



Horizons Active Hybrid Bond and Preferred Share ETF

(Formerly Horizons Active Floating Rate Preferred Share ETF)

HYBR:TSX



HORIZONS ETFs
by Mirae Asset

Innovation is our capital. Make it yours.
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A Message from the CEO

After the challenges of the last two years related to the COVID-19 pandemic, I am pleased a “return to normal” and a broader economic reopening have begun.

While global uncertainty and inflationary pressures have resulted in market volatility, Canada’s ETF industry continues to grow. As at May 31, 2022, Canada’s ETF industry has seen \$18 billion in year-to-date inflows.

At Horizons ETFs, our assets under management swelled from approximately \$17 billion at the end of 2020 to \$20.9 billion as at December 31, 2021. We continue to solidify our position as one of Canada’s top ETF providers, with approximately \$3 billion in ETF flows in the first half of this year. With several more innovative Horizons ETFs funds slated to launch this year, we are optimistic about further growth in the second half of 2022.

We are proud to continue our longstanding commitment to bringing innovative ETFs to market. This year alone we have launched two new, first-of-their-kind ETFs.

In February, Horizons ETFs launched the Horizons Carbon Credits ETF (“**CARB**”). CARB is Canada’s first ETF that provides exposure to investments in cap-and-trade carbon allowances: a nascent asset class, CARB, offers investors the potential to benefit from the growing global effort to regulate and restrict pollution.

In another Canadian first, in May, we launched the Horizons Copper Producers Index ETF (“**COPP**”), providing exposure to companies involved in copper ore mining, one of the most in-demand metals today. Copper is a critical component of electrical infrastructure, electric vehicles, and equipment and has an important role in helping achieve a global low-carbon energy future.

The addition of CARB and COPP to our product shelf strengthens our status as Canada’s leaders in commodity-focused funds. In addition to our longstanding funds that offer exposure to traditional commodities like crude oil and natural gas, last year, we introduced the first ETFs in Canada that offer exposure to three commodities that have the potential to fuel the future: uranium, lithium, and hydrogen. With market conditions in 2022 that have, so far, favoured energy and commodities, these ETFs can offer investors the potential to capture the current market’s momentum.

At Horizons ETFs, “Innovation is Our Capital,” has long been our motto, and we believe this has allowed us to be nimble enough to adapt while anticipating investor needs. No matter what is next on your investment horizon, we are confident that our suite of innovative ETFs will be able to help you reach your financial goals.

As always, we thank you for your continued support and hope you’re staying safe and healthy.

Sincerely,



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

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MANAGEMENT REPORT OF FUND PERFORMANCE

This interim management report of fund performance for Horizons Active Hybrid Bond and Preferred Share ETF (*Formerly Horizons Active Floating Rate Preferred Share ETF*) (“HYBR” 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 or 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 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 HYBR is to seek to provide unitholders with a high level of income by investing in a portfolio of debt and other debt-like securities, including but not limited to hybrid corporate debt (“Hybrids”), Alternative Tier 1 Capital (“AT1”), such as limited resource capital notes (“LRCNs”), and income generating equities, including but not limited to preferred securities (fixed-rate perpetual, fixed floating rate, retractable and floating rate), of Canadian and U.S. companies.

The ETF’s sub-advisor, Fiera Capital Corporation (“Fiera” or the “Sub-Advisor”), uses fundamental research to select companies that, based on the Sub-Advisor’s view on the company’s industry and growth prospects, should be included in the ETF’s investment portfolio. An extensive credit analysis for each security as well as an assessment of each company’s risk profile is completed in order to confirm the selection and relative weight of each security held by the ETF.

HYBR may, from time to time, also invest in Hybrids, preferred shares and other income generating securities of non-North American issuers as well as Listed Funds.

Management Discussion of Fund Performance (continued)

The ETF may, invest in non-investment grade securities which generally in the aggregate will be less than 50% of the ETF's net assets at time of purchase.

In anticipation of, or in response to, adverse conditions or for defensive purposes, or to manage new subscription activity, the ETF may temporarily hold a portion of its assets in cash, money market instruments, or other cash equivalents which, generally, in aggregate, will not exceed 20% of the ETF's net assets.

The ETF may also invest in derivatives for currency hedging purposes.

In accordance with applicable securities rules, the ETF may rely on exemptions from the securities regulatory authorities allowing it to purchase securities of a related issuer of the Sub-Advisor if certain conditions are met. The investment must also be approved by the ETF's Independent Review Committee ("IRC") and is subject to certain other provisions of National Instrument 81-107 ("NI 81-107").

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

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

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

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

- Stock market risk
- Specific issuer risk
- Legal and regulatory risk
- Market disruptions risk
- Cyber security risk
- Listed Funds risk
- Reliance on historical data risk
- Corresponding net asset value risk
- Designated broker/dealer risk
- Cease trading of securities risk
- Exchange risk
- Early closing risk
- No assurance of meeting investment objective
- Tax risk

Management Discussion of Fund Performance (continued)

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Securities lending, repurchase and reverse repurchase transaction risk • Loss of limited liability • Reliance on key personnel • Distributions risk • Conflicts of interest • No ownership interest • Market for units • Redemption price • Net asset value fluctuation • Restrictions on certain unitholders • Highly volatile markets | <ul style="list-style-type: none"> • No guaranteed return • Derivatives and counterparty risk • Interest rate risk • Foreign currency risk • Credit risk • Income trust investment risk • Foreign stock exchange risk • Call risk • Risk of difference between quoted and actionable market price • Liquidity risk |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Results of Operations

For the period ended June 30, 2022, units of the ETF returned -9.72%, when including distributions paid to unitholders. By comparison, the S&P/TSX Preferred Share Index™ (the “Index”) and the Solactive Laddered Canadian Preferred Share Index (the “Laddered Index”) returned -9.86% and -9.01%, respectively, on a total return basis.

The S&P/TSX Preferred Share Index is designed to track the performance of the Canadian preferred stock market. Preferred stocks pay dividends at a specified rate and receive preference over common stocks in terms of dividend payments and liquidation of assets.

The Solactive Laddered Canadian Preferred Share Index includes preferred shares that generally have an adjustable dividend rate and are laddered using equal weights in annual reset term buckets. Securities are market-capitalization-weighted within the annual term buckets. Constituents are subject to minimum market capitalization, quality and liquidity screens.

General Market Review

Risk assets were hit hard, and bond yields continued their upward movement in the first half of 2022 as markets adjusted to very hawkish central banks which now need to raise rates significantly to try to bring inflation back under control. At the beginning of the year, interest rates were already facing upward pressure as central banks had realized that inflation was more persistent than first thought caused by pent-up demand and the ongoing supply chain issues brought on by the virus. Prior to the invasion of Ukraine, the market was expecting both the Federal Reserve and the Bank of Canada to increase rates six times to 1.75%, essentially reversing the emergency stimulus put in place at the beginning of the COVID-19 pandemic. However, as the situation in Ukraine evolved, commodity prices spiked even higher and caused more supply chain issues putting further pressure on global inflation. The Federal Reserve set the tone by raising rates 125 basis points during the second quarter. The market is also anticipating another 160 basis points (“bps”) of rate hikes before year-end. Higher rates along with geopolitical risks and lockdowns in China fueled fears of a global recession, which weighed on investor sentiment. So far, the selloff in equity and credit markets has been orderly in anticipation of very soft growth or a mild recession with no systematic issues. There is currently a tug-of-war underway between runaway inflation today, and slower economic growth down the road driven by higher interest rates. The key determinant for investors is how sensitive inflation is to this upcoming slowdown. The Fed Funds rate is currently 1.75% and is expected to peak at 3.50% early next year before falling below 3.00% by the end of 2023.

Management Discussion of Fund Performance (continued)

The Bank of Canada increased its target for the overnight rate by 25 basis points in the first quarter and by 100 bps in the second quarter to 1.50%. Inflation at 7.7% in May is significantly above the bank's two percent target, largely caused by higher prices for food and energy. However, inflation continues to broaden with almost 70% of the categories that make up the CPI above 3%. The Canadian economy is expected to perform well in the second quarter when the data gets published, led by strong consumer spending and exports. Job vacancies are high, labour shortages are prevalent, and wage growth is on the rise across many sectors. The Bank will move rates materially higher throughout the year to keep inflation expectations anchored. The market has built-in an overnight rate of approximately 3.40% by the end of the year, or another 190 basis points of rate hikes.

The Canadian preferred share market underperformed in the first half of 2022 and continued to be volatile-- an environment not seen since the first quarter of 2020. The S&P/TSX Preferred Share Index returned -9.86% while the Solactive Laddered Canadian Preferred Share Index (100% rate reset composition) returned -9.01%. The jump in the five-year Canada rate and redemptions of preferred shares were not enough to compensate for the deterioration of the credit environment, particularly for hybrids and LRCNs whose credit spread widened 80-90 bps and 200 bps respectively over the first half of the year given market weakness. The negative flow of funds exacerbated the weakness seen during the second quarter. The floating rate preferred shares were the best performers in the first half of the year, along with fixed reset issues with high reset levels and/or a floor. Fixed-rate perpetuals underperformed with longer interest rates increasing.

To start the year, real estate and utilities outperformed other sectors in the index, while telecommunication, banks, and insurers underperformed. In the second quarter, real estate continued to outperform, and banks went from being a laggard in the first quarter to one of the leading sectors. Telecommunications, diversified financials, and energy all underperformed the broad market going into the second quarter.

Portfolio Review

The security selection in rate reset was the main driver of the ETF's outperformance in the first quarter, although that positioning detracted some value during the second quarter, especially in the mid/low reset levels. The ETF's underweight position in rate-reset financials and security selection in telecommunications and insurance issues contributed to overall performance.

In the first quarter, the allocation to the recently issued institutional bank preferreds also contributed to some of the overall underperformance in the first half of 2022. Throughout the first half, the overweight allocation to hybrids, LRCN, and fixed-rate perpetuals weighed on the performance.

Over the first half of the year, the ETF reduced its allocation to expensive fixed-rate perpetuals and increased its allocation on weakness to banks fixed reset issues. The ETF purchased the new TD Bank institutional preferred share and also increased its hybrid and LRCN allocations mainly with the new Altagas, Algonquin Power & Utility, and BMO issues.

Outlook

Fiera expects very aggressive central bank activity in 2022. Higher interest rates will lower growth towards potential over the next couple of years. As supply chain issues start to correct later in the year and monetary policy is tightened, inflation should substantially fall. With so many rate hikes built in over a short period, there is a growing probability that central banks make a policy error by hiking too much and putting their economies into a recession. The yield curve is already very flat and expected to invert with 30-year yields falling below two-year yields over the next three months. The sub-advisor believes offsetting some of this will be the start of quantitative tightening where the Bank will reduce government bonds on its balance sheet. It is expected that volatility may be elevated this year as the economy transitions, which would present the ETF with trading opportunities.

Management Discussion of Fund Performance (continued)

The higher five-year Canada rate is a net positive for the asset class, particularly for the fixed reset issues that trade at discount. Fiera is expecting another \$4.9 billion of preferred shares redemption (8.2% of the market) for the balance of the year which should help the asset class. The primary market for fixed reset preferred shares should remain quiet as issuers should continue to favor the hybrid and LRCN market despite the recent repricing. The Sub-Advisor is not expecting a recession over the next twelve months which should help stabilize credit spreads on hybrids, LRCNs, and preferred shares. However, volatility should remain above average particularly if issuers need to pay a decent new issue concession to issue hybrid and LRCNs. Flows into the ETFs will continue to be an important driver of daily volatility. In this environment, the sub-advisor anticipates fixed reset issues with mid-reset levels that will reset within the next six to twelve months offer the best risk-reward opportunities.

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

For the six-month period ended June 30, 2022, the ETF generated gross comprehensive income (loss) from investments and derivatives (which includes changes in the fair value of the ETF's portfolio) of (\$7,783,057). This compares to \$8,609,291 for the six-month period ended June 30, 2021. The ETF incurred management, operating and transaction expenses of \$309,748 (2021 – \$304,476) of which \$32,123 (2021 – \$110,964) was either paid or absorbed by the Manager on behalf of the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

The ETF distributed \$1,851,621 to unitholders during the period (2021 – \$995,873).

Presentation

The attached financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. 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

Other than indicated below, there are no recent industry, management or ETF related developments that are pertinent to the present and future of the ETF.

Underlying Index, ETF and Ticker Name Changes

Effective at the close of trading on March 3, 2021, there was a change to the ETF's investment objective. The ETF's new investment objective is to seek to provide unitholders with a high level of income by investing in a portfolio of debt and other debt-like securities, including but not limited to hybrid corporate debt ("Hybrids"), Alternative Tier 1 Capital ("AT1") (such as Limited Resource Capital Notes ("LRCNs")), and income generating equities, including but not limited to preferred securities (fixed-rate perpetual, fixed floating rate, retractable and floating rate), of Canadian and U.S. companies. The ETF may hedge some or all of its non-Canadian dollar currency exposure at the discretion of the Sub-Advisor.

In addition, based on the implementation of the new investment objective, the Manager changed both the name of the ETF and the ETF's trading symbol to "Horizons Active Hybrid Bond and Preferred Share ETF" and "HYBR", respectively, effective March 10, 2021.

Management Discussion of Fund Performance (continued)

Related Party Transactions

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

Manager, Trustee and Investment Manager

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

If the ETF invests in other Horizons Management ETFs, Horizons Management may receive management fees in respect of the ETF's assets invested in such Horizons Management ETFs. In addition, any management fees paid to the Manager (described in detail on page 15) 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, 2022, and December 31, 2021, are disclosed in the statements of financial position.

Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance for the current interim reporting period and for the past five fiscal years. This information is derived from the ETF's audited annual financial statements and the current unaudited interim financial statements. Please see the front page for information on how you may obtain the ETF's annual or interim financial statements.

The ETF's Net Assets per Unit

Period ⁽¹⁾	2022	2021	2020	2019	2018	2017
Net assets, beginning of period	\$ 9.86	8.08	8.09	8.41	9.78	8.70
Increase (decrease) from operations:						
Total revenue	0.21	0.40	0.43	0.43	0.42	0.41
Total expenses	(0.03)	(0.07)	(0.05)	(0.06)	(0.07)	(0.07)
Realized gains (losses) for the period	0.08	0.06	(1.08)	(0.74)	(0.06)	0.12
Unrealized gains (losses) for the period	(1.22)	1.65	0.68	0.39	(1.42)	0.95
Total increase (decrease) from operations ⁽²⁾	(0.96)	2.04	(0.02)	0.02	(1.13)	1.41
Distributions:						
From net investment income (excluding dividends)	(0.22)	–	–	–	–	–
From dividends	–	(0.30)	(0.41)	(0.38)	(0.33)	(0.32)
From net realized capital gains	–	–	–	–	–	(0.04)
From return of capital	–	(0.08)	–	(0.01)	(0.03)	–
Total distributions ⁽³⁾	(0.22)	(0.38)	(0.41)	(0.39)	(0.36)	(0.36)
Net assets, end of period ⁽⁴⁾	\$ 8.69	9.86	8.08	8.09	8.41	9.78

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

Period ⁽¹⁾	2022	2021	2020	2019	2018	2017
Total net asset value (000's)	\$ 71,506	75,854	44,131	89,624	135,892	143,102
Number of units outstanding (000's)	8,229	7,697	5,465	11,085	16,161	14,628
Management expense ratio ⁽²⁾⁽⁵⁾	0.64%	0.65%	0.65%	0.65%	0.63%	0.65%
Management expense ratio excluding proportion of expenses from underlying investment funds	0.64%	0.64%	0.65%	0.65%	0.62%	0.65%
Management expense ratio before waivers and absorptions ⁽³⁾	0.73%	0.92%	0.75%	0.70%	0.68%	0.69%
Trading expense ratio ⁽⁴⁾⁽⁵⁾	0.07%	0.12%	0.07%	0.14%	0.08%	0.10%
Trading expense ratio excluding proportion of costs from underlying investment funds	0.07%	0.12%	0.07%	0.14%	0.08%	0.10%
Portfolio turnover rate ⁽⁶⁾	18.46%	32.19%	17.34%	53.21%	30.20%	35.04%
Net asset value per unit, end of period	\$ 8.69	9.86	8.08	8.09	8.41	9.78
Closing market price	\$ 8.69	9.84	8.06	8.10	8.40	9.82

1. This information is provided as at June 30, 2022, 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, and waivers and absorptions, as applicable, 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 embedded in the price of those transactions and are therefore not included in the trading expense ratio.
5. The ETF's management expense ratio (MER) and trading expense ratio (TER) include an estimated proportion of the MER and TER for any underlying investment funds held in the ETF's portfolio during the year.
6. The ETF's portfolio turnover rate indicates how actively its portfolio investments are traded. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of the year. Generally, the higher the ETF's portfolio turnover rate in a year, the greater the trading costs payable by the ETF in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the ETF.

Financial Highlights (continued)

Management Fees

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

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.55%, 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.

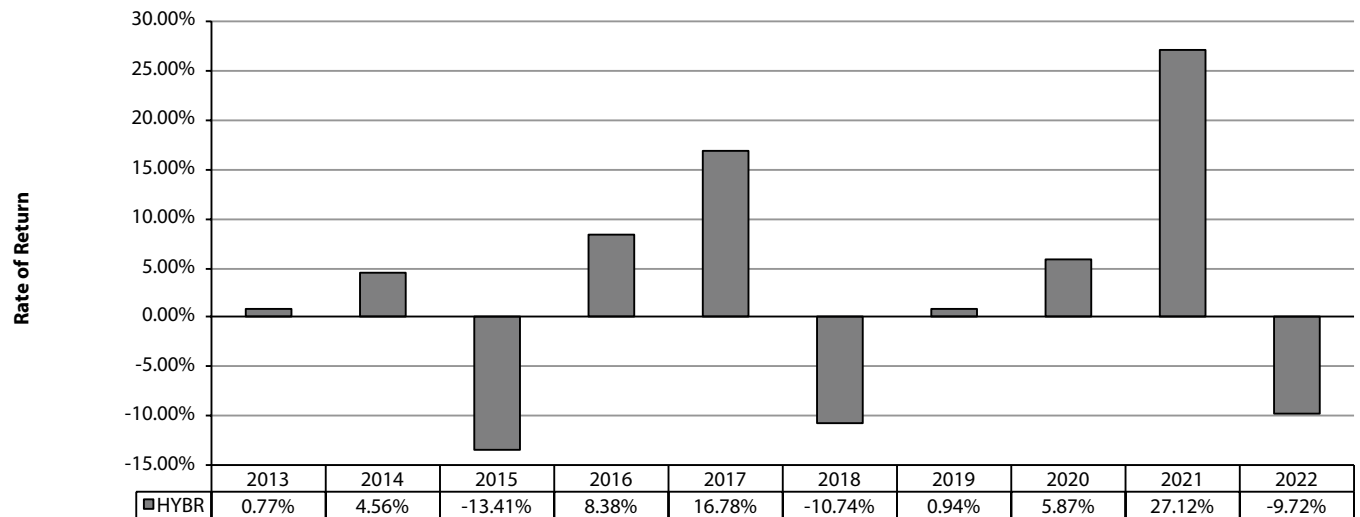
Marketing	Portfolio management fees, general administrative costs and profit	Waived/absorbed expenses of the ETF
6%	80%	14%

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 October 1, 2013.

Summary of Investment Portfolio

As at June 30, 2022

Asset Mix	Net Asset Value	% of ETF's Net Asset Value
Canadian Preferred Securities	\$ 62,810,308	87.84%
Canadian Fixed Income Securities	8,464,621	11.84%
Currency Forward Hedge*	(27,528)	-0.04%
Cash and Cash Equivalents	415,165	0.58%
Other Assets less Liabilities	(156,981)	-0.22%
	\$ 71,505,585	100.00%

Sector Mix	Net Asset Value	% of ETF's Net Asset Value
Financials	\$ 29,302,454	40.98%
Energy	18,388,827	25.72%
Utilities	8,797,091	12.30%
Corporate Bonds	8,464,621	11.84%
Communication Services	5,907,059	8.26%
Industrials	400,087	0.56%
Consumer Staples	14,790	0.02%
Currency Forward Hedge*	(27,528)	-0.04%
Cash and Cash Equivalents	415,165	0.58%
Other Assets less Liabilities	(156,981)	-0.22%
	\$ 71,505,585	100.00%

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

Summary of Investment Portfolio (continued)

As at June 30, 2022

Top 25 Holdings*	% of ETF's Net Asset Value
Enbridge Inc.	9.72%
BCE Inc.	8.26%
Toronto-Dominion Bank (The)	8.17%
Manulife Financial Corp.	6.65%
Royal Bank of Canada	5.79%
Bank of Montreal	5.45%
Pembina Pipeline Corp.	5.42%
Canadian Imperial Bank of Commerce	5.25%
TC Energy Corp.	5.04%
AltaGas Ltd.	3.67%
Brookfield Asset Management Inc.	3.65%
Brookfield Renewable Power Preferred Equity Inc.	3.44%
National Bank of Canada	2.72%
Cenovus Energy Inc.	2.59%
Brookfield Office Properties Inc.	2.44%
Canadian Utilities Ltd.	2.06%
Brookfield Infrastructure Partners L.P.	1.98%
Fortis Inc.	1.83%
Great-West Lifeco Inc.	1.64%
Rogers Communications Inc.	1.52%
Intact Financial Corp.	1.18%
Emera Inc.	1.18%
Bank of Nova Scotia (The)	1.13%
Fairfax Financial Holdings Ltd.	0.99%
Algonquin Power & Utilities Corp.	0.82%

* Note all of the Top 25 Holdings represent the aggregate preferred securities and debt securities 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 or through SEDAR at www.sedar.com.

MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements of Horizons Active Hybrid Bond and Preferred Share ETF (*Formerly Horizons Active Floating Rate Preferred Share 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 as issued by the International Accounting Standards Board 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)

June 30, 2022, and December 31, 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 415,165	\$ 1,620,919
Investments	71,274,929	74,119,351
Amounts receivable relating to accrued income	184,650	134,538
Amounts receivable relating to portfolio assets sold	160,962	75,555
Amounts receivable relating to securities issued	–	244,913
Derivative assets (note 3)	–	6,215
Total assets	72,035,706	76,201,491
Liabilities		
Accrued management fees	37,004	38,171
Accrued operating expenses	2,566	3,974
Amounts payable for portfolio assets purchased	169,574	59,910
Distribution payable	293,449	245,271
Derivative liabilities (note 3)	27,528	–
Total liabilities	530,121	347,326
Total net assets (note 2)	\$ 71,505,585	\$ 75,854,165
Number of redeemable units outstanding (note 8)	8,229,088	7,696,915
Total net assets per unit	\$ 8.69	\$ 9.86

(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,

	2022	2021
Income		
Dividend income	\$ 1,546,025	\$ 979,374
Interest income for distribution purposes	190,386	49,025
Securities lending income (note 7)	195	53
Net realized gain on sale of investments and derivatives	658,415	75,720
Net realized gain (loss) on foreign exchange	5,363	(921)
Net change in unrealized appreciation (depreciation) of investments and derivatives	(10,183,483)	7,505,957
Net change in unrealized appreciation of foreign exchange	42	83
	(7,783,057)	8,609,291
Expenses (note 9)		
Management fees	234,509	143,228
Audit fees	6,132	6,304
Independent Review Committee fees	141	576
Custodial and fund valuation fees	15,833	15,540
Legal fees	2,193	52,684
Securityholder reporting costs	7,799	24,841
Administration fees	15,116	16,905
Transaction costs	28,025	44,398
	309,748	304,476
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(32,123)	(110,964)
	277,625	193,512
Increase (decrease) in net assets for the period	\$ (8,060,682)	\$ 8,415,779
Increase (decrease) in net assets per unit	\$ (0.96)	\$ 1.62

(See accompanying notes to financial statements)

Statements of Changes in Financial Position (unaudited)

For the Periods Ended June 30,

	2022		2021	
Total net assets at the beginning of the period	\$	75,854,165	\$	44,130,864
Increase (decrease) in net assets		(8,060,682)		8,415,779
Redeemable unit transactions				
Proceeds from the issuance of securities of the investment fund		11,604,470		5,385,691
Aggregate amounts paid on redemption of securities of the investment fund		(6,049,646)		(4,985,989)
Securities issued on reinvestment of distributions		8,899		7,317
Distributions:				
From net investment income		(1,851,621)		(995,873)
Total net assets at the end of the period	\$	71,505,585	\$	51,957,789

(See accompanying notes to financial statements)

Statements of Cash Flows (unaudited)

For the Periods Ended June 30,

	2022	2021
Cash flows from operating activities:		
Increase (decrease) in net assets for the period	\$ (8,060,682)	\$ 8,415,779
Adjustments for:		
Net realized gain on sale of investments and derivatives	(658,415)	(75,720)
Net realized gain (loss) on currency forward contracts	(2,770)	32,954
Net change in unrealized depreciation (appreciation) of investments and derivatives	10,183,483	(7,505,957)
Net change in unrealized appreciation of foreign exchange	(25)	(50)
Purchase of investments	(20,355,566)	(7,713,013)
Proceeds from the sale of investments	8,561,205	4,640,034
Amounts receivable relating to accrued income	(50,112)	(3,245)
Accrued expenses	(2,575)	5,651
Net cash used in operating activities	(10,385,457)	(2,203,567)
Cash flows from financing activities:		
Amount received from the issuance of units	11,629,236	4,489,044
Amount paid on redemptions of units	(655,014)	(548,703)
Distributions paid to unitholders	(1,794,544)	(1,002,453)
Net cash from financing activities	9,179,678	2,937,888
Net increase (decrease) in cash and cash equivalents during the period	(1,205,779)	734,321
Effect of exchange rate fluctuations on cash and cash equivalents	25	50
Cash and cash equivalents at beginning of period	1,620,919	435,230
Cash and cash equivalents at end of period	\$ 415,165	\$ 1,169,601
Interest received, net of withholding taxes	\$ 136,257	\$ 49,861
Dividends received, net of withholding taxes	\$ 1,550,042	\$ 975,293

(See accompanying notes to financial statements)

Schedule of Investments (unaudited)

As at June 30, 2022

Security	Shares/ Par Value/ Contracts		Average Cost		Fair Value
CANADIAN PREFERRED SECURITIES (87.84%)					
Financials (40.98%)					
Artis REIT, Preferred, Series 'A', Variable Rate, Perpetual	2,451	\$	53,771	\$	60,540
Artis REIT, Preferred, Series 'E', Variable Rate, Perpetual	6,344		120,578		142,867
Bank of Montreal, Preferred, Class 'B', Series '27', Variable Rate, Convertible, Perpetual	22,741		484,638		504,623
Bank of Montreal, Preferred, Class 'B', Series '29', Variable Rate, Perpetual	59,257		1,271,846		1,256,248
Bank of Montreal, Preferred, Class 'B', Series '31', Variable Rate, Perpetual	16,581		364,253		358,647
Bank of Montreal, Preferred, Class 'B', Series '33', Variable Rate, Perpetual	18,834		431,941		406,814
Bank of Montreal, Preferred, Class 'B', Series '42', Variable Rate, Perpetual	16,433		382,453		411,647
Bank of Montreal, Preferred, Class 'B', Series '44', Variable Rate, Perpetual	22,383		569,416		541,669
Brookfield Asset Management Inc., Preferred, Class 'A', Series '8', Variable Rate, Perpetual	3,394		51,279		62,450
Brookfield Asset Management Inc., Preferred, Class 'A', Series '24', Variable Rate, Perpetual	8,476		165,482		145,533
Brookfield Asset Management Inc., Preferred, Class 'A', Series '26', Variable Rate, Convertible, Perpetual	7,159		139,588		125,139
Brookfield Asset Management Inc., Preferred, Class 'A', Series '30', Variable Rate, Convertible, Perpetual	21,029		473,360		494,602
Brookfield Asset Management Inc., Preferred, Class 'A', Series '32', Variable Rate, Convertible, Perpetual	4,231		96,279		94,055
Brookfield Asset Management Inc., Preferred, Class 'A', Series '34', Variable Rate, Perpetual	2,964		61,924		58,954
Brookfield Asset Management Inc., Preferred, Class 'A', Series '36', 4.85%, Perpetual	259		6,514		5,115
Brookfield Asset Management Inc., Preferred, Class 'A', Series '37', 4.90%, Perpetual	259		6,540		5,284
Brookfield Asset Management Inc., Preferred, Class 'A', Series '38', 4.40%, Perpetual	30,462		654,020		560,196
Brookfield Asset Management Inc., Preferred, Class 'A', Series '40', Variable Rate, Perpetual	25,651		576,606		516,868
Brookfield Asset Management Inc., Preferred, Class 'A', Series '42', Variable Rate, Perpetual	28,823		625,204		544,755
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'N', Variable Rate, Perpetual	17,339		309,600		274,303
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'P', Variable Rate, Convertible, Perpetual	23,048		423,343		372,225
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'R', Variable Rate, Perpetual	40,071		764,960		677,601

Schedule of Investments (unaudited) (continued)

As at June 30, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'AA', Variable Rate, Perpetual	13,803	258,694	233,271
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'CC', Variable Rate, Perpetual	100	1,978	2,500
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'EE', Variable Rate, Perpetual	1,000	21,530	21,260
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'GG', Variable Rate, Perpetual	6,443	145,433	147,223
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'II', Variable Rate, Perpetual	757	15,273	16,450
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '39', Variable Rate, Perpetual	50,967	1,108,480	1,085,597
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '41', Variable Rate, Perpetual	13,857	304,499	288,641
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '43', Variable Rate, Perpetual	64,090	1,483,947	1,365,117
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '45', Variable Rate, Perpetual	6,992	166,836	174,520
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '47', Variable Rate, Perpetual	2,226	52,836	51,910
Canadian Western Bank, Preferred, Series '5', Variable Rate, Perpetual	2,611	59,573	54,700
Fairfax Financial Holdings Ltd., Preferred, Series 'C', Variable Rate, Convertible, Perpetual	4,581	94,694	94,140
Fairfax Financial Holdings Ltd., Preferred, Series 'G', Variable Rate, Perpetual	4,664	75,753	74,111
Fairfax Financial Holdings Ltd., Preferred, Series 'I', Variable Rate, Convertible, Perpetual	3,067	59,949	52,783
Fairfax Financial Holdings Ltd., Preferred, Series 'K', 5.00%, Perpetual	11,669	257,170	242,132
Fairfax Financial Holdings Ltd., Preferred, Series 'M', Variable Rate, Perpetual	11,139	243,657	249,736
Great-West Lifeco Inc., Preferred, Series 'G', 5.20%, Perpetual	6,023	151,529	129,494
Great-West Lifeco Inc., Preferred, Series 'H', 4.85%, Perpetual	19,267	483,774	385,533
Great-West Lifeco Inc., Preferred, Series 'L', 5.65%, Perpetual	752	19,101	17,364
Great-West Lifeco Inc., Preferred, Series 'M', 5.80%, Perpetual	752	19,101	17,672
Great-West Lifeco Inc., Preferred, Series 'N', Variable Rate, Perpetual	2,819	45,062	39,184
Great-West Lifeco Inc., Preferred, Series 'P', 5.40%, Perpetual	12,284	310,305	274,179
Great-West Lifeco Inc., Preferred, Series 'Q', 5.15%, Perpetual	882	22,218	18,619
Great-West Lifeco Inc., Preferred, Series 'R', 4.80%, Perpetual	9,460	236,575	185,132
Great-West Lifeco Inc., Preferred, Series 'S', 5.25%, Perpetual	493	12,596	10,644
Great-West Lifeco Inc., Preferred, Series 'T', 5.15%, Perpetual	376	9,893	8,144
Great-West Lifeco Inc., Preferred, Series 'Y', 4.50%, Perpetual	4,798	119,950	90,154
Industrial Alliance Insurance and Financial Services Inc., Preferred, Class 'A', Series 'I', Variable Rate, Perpetual	20,375	502,916	490,630

Schedule of Investments (unaudited) (continued)

As at June 30, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Intact Financial Corp., Preferred, Class 'A', Series '3', Variable Rate, Convertible, Perpetual	28,185	612,449	552,426
Intact Financial Corp., Preferred, Class 'A', Series '6', 5.30%, Perpetual	6,136	160,459	139,901
Intact Financial Corp., Preferred, Class 'A', Series '7', Variable Rate, Convertible, Perpetual	6,728	156,788	152,322
Laurentian Bank of Canada, Preferred, Class 'A', Series '13', Variable Rate, Perpetual	1,616	34,052	31,043
Manulife Financial Corp., Preferred, Class 'A', Series '2', 4.65%, Perpetual	3,425	86,030	68,329
Manulife Financial Corp., Preferred, Class '1', Series '9', Variable Rate, Convertible, Perpetual	34,878	819,685	863,579
Manulife Financial Corp., Preferred, Class '1', Series '11', Variable Rate, Perpetual	34,294	811,632	807,967
Manulife Financial Corp., Preferred, Class '1', Series '13', Variable Rate, Perpetual	6,148	144,814	130,522
Manulife Financial Corp., Preferred, Class '1', Series '15', Variable Rate, Perpetual	29,197	636,820	550,947
Manulife Financial Corp., Preferred, Class '1', Series '17', Variable Rate, Perpetual	30,554	675,610	611,386
Manulife Financial Corp., Preferred, Class '1', Series '19', Variable Rate, Perpetual	27,666	585,669	528,697
Manulife Financial Corp., Preferred, Class '1', Series '25', Variable Rate, Perpetual	20,275	501,612	468,555
National Bank of Canada, Preferred, Series '30', Variable Rate, Perpetual	9,554	196,103	206,080
National Bank of Canada, Preferred, Series '32', Variable Rate, Perpetual	10,599	214,308	222,473
National Bank of Canada, Preferred, Series '38', Variable Rate, Perpetual	18,393	438,188	461,664
National Bank of Canada, Preferred, Series '40', Variable Rate, Perpetual	21,405	476,708	505,158
National Bank of Canada, Preferred, Series '42', Variable Rate, Perpetual	15,226	360,646	367,708
Power Corp. of Canada, Preferred, Series 'B', 5.35%, Perpetual	376	9,614	8,280
Power Financial Corp., Preferred, Series 'K', 4.95%, Perpetual	519	13,068	10,541
Power Financial Corp., Preferred, Series 'O', 5.80%, Perpetual	506	12,984	12,139
Power Financial Corp., Preferred, Series 'P', Variable Rate, Perpetual	13,833	214,384	201,408
Power Financial Corp., Preferred, Series 'R', 5.50%, Perpetual	752	19,259	16,995
Power Financial Corp., Preferred, Series 'S', 4.80%, Perpetual	7,524	189,511	149,351
Power Financial Corp., Preferred, Series 'T', Variable Rate, Perpetual	4,407	104,293	89,815
Royal Bank of Canada, Preferred, Series 'AZ', Variable Rate, Perpetual	21,896	513,024	461,349
Royal Bank of Canada, Preferred, Series 'BB', Variable Rate, Perpetual	8,836	199,768	187,765
Royal Bank of Canada, Preferred, Series 'BD', Variable Rate, Perpetual	54,660	1,218,824	1,180,656
Royal Bank of Canada, Preferred, Series 'BF', Variable Rate, Perpetual	40,534	903,502	845,945

Schedule of Investments (unaudited) (continued)

As at June 30, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Sun Life Financial Inc., Preferred, Class 'A', Series '5', 4.50%, Perpetual	5,300	132,065	106,106
Sun Life Financial Inc., Preferred, Class 'A', Series '10R', Variable Rate, Perpetual	17,320	361,401	303,446
Toronto-Dominion Bank (The), Preferred, Series '1', Variable Rate, Convertible, Perpetual	74,523	1,679,440	1,571,690
Toronto-Dominion Bank (The), Preferred, Series '3', Variable Rate, Perpetual	57,744	1,257,599	1,208,582
Toronto-Dominion Bank (The), Preferred, Series '5', Variable Rate, Perpetual	31,679	688,287	665,259
Toronto-Dominion Bank (The), Preferred, Series '7', Variable Rate, Perpetual	57,417	1,325,032	1,239,633
Toronto-Dominion Bank (The), Preferred, Series '9', Variable Rate, Perpetual	19,267	437,732	411,350
Toronto-Dominion Bank (The), Preferred, Series '16', Variable Rate, Perpetual	2,708	57,394	67,673
Toronto-Dominion Bank (The), Preferred, Series '20', Variable Rate, Perpetual	15,267	384,526	364,271
Toronto-Dominion Bank (The), Preferred, Series '24', Variable Rate, Perpetual	3,573	88,868	90,468
		31,039,065	29,302,454
Energy (25.72%)			
AltaGas Ltd., Preferred, Series 'A', Variable Rate, Convertible, Perpetual	39,700	776,114	656,241
AltaGas Ltd., Preferred, Series 'B', Floating Rate, Convertible, Perpetual	2,595	50,237	46,580
AltaGas Ltd., Preferred, Series 'C', 4.40%, Convertible, Perpetual	34,167	1,019,825	1,070,907
AltaGas Ltd., Preferred, Series 'G', Variable Rate, Perpetual	27,618	628,349	532,475
Cenovus Energy Inc., Preferred, Series '1', Variable Rate, Perpetual	11,455	178,308	174,231
Cenovus Energy Inc., Preferred, Series '3', Variable Rate, Perpetual	22,464	500,771	483,425
Cenovus Energy Inc., Preferred, Series '5', Variable Rate, Perpetual	14,582	327,166	323,720
Cenovus Energy Inc., Preferred, Series '7', Variable Rate, Perpetual	41,389	855,611	869,583
Enbridge Inc., Preferred, Series 'B', Variable Rate, Perpetual	32,689	522,816	618,149
Enbridge Inc., Preferred, Series 'D', Variable Rate, Perpetual	18,220	337,295	337,434
Enbridge Inc., Preferred, Series 'F', Variable Rate, Perpetual	16,956	320,467	319,112
Enbridge Inc., Preferred, Series 'L', Variable Rate, Perpetual	12,771	350,747	399,464
Enbridge Inc., Preferred, Series 'P', Variable Rate, Perpetual	25,176	482,495	444,860
Enbridge Inc., Preferred, Series 'R', Variable Rate, Perpetual	42,814	804,017	738,970
Enbridge Inc., Preferred, Series '3', Variable Rate, Perpetual	70,945	1,366,247	1,179,106
Enbridge Inc., Preferred, Series '7', Variable Rate, Perpetual	4,629	93,908	82,535
Enbridge Inc., Preferred, Series '9', Variable Rate, Perpetual	24,731	494,776	432,792
Enbridge Inc., Preferred, Series '11', Variable Rate, Perpetual	86,921	1,679,718	1,517,641
Enbridge Inc., Preferred, Series '13', Variable Rate, Perpetual	30,551	550,990	504,092

Schedule of Investments (unaudited) (continued)

As at June 30, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Enbridge Inc., Preferred, Series '15', Variable Rate, Perpetual	11,502	223,009	190,358
Pembina Pipeline Corp., Preferred, Class 'A', Series '3', Variable Rate, Perpetual	5,185	102,685	103,700
Pembina Pipeline Corp., Preferred, Class 'A', Series '5', Variable Rate, Perpetual	15,234	286,821	314,277
Pembina Pipeline Corp., Preferred, Class 'A', Series '7', Variable Rate, Perpetual	24,571	531,898	497,317
Pembina Pipeline Corp., Preferred, Class 'A', Series '9', Variable Rate, Perpetual	48,494	1,100,079	1,045,046
Pembina Pipeline Corp., Preferred, Class 'A', Series '15', Variable Rate, Perpetual	17,477	375,157	399,874
Pembina Pipeline Corp., Preferred, Class 'A', Series '17', Variable Rate, Perpetual	4,288	82,646	91,206
Pembina Pipeline Corp., Preferred, Class 'A', Series '19', Variable Rate, Perpetual	34,984	822,323	815,827
Pembina Pipeline Corp., Preferred, Class 'A', Series '21', Variable Rate, Perpetual	500	12,720	12,085
Pembina Pipeline Corp., Preferred, Class 'A', Series '23', Variable Rate, Perpetual	9,482	218,597	233,731
Pembina Pipeline Corp., Preferred, Class 'A', Series '25', Variable Rate, Perpetual	14,612	344,917	355,072
TC Energy Corp., Preferred, Series '1', Variable Rate, Convertible, Perpetual	15,405	275,570	247,250
TC Energy Corp., Preferred, Series '3', Variable Rate, Convertible, Perpetual	6,007	98,709	76,709
TC Energy Corp., Preferred, Series '5', Variable Rate, Convertible, Perpetual	49,860	718,552	673,609
TC Energy Corp., Preferred, Series '7', Variable Rate, Convertible, Perpetual	34,312	669,587	638,546
TC Energy Corp., Preferred, Series '9', Variable Rate, Perpetual	52,626	1,085,011	957,267
TC Energy Corp., Preferred, Series '11', Variable Rate, Perpetual	49,417	1,051,932	1,005,636
		19,340,070	18,388,827
Utilities (12.30%)			
Algonquin Power & Utilities Corp., Preferred, Series 'A', Variable Rate, Convertible, Perpetual	2,068	44,534	46,737
Algonquin Power & Utilities Corp., Preferred, Series 'D', Variable Rate, Perpetual	3,411	67,708	81,386
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '1', Variable Rate, Perpetual	32,909	718,199	679,242
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '3', Variable Rate, Perpetual	3,594	86,842	89,886
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '9', Variable Rate, Perpetual	12,600	319,697	293,958
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '11*', Variable Rate, Perpetual	15,165	348,501	353,344

Schedule of Investments (unaudited) (continued)

As at June 30, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Brookfield Renewable Partners L.P., Preferred, Class 'A', Series '7', Variable Rate, Perpetual	12,343	292,208	313,512
Brookfield Renewable Partners L.P., Preferred, Class 'A', Series '13', Variable Rate, Perpetual	4,715	119,935	111,557
Brookfield Renewable Partners L.P., Preferred, Class 'A', Series '15', Variable Rate, Perpetual	3,357	81,647	84,462
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '1', Variable Rate, Convertible, Perpetual	53,276	1,052,006	907,290
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '2', Variable Rate, Convertible, Perpetual	15,313	305,039	279,233
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '3', Variable Rate, Convertible, Perpetual	48,594	1,052,322	949,041
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '6', 5.00%, Perpetual	16,526	401,061	325,562
Canadian Utilities Ltd., Preferred, Series 'Y', Variable Rate, Perpetual	42,996	913,226	944,192
Canadian Utilities Ltd., Preferred, Series 'AA', 4.90%, Perpetual	12,535	317,129	261,981
Canadian Utilities Ltd., Preferred, Series 'BB', 4.90%, Perpetual	6,482	162,175	133,205
Canadian Utilities Ltd., Preferred, Series 'CC', 4.50%, Perpetual	5,400	136,836	104,301
Canadian Utilities Ltd., Preferred, Series 'DD', 4.50%, Perpetual	402	9,688	7,638
Canadian Utilities Ltd., Preferred, Series 'EE', 5.25%, Perpetual	506	12,954	11,264
Capital Power Corp., Preferred, Series '1', Variable Rate, Convertible, Perpetual	7,636	100,846	115,304
Capital Power Corp., Preferred, Series '3', Variable Rate, Convertible, Perpetual	3,080	57,372	68,222
Capital Power Corp., Preferred, Series '5', Variable Rate, Perpetual	2,611	45,895	57,703
Capital Power Corp., Preferred, Series '9', Variable Rate, Perpetual	1,706	42,967	42,821
CU Inc., Preferred, Series '1', 4.60%, Perpetual	661	15,957	12,731
Emera Inc., Preferred, Series 'A', Variable Rate, Convertible, Perpetual	11,709	209,416	179,382
Emera Inc., Preferred, Series 'C', Variable Rate, Convertible, Perpetual	14,258	302,785	307,973
Emera Inc., Preferred, Series 'F', Variable Rate, Perpetual	13,726	292,552	276,167
Emera Inc., Preferred, Series 'L', 4.60%, Perpetual	4,098	102,450	78,313
Fortis Inc., Preferred, Series 'G', Variable Rate, Perpetual	6,873	143,096	138,835
Fortis Inc., Preferred, Series 'H', 4.25%, Perpetual	413	6,854	6,137
Fortis Inc., Preferred, Series 'J', 4.75%, Perpetual	247	6,150	5,026
Fortis Inc., Preferred, Series 'K', Variable Rate, Perpetual	6,944	136,740	131,172
Fortis Inc., Preferred, Series 'M', Variable Rate, Perpetual	50,726	1,045,754	1,029,738
TransAlta Corp., Preferred, Series 'C', Variable Rate, Convertible, Perpetual	9,195	169,412	196,865
TransAlta Corp., Preferred, Series 'E', 5.00%, Perpetual	4,951	86,825	120,557
TransAlta Corp., Preferred, Series 'G', Variable Rate, Perpetual	2,353	41,985	52,354
		9,248,763	8,797,091

Schedule of Investments (unaudited) (continued)

As at June 30, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Communication Services (8.26%)			
BCE Inc., Preferred, Series 'R', Variable Rate, Perpetual	21,348	397,879	333,883
BCE Inc., Preferred, Series 'T', Variable Rate, Perpetual	13,661	236,247	269,395
BCE Inc., Preferred, Series 'Y', Variable Rate, Perpetual	29,052	577,905	550,535
BCE Inc., Preferred, Series 'Z', Variable Rate, Perpetual	7,827	136,531	149,339
BCE Inc., Preferred, Series 'AA', Variable Rate, Perpetual	44,851	821,944	857,551
BCE Inc., Preferred, Series 'AB', Variable Rate, Perpetual	34,586	668,805	657,134
BCE Inc., Preferred, Series 'AD', Variable Rate, Perpetual	33,930	612,511	642,295
BCE Inc., Preferred, Series 'AE', Variable Rate, Perpetual	5,821	117,513	109,726
BCE Inc., Preferred, Series 'AF', Variable Rate, Perpetual	17,244	317,088	297,631
BCE Inc., Preferred, Series 'AG', Variable Rate, Perpetual	44,465	832,247	706,994
BCE Inc., Preferred, Series 'AH', Variable Rate, Perpetual	11,000	232,465	208,340
BCE Inc., Preferred, Series 'AI', Variable Rate, Perpetual	34,258	609,447	542,989
BCE Inc., Preferred, Series 'AJ', Floating Rate, Convertible, Perpetual	3,000	60,360	57,000
BCE Inc., Preferred, Series 'AK', Variable Rate, Convertible, Perpetual	16,979	294,993	256,383
BCE Inc., Preferred, Series 'AM', Variable Rate, Perpetual	17,105	290,447	267,864
		6,206,382	5,907,059
Industrials (0.56%)			
Element Fleet Management Corp., Preferred, Series 'A', Variable Rate, Perpetual	4,682	123,154	116,582
Element Fleet Management Corp., Preferred, Series 'C', Variable Rate, Perpetual	400	10,344	9,904
Element Fleet Management Corp., Preferred, Series 'E', Variable Rate, Perpetual	10,988	264,709	273,601
		398,207	400,087
Consumer Staples (0.02%)			
George Weston Ltd., Preferred, Series 'III', 5.20%, Perpetual	259	6,524	5,540
George Weston Ltd., Preferred, Series 'IV', 5.20%, Perpetual	259	6,483	5,568
Loblaws Cos. Ltd., Preferred, Series 'B', 5.30%, Perpetual	156	3,954	3,682
		16,961	14,790
TOTAL CANADIAN PREFERRED SECURITIES		66,249,448	62,810,308
CANADIAN FIXED INCOME SECURITIES (11.84%)			
Corporate Bonds (11.84%)			
Algonquin Power & Utilities Corp., Callable, 5.25%, 2082/01/18	545,000	534,200	461,106
AltaGas Ltd., Variable Rate, Callable, 5.25%, 2082/01/11	381,000	381,000	323,618
Bank of Montreal, Variable Rate, Callable, 5.63%, 2082/05/26	425,000	425,000	408,134
Bank of Nova Scotia (The), Variable Rate, Perpetual, 4.90%, 2025/06/04	170,000	234,166	203,955
Bank of Nova Scotia (The), Series '1', Variable Rate, Callable, 3.70%, 2081/07/27	250,000	250,000	210,490

Schedule of Investments (unaudited) (continued)

As at June 30, 2022

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Bank of Nova Scotia (The), Variable Rate, Callable, 7.02%, 2082/07/27	389,000	389,000	391,205
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 4.00%, 2082/01/28	450,000	438,750	391,305
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 7.15%, 2082/07/28	395,000	394,261	398,690
Enbridge Inc., Variable Rate, Callable, 6.00%, 2077/01/15	20,000	21,218	23,892
Enbridge Inc., Series 'C', Variable Rate, Callable, 6.63%, 2078/04/12	172,000	172,000	170,424
Gibson Energy Inc., Series '20-A', Variable Rate, Callable, 5.25%, 2080/12/22	370,000	374,938	322,484
iA Financial Corp. Inc., Series '22-1', Variable Rate, Callable, 6.61%, 2082/06/30	257,000	257,000	254,329
Inter Pipeline Ltd., Series '19-A', Variable Rate, Callable, 6.88%, 2079/03/26	548,000	548,000	522,968
Keyera Corp., Floating Rate, Callable, 6.88%, 2079/06/13	410,000	410,000	395,846
Laurentian Bank of Canada, Series '1', Variable Rate, Callable, 5.30%, 2081/06/15	350,000	351,750	315,000
Manulife Financial Corp., Variable Rate, Callable, 7.12%, 2082/06/19	710,000	710,000	717,188
National Bank of Canada, Series '1', Variable Rate, Callable, 4.30%, 2080/11/15	195,000	193,635	181,218
Rogers Communications Inc., Restricted, Variable Rate, Callable, 5.00%, 2081/12/17	1,195,000	1,193,800	1,087,385
Royal Bank of Canada, Series 'BT', Variable Rate, Perpetual, 4.20%, 2027/02/24	1,696,000	1,699,824	1,463,036
Toronto-Dominion Bank (The), Series '27', Variable Rate, Perpetual, 5.75%, 2027/10/01	232,000	232,000	222,348
		9,210,542	8,464,621
TOTAL CANADIAN FIXED INCOME SECURITIES		9,210,542	8,464,621
DERIVATIVES (-0.04%)			
Currency Forwards (-0.04%)			
Currency forward contract to buy C\$1,732,985 for US\$1,367,904 maturing September 21, 2022		–	(27,528)
		–	(27,528)
TOTAL DERIVATIVES		–	(27,528)
Transaction Costs		(54,018)	
		(54,018)	
TOTAL INVESTMENT PORTFOLIO (99.64%)		\$ 75,405,972	\$ 71,247,401
Cash and cash equivalents (0.58%)			415,165
Other assets less liabilities (-0.22%)			(156,981)
TOTAL NET ASSETS (100.00%)			\$ 71,505,585

(See accompanying notes to financial statements)

Notes to Financial Statements (unaudited)

June 30, 2022

1. REPORTING ENTITY

Horizons Active Hybrid Bond and Preferred Share ETF (*Formerly Horizons Active Floating Rate Preferred Share ETF*) ("HYBR" 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 October 1, 2013. 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 HYBR. 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 HYBR is to seek to provide unitholders with a high level of income by investing in a portfolio of debt and other debt-like securities, including but not limited to hybrid corporate debt ("Hybrids"), Alternative Tier 1 Capital ("AT1"), such as limited resource capital notes ("LRCNs"), and income generating equities, including but not limited to preferred securities (fixed-rate perpetual, fixed floating rate, retractable and floating rate), of Canadian and U.S. companies.

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.

Underlying Index, ETF and Ticker Name Changes

Effective at the close of trading on March 3, 2021, there was a change to the ETF's investment objective. The ETF's new investment objective is to seek to provide unitholders with a high level of income by investing in a portfolio of debt and other debt-like securities, including but not limited to hybrid corporate debt ("Hybrids"), Alternative Tier 1 Capital ("AT1") (such as Limited Resource Capital Notes ("LRCNs")), and income generating equities, including but not limited to preferred securities (fixed-rate perpetual, fixed floating rate, retractable and floating rate), of Canadian and U.S. companies. The ETF may hedge some or all of its non-Canadian dollar currency exposure at the discretion of the Sub-Advisor.

In addition, based on the implementation of the new investment objective, the Manager changed both the name of the ETF and the ETF's trading symbol to "Horizons Active Hybrid Bond and Preferred Share ETF" and "HYBR", respectively, effective March 10, 2021.

2. BASIS OF PREPARATION***(i) Statement of compliance***

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. 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 12, 2022, by the Board of Directors of the Manager.

Notes to Financial Statements (unaudited) (continued)

June 30, 2022

(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

The 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.

(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 financial 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

Notes to Financial Statements (unaudited) (continued)

June 30, 2022

(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 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

Notes to Financial Statements (unaudited) (continued)

June 30, 2022

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.

Interest rate swaps

Interest rate swaps, if any, are valued at the current market value thereof on the Valuation Date. The value of these interest rate swaps 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, plus any amounts relating to accrued income, if applicable, in the statements of financial position, and as a net change in unrealized appreciation (depreciation) of investments and derivatives and interest income for distribution purposes, if applicable, in the statements of comprehensive income. When the interest rate swaps are closed out or mature, realized gains or losses on interest rate swaps are recognized and are included in the statements of comprehensive income.

Redeemable units

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

(b) Investment income

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

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

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

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

Notes to Financial Statements (unaudited) (continued)

June 30, 2022

(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.

(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 any applicable transfer taxes and duties. Transaction costs are expensed and are included in "Transaction costs" in the statements of comprehensive income.

Notes to Financial Statements (unaudited) (continued)

June 30, 2022

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 analysis thereof, are presented below.

(a) Market risk

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

(i) Currency risk

Currency risk is the risk that financial instruments which are denominated in currencies other than the ETF's reporting currency, the Canadian dollar, will fluctuate due to changes in exchange rates and adversely impact the ETF's income, cash flows or fair values of its investment holdings. The ETF may reduce its foreign currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts. As at June 30, 2022, and December 31, 2021, the ETF did not have any material net exposure to foreign currencies due to the ETF's hedging strategies.

(ii) Interest rate risk

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

Notes to Financial Statements (unaudited) (continued)

June 30, 2022

The majority of the ETF's assets and liabilities are non-interest bearing. However, in general, preferred shares tend to react to changes in the prevailing level of long-term interest rates in a similar manner as bonds. For example, if interest rates fall, preferred share prices tend to rise, and vice versa. The ETF has entered into interest rate swaps (as described in note 3) in order to hedge a portion of the ETF's interest rate risk. As at June 30, 2022, approximately 100.4% (December 31, 2021 - 98.8%) of the ETF's net assets were directly or indirectly exposed to interest rate risk. The amount by which the net assets of the ETF would have increased or decreased, as at June 30, 2022, 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 \$2,623,178 (December 31, 2021 - \$2,627,687).

(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 implemented internal risk management controls on the ETF which are intended to limit the loss on its trading activities.

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

Comparative Index	June 30, 2022	December 31, 2021
S&P/TSX Preferred Share Index™	\$698,927	\$741,478

(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 minimize 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, when necessary, receiving acceptable collateral.

Notes to Financial Statements (unaudited) (continued)

June 30, 2022

Analysis of credit quality

The ETF's credit risk exposure by designated rating of the invested portfolio as at June 30, 2022, and December 31, 2021, is listed as follows:

Canadian Securities by Credit Rating	Percentage of Net Asset Value (%)	
	June 30, 2022	December 31, 2021
P-1 - Best credit	0.7%	1.9%
P-2 - Second best credit	47.8%	48.3%
P-3 - Third best credit	35.4%	35.5%
Total	83.9%	85.7%
U.S. Securities by Credit Rating	Percentage of Net Asset Value (%)	
	June 30, 2022	December 31, 2021
AAA	0.5%	1.0%
BBB	8.0%	4.5%
BB	8.0%	7.6%
Total	16.5%	13.1%

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, 2022, was 9.7% (December 31, 2021 – 10.1%) 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, 2022

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, 2022, and December 31, 2021, in valuing the ETF's investments and derivatives carried at fair values:

	June 30, 2022			December 31, 2021		
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
Financial Assets						
Bonds	–	8,464,621	–	–	5,813,859	–
Equities	62,810,308	–	–	68,305,492	–	–
Currency Forward Contracts	–	–	–	–	6,215	–
Total Financial Assets	62,810,308	8,464,621	–	68,305,492	5,820,074	–
Financial Liabilities						
Currency Forward Contracts	–	(27,528)	–	–	–	–
Total Financial Liabilities	–	(27,528)	–	–	–	–
Net Financial Assets and Liabilities	62,810,308	8,437,093	–	68,305,492	5,820,074	–

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, 2022, and for the year ended December 31, 2021.

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, 2022

The aggregate closing market value of securities loaned and collateral received as at June 30, 2022, and December 31, 2021, was as follows:

As at	Securities Loaned	Collateral Received
June 30, 2022	\$252,005	\$264,687
December 31, 2021	\$209,987	\$220,661

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, 2022 and 2021. 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, 2022	% of Gross Income	June 30, 2021	% of Gross Income
Gross securities lending income	\$354		\$117	
Withholding taxes	(29)	8.19%	(29)	24.79%
Lending Agents' fees:				
Canadian Imperial Bank of Commerce	(130)	36.73%	(35)	29.91%
Net securities lending income paid to the ETF	\$195	55.08%	\$53	45.30%

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, 2022

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 period. 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, 2022 and 2021, 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
2022	7,696,915	1,207,173	(675,000)	8,229,088	8,372,737
2021	5,464,531	575,820	(575,000)	5,465,351	5,187,166

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 0.55%, 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, 2022

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; withholding taxes; and fees payable to service providers in connection with regulatory compliance and tax matters in foreign jurisdictions.

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, 2022 and 2021, were as follow:

Period Ended	Brokerage Commissions Paid	Soft Dollar Transactions	Amount Paid to Related Parties
June 30, 2022	\$17,515	\$1,217	\$nil
June 30, 2021	\$nil	\$724	\$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, 2022, and December 31, 2021, are disclosed in the statements of financial position.

The ETF may invest in other ETFs managed by the Manager or its affiliates, in accordance with the ETF's investment objectives and strategies. Such investments, if any, are disclosed in the schedule of investments.

Notes to Financial Statements (unaudited) (continued)

June 30, 2022

11. INCOME TAX

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

12. TAX LOSSES CARRIED FORWARD

Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years. Non-capital losses carried forward 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, 2021, 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
\$10,099,691	–	–

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, 2022, and December 31, 2021. The "Net" column displays what the net impact would be on the ETF's statements of financial position if all amounts were set-off.

Financial Assets and Liabilities as at June 30, 2022	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	–	–	–	–	–	–
Derivative liabilities	(27,528)	–	(27,528)	–	–	(27,528)

Financial Assets and Liabilities as at December 31, 2021	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	6,215	–	6,215	–	–	6,215
Derivative liabilities	–	–	–	–	–	–

Notes to Financial Statements (unaudited) (continued)

June 30, 2022

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, 2022, and December 31, 2021, the ETF had no exposure to subsidiaries, associates or unconsolidated structured entities.

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