



**Horizons Active Cdn Municipal Bond ETF  
(HMP:TSX)**



**HORIZONS** ETFs  
by Mirae Asset

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## A Message from the CEO

For many industries and sectors, the first half of 2020 has been a very challenging period. As COVID-19 spread across the world, many countries closed their borders, restricted business operations and issued work-from-home orders for those businesses still operating.

COVID-19 restrictions also impacted the investment fund industry as investor fears of a recession resulted in a mass sell-off in global equities and corporate bonds in March. Governments and global central banks responded with significant stimulus packages to keep businesses afloat and support the growing number of people out of work.

Amid the crisis, Horizons ETFs has managed to rise above the market turbulence. As at June 30, 2020, Horizons ETFs was the second-best selling firm in Canada for 2020 in terms of inflows, with over \$4.0 billion in net sales for the first six months of the year. With more than 90 ETFs listed in Canada, investors looked to our firm for innovative investment solutions to help manage this crisis and seek new investment opportunities.

In February, Horizons ETFs launched three new total return ETFs ("**TRI ETFs**"): the Horizons US Large Cap Index ETF ("**HULC**"), the Horizons S&P/TSX Capped Composite Index ETF ("**HXCN**") and the Horizons Cash Maximizer ETF ("**HSAV**"). HXCN received the most seed capital in Canadian history at \$1 billion and is the best-selling ETF in Canada for the first half of 2020.

The second-best selling ETF in Canada for the first six months of 2020 is another one of our products: the Horizons Cdn. Select Universe Bond ETF ("**HBB**"). Our suite of tax-efficient TRI ETFs, which are not expected to pay out distributions, seem to have become a key target for investors using the crisis as an opportunity to rebalance their portfolios.

We have observed several recent positive indicators that have strengthened our optimistic outlook for the rest of 2020. In the broader Canadian ETF industry, there are signs that activity may be picking up; for the month of May, we saw \$2.4 billion of net inflows into Canadian ETFs after a relatively quiet April, with all equity classes contributing, and a further \$4 billion of inflows for the month of June. We've also seen marijuana stocks more than double from their March lows in the U.S., despite COVID-19 restrictions and the fact that marijuana remains illegal federally. Currently, Horizons ETFs provides the only ETF focused on exposure to this sector that can provide diversified exposure across the United States ("**HMUS**").

At Horizons ETFs, "Innovation is Our Capital," has long been our motto, and we believe that has allowed us to be nimble enough to adapt quickly while anticipating what investors are looking for. While the road ahead is still uncertain, we feel confident in our ability to maintain our momentum.

As always, we thank you for your continued support, and hope you're staying safe and healthy during this time.

Sincerely,



Steven J. Hawkins  
President & CEO of 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.

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|---|---|
| <ul style="list-style-type: none"> <li>• Stock market risk</li> <li>• Specific issuer risk</li> <li>• Legal and regulatory risk</li> <li>• Exchange traded funds risk</li> <li>• Reliance on historical data risk</li> <li>• Corresponding net asset value risk</li> <li>• Designated broker/dealer risk</li> <li>• Cease trading of securities risk</li> <li>• Exchange risk</li> <li>• Early closing risk</li> <li>• Market disruptions risk</li> <li>• No assurance of meeting investment objective</li> <li>• Tax risk</li> <li>• Securities lending, repurchase and reverse repurchase transaction risk</li> <li>• Loss of limited liability</li> <li>• Reliance on key personnel</li> <li>• Distributions risk</li> </ul> | <ul style="list-style-type: none"> <li>• Conflicts of interest</li> <li>• No ownership interest</li> <li>• Market for units</li> <li>• Redemption price</li> <li>• Net asset value fluctuation</li> <li>• Restrictions on certain unitholders</li> <li>• Highly volatile markets</li> <li>• No guaranteed return</li> <li>• Interest rate risk</li> <li>• Credit risk</li> <li>• Income trust investment risk</li> <li>• High yield bond risk and risk of other lower rated investments</li> <li>• Call risk</li> <li>• Risk of difference between quoted and actionable market price</li> <li>• Liquidity risk</li> <li>• Municipal bond risk</li> </ul> |
|---|---|

## Management Discussion of Fund Performance (continued)

### Results of Operations

For the six-month period ended June 30, 2020, units of the ETF returned 4.52% when including distributions paid to unitholders. This compares to a return of 8.05% 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

Bond markets were significantly impacted by the COVID-19 pandemic in the first half of 2020. The spread of the virus and the impact of the response measures, including social distancing, on economic activity have been very severe. A global recession is in the cards for 2020. Specific to Canada, the sharp drop in oil prices has compounded the impact on our economy.

As at June 30, 2020, 30-year Government of Canada bonds were yielding 0.991%, down 77 basis points ("bps") from where they began the year. In the United States, U.S. 30-year Treasury bond yields fell 98 bps for the first half of the year to 1.411%. Government bond yields swung wildly as investors sought to assess the economic fallout stemming from the coronavirus, the bond supply implications of the massive fiscal response, and assertive central bank measures aimed at restoring liquidity and avoiding a credit crunch.

Corporate credit spreads widened significantly in March as the economic shutdown threatened corporate health, and liquidity seized up in a tumultuous market environment. Over the second quarter of 2020, those spreads started to narrow as quantitative easing programs took effect and market conditions improved. Bonds with higher duration outperformed in this environment as interest rates were lowered by central banks.

Provincial bonds outperformed corporate, municipal and federal bonds – returning 9.06% over the first six months of the year versus the 8.05% return for municipal bonds.

### Portfolio Review

The ETF's absolute return was mostly a function of lower benchmark yields, with the 5-year Government of Canada yield falling 132 bps during the first half of the year. Issues from Ville de Longueuil, Ville de Magog and Municipality of Chelsea were particularly strong contributors, though an issue from Ville de Saint-Basile-le-Grand proved to be the best performer, gaining 6.26%. Security selection within provincial bonds was very strong in the first half, in particular issuances from Ontario and Quebec.

### Outlook

COVID-19 will remain front and centre for financial markets. Governments have and will continue to respond with drastic measures that are necessary to bridge the gap until the economy can fully reopen. Fiera is confident that these decisions will eventually work, but the duration and severity of the impact on economic growth remains uncertain, especially in certain sectors. It is expected that second quarter growth will be extremely weak, but we are expecting activity to resume in the third quarter of 2020, albeit at a subdued pace.

## Management Discussion of Fund Performance (continued)

Fiera anticipates that Canadian interest rates will remain low for a long period of time, but volatility will present the ETF with tradeable opportunities. Credit could continue to perform well, especially with government yields anchored; however, we do not expect a straight-line recovery. Given that credit has performed well, the ETF will continue to take profits in certain sectors, though if spreads widened, we would look to increase the ETF's exposure.

While municipal spreads reflect a decent amount of uncertainty, we remain cautious of a sudden spread widening when supply increases in the fall, where we think a buying opportunity could arise. At the mid-point of the year, the carry of the portfolio should provide cushion and lead the ETF to decent performance should municipal spreads stay range-bound.

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

For the six-month period ended June 30, 2020, the ETF generated gross comprehensive income (loss) from investments and derivatives (which includes changes in the fair value of the ETF's portfolio) of \$3,425,317. This compares to \$2,818,255 for the six-month period ended June 30, 2019. The ETF incurred management, operating and transaction expenses of \$171,079 (2019 – \$218,367) of which \$41,467 (2019 – \$40,583) 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 \$813,348 to unitholders during the period (2019 – \$1,033,618).

### **Presentation**

The attached financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Any mention of total net assets, net assets, net asset value or increase (decrease) in net assets in the financial statements and/or management report of fund performance is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable units as reported under IFRS.

### **Recent Developments**

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

### **Related Party Transactions**

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

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

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

If the ETF invests in other Horizons Management ETFs, Horizons Management may receive management fees in respect of the ETF's assets invested in such Horizons Management ETFs. In addition, any management fees paid to the Manager (described in detail on page 7) are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statements of comprehensive income in the attached financial statements of the ETF. The management fees payable by the ETF as at June 30, 2020, and December 31, 2019, 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>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Net assets, beginning of period</b>	\$	9.84	9.76	9.75	9.87	9.98	10.00
<b>Increase from operations:</b>							
Total revenue		0.13	0.25	0.23	0.22	0.24	0.09
Total expenses		(0.02)	(0.04)	(0.04)	(0.04)	(0.04)	(0.02)
Realized gains (losses) for the period		0.08	0.04	(0.11)	(0.05)	(0.03)	(0.01)
Unrealized gains (losses) for the period		0.26	0.07	0.11	(0.05)	(0.06)	0.01
<b>Total increase from operations</b> <sup>(2)</sup>		0.45	0.32	0.19	0.08	0.11	0.07
<b>Distributions:</b>							
From net investment income (excluding dividends)		(0.11)	(0.23)	(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>		(0.11)	(0.23)	(0.20)	(0.21)	(0.23)	(0.06)
<b>Net assets, end of period</b> <sup>(4)</sup>	\$	10.18	9.84	9.76	9.75	9.87	9.98

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



**Financial Highlights** (continued)

**Ratios and Supplemental Data**

<i>Period</i> <sup>(1)</sup>		<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Total net asset value (000's)	\$	73,854	72,412	105,500	125,119	115,783	36,862
Number of units outstanding (000's)		7,258	7,358	10,806	12,828	11,728	3,693
Management expense ratio <sup>(2)</sup>		0.35%	0.35%	0.36%	0.37%	0.43%	0.42%
Management expense ratio before waivers and absorptions <sup>(3)</sup>		0.47%	0.43%	0.42%	0.42%	0.50%	1.11%
Trading expense ratio <sup>(4)</sup>		0.00%	0.00%	0.00%	0.00%	0.00%	0.02%
Portfolio turnover rate <sup>(5)</sup>		40.80%	53.82%	64.31%	41.92%	132.50%	75.00%
Net asset value per unit, end of period	\$	10.18	9.84	9.76	9.75	9.87	9.98
Closing market price	\$	10.19	9.83	9.76	9.78	9.86	10.01

1. This information is provided as at June 30, 2020, 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.

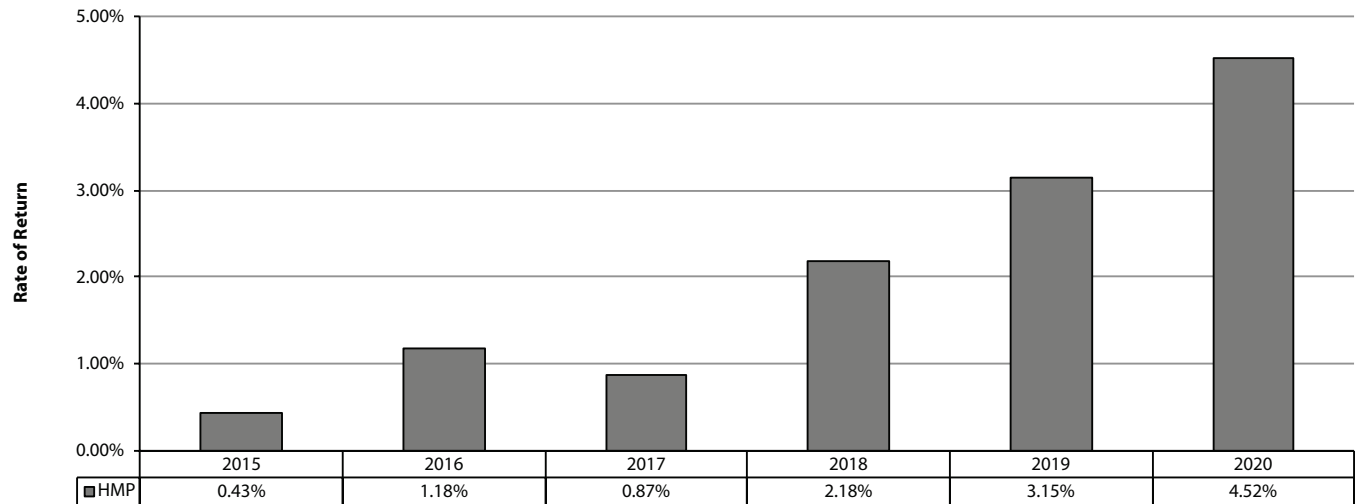
<b>Marketing</b>	<b>Portfolio management fees, general administrative costs and profit</b>	<b>Waived/absorbed expenses of the ETF</b>
3%	63%	34%

## Past Performance

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, 2020

<b>Asset Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
Canadian Fixed Income Securities	\$ 73,522,767	99.55%
Cash and Cash Equivalents	407,522	0.55%
Other Assets less Liabilities	(75,903)	-0.10%
	<b>\$ 73,854,386</b>	<b>100.00%</b>

<b>Sector Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
Municipal Bonds	\$ 54,070,062	73.21%
Provincial Bonds	19,452,705	26.34%
Cash and Cash Equivalents	407,522	0.55%
Other Assets less Liabilities	(75,903)	-0.10%
	<b>\$ 73,854,386</b>	<b>100.00%</b>

**Summary of Investment Portfolio** (continued)

As at June 30, 2020

<b>Top 25 Holdings*</b>	<b>% of ETF's Net Asset Value</b>
Province of Ontario	20.68%
Province of Quebec	5.66%
City of Montreal	4.20%
City of Toronto	3.93%
Ville de L'Assomption	3.52%
Ville de Victoriaville	2.83%
Municipality of Chelsea	2.81%
Municipalité de Saint-Alphonse	2.56%
Ville de Longueuil	2.54%
City of Mont-Laurier	2.23%
Ville de Nicolet	2.17%
Ville de Blainville	2.15%
Ville de Saint-Jerome	2.14%
Village of Val-David	2.08%
Municipalité de St-Isidore	2.07%
Municipalité de Saint-Mathieu	2.03%
Ville de Sainte-Agathe-des-Monts	1.94%
Municipality of St. Zotique	1.73%
Municipalité de Saint-Elzéar	1.60%
Ville de Repentigny	1.60%
Municipality of Levis	1.55%
Ville de Terrebonne	1.50%
Municipalité de Saint-Hippolyte	1.44%
Municipalité de Scott	1.41%
Societe de Transport de Laval	1.39%

\* 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.



\_\_\_\_\_  
Thomas Park  
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, 2020 and December 31, 2019

	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 407,522	\$ 177,296
Investments	73,522,767	72,005,209
Amounts receivable relating to accrued income	380,715	457,178
Amounts receivable relating to portfolio assets sold	1,939,503	–
Amounts receivable relating to securities issued	254,295	–
<b>Total assets</b>	<b>76,504,802</b>	<b>72,639,683</b>
<b>Liabilities</b>		
Accrued management fees	21,279	21,143
Accrued operating expenses	1,908	2,175
Amounts payable for portfolio assets purchased	2,492,618	–
Distribution payable	134,611	204,319
<b>Total liabilities</b>	<b>2,650,416</b>	<b>227,637</b>
<b>Total net assets (note 2)</b>	<b>\$ 73,854,386</b>	<b>\$ 72,412,046</b>
Number of redeemable units outstanding (note 8)	7,258,279	7,357,549
Total net assets per unit	\$ 10.18	\$ 9.84

(See accompanying notes to financial statements)

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



 Steven J. Hawkins  
 Director



 Thomas Park  
 Director

**Statements of Comprehensive Income** (unaudited)

For the Periods Ended June 30,

	<b>2020</b>	<b>2019</b>
<b>Income</b>		
Interest income for distribution purposes	\$ 957,923	\$ 1,236,159
Securities lending income (note 7)	441	1,237
Net realized gain on sale of investments and derivatives	567,426	278,508
Net change in unrealized appreciation of investments and derivatives	1,899,527	1,302,351
	<b>3,425,317</b>	<b>2,818,255</b>
<b>Expenses (note 9)</b>		
Management fees	121,321	165,421
Audit fees	6,253	6,225
Independent Review Committee fees	376	371
Custodial and fund valuation fees	15,874	18,037
Legal fees	1,849	1,415
Securityholder reporting costs	10,430	10,384
Administration fees	14,967	15,099
Transaction costs	–	1,415
Other expenses	9	–
	<b>171,079</b>	<b>218,367</b>
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(41,467)	(40,583)
	<b>129,612</b>	<b>177,784</b>
<b>Increase in net assets for the period</b>	<b>\$ 3,295,705</b>	<b>\$ 2,640,471</b>
Increase in net assets per unit	\$ 0.45	\$ 0.26

(See accompanying notes to financial statements)



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

For the Periods Ended June 30,

	<b>2020</b>	<b>2019</b>
<b>Total net assets at the beginning of the period</b>	\$ 72,412,046	\$ 105,499,584
<b>Increase in net assets</b>	3,295,705	2,640,471
<b>Redeemable unit transactions</b>		
Proceeds from the issuance of securities of the investment fund	6,720,472	5,660,603
Aggregate amounts paid on redemption of securities of the investment fund	(7,767,816)	(20,220,284)
Securities issued on reinvestment of distributions	7,327	5,360
Distributions:		
From net investment income	(813,348)	(1,033,618)
<b>Total net assets at the end of the period</b>	<b>\$ 73,854,386</b>	<b>\$ 92,552,116</b>

(See accompanying notes to financial statements)

**Statements of Cash Flows** (unaudited)

For the Periods Ended June 30,

	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Increase in net assets for the period	\$ 3,295,705	\$ 2,640,471
Adjustments for:		
Net realized gain on sale of investments and derivatives	(567,426)	(278,508)
Net change in unrealized appreciation of investments and derivatives	(1,899,527)	(1,302,351)
Purchase of investments	(22,462,895)	(20,695,363)
Proceeds from the sale of investments	27,822,832	27,750,504
Amounts receivable relating to accrued income	76,463	33,127
Accrued expenses	(131)	(5,662)
<b>Net cash from operating activities</b>	<b>6,265,021</b>	<b>8,142,218</b>
<b>Cash flows from financing activities:</b>		
Amount received from the issuance of units	1,655,133	5,660,603
Amount paid on redemptions of units	(6,814,199)	(12,961,260)
Distributions paid to unitholders	(875,729)	(1,052,391)
<b>Net cash used in financing activities</b>	<b>(6,034,795)</b>	<b>(8,353,048)</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>230,226</b>	<b>(210,830)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>177,296</b>	<b>522,294</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 407,522</b>	<b>\$ 311,464</b>
Interest received, net of withholding taxes	\$ 1,034,386	\$ 1,269,286

(See accompanying notes to financial statements)

**Schedule of Investments** (unaudited)

As at June 30, 2020

Security	Par Value	Average Cost	Fair Value
<b>CANADIAN FIXED INCOME SECURITIES (99.55%)</b>			
<b>Municipal Bonds (73.21%)</b>			
City of Mont-Laurier, 1.85%, 2022/04/11	600,000	\$ 590,808	\$ 609,240
City of Mont-Laurier, 2.30%, 2022/12/19	1,000,000	984,630	1,032,260
City of Montreal, 3.50%, 2023/09/01	1,200,000	1,269,210	1,303,450
City of Montreal, 3.50%, 2024/09/01	1,625,000	1,736,585	1,796,900
City of Sherbrooke, 2.15%, 2021/12/13	329,000	324,776	335,445
City of St-Jean-sur-Richelieu, 1.75%, 2022/06/13	500,000	489,300	508,325
City of Toronto, 3.40%, 2024/05/21	700,000	742,718	768,833
City of Toronto, 2.45%, 2025/02/06	2,000,000	2,121,680	2,136,715
City of Vaudreuil-Dorion, 2.65%, 2022/07/24	255,000	263,091	263,902
Municipalité de Cap-Saint-Ignace, 2.75%, 2023/02/20	147,000	145,286	153,372
Municipalité de L'islet, 2.50%, 2022/03/05	130,000	129,229	133,472
Municipalité de Port-Daniel-Gascons, 2.80%, 2024/01/29	481,000	474,973	508,744
Municipalité de Rawdon, 2.35%, 2021/09/26	488,000	483,174	497,648
Municipalité de Saint-Alphonse, 2.80%, 2023/09/18	1,800,000	1,758,798	1,889,640
Municipalité de Saint-Elzéar, 2.80%, 2023/07/23	1,120,000	1,104,040	1,179,058
Municipalité de Saint-Hippolyte, 2.85%, 2024/01/28	1,000,000	981,090	1,060,320
Municipalité de Saint-Mathieu, 2.75%, 2023/06/26	1,428,000	1,413,506	1,497,229
Municipalité de Scott, 2.75%, 2023/06/26	1,000,000	989,850	1,043,900
Municipalité de St-Adolphe-d'Howard, 2.85%, 2024/02/07	500,000	490,770	528,330
Municipalité de St-Isidore, 2.00%, 2022/04/05	1,500,000	1,487,880	1,530,045
Municipalité des Coteaux, 2.80%, 2023/02/05	144,000	141,902	150,215
Municipality of Chelsea, Series '0', 1.90%, 2022/09/03	262,000	266,297	267,481
Municipality of Chelsea, 2.35%, 2022/12/18	1,750,000	1,726,620	1,808,538
Municipality of Levis, 3.20%, 2022/12/12	588,000	592,998	617,100
Municipality of Levis, 3.00%, 2025/06/02	482,000	516,516	520,960
Municipality of Saint-Henri, 2.25%, 2022/09/05	319,000	326,701	328,088
Municipality of Saint-Paul, 2.20%, 2024/10/02	500,000	494,600	520,510
Municipality of St. Zotique, 2.25%, 2024/10/29	750,000	739,155	777,150
Municipality of St. Zotique, 1.25%, 2025/06/29	500,000	493,800	498,580
Municipality of St-Apollinaire, 1.75%, 2021/10/18	119,000	114,470	120,302
Reseau de Transport de la Capitale, 2.70%, 2023/06/13	153,000	149,873	160,318
Societe de Transport de Laval, 2.10%, 2023/10/15	1,000,000	989,700	1,029,610
Societe de Transport de Longueuil, 2.10%, 2024/07/16	350,000	345,618	361,477
Village of Val-David, 2.75%, 2023/06/26	1,460,000	1,445,181	1,532,562
Ville de Beauharnois, 2.05%, 2022/03/29	622,000	615,044	634,925
Ville de Blainville, 2.35%, 2021/09/26	488,000	483,174	497,648
Ville de Blainville, 2.75%, 2023/07/24	370,000	363,377	388,733
Ville de Blainville, 2.25%, 2024/07/23	673,000	668,625	700,701
Ville de Brossard, 3.85%, 2021/11/08	383,000	394,006	398,895
Ville de Chateauguay, 4.00%, 2021/10/04	200,000	206,098	208,148
Ville de Chateauguay, 1.20%, 2025/06/30	500,000	493,550	493,550

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

As at June 30, 2020

Security	Par Value	Average Cost	Fair Value
Ville de Cowansville, 2.65%, 2022/07/31	293,000	289,528	302,487
Ville de Fermont, 2.00%, 2021/07/25	262,000	257,546	264,696
Ville de Gatineau, 3.60%, 2021/09/14	222,000	227,046	229,621
Ville de La Tuque, 2.00%, 2021/09/01	900,000	890,883	911,394
Ville de Lac-Brome, 2.10%, 2024/07/16	375,000	370,129	386,696
Ville de L'Assomption, 2.95%, 2023/10/10	2,450,000	2,415,773	2,596,143
Ville de Laval, 3.30%, 2022/06/27	129,000	131,593	135,926
Ville de Laval, 3.95%, 2023/10/30	584,000	611,145	644,099
Ville de Magog, 1.85%, 2021/09/01	250,000	245,995	253,263
Ville de Magog, 2.20%, 2024/10/02	400,000	396,604	416,408
Ville de Marieville, 2.20%, 2021/12/05	204,000	202,068	207,652
Ville de Marieville, 2.30%, 2022/12/05	400,000	394,224	412,764
Ville de Montréal-Est, 2.70%, 2022/05/30	215,000	213,037	221,983
Ville de Nicolet, 2.05%, 2024/12/17	1,550,000	1,547,657	1,600,080
Ville de Repentigny, 3.60%, 2021/09/27	175,000	178,150	181,167
Ville de Repentigny, 3.35%, 2022/03/28	431,000	450,585	447,951
Ville de Repentigny, 2.00%, 2022/06/26	539,000	536,774	549,926
Ville de Rivière-du-Loup, 2.15%, 2021/12/06	407,000	402,442	414,232
Ville de Saint-Basile-le-Grand, 2.20%, 2024/10/29	750,000	737,400	776,423
Ville de Saint-Constant, 2.05%, 2022/01/24	500,000	492,520	508,865
Ville de Sainte Marthe-sur-le-Lac, 2.80%, 2023/02/05	151,000	148,877	157,428
Ville de Sainte Marthe-sur-le-Lac, 2.85%, 2024/02/05	500,000	490,090	527,330
Ville de Sainte-Agathe-des-Monts, 2.20%, 2021/12/06	179,000	177,231	182,598
Ville de Sainte-Agathe-des-Monts, 2.35%, 2022/12/06	1,209,000	1,226,998	1,249,066
Ville de Saint-Eustache, 3.85%, 2023/11/27	768,000	790,810	838,249
Ville de Saint-Jerome, 4.00%, 2021/10/13	625,000	666,525	650,001
Ville de Saint-Jerome, 2.55%, 2022/10/04	900,000	890,154	932,319
Ville de Sept-Iles, 4.00%, 2021/10/12	220,000	226,686	229,101
Ville de Ste-Julie, 2.15%, 2021/11/21	328,000	324,582	333,461
Ville de Temiscouata sur-le-Lac, 2.85%, 2024/02/20	500,000	492,785	527,980
Ville de Terrebonne, 2.75%, 2024/01/29	1,050,000	1,031,184	1,109,514
Ville de Thetford Mines, 2.20%, 2021/12/06	500,000	496,750	508,835
Ville de Victoriaville, 2.70%, 2022/09/18	377,000	389,991	391,579
Ville de Victoriaville, 2.80%, 2023/09/18	1,000,000	1,014,550	1,052,230
Ville de Victoriaville, 1.30%, 2025/06/17	650,000	644,891	649,863
Ville de Waterville, 1.95%, 2023/08/26	345,000	337,858	353,377
Ville de Westmount, 3.60%, 2023/08/21	225,000	229,302	242,188
Ville de Longueuil, 2.70%, 2022/07/19	495,000	489,624	512,988
Ville de Longueuil, 2.80%, 2023/07/19	1,300,000	1,282,658	1,367,860
		51,891,344	54,070,062

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

As at June 30, 2020

Security	Par Value	Average Cost	Fair Value
<b>Provincial Bonds (26.34%)</b>			
Province of Ontario, 3.15%, 2022/06/02	3,100,000	3,261,239	3,261,416
Province of Ontario, 3.50%, 2024/06/02	4,127,000	4,471,327	4,573,324
Province of Ontario, 2.30%, 2024/09/08	515,000	542,933	548,258
Province of Ontario, 2.60%, 2025/06/02	6,350,000	6,857,303	6,890,054
Province of Quebec, 4.25%, 2021/12/01	230,000	240,863	242,613
Province of Quebec, 3.00%, 2023/09/01	2,195,000	2,301,745	2,362,145
Province of Quebec, 3.75%, 2024/09/01	1,400,000	1,542,170	1,574,895
		19,217,580	19,452,705
<b>TOTAL CANADIAN FIXED INCOME SECURITIES</b>		<b>71,108,924</b>	<b>73,522,767</b>
<b>TOTAL INVESTMENT PORTFOLIO (99.55%)</b>		<b>\$ 71,108,924</b>	<b>\$ 73,522,767</b>
<b>Cash and cash equivalents (0.55%)</b>			407,522
<b>Other assets less liabilities (-0.10%)</b>			(75,903)
<b>TOTAL NET ASSETS (100.00%)</b>			<b>\$ 73,854,386</b>

(See accompanying notes to financial statements)

## Notes to Financial Statements (unaudited)

June 30, 2020

### 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, 2020, 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, 2020

### (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 of financial assets and hedge accounting.

IFRS 9 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 or 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-sell 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 FVTPL: debt securities, equity investments and derivative financial instruments
- Financial assets at amortized cost: All other financial assets
- Financial liabilities classified at FVTPL: 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.

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

June 30, 2020

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 FVTPL 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.

**(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.



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

June 30, 2020

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.

### (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 applicable 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. Orders for subscriptions or redemptions are only permissible on valid trading days, as defined in the ETF's prospectus.

### (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, 2020

**(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.

**(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, 2020

**(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, 2020, and December 31, 2019, 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, 2020	335	23,436	39,258	11,223	–	74,252
December 31, 2019	225	34,246	38,166	–	–	72,637

The percentage of the ETF's net assets exposed to interest rate risk as at June 30, 2020, was 100.5% (December 31, 2019 – 100.3%). The amount by which the net assets of the ETF would have increased or decreased, as at June 30, 2020, 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 \$2,276,131 (December 31, 2019 – \$2,088,644). 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.

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.

<b>Comparative Index</b>	<b>June 30, 2020</b>	<b>December 31, 2019</b>
S&P Canada Provincial & Municipal Bond Index	\$531,204	\$519,720

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

June 30, 2020

**(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, 2020, and December 31, 2019, is listed as follows:

Debt or Derivative Securities by Credit Rating	Percentage of Net Asset Value (%)	
	June 30, 2020	December 31, 2019
AAA	0.5%	0.3%
AA	15.0%	11.3%
A	85.0%	88.7%
<b>Total</b>	<b>100.5%</b>	<b>100.3%</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, 2020, was 20.7% (December 31, 2019 – 9.0%) 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 readily disposed. The ETF aims to retain sufficient cash and cash equivalent positions to maintain liquidity; therefore, the liquidity risk for the ETF is considered minimal.

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

June 30, 2020

**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, 2020, and December 31, 2019, in valuing the ETF's investments and derivatives carried at fair values:

	June 30, 2020			December 31, 2019		
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
<b>Financial Assets</b>						
Short-Term Investments	–	–	–	–	49,661	–
Bonds	–	73,522,767	–	–	71,955,548	–
<b>Total Financial Assets</b>	–	<b>73,522,767</b>	–	–	<b>72,005,209</b>	–
<b>Total Financial Liabilities</b>	–	–	–	–	–	–
<b>Net Financial Assets and Liabilities</b>	–	<b>73,522,767</b>	–	–	<b>72,005,209</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, 2020, and for the year ended December 31, 2019.

**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, 2020

The aggregate closing market value of securities loaned and collateral received as at June 30, 2020, and December 31, 2019, was as follows:

As at	Securities Loaned	Collateral Received
June 30, 2020	\$447,550	\$471,675
December 31, 2019	\$895,100	\$943,350

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, 2020 and 2019. 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, 2020	% of Gross Income	June 30, 2019	% of Gross Income
Gross securities lending income	\$630		\$1,767	
Lending Agents' fees:				
Canadian Imperial Bank of Commerce	(189)	30.00%	(530)	29.99%
<b>Net securities lending income paid to the ETF</b>	<b>\$441</b>	<b>70.00%</b>	<b>\$1,237</b>	<b>70.01%</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 valid trading day, as defined in the ETF's prospectus, 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, 2020

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, 2020 and 2019, 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
2020	7,357,549	675,730	(775,000)	7,258,279	7,316,583
2019	10,806,289	575,542	(2,050,000)	9,331,831	10,174,889

## 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, 2020

**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.

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, 2020 and 2019, 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, 2020	\$nil	\$nil	\$nil
June 30, 2019	\$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, 2020, and December 31, 2019, 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, 2020

**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, 2019, 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, 2020, and December 31, 2019, 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, 2020, and December 31, 2019, the ETF had no exposure to subsidiaries, associates or unconsolidated structured entities.

Manager

**Horizons ETFs Management (Canada) Inc.**

55 University Avenue, Suite 800

Toronto, Ontario

M5J 2H7

Tel: 416-933-5745

Fax: 416-777-5181

Toll Free: 1-866-641-5739

[info@horizonsetfs.com](mailto:info@horizonsetfs.com)

[www.horizonsetfs.com](http://www.horizonsetfs.com)

Auditors

**KPMG LLP**

Bay Adelaide Centre

333 Bay Street, Suite 4600

Toronto, Ontario

M5H 2S5

Custodian

**CIBC Mellon Trust Company**

1 York Street, Suite 900

Toronto, Ontario

M5J 0B6

Registrar and Transfer Agent

**TSX Trust Company**

100 Adelaide Street West, Suite 301

Toronto, Ontario

M5H 4H1

Innovation is our capital. Make it yours.

Horizons Exchange Traded Funds | 55 University Avenue, Suite 800 | Toronto, Ontario, M5J 2H7

**T** 416 933 5745 | **TF** 1 866 641 5739 | **w** [horizonsetfs.com](http://horizonsetfs.com)



**HORIZONS** ETFs  
by Mirae Asset