substantial sales of the U.S. dollar
- Foreign exchange rate risk
- Foreign exchange and market risk
- Counterparty risk
- Index adjustments
- Liquidity risk
- Borrowing risk
- Risks relating to tax changes
- Regulatory and tax-related risks
- Cease trading of securities risk
- Voting of index securities risk
- Exchange risk
- Liability of unitholders
- Reliance on key personnel
- Securities lending

Results of Operations

For the six-month period ended June 30, 2019, the US$ units of the ETF returned 6.80%. This compares to a return of 6.92% for the Underlying Index for the same period. The above figures are adjusted for distributions, if any. This represents precise tracking in performance between the ETF and the Underlying Index before the expenses payable by the ETF, which include management fees and swap fees plus applicable sales taxes. The net asset value of the ETF's C$ units are impacted by the daily Canadian/U.S. dollar exchange rate. Since the securities in the Underlying Index are traded in U.S. dollars and are unhedged, the C$ units of the ETF will be positively or negatively affected by an appreciation or depreciation of the U.S. dollar versus the Canadian dollar.

The Solactive US 7-10 Year Treasury Bond Index is a rules-based index which is designed to measure the performance of the U.S. 7-10 year Treasury bond market. The Solactive US 7-10 Year Treasury Bond Index constituents are selected based on size and maturity criteria, and generally have a maturity between 7 and 10 years at the time of inclusion.

Headlines from the first half of 2019 had far-reaching impact on global bond markets. The U.S. Federal Reserve's (the "Fed") Chairman's missteps, the ongoing trade battle between the U.S. and China, worries of a slowing global economy, and renewed tensions between the U.S. and Iran all were major factors in how markets performed in the first half of the year.

Having advocated for higher interest rates for most of 2018, Fed Chairman Jerome Powell's continued insistence on normalizing interest rates had a severe impact on global equity, oil, gold and bond markets in the fourth quarter of 2018. Heightened volatility in risk assets saw severe sell-offs in equities and crude oil as investors pushed into safe haven assets like gold and U.S. Treasuries. Towards the end of December 2018, Chairman Powell finally relented in his stance on interest rates and intimated that the Fed would be more dovish. Risk assets rallied for most of the next four months on this news. From December 24, 2018 to April 30, 2019, the S&P 500 was up 26.13% on a total return basis and crude oil was up 50.27% for the same period.

Towards the end of the first quarter of 2019, investors started paying more attention the ongoing trade dispute between the U.S. and China and its spillover effects on a weakening global economy. Earlier optimism that a trade deal would get completed in short order was starting to give way to the sense that this dispute could drag on for many years, despite the

Management Discussion of Fund Performance (continued)

U.S. President's occasional missives to the contrary. The European economy, mostly caught between the two economic powerhouses, was starting to slow dramatically. At the end of March, German 10-year bond yields began trading in negative territory for the first time since 2016. The S&P 500 sold off 6.35% in May, while crude oil fell 22.87% between April 23 and June 12, 2019 as investors feared the weakening economy's impact on the demand for oil.

The minutes to the Federal Open Market Committee's (the "FOMC") early May meeting were released on May 22, 2019. In it, the Committee indicated that economic growth had begun to pick up once again after having expressed concerns of slowing global growth, Brexit negotiations and the China-U.S. trade spat in previous meetings. Despite the renewed optimism, the FOMC held the line on interest rates citing a lack of inflation pressures.

This more dovish tone had markets beginning to anticipate that the next move in interest rates by the Fed might be lower. As expected, assets that tend to rally based on looser monetary policy rallied: the S&P 500 gained 7.05% in June and gold was up 11.04% between May 22 and June 30. Crude oil, initially didn't participate in this run-up. However, when tensions flared up between the U.S. and Iran in mid-June, crude prices rallied 14.33% between June 12 and June 30, 2019.

The direction for U.S. 10-year Treasury bond yields ("U.S. 10-Year") for most of the first half of the year was lower. Having reached a high of 3.24% in early November 2018, investors flocked to the relative safety of the U.S. treasuries during the December market sell-off, bidding the yield down 55 basis points ("bps") to close 2018 at 2.68%.

For much of the first quarter of 2018, U.S. 10-Year traded sideways between 2.60% and 2.75%. In hindsight, it appears the bond market never fully bought into the idea that the rally that took place in equities in the first four months of the year was a new leg of the already long-in-the-tooth bull market.

Weaker global economic data began to get reflected in U.S. 10-Year yields towards the end of the first quarter and into the second quarter of 2019. From mid-March to the end of May, the yield on the U.S. 10-Year fell from 2.61% on March 19 to 2.21% on May 30. As the bond market began anticipating that the Fed may begin lowering overnight lending rates sooner rather later, an additional 20bps was shaved off the U.S. 10-Year yield in the last month of the period, finishing June at 2.01%.

Horizons Management does not endeavour to predict market direction, changes that may occur in global fiscal and monetary policies, the effect of additional geopolitical concerns or other unforeseen crises. Horizons Management and the ETF are agnostic as to their impact on global equity, fixed income, currency, and commodity markets generally, and the mid-term U.S. Treasury bond market specifically. They are only of concern to the ETF in so much as there is some minimal risk that could affect its ability to meet its investment objective. Please refer to the risk factors section in the ETF's prospectus for more detailed information.

The ETF may, at times, have very large purchase and redemption activity. However, the performance of the ETF is primarily affected by the performance of its swap which is marked-to-market daily and is tied to the performance of the ETF's Underlying Index. The performance and liquidity of the ETF is unaffected by the asset size of the ETF, or by purchase and redemption activity, as these transactions are taken into account, as applicable, with adjustments to the notional value of the Swap.

The annualized volatility of each of the Underlying Index and the ETF was 3.21% and 3.21%, respectively, for the period ended June 30, 2019.

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.

Swap Agreements

As a means to achieving its investment objective, the ETF has entered into one or more swap agreements (each a "Swap") with one or more bank counterparties (each a "Counterparty") to gain exposure to the Underlying Index. Each Swap is a total return swap under which the ETF pays the Counterparty a floating amount based upon prevailing short-term market interest rates computed upon an agreed notional amount and an equity amount based upon any decline in value of a notional investment in a notional number of units the value of each of which will equal the value of the Underlying Index. In return, the Counterparty will pay the ETF an equity amount based upon any increase in value of the Underlying Index. The total return will be comprised of notional income which would be earned on a notional investment in the reference assets (which, by virtue of the operation of the Swap, will be notionally reinvested in further reference assets) plus any notional appreciation in the value of the Underlying Index or, as the case may be, minus any reduction in the value of the Underlying Index. The ETF also invests the net proceeds of unit subscriptions in cash and/or short-term debt obligations to earn short-term market interest rates. The terms of each Swap require the ETF to pledge its cash and/or short-term debt obligations to the Counterparty to secure the payment of the ETF's payment obligations under the Swap. The income earned on the cash and/or short-term debt obligations is anticipated to be sufficient to fund the required floating payments by the ETF under the Swap. The ETF may replace a Counterparty or engage additional counterparties at any time.

The obligations of the Counterparty to the ETF under each Swap are determined by reference to the performance of the Underlying Index, the value of which will equal the value of the Underlying Index. The Counterparty may hedge its exposure under the Swap to index securities. There is no assurance that the Counterparty will maintain a hedge or will do so with respect to the full amount or term of the Swap.

In addition to assisting in the pursuit of the ETF's investment objective, total return swap agreements may be entered into as a substitute for investing directly in securities or to hedge a position.

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

Recent Developments

Other than indicated below, there have been no recent market developments of particular note, aside from the normal fluctuations of the markets, that are expected to have an undue influence on the portfolio of the ETF when compared to its benchmark.

Potential Impact from the 2019 Federal Budget

The Manager is continuing to assess the potential impact of proposed legislative changes tabled by the Minister of Finance in the Federal Budget on March 19, 2019, and updated on July 30, 2019, on certain of its exchange traded funds

Management Discussion of Fund Performance (continued)

that principally use derivatives as part of meeting their investment objectives and strategies. The proposed changes deal with how certain investment funds are able to allocate income and capital gains to redeeming entities. If the changes are enacted as currently drafted, and the ETF was to continue to carry on operations after its 2019 taxation year in the same manner as it does currently, the proposed legislative changes could potentially result in taxable distributions of income to the unitholders of the ETF in respect of periods after its 2019 taxation year, and/or capital gains in respect of periods after its 2020 taxation year.

Related Party Transactions

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

Manager, Trustee and Investment Manager

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

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. The management fees 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 since it effectively began operations on April 7, 2015. This information is derived from the ETF's annual audited financial statements and the current interim financial statements. Please see the front page for information on how you may obtain the ETF's annual or interim financial statements.

The ETF's Net Assets per Unit

Period [(1)]		2019	2018	2017	2016	2015
Net assets, beginning of period	$	41.00	40.72	39.77	39.47	40.00
Increase (decrease) from operations:						
Total revenue		0.04	0.05	0.06	–	–
Total expenses		(0.04)	(0.09)	(0.09)	(0.09)	(0.06)
Realized gains (losses) for the period		0.33	2.59	(0.15)	4.28	(0.03)
Unrealized gains (losses) for the period		3.19	(1.17)	0.99	(4.23)	(0.34)
Total increase (decrease) from operations [(2)]		3.52	1.38	0.81	(0.04)	(0.43)
Total distributions [(3)]		–	–	–	–	–
Net assets, end of period (US$ units) [(4)]	$	43.79	41.00	40.72	39.77	39.47
Net assets, end of period (C$ units) [(4)]	$	57.35	55.98	51.18	53.39	54.57

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. Distributions, if any, were paid in cash, reinvested in additional units of the ETF, or both.
4. The Financial Highlights are not intended to act as a continuity of the opening and closing net assets per unit.

Financial Highlights (continued)

Ratios and Supplemental Data

Period [1]	2019	2018	2017	2016	2015
Total net asset value (000's)	$ 175,495	43,328	13,484	12,139	12,016
Number of units outstanding (000's)	4,008	1,057	331	305	304
Management expense ratio [2]	0.16%	0.17%	0.17%	0.17%	0.17%
Management expense ratio before waivers and absorptions [2]	0.16%	0.17%	0.17%	0.17%	0.17%
Trading expense ratio [3]	0.05%	0.05%	0.05%	0.06%	0.03%
Portfolio turnover rate [4]	3.61%	141.81%	177.57%	160.35%	48.67%
Net asset value per unit, end of period (US$ units)	$ 43.79	41.00	40.72	39.77	39.47
Closing market price (US$ units)	$ 43.71	41.01	40.74	39.81	39.44
Net asset value per unit, end of period (C$ units)	$ 57.35	55.98	51.18	53.39	54.57
Closing market price (C$ units)	$ 57.23	55.94	51.10	53.44	54.57

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. The trust declaration of the ETF requires that the Manager pay all the expenses of the ETF other than the management fee and any sales taxes on the management fee.
3. 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.
4. The ETF's portfolio turnover rate indicates how actively the ETF trades its portfolio investments. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of a year. The higher an ETF's portfolio turnover rate in a year, the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of an ETF.

Management Fees

In consideration for management services and investment advice provided to the ETF, the Manager is entitled to a management fee. The management fee, inclusive of sales tax, is applied on a daily basis to the net asset value of the ETF. The management fees, exclusive of sales tax, are charged at the annual rate of 0.15%. Approximately 100% of management fees were used for management, investment management, operating costs of the ETF, other general administration and profit.

From the management fee, the Manager has paid substantially all of the costs and expenses relating to the operation of the business and affairs of the ETF including investment management, administration, legal, accounting, custody, audit, registrar and transfer agency fees, and taxes as well as expenses associated with advertising, marketing, sponsoring and promoting the sale of units of the ETF.

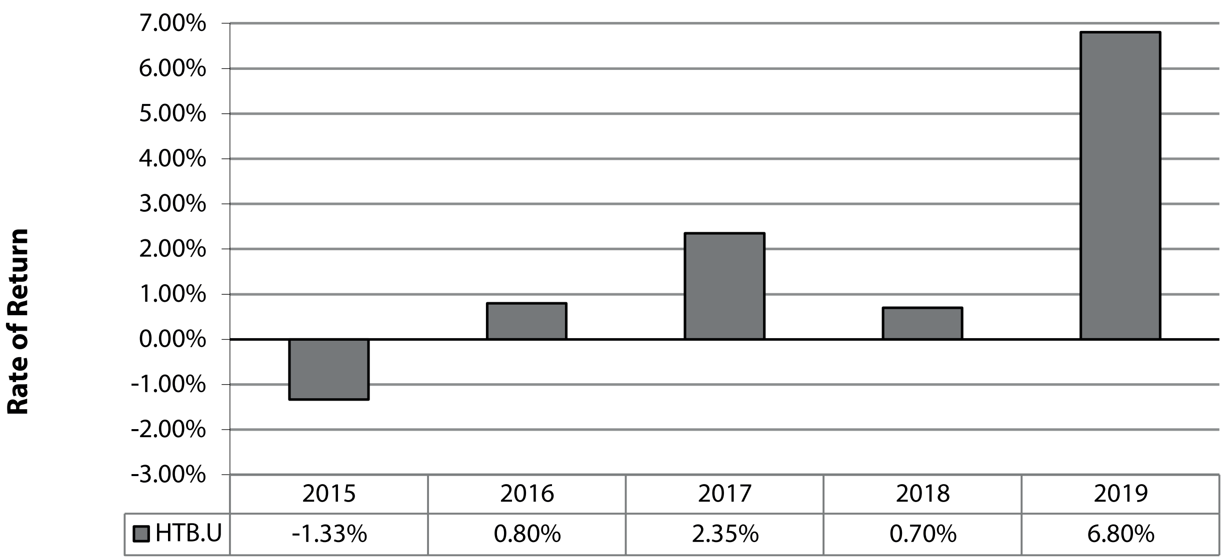
The trust declaration of the ETF requires that the Manager pay all the expenses of the ETF other than the management fee and any sales taxes on the management fee and any swap fees as may be applicable. As a result, the ETF does not have any other expenses.

Past Performance

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

Year-by-Year Returns

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



The ETF effectively began operations on April 7, 2015. Only the performance of the US$ units is displayed above, as the US$ units seek to achieve the primary investment objective of the ETF. The returns to unitholders holding C$ units would have been substantially similar to those of the unitholders holding US$ units when adjusted for the daily Canadian/U.S. dollar exchange rate.

Summary of Investment Portfolio

As at June 30, 2019

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
U.S. Fixed Income Exposure through Index Swaps	$ 124,912,478	71.18%
Cash - Other	110,152	0.06%
Other Assets less Liabilities	50,472,061	28.76%
	$ 175,494,691	**100.00%**

Top Holdings	% of ETF's Net Asset Value
Cash held for Collateral	69.53%
Fair Value of Index Swaps (notional value US$172,479,201)[1]	1.65%
Cash - Other	0.06%

Top Securities In the Underlying Index*—Solactive US 7-10 Year Treasury Bond Index	% Weighting in Underlying Index
US Treasury Bond	100.00%

[1] The fair value of index swap(s) represents the amount receivable/(payable) from/(to) the counterparty of the ETF's total return swap agreement(s) as at the date of this report.

*These positions represent the top constituents of the Underlying Index. The ETF is exposed to the performance of the Underlying Index on a total return basis through a total return swap agreement.

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

MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements of Horizons US 7-10 Year Treasury Bond ETF (the "ETF") are the responsibility of the manager and the trustee to the ETF, Horizons ETFs Management (Canada) Inc. (the "Manager"). They have been prepared in accordance with International Financial Reporting Standards using information available and include certain amounts that are based on the Manager's best estimates and judgements.

The Manager has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce relevant, reliable and timely financial information, including the accompanying financial statements.

These financial statements have been approved by the Board of Directors of the Manager.

Steven J. Hawkins

Director
Horizons ETFs Management (Canada) Inc.

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
Assets		
Cash held for collateral	$ 122,018,008	$ 45,474,251
Cash - other	110,152	58,971
Amounts receivable relating to accrued income	147,517	66,543
Amounts receivable relating to portfolio assets sold	49,584,111	–
Amounts receivable relating to securities issued	50,358,802	–
Derivative assets (note 3)	2,894,470	–
Total assets	**225,113,060**	**45,599,765**
Liabilities		
Accrued management fees	16,671	5,764
Amounts payable for portfolio assets purchased	49,601,698	–
Derivative liabilities (note 3)	–	2,265,981
Total liabilities	**49,618,369**	**2,271,745**
Total net assets (note 2)	**$ 175,494,691**	**$ 43,328,020**
Number of redeemable units outstanding (note 9)	4,007,645	1,056,745
Total net assets per unit (US$ units) (note 1)	$ 43.79	$ 41.00
Total net assets per unit (C$ units) (note 1)	$ 57.35	$ 55.98

(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,

		2019		2018
Income				
Interest income for distribution purposes	$	64,392	$	12,154
Net realized gain on sale of investments and derivatives		526,747		1,000,231
Net change in unrealized appreciation (depreciation) of investments and derivatives		5,160,451		(1,063,108)
		5,751,590		**(50,723)**
Expenses (note 10)				
Management fees		55,537		22,158
Transaction costs		15,524		6,486
		71,061		**28,644**
Increase (decrease) in net assets for the period	**$**	**5,680,529**	**$**	**(79,367)**
Increase (decrease) in net assets per unit	$	3.52	$	(0.12)

(See accompanying notes to financial statements)

Statements of Changes in Financial Position (unaudited)

For the Periods Ended June 30,

	2019	2018
Total net assets at the beginning of the period	$ 43,328,020	$ 13,483,929
Increase (decrease) in net assets	5,680,529	(79,367)
Redeemable unit transactions		
Proceeds from the issuance of securities of the investment fund	129,681,681	23,684,003
Aggregate amounts paid on redemption of securities of the investment fund	(3,195,539)	(15,895,300)
Total net assets at the end of the period	**$ 175,494,691**	**$ 21,193,265**

(See accompanying notes to financial statements)

Statements of Cash Flows (unaudited)

For the Periods Ended June 30,

		2019		2018
Cash flows from operating activities:				
Increase (decrease) in net assets for the period	$	5,680,529	$	(79,367)
Adjustments for:				
Net realized gain on sale of investments and derivatives		(526,747)		(1,000,231)
Net change in unrealized depreciation (appreciation) of investments and derivatives		(5,160,451)		1,063,108
Purchase of investments		49,601,698		–
Proceeds from the sale of investments		(49,057,364)		1,000,231
Amounts receivable relating to accrued income		(80,974)		(23,616)
Accrued expenses		10,907		2,805
Net cash from operating activities		**467,598**		**962,930**
Cash flows from financing activities:				
Amount received from the issuance of units		79,322,879		23,684,003
Amount paid on redemptions of units		(3,195,539)		(15,895,300)
Net cash from financing activities		**76,127,340**		**7,788,703**
Net increase in cash and cash equivalents for the period		76,594,938		8,751,633
Cash at beginning of period		45,533,222		14,782,377
Cash at end of period	**$**	**122,128,160**	**$**	**23,534,010**
Interest paid	$	(16,582)	$	(11,462)
Total Cash are composed of :				
Cash held for collateral	$	122,018,008	$	23,481,273
Cash - other		110,152		52,737
Cash at end of period	**$**	**122,128,160**	**$**	**23,534,010**

(See accompanying notes to financial statements)

Schedule of Investments (unaudited)

As at June 30, 2019

Security	Notional Value (US$)	Fair Value
INDEX SWAPS (1.65%)		
Solactive US 7-10 Year Treasury Bond Index Swaps, Payment Date May 1, 2024	$ 172,479,201	$ 2,894,470
TOTAL INDEX SWAPS		**2,894,470**
CASH HELD FOR COLLATERAL (69.53%)		**122,018,008**
TOTAL INVESTMENT PORTFOLIO (71.18%) (note 7)		**$ 124,912,478**
Cash - other (0.06%)		110,152
Other assets less liabilities (28.76%)		50,472,061
TOTAL NET ASSETS (100.00%)		**$ 175,494,691**

(See accompanying notes to financial statements)

Notes to Financial Statements (unaudited)
June 30, 2019

1. REPORTING ENTITY

Horizons US 7-10 Year Treasury Bond ETF ("HTB" 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 7, 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 A units which trade on the Toronto Stock Exchange ("TSX") in Canadian dollars ("C$ units") and U.S. dollars ("US$ units") under the symbols HTB and HTB.U, respectively. Subscriptions for US$ units can be made in either U.S. or Canadian dollars. 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.

HTB seeks to replicate, to the extent possible, the performance of the Solactive US 7-10 Year Treasury Bond Index (Total Return) (the "Underlying Index", Bloomberg ticker: SOLUTB), net of expenses. The Underlying Index is designed to measure the performance of the US 7-10 Year Treasury Bond market.

To achieve the ETF's investment objective and obtain direct or indirect exposure to securities of its Underlying Index's constituent issuers, the ETF may use equity securities and derivatives, including swap agreements, provided that the use of such derivative instruments is in compliance with National Instrument 81-102 ("NI 81-102") and is consistent with the investment objective of the ETF.

Horizons ETFs Management (Canada) Inc. ("Horizons Management" or the "Manager", the "Investment Manager", or the "Trustee") is the manager, investment manager and trustee of the ETF. The Investment Manager is responsible for implementing the ETF's investment strategies.

2. BASIS OF PREPARATION

(i) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Any mention of total net assets, net assets, net asset value or increase (decrease) in net assets is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable units as reported under IFRS.

These financial statements were authorized for issue on August 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 U.S. 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.

(a) Financial instruments

(i) Recognition, initial measurement and classification

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

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

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

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, at fair value (see below), with transaction costs recognized in the statements of comprehensive income. Other financial assets and financial liabilities are recognized on the date on which they are originated at fair value.

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

- Financial assets mandatorily classified at fair value through profit or loss: debt securities, equity investments and derivative financial instruments
- Financial assets at amortized cost: All other financial assets
- Financial liabilities classified at fair value through profit or loss: derivative financial instruments and securities sold short, if any
- Financial liabilities at amortized cost: all other financial liabilities

(ii) Fair value measurement

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

Investments are valued at fair value as of the close of business on each day upon which a session of the TSX is held ("Valuation Date") and based on external pricing sources to the extent possible. Investments held that are traded in an active market through recognized public stock exchanges, over-the-counter markets, or through recognized investment dealers, are valued at their closing sale price. However, such prices may be adjusted if a more accurate value can be obtained from recent trading activity or by incorporating other relevant information that may not have been reflected in pricing obtained from external sources. Short-term investments, including notes and money market instruments, are valued at amortized cost which approximates fair value.

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

Cash consist of cash on deposit. Cash held for collateral consists of cash posted as collateral to the Swap Agreements as described in note 7.

Redeemable units

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

(b) Investment income

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

Notes to Financial Statements (unaudited) (continued)

June 30, 2019

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 8).

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

(c) Foreign currency

Transactions in foreign currencies, if any, are translated into the ETF’s reporting currency using the exchange rate prevailing on the trade date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the period-end exchange rate. Foreign exchange gains and losses are presented as “Net realized gain (loss) on foreign exchange”, except for those arising from financial instruments at fair value through profit or loss, which are recognized as a component within “Net realized gain (loss) on sale of investments and derivatives” and “Net change in unrealized appreciation (depreciation) of investments and derivatives” in the statements of comprehensive income.

(d) Cost basis

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

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

The increase (decrease) in net assets per unit in the statements of comprehensive income represents the change in net assets attributable to holders of redeemable units from operations divided by the weighted average number of units of the ETF outstanding during the reporting period. For management fees please refer to note 10.

(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.

Notes to Financial Statements (unaudited) (continued)

June 30, 2019

(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, fees incurred in conjunction with the ETF's total return swap agreements, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs are expensed and are included in "Transaction costs" in the statements of comprehensive income.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The ETF may hold financial instruments that are not quoted in active markets, including derivatives. The determination of the fair value of these instruments is the area with the most significant accounting judgements and estimates that the ETF has made in preparing the financial statements. See note 6 for more information on the fair value measurement of the ETF's financial instruments.

5. FINANCIAL INSTRUMENTS RISK

In the normal course of business, the ETF's investment activities expose it to a variety of financial risks. The Manager seeks to minimize potential adverse effects of these risks for the ETF's performance by employing professional, experienced portfolio advisors, by daily monitoring of the ETF's positions and market events, and periodically may use derivatives to hedge certain risk exposures. To assist in managing risks, the Manager maintains a governance structure that oversees the ETF's investment activities and monitors compliance with the ETF's stated investment strategies, internal guidelines and securities regulations.

Please refer to the most recent prospectus for a complete discussion of the risks attributed to an investment in the units of the ETF. Significant financial instrument risks that are relevant to the ETF and an analysis of how they are managed are presented below.

(a) Market risk

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

Notes to Financial Statements (unaudited) (continued)
June 30, 2019

(i) Currency risk

Currency risk is the risk that financial instruments which are denominated in currencies other than the ETF's reporting currency, the U.S. 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 has no 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 ETF does not hold any long term debt instruments directly to which it would have interest rate risk exposure. However, the ETF's investment objective is to seek to replicate, to the extent possible, the performance of the Solactive US 7-10 Year Treasury Bond Index (Total Return), net of expenses. The Underlying Index is designed to measure the performance of the U.S. 7-10 Year Treasury Bond market. As such, the Underlying Index is exposed to interest rate risk. The following table summarizes the exposure of the ETF's assets to the interest rate risk of the Underlying Index, categorized by the earlier of re-pricing or maturity dates:

Investments	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
As at	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)
June 30, 2019	–	–	–	175,374	–	175,374
December 31, 2018	–	–	–	43,277	–	43,277

The percentage of the ETF's net assets exposed to interest rate risk via the Underlying Index as at June 30, 2019, was 99.9% (December 31, 2018 - 99.9%). 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 $13,377,411 (December 31, 2018 - $3,299,867). The ETF's interest rate sensitivity was determined based on the portfolio weighted duration of the Underlying Index. 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 ETF is subject to other market risks that will affect the value of its investments, including general economic and market conditions, as well as developments that impact specific economic sectors, industries or companies. The ETF, will normally lose value on days when the securities comprising the Underlying Index declines. The ETF intends to remain fully invested regardless of market conditions.

For the six-month period ended June 30, 2019, the US$ units of the ETF returned 6.80%. This compares to a return of 6.92% for the Underlying Index for the same period. The above figures are adjusted for distributions, if any.

The difference in performance between the ETF and the Underlying Index is due to expenses payable by the ETF, which include management fees and swap fees plus applicable sales taxes. The net asset value of the ETF's C$ units are impacted by the daily Canadian/U.S. dollar exchange rate. Since the securities in the Underlying Index are traded in U.S. dollars and are unhedged, the C$ units of the ETF will be positively or negatively affected by an appreciation or depreciation of the U.S. dollar versus the Canadian dollar.

(b) Credit risk

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the ETF. It arises principally from debt securities held, and also from derivative financial assets, cash and cash equivalents, and other receivables.

The ETF's maximum credit risk exposure as at the reporting date is represented by the respective carrying amounts of the financial assets in the statements of financial position, including any positive mark-to-market of the ETF's swap agreements. This amount is included in "Derivative assets" (if any) in the statements of financial position. The credit risk related to any one swap agreement is concentrated in the counterparty to that particular swap agreement.

Credit risk is managed by dealing with counterparties the Manager believes to be creditworthy and which meet the designated rating requirements of National Instrument 81-102 ("NI 81-102"), please see note 7.

Analysis of credit quality of the Underlying Index

The ETF does not hold any long term debt instruments directly to which it would have credit risk exposure. However, due to the ETF's investment objective, the ETF is exposed to the credit risk of the constituent issuers of the Underlying Index. The Underlying Index's credit risk exposure by designated rating 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 (%)	Percentage of Net Asset Value (%)
	June 30, 2019	**December 31, 2018**
AAA	99.9%	99.9%
Total	**99.9%**	**99.9%**

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. The maximum exposure to any one debt issuer in the Underlying Index as at June 30, 2019, represents 99.9% (December 31, 2018 – 99.9%) 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 may, at times, have very large purchase and redemption activity. However, the performance of the ETF is primarily affected by the performance of its swap agreement, which is tied to the performance of the ETF's Underlying Index. The performance and liquidity of the ETF is unaffected by the asset size of the ETF, purchases or redemptions as these transactions are taken into account, as applicable, with adjustments to the notional value of the swap agreement. Generally, liabilities of the ETF are due within 90 days.

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 ($)**	**Level 3 ($)**
Financial Assets						
Swaps	–	2,894,470	–	–	–	–
Total Financial Assets	**–**	**2,894,470**	**–**	**–**	**–**	**–**
Financial Liabilities						
Swaps	–	–	–	–	(2,265,981)	–
Total Financial Liabilities	**–**	**–**	**–**	**–**	**(2,265,981)**	**–**
Net Financial Assets & Liabilities	**–**	**2,894,470**	**–**	**–**	**(2,265,981)**	**–**

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. SWAP AGREEMENTS AND COLLATERAL PLEDGED

(a) Swap Agreements

As a means to achieving its investment objective, the ETF has entered into one or more swap agreements (each a "Swap") with one or more bank counterparties (each a "Counterparty") to gain exposure to the Underlying Index. Each Swap is a total return swap under which the ETF pays the Counterparty a floating amount based upon prevailing short-term market interest rates computed upon an agreed notional amount and an equity amount based upon any decline in value of a notional investment in a notional number of units the value of each of which will equal the value of the Underlying Index. In return, the Counterparty will pay the ETF an equity amount based upon any increase in value of the Underlying Index. The total return will be comprised of notional income which would be earned on a notional investment in the reference assets (which, by virtue of the operation of the Swap, will be notionally reinvested in further reference assets) plus any notional appreciation in the value of the Underlying Index or, as the case may be, minus any reduction in the value of the Underlying Index. The ETF also invests the net proceeds of unit subscriptions in cash and/or short-term debt obligations to earn short-term market interest rates. The terms of each Swap require the ETF to pledge its cash and/or short-term debt obligations to the Counterparty to secure the payment of the ETF's payment obligations under the Swap. The income earned on the cash and/or short-term debt obligations is anticipated to be sufficient to fund the required floating payments by the ETF under the Swap. The ETF may replace a Counterparty or engage additional counterparties at any time.

The obligations of the Counterparty to the ETF under each Swap are determined by reference to the performance of the Underlying Index, the value of which will equal the value of the Underlying Index. The Counterparty may hedge its exposure under the Swap to index securities. There is no assurance that the Counterparty will maintain a hedge or will do so with respect to the full amount or term of the Swap.

In addition to assisting in the pursuit of the ETF's investment objective, total return swap agreements may be entered into as a substitute for investing directly in securities or to hedge a position.

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

(b) Swap Counterparty Restrictions

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

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

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

Swaps entered into by the ETF may have terms to maturity of less than one year or longer than one year. The Counterparty to any Swap is subject to the applicable short-term or long-term designated ratings restrictions listed above. The Counterparties to the Swaps meet those designated ratings requirements.

(c) Swap Agreement Exposure

The table below shows the notional exposure of the ETF to Swaps as at June 30, 2019, and December 31, 2018. In addition, designated ratings for each Counterparty at each reporting date are presented, as is the credit risk exposure (see note 5) of derivative assets as shown in the statements of financial position.

As at	Counter-party [1]	Notional Exposure	Credit Risk	DBRS Rating	Fitch Rating	Moody's Rating	S&P Rating
June 30, 2019	NBC	US$172,479,201	$2,894,470	AA (low)	A+	Aa3	A
Dec. 31, 2018	NBC	US$45,543,266	–	AA (low)	A+	Aa3	A

[1] NBC refers to National Bank of Canada

Notes to Financial Statements (unaudited) (continued)

June 30, 2019

8. SECURITIES LENDING

In order to generate additional returns, the ETF is authorized to enter into securities lending agreements with borrowers deemed acceptable in accordance with National Instrument 81-102 – *Investment Funds* ("NI 81-102"). Under a securities lending agreement, the borrower must pay the ETF a negotiated securities lending fee, provide compensation to the ETF equal to any distributions received by the borrower on the securities borrowed, and the ETF must receive an acceptable form of collateral in excess of the value of the securities loaned. Although such collateral is marked to market, the ETF may be exposed to the risk of loss should a borrower default on its obligations to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities. Revenue, if any, earned on securities lending transactions during the period is disclosed in the ETF's statements of comprehensive income.

As at June 30, 2019, and December 31, 2018, the ETF was not participating in any securities lending transactions. The ETF did not earn any income from securities lending transactions for the periods ended June 30, 2019 and 2018.

9. REDEEMABLE UNITS

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

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

On any trading day, which is defined as the day that a net asset value of the ETF is being struck, unitholders of the ETF may (i) redeem units of the ETF for cash at a redemption price per unit equal to 95% of the closing price for units of the ETF on the TSX on the effective day of the redemption, where the units being redeemed are not equal to a prescribed number of units ("PNU") or a multiple PNU; or (ii) redeem, less any applicable redemption charge as determined by the Manager in its sole discretion from time to time, a PNU or a multiple PNU of the ETF for cash equal to the net asset value of that number of units.

Units of the ETF are issued or redeemed on a daily basis at the net asset value per security that is determined as at 4:00 p.m. (Eastern Time) each business day. Purchase and redemption orders are subject to a 9:30 a.m. (Eastern Time) cut-off time.

The ETF is required to distribute all of its income (including net realized capital gains) that it has earned in the year to such an extent that the ETF will not be liable for ordinary income tax thereon. Income earned by the ETF is distributed to unitholders at least once per year, if necessary, and any such amount distributed by the ETF will be paid as a "reinvested distribution". Reinvested distributions on units of the ETF will be reinvested automatically in additional units of the ETF at a price equal to the net asset value per unit of the ETF on such day and the units of the ETF will be immediately consolidated such that the number of outstanding units of the ETF held by each unitholder on such day following the distribu-

Notes to Financial Statements (unaudited) (continued)

June 30, 2019

tion will equal the number of units of the ETF held by the unitholder prior to the distribution. Reinvested distributions are reported as taxable distributions and used to increase each unitholder's adjusted cost base for the ETF. Distributions paid to holders of redeemable units, if any, are recognized in the statements of changes in financial position.

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

For the periods ended June 30, 2019 and 2018, the number of units issued by subscription, the number of units redeemed, the total and average number of units outstanding was as follows:

Period	Beginning Units Outstanding	Units Issued	Units Redeemed	Ending Units Outstanding	Average Units Outstanding
2019	1,056,745	3,025,900	(75,000)	4,007,645	1,614,298
2018	331,165	600,410	(400,000)	531,575	666,846

10. EXPENSES

Management fees

In consideration for management services and investment advice provided to the ETF, the Manager is entitled to a management fee. The management fee, inclusive of sales tax, is applied on a daily basis to the net asset value of the ETF. The management fees, exclusive of sales tax, are charged at the annual rate of 0.15%. Approximately 100% of management fees were used for management, investment management, operating costs of the ETF, other general administration and profit.

From the management fee, the Manager has paid substantially all of the costs and expenses relating to the operation of the business and affairs of the ETF including investment management, administration, legal, accounting, custody, audit, registrar and transfer agency fees, and applicable sales taxes as well as expenses associated with advertising, marketing, sponsoring and promoting the sale of securities of the ETF.

The trust declaration of the ETF requires that the Manager pay all the expenses of the ETF other than the management fees and sales tax on the management fee and any swap fees as may be applicable. As a result, the ETF does not have any other expenses.

The management fees paid to the Manager are considered related party transactions, as the Manager is a related party to the ETF. The management fees paid to the Manager 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.

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
–	$70,634	2037

13. OFFSETTING OF FINANCIAL INSTRUMENTS

In the normal course of business, the ETF may enter into various master netting arrangements or other similar agreements that do not meet the criteria for offsetting in the statements of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts. The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at June 30, 2019, and December 31, 2018. The "Net" column displays what the net impact would be on the ETF's statements of financial position if all amounts were set-off.

	Amounts Offset ($)			Amounts Not Offset ($)		Net ($)
Financial Assets and Liabilities as at June 30, 2019	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	2,894,470	–	2,894,470	–	–	2,894,470
Derivative liabilities	–	–	–	–	–	–

	Amounts Offset ($)			Amounts Not Offset ($)		Net ($)
Financial Assets and Liabilities as at December 31, 2018	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	–	–	–	–	–	–
Derivative liabilities	(2,265,981)	–	(2,265,981)	–	2,265,981	–

14. 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.

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