



**Horizons Active Hybrid Bond and Preferred Share ETF  
(HYBR:TSX)**



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## A Message from the CEO

Halfway into 2023, I am proud to highlight the successes that Horizons ETFs has achieved so far, within our business and for our investors. Throughout this year and beyond, Horizons ETFs is committed to helping Canadians navigate and harness the emerging trends shaping markets while delivering exceptional investment solutions and client experiences.

While global uncertainty and economic pressures have resulted in market volatility, Canada's ETF industry continues to grow. As at June 30, 2023, Canada's ETF industry has accumulated more than \$19 billion in year-to-date inflows.

At Horizons ETFs, our assets under management swelled from approximately \$23 billion at the end of 2022 to nearly \$26 billion as at June 30, 2023. We continue to solidify our position as one of Canada's leading ETF providers, with more than \$2 billion in ETF inflows this year – the highest dollar amount of inflows among the five largest ETF providers by assets under management.

We are also committed to continuing our longstanding commitment to bringing innovative ETFs to market. On April 12, 2023, we launched Canada's first ETFs that provide exclusive exposure to Canadian and U.S. 0-3 month Treasury Bills ("T-Bills"), respectively the Horizons 0-3 Month T-Bill ETF ("**CBIL**") and the Horizons 0-3 Month U.S. T-Bill ETF ("**UBIL.U**"). Recent economic uncertainty has spurred investor demand for "cash alternative" strategies that can provide the relative safety of traditional savings vehicles while generating income that outpaces inflation. With more than \$500 million in assets under management in these two funds, we are proud to have delivered ETF products resonating with so many Canadian investors.

In the coming months, we intend to launch several new and novel ETFs, offering investors more opportunities to gain and tailor their exposure to asset classes that we consider "Equity Essentials". We look forward to sharing more news on these exciting products, soon. No matter what is next on your horizon, we are confident that our suite of innovative ETFs will be able to help you reach your financial goals.

At Horizons ETFs, we go beyond the ordinary asset management model by embracing innovation in everything that we do. From our roots as one of Canada's first ETF providers to our proud legacy of launching first-of-their-kind investment products, we are driven by boldness, vision, and a commitment to exceptional quality.

Thank you for your continued support as we work toward advancing the asset management industry toward a brighter horizon for all investors.

Sincerely,



Rohit Mehta  
President & CEO of Horizons ETFs Management (Canada) Inc.

## MANAGEMENT REPORT OF FUND PERFORMANCE

This interim management report of fund performance for Horizons Active Hybrid Bond and 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](http://www.horizonsetfs.com) or SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

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. HYBR may hedge some or all of its non-Canadian dollar currency exposure at the discretion of its Sub-Advisor.

To achieve HYBR’s investment objectives, HYBR’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 HYBR’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 HYBR.

HYBR primarily invests in a portfolio of corporate debt and debt-like securities, including but not limited to, Hybrids, AT1s (such as LRCNs), Non- viability contingent capital (“NVCC”) that can be subordinated debt or preferred shares, preferred securities (fixed-rate perpetual, fixed floating rate, retractable and floating rate), and other income-generating securities of North American issuers.

## Management Discussion of Fund Performance (continued)

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. HYBR may invest in non-investment grade securities which generally in the aggregate will be less than 50% of HYBR'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, HYBR 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 HYBR's net assets. HYBR may also invest in derivatives for currency hedging purposes.

HYBR 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](http://www.horizonsetfs.com) or from [www.sedarplus.ca](http://www.sedarplus.ca), 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 objectives
- Tax risk
- Securities lending, repurchase and reverse repurchase transaction risk
- Loss of limited liability
- Reliance on key personnel

## Management Discussion of Fund Performance (continued)

- Distributions risk
  - Conflicts of interest
  - No ownership interest
  - Market for units
  - Redemption price
  - Net asset value fluctuation
  - Restrictions on certain unitholders
  - Highly volatile markets
  - No guaranteed return
- 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, 2023, units of the ETF returned 1.13% when including distributions paid to unitholders. This compares to a return of 0.15% for the S&P/TSX Preferred Share Index (the "Index") for the same period.

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.

### General Market Review

The new year got off to a roaring start on hopes for a soft landing for developed economies as inflationary pressures showed signs of abating, and the U.S. Federal Reserve (Fed) downshifted its pace of tightening. Hopes for an imminent end to rate hikes and a dovish policy pivot were dashed in the wake of unrelenting signs of resilient growth, an overheated labour market, sticky inflation, and some hawkish central bank rhetoric that prompted a shift in investor expectations towards higher interest rates for longer. In March, the collapse of Silicon Valley Bank, Signature Bank, Credit Suisse, and the fear of more contagion in the banking sector caused a powerful flight-to-quality bid into government bonds that brought back memories of the financial crisis in 2008. Governments and Central Banks moved very quickly to contain the situation. The Bank of Canada increased its target for the overnight rate in January by 25 basis points (bps) to 4.50%, bringing cumulative rate hikes to 425 bps for the cycle. At this time, the Bank also indicated they would pause to see the impact of the interest rate increases on the economy.

After decreasing for most of the first quarter, North American yields were much higher over the second quarter, especially at the front end of the curve. The quarter started off with yields moving lower in the belief that the regional banking crisis would tighten lending standards, and that the Fed would pause after hiking in early May, to assess the impact of the 500 bps of tightening. A series of events reversed the direction of the bond market. First, the US debt ceiling was raised which removed a bid for US Treasuries.

The fiscal situation remains challenging for the bond market with the deficit running at more than 7% of GDP over the last year. Another factor putting upward pressure on yields was persistently high core inflation, and growth continued to surprise to the upside. As expected, the Fed did not raise its policy rate in June after 10 consecutive rate hikes, but Chair Powell was adamant that they are not done, and more rate hikes will be needed this year to bring inflation back down to target. Investors are coming around to the idea that the expected economic slowdown will be delayed and that the Federal Open Market Committee (FOMC) will keep rates higher for longer. The Bank of Canada surprised investors and restarted its tightening campaign in June after a 5-month hiatus. The Bank increased rates by 25 bps to 4.75% on the back

## Management Discussion of Fund Performance (continued)

of strength in consumption and housing, along with a tight labor market and sticky inflation. The previous 425 bps of rate hikes failed to put demand and supply into balance and to get inflation on a sustainable path to 2%. The market is also looking for at least one more interest rate increase later in the summer.

### **Portfolio Review**

The strong outperformance came in part by the overweight position in fixed rate perpetual, hybrids/LRCN, and floating rate preferred. The security selection within the Utility, REITs, Insurance, and Energy sectors also proved to be an important driver of outperformance, especially in the second quarter.

During the first half of 2023, fixed reset issues that either reset in 2023 or 2024, performed particularly well. After outperforming during the first quarter with the lower 30-year interest rate, fixed rate perpetual issues underperformed in the second quarter when interest rates moved back up.

From a sector performance perspective, Real estate and diversified Financials underperformed for the entire period. In contrast, Utilities, Energy, and Banks, had mostly positive, but volatile results, for the period.

### **Outlook**

The average current yield of Canadian preferred shares remains attractive and could continue to increase over the next few years as fixed reset issues reset at a much higher 5-year interest rate. Volatility will remain important in 2023 as financial conditions continue to tighten. This volatility could be exacerbated with the flow of funds especially if the Federal government decides to change the tax treatment on dividends for corporations. In this environment, the sub-advisor believes the fixed reset issues that reset in 2024 and 2025 represent the best risk versus reward opportunities as the 5-year interest rate could be sticky over the next few years.

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

For the six-month period ended June 30, 2023, the ETF generated gross comprehensive income (loss) from investments and derivatives (which includes changes in the fair value of the ETF's portfolio) of \$1,049,174. This compares to (\$7,783,057) for the six-month period ended June 30, 2022. The ETF incurred management, operating and transaction expenses of \$289,934 (2022 – \$309,748) of which \$31,999 (2022 – \$32,123) 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 \$2,031,421 to unitholders during the period (2022 – \$1,851,621).



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**Management Discussion of Fund Performance** (continued)**Presentation**

The attached financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) 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**

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

**Related Party Transactions**

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

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

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

If the ETF invests in other Horizons Management ETFs, Horizons Management may receive management fees in respect of the ETF’s assets invested in such Horizons Management ETFs. In addition, any management fees paid to the Manager (described in detail on page 12) 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, 2023, and December 31, 2022, 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 <sup>(1)</sup>	2023	2022	2021	2020	2019	2018
<b>Net assets, beginning of period</b>	\$ 7.69	9.86	8.08	8.09	8.41	9.78
<b>Increase (decrease) from operations:</b>						
Total revenue	0.23	0.43	0.40	0.43	0.43	0.42
Total expenses	(0.03)	(0.06)	(0.07)	(0.05)	(0.06)	(0.07)
Realized gains (losses) for the period	(0.02)	0.05	0.06	(1.08)	(0.74)	(0.06)
Unrealized gains (losses) for the period	(0.10)	(2.16)	1.65	0.68	0.39	(1.42)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>0.08</b>	<b>(1.74)</b>	<b>2.04</b>	<b>(0.02)</b>	<b>0.02</b>	<b>(1.13)</b>
<b>Distributions:</b>						
From net investment income (excluding dividends)	(0.21)	–	–	–	–	–
From dividends	–	(0.36)	(0.30)	(0.41)	(0.38)	(0.33)
From return of capital	–	(0.08)	(0.08)	–	(0.01)	(0.03)
<b>Total distributions <sup>(3)</sup></b>	<b>(0.21)</b>	<b>(0.44)</b>	<b>(0.38)</b>	<b>(0.41)</b>	<b>(0.39)</b>	<b>(0.36)</b>
<b>Net assets, end of period <sup>(4)</sup></b>	<b>\$ 7.57</b>	<b>7.69</b>	<b>9.86</b>	<b>8.08</b>	<b>8.09</b>	<b>8.41</b>

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**

<b>Period</b> <sup>(1)</sup>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Total net asset value (000's)	\$ 72,542	73,516	75,854	44,131	89,624	135,892
Number of units outstanding (000's)	9,586	9,560	7,697	5,465	11,085	16,161
Management expense ratio <sup>(2)</sup>	0.64%	0.64%	0.65%	0.65%	0.65%	0.63%
Management expense ratio before waivers and absorptions <sup>(3)</sup>	0.73%	0.73%	0.92%	0.75%	0.70%	0.68%
Trading expense ratio <sup>(4)</sup>	0.05%	0.07%	0.12%	0.07%	0.14%	0.08%
Portfolio turnover rate <sup>(5)</sup>	8.86%	32.92%	32.19%	17.34%	53.21%	30.20%
Net asset value per unit, end of period	\$ 7.57	7.69	9.86	8.08	8.09	8.41
Closing market price	\$ 7.49	7.66	9.84	8.06	8.10	8.40

1. This information is provided as at June 30, 2023, and December 31 of the 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 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.

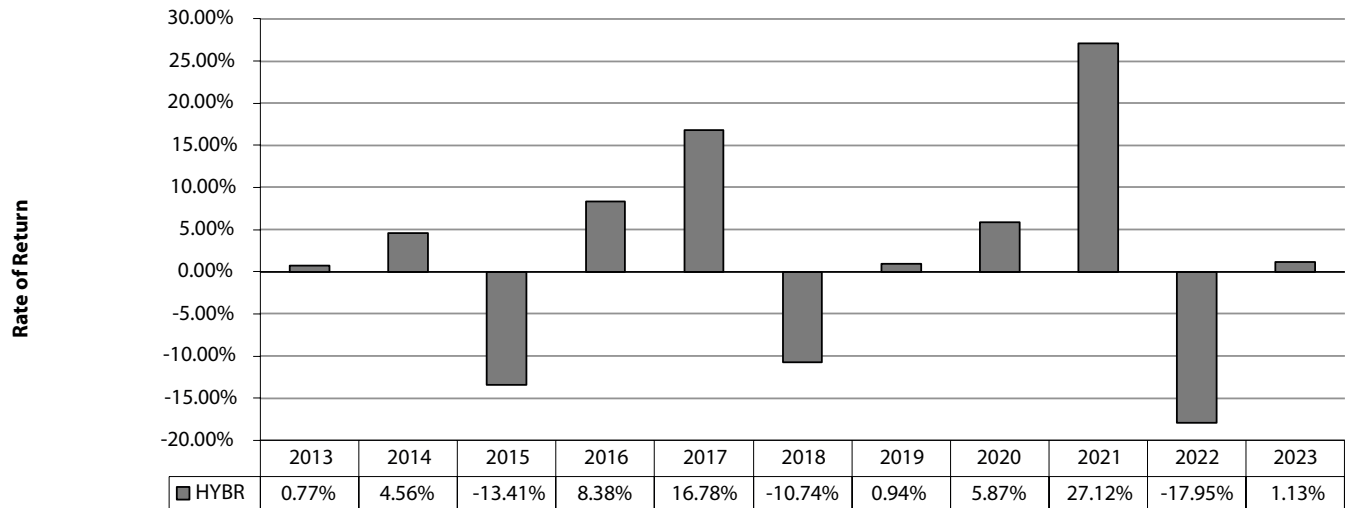
<b>Marketing</b>	<b>Portfolio management fees, general administrative costs and profit</b>	<b>Waived/absorbed expenses of the ETF</b>
2%	84%	14%

## 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, 2023

<b>Asset Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
Canadian Preferred Securities	\$ 60,019,931	82.74%
Canadian Fixed Income Securities	11,632,271	16.04%
Currency Forward Hedge*	3,558	0.00%
Cash and Cash Equivalents	1,075,060	1.48%
Other Assets less Liabilities	(188,961)	-0.26%
	<b>\$ 72,541,859</b>	<b>100.00%</b>

<b>Sector Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
Financials	\$ 29,305,223	40.40%
Energy	17,034,997	23.48%
Corporate Bonds	11,632,271	16.04%
Utilities	7,108,642	9.80%
Communication Services	6,517,229	8.98%
Industrials	48,437	0.07%
Consumer Staples	5,403	0.01%
Currency Forward Hedge*	3,558	0.00%
Cash and Cash Equivalents	1,075,060	1.48%
Other Assets less Liabilities	(188,961)	-0.26%
	<b>\$ 72,541,859</b>	<b>100.00%</b>

\* 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, 2023

<b>Top 25 Holdings*</b>	<b>% of ETF's Net Asset Value</b>
Enbridge Inc.	9.44%
BCE Inc.	8.98%
Toronto-Dominion Bank (The)	8.25%
Royal Bank of Canada	6.63%
Bank of Montreal	6.15%
Pembina Pipeline Corp.	5.91%
Canadian Imperial Bank of Commerce	5.79%
Manulife Financial Corp.	4.92%
Brookfield Corp.	4.67%
TC Energy Corp.	4.62%
Brookfield Renewable Power Preferred Equity Inc.	3.36%
Great-West Lifeco Inc.	3.16%
AltaGas Ltd.	2.60%
National Bank of Canada	2.16%
Cenovus Energy Inc.	2.09%
Fairfax Financial Holdings Ltd.	1.81%
Intact Financial Corp.	1.60%
Brookfield Office Properties Inc.	1.55%
Canadian Utilities Ltd.	1.51%
Rogers Communications Inc.	1.50%
Cash and Cash Equivalents	1.48%
Fortis Inc.	1.45%
Brookfield Infrastructure Partners L.P.	1.28%
Emera Inc.	1.18%
Laurentian Bank of Canada	1.01%

\* Note all of the Top 25 Holdings, excluding cash and cash equivalents, represent the aggregate preferred securities and/or debt instruments of that issuer in the ETF's portfolio.

The summary of investment portfolio may change due to the ongoing portfolio transactions of the ETF. The most recent financial statements are available at no cost by calling 1-866-641-5739, or (416) 933-5745, by writing to us at 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7, by visiting our website at [www.horizonsetfs.com](http://www.horizonsetfs.com) or through SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

### **MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying unaudited interim financial statements of Horizons Active Hybrid Bond and 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.



Rohit Mehta  
Director  
Horizons ETFs Management (Canada) Inc.



Thomas Park  
Director  
Horizons ETFs Management (Canada) Inc.

### **NOTICE TO UNITHOLDERS**

**The Auditor of the ETF has 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 auditor has not performed a review of these interim financial statements in accordance with Canadian generally accepted auditing standards.



**Statements of Financial Position** (unaudited)

June 30, 2023, and December 31, 2022

	<b>2023</b>	<b>2022</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,075,060	\$ 677,622
Investments	71,652,202	72,865,696
Amounts receivable relating to accrued income	251,355	315,378
Amounts receivable relating to portfolio assets sold	–	197,312
Derivative assets (note 3)	3,558	405
<b>Total assets</b>	<b>72,982,175</b>	<b>74,056,413</b>
<b>Liabilities</b>		
Accrued management fees	35,950	34,725
Accrued operating expenses	8,670	6,735
Amounts payable for portfolio assets purchased	62,000	151,666
Distribution payable	333,696	347,234
<b>Total liabilities</b>	<b>440,316</b>	<b>540,360</b>
<b>Total net assets</b>	<b>\$ 72,541,859</b>	<b>\$ 73,516,053</b>
Number of redeemable units outstanding (note 8)	9,586,211	9,560,405
Total net assets per unit	\$ 7.57	\$ 7.69

(See accompanying notes to financial statements)

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



Rohit Mehta  
Director



Thomas Park  
Director

**Statements of Comprehensive Income** (unaudited)

For the Periods Ended June 30,

	<b>2023</b>	<b>2022</b>
<b>Income</b>		
Dividend income	\$ 1,871,049	\$ 1,546,025
Interest income for distribution purposes	391,449	190,386
Securities lending income (note 7)	529	195
Net realized gain (loss) on sale of investments and derivatives	(198,507)	658,415
Net realized gain (loss) on foreign exchange	(869)	5,363
Net change in unrealized depreciation of investments and derivatives	(1,014,694)	(10,183,483)
Net change in unrealized appreciation of foreign exchange	217	42
	<b>1,049,174</b>	<b>(7,783,057)</b>
<b>Expenses (note 9)</b>		
Management fees	224,590	234,509
Audit fees	8,033	6,132
Independent Review Committee fees	127	141
Custodial and fund valuation fees	15,602	15,833
Legal fees	893	2,193
Securityholder reporting costs	7,978	7,799
Administration fees	15,336	15,116
Transaction costs	17,310	28,025
Other expenses	65	–
	<b>289,934</b>	<b>309,748</b>
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(31,999)	(32,123)
	<b>257,935</b>	<b>277,625</b>
<b>Increase (decrease) in net assets for the period</b>	<b>\$ 791,239</b>	<b>\$ (8,060,682)</b>
Increase (decrease) in net assets per unit	\$ 0.08	\$ (0.96)

(See accompanying notes to financial statements)

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

For the Periods Ended June 30,

	<b>2023</b>		<b>2022</b>	
<b>Total net assets at the beginning of the period</b>	\$	73,516,053	\$	75,854,165
<b>Increase (decrease) in net assets</b>		791,239		(8,060,682)
<b>Redeemable unit transactions</b>				
Proceeds from the issuance of securities of the investment fund		1,817,260		11,604,470
Aggregate amounts paid on redemption of securities of the investment fund		(1,557,601)		(6,049,646)
Securities issued on reinvestment of distributions		6,329		8,899
Distributions:				
From net investment income		(2,031,421)		(1,851,621)
<b>Total net assets at the end of the period</b>	<b>\$</b>	<b>72,541,859</b>	<b>\$</b>	<b>71,505,585</b>

(See accompanying notes to financial statements)

**Statements of Cash Flows** (unaudited)

For the Periods Ended June 30,

	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets for the period	\$ 791,239	\$ (8,060,682)
Adjustments for:		
Net realized (gain) loss on sale of investments and derivatives	198,507	(658,415)
Net realized gain (loss) on currency forward contracts	10,247	(2,770)
Net change in unrealized depreciation of investments and derivatives	1,014,694	10,183,483
Net change in unrealized appreciation of foreign exchange	(237)	(25)
Purchase of investments	(6,085,379)	(20,355,566)
Proceeds from the sale of investments	5,648,810	8,561,205
Amounts receivable relating to accrued income	64,023	(50,112)
Accrued expenses	3,160	(2,575)
<b>Net cash from (used in) operating activities</b>	<b>1,645,064</b>	<b>(10,385,457)</b>
<b>Cash flows from financing activities:</b>		
Amount received from the issuance of units	1,265,003	11,629,236
Amount paid on redemptions of units	(474,236)	(655,014)
Distributions paid to unitholders	(2,038,630)	(1,794,544)
<b>Net cash from (used in) financing activities</b>	<b>(1,247,863)</b>	<b>9,179,678</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>397,201</b>	<b>(1,205,779)</b>
Effect of exchange rate fluctuations on cash and cash equivalents	237	25
<b>Cash and cash equivalents at beginning of period</b>	<b>677,622</b>	<b>1,620,919</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,075,060</b>	<b>\$ 415,165</b>
Interest received, net of withholding taxes	\$ 404,465	\$ 136,257
Dividends received, net of withholding taxes	\$ 1,922,058	\$ 1,550,042

(See accompanying notes to financial statements)

**Schedule of Investments** (unaudited)

As at June 30, 2023

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
<b>CANADIAN PREFERRED SECURITIES (82.74%)</b>			
<b>Financials (40.40%)</b>			
Artis REIT, Preferred, Series 'E', Variable Rate, Perpetual	5,533	\$ 105,288	\$ 95,444
Artis REIT, Preferred, Series 'I', Variable Rate, Perpetual	1,233	29,474	23,661
Bank of Montreal, Preferred, Class 'B', Series '27', Variable Rate, Convertible, Perpetual	21,634	460,236	387,681
Bank of Montreal, Preferred, Class 'B', Series '29', Variable Rate, Perpetual	77,771	1,621,547	1,332,217
Bank of Montreal, Preferred, Class 'B', Series '31', Variable Rate, Perpetual	17,916	387,901	304,572
Bank of Montreal, Preferred, Class 'B', Series '33', Variable Rate, Perpetual	30,497	649,335	552,911
Bank of Montreal, Preferred, Class 'B', Series '44', Variable Rate, Perpetual	13,387	339,649	287,151
Brookfield Corp., Preferred, Series '24', Variable Rate, Perpetual	8,692	168,535	113,865
Brookfield Corp., Preferred, Series '26', Variable Rate, Perpetual	5,593	109,054	77,128
Brookfield Corp., Preferred, Series '30', Variable Rate, Perpetual	19,408	436,626	370,693
Brookfield Corp., Preferred, Series '32', Variable Rate, Perpetual	2,808	63,601	53,914
Brookfield Corp., Preferred, Series '34', Variable Rate, Perpetual	44,466	791,395	729,687
Brookfield Corp., Preferred, Class 'A', Series '37', 4.90%, Perpetual	259	6,540	4,566
Brookfield Corp., Preferred, Class 'A', Series '38', Variable Rate, Perpetual	34,268	698,153	498,085
Brookfield Corp., Preferred, Class 'A', Series '40', Variable Rate, Perpetual	65,395	1,272,870	1,027,356
Brookfield Corp., Preferred, Class 'A', Series '42', Variable Rate, Perpetual	30,689	651,921	448,366
Brookfield Corp., Preferred, Series '51', 6.45%, Perpetual	3,394	38,751	51,521
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'N', Variable Rate, Perpetual	25,765	426,495	252,497
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'P', Variable Rate, Convertible, Perpetual	21,539	394,427	229,175
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'R', Variable Rate, Perpetual	39,788	753,619	423,742
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'AA', Variable Rate, Perpetual	13,029	243,144	140,583
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'CC', Variable Rate, Perpetual	100	1,978	1,674
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'EE', Variable Rate, Perpetual	1,000	21,530	12,840
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'GG', Variable Rate, Perpetual	4,166	94,036	61,824
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '39', Variable Rate, Perpetual	55,784	1,193,752	976,220

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

As at June 30, 2023

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '41', Variable Rate, Perpetual	15,955	345,304	267,087
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '43', Variable Rate, Perpetual	81,345	1,787,468	1,455,669
Canadian Western Bank, Preferred, Series '5', Variable Rate, Perpetual	28,313	510,028	475,658
Fairfax Financial Holdings Ltd., Preferred, Series 'C', Variable Rate, Convertible, Perpetual	3,223	66,623	57,740
Fairfax Financial Holdings Ltd., Preferred, Series 'G', Variable Rate, Perpetual	4,823	78,081	70,464
Fairfax Financial Holdings Ltd., Preferred, Series 'I', Variable Rate, Convertible, Perpetual	3,217	62,311	50,185
Fairfax Financial Holdings Ltd., Preferred, Series 'K', 5.00%, Perpetual	9,536	210,162	169,836
Fairfax Financial Holdings Ltd., Preferred, Series 'M', Variable Rate, Perpetual	48,345	984,994	966,900
Great-West Lifeco Inc., Preferred, Series 'G', 5.20%, Perpetual	5,394	132,564	104,266
Great-West Lifeco Inc., Preferred, Series 'H', 4.85%, Perpetual	18,520	459,391	335,582
Great-West Lifeco Inc., Preferred, Series 'L', 5.65%, Perpetual	752	19,101	15,566
Great-West Lifeco Inc., Preferred, Series 'N', Variable Rate, Perpetual	6,050	85,261	74,113
Great-West Lifeco Inc., Preferred, Series 'P', 5.40%, Perpetual	11,042	278,931	219,625
Great-West Lifeco Inc., Preferred, Series 'Q', 5.15%, Perpetual	882	22,218	16,758
Great-West Lifeco Inc., Preferred, Series 'R', 4.80%, Perpetual	8,218	205,515	147,349
Great-West Lifeco Inc., Preferred, Series 'S', 5.25%, Perpetual	36,682	738,183	708,329
Great-West Lifeco Inc., Preferred, Series 'T', 5.15%, Perpetual	34,750	688,775	679,363
Intact Financial Corp., Preferred, Class 'A', Series '3', Variable Rate, Convertible, Perpetual	36,517	761,394	639,048
Intact Financial Corp., Preferred, Class 'A', Series '6', 5.30%, Perpetual	5,380	140,689	113,276
Intact Financial Corp., Preferred, Class 'A', Series '7', Variable Rate, Convertible, Perpetual	6,235	144,666	130,000
Intact Financial Corp., Preferred, Class 'A', Series '9', 5.40%, Perpetual	66	1,441	1,426
Laurentian Bank of Canada, Preferred, Class 'A', Series '13', Variable Rate, Perpetual	30,424	493,190	467,008
Manulife Financial Corp., Preferred, Class 'A', Series '2', 4.65%, Perpetual	2,047	51,417	36,887
Manulife Financial Corp., Preferred, Class '1', Series '11', Variable Rate, Perpetual	39,566	851,688	811,103
Manulife Financial Corp., Preferred, Class '1', Series '13', Variable Rate, Perpetual	10,125	208,823	192,375
Manulife Financial Corp., Preferred, Class '1', Series '15', Variable Rate, Perpetual	27,703	603,034	488,404
Manulife Financial Corp., Preferred, Class '1', Series '17', Variable Rate, Perpetual	35,376	748,377	597,501
Manulife Financial Corp., Preferred, Class '1', Series '19', Variable Rate, Perpetual	35,530	716,475	585,890

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

As at June 30, 2023

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Manulife Financial Corp., Preferred, Class '1', Series '25', Variable Rate, Perpetual	18,864	456,685	374,450
National Bank of Canada, Preferred, Series '30', Variable Rate, Perpetual	9,916	202,584	176,207
National Bank of Canada, Preferred, Series '32', Variable Rate, Perpetual	18,070	364,098	301,769
National Bank of Canada, Preferred, Series '38', Variable Rate, Perpetual	1,335	32,187	33,629
National Bank of Canada, Preferred, Series '40', Variable Rate, Perpetual	16,825	374,632	342,052
National Bank of Canada, Preferred, Series '42', Variable Rate, Perpetual	8,609	203,732	187,590
Power Corp. of Canada, Preferred, Series 'B', 5.35%, Perpetual	376	9,614	7,516
Power Corp. of Canada, Preferred, Series 'D', 5.00%, Perpetual	2,266	44,708	41,898
Power Financial Corp., Preferred, Series 'K', 4.95%, Perpetual	1,199	26,070	22,140
Power Financial Corp., Preferred, Series 'O', 5.80%, Perpetual	506	12,984	10,859
Power Financial Corp., Preferred, Series 'P', Variable Rate, Perpetual	14,336	220,911	183,501
Power Financial Corp., Preferred, Series 'R', 5.50%, Perpetual	752	19,259	15,243
Power Financial Corp., Preferred, Series 'S', 4.80%, Perpetual	6,120	154,148	110,772
Power Financial Corp., Preferred, Series 'T', Variable Rate, Perpetual	4,563	107,153	83,503
Royal Bank of Canada, Preferred, Series 'AZ', Variable Rate, Perpetual	24,880	574,069	434,902
Royal Bank of Canada, Preferred, Series 'BB', Variable Rate, Perpetual	9,314	208,135	161,039
Royal Bank of Canada, Preferred, Series 'BD', Variable Rate, Perpetual	93,852	1,934,074	1,721,246
Royal Bank of Canada, Preferred, Series 'BF', Variable Rate, Perpetual	70,223	1,431,971	1,221,880
Sun Life Financial Inc., Preferred, Class 'A', Series '10R', Variable Rate, Perpetual	20,997	415,729	313,905
Toronto-Dominion Bank (The), Preferred, Series '1', Variable Rate, Convertible, Perpetual	75,800	1,701,854	1,300,728
Toronto-Dominion Bank (The), Preferred, Series '3', Variable Rate, Perpetual	58,693	1,274,113	1,014,215
Toronto-Dominion Bank (The), Preferred, Series '5', Variable Rate, Perpetual	40,884	830,837	706,067
Toronto-Dominion Bank (The), Preferred, Series '7', Variable Rate, Perpetual	72,312	1,586,409	1,319,694
Toronto-Dominion Bank (The), Preferred, Series '9', Variable Rate, Perpetual	26,121	559,379	482,977
Toronto-Dominion Bank (The), Preferred, Series '20', Variable Rate, Perpetual	18,146	435,572	402,660
		35,536,868	29,305,223

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

As at June 30, 2023

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
<b>Energy (23.48%)</b>			
AltaGas Ltd., Preferred, Series 'A', Variable Rate, Convertible, Perpetual	48,381	892,227	721,845
AltaGas Ltd., Preferred, Series 'B', Floating Rate, Convertible, Perpetual	2,595	50,237	44,323
AltaGas Ltd., Preferred, Series 'G', Variable Rate, Perpetual	26,522	601,726	457,505
Cenovus Energy Inc., Preferred, Series '1', Variable Rate, Perpetual	6,294	97,972	83,584
Cenovus Energy Inc., Preferred, Series '3', Variable Rate, Perpetual	19,881	442,953	366,804
Cenovus Energy Inc., Preferred, Series '5', Variable Rate, Perpetual	14,069	315,197	269,984
Cenovus Energy Inc., Preferred, Series '7', Variable Rate, Perpetual	41,949	864,294	788,641
Enbridge Inc., Preferred, Series 'B', Variable Rate, Perpetual	25,504	408,370	414,695
Enbridge Inc., Preferred, Series 'D', Variable Rate, Perpetual	15,485	286,609	259,684
Enbridge Inc., Preferred, Series 'F', Variable Rate, Perpetual	11,948	225,785	206,700
Enbridge Inc., Preferred, Series 'L', Variable Rate, Perpetual	9,153	251,381	233,293
Enbridge Inc., Preferred, Series 'N', Variable Rate, Perpetual	26,139	446,499	463,706
Enbridge Inc., Preferred, Series 'P', Variable Rate, Perpetual	20,424	391,423	328,826
Enbridge Inc., Preferred, Series 'R', Variable Rate, Perpetual	40,960	768,152	630,374
Enbridge Inc., Preferred, Series '3', Variable Rate, Perpetual	75,840	1,363,679	1,120,915
Enbridge Inc., Preferred, Series '7', Variable Rate, Perpetual	13,381	232,062	216,237
Enbridge Inc., Preferred, Series '9', Variable Rate, Perpetual	23,195	462,563	353,492
Enbridge Inc., Preferred, Series '11', Variable Rate, Perpetual	83,621	1,613,974	1,242,608
Enbridge Inc., Preferred, Series '13', Variable Rate, Perpetual	47,017	781,163	658,238
Enbridge Inc., Preferred, Series '15', Variable Rate, Perpetual	38,471	621,391	534,747
Pembina Pipeline Corp., Preferred, Class 'A', Series '3', Variable Rate, Perpetual	6,223	119,962	105,169
Pembina Pipeline Corp., Preferred, Class 'A', Series '5', Variable Rate, Perpetual	14,322	269,416	254,788
Pembina Pipeline Corp., Preferred, Class 'A', Series '7', Variable Rate, Perpetual	40,461	817,702	675,294
Pembina Pipeline Corp., Preferred, Class 'A', Series '9', Variable Rate, Perpetual	47,117	1,067,650	901,348
Pembina Pipeline Corp., Preferred, Class 'A', Series '15', Variable Rate, Perpetual	19,984	418,703	396,083
Pembina Pipeline Corp., Preferred, Class 'A', Series '17', Variable Rate, Perpetual	10,438	192,562	186,214
Pembina Pipeline Corp., Preferred, Class 'A', Series '19', Variable Rate, Perpetual	74,845	1,699,451	1,576,236
Pembina Pipeline Corp., Preferred, Class 'A', Series '21', Variable Rate, Perpetual	358	9,108	7,328
Pembina Pipeline Corp., Preferred, Class 'A', Series '25', Variable Rate, Perpetual	8,586	202,673	186,746



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

As at June 30, 2023

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
TC Energy Corp., Preferred, Series '1', Variable Rate, Convertible, Perpetual	8,541	152,784	116,756
TC Energy Corp., Preferred, Series '3', Variable Rate, Convertible, Perpetual	7,759	118,133	80,926
TC Energy Corp., Preferred, Series '5', Variable Rate, Convertible, Perpetual	52,036	734,341	558,867
TC Energy Corp., Preferred, Series '7', Variable Rate, Convertible, Perpetual	43,595	812,909	666,568
TC Energy Corp., Preferred, Series '9', Variable Rate, Perpetual	66,351	1,287,277	978,677
TC Energy Corp., Preferred, Series '11', Variable Rate, Perpetual	58,147	1,182,119	947,796
		20,202,447	17,034,997
<b>Utilities (9.80%)</b>			
Algonquin Power & Utilities Corp., Preferred, Series 'A', Variable Rate, Convertible, Perpetual	2,068	44,534	41,360
Algonquin Power & Utilities Corp., Preferred, Series 'D', Variable Rate, Perpetual	3,411	67,708	67,487
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '1', Variable Rate, Perpetual	32,309	696,952	555,553
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '3', Variable Rate, Perpetual	129	2,507	2,764
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '9', Variable Rate, Perpetual	4,862	121,803	99,477
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '11*', Variable Rate, Perpetual	13,894	316,325	269,544
Brookfield Renewable Partners L.P., Preferred, Class 'A', Series '7', Variable Rate, Perpetual	4,788	113,351	102,128
Brookfield Renewable Partners L.P., Preferred, Class 'A', Series '15', Variable Rate, Perpetual	2,582	62,798	56,907
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '1', Variable Rate, Convertible, Perpetual	61,401	1,152,866	921,629
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '2', Variable Rate, Convertible, Perpetual	15,313	305,039	252,971
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '3', Variable Rate, Convertible, Perpetual	55,037	1,143,044	932,877
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '6', 5.00%, Perpetual	19,610	434,218	328,467
Canadian Utilities Ltd., Preferred, Series 'Y', Variable Rate, Perpetual	38,797	809,523	687,871
Canadian Utilities Ltd., Preferred, Series 'AA', 4.90%, Perpetual	9,808	248,138	185,371
Canadian Utilities Ltd., Preferred, Series 'BB', 4.90%, Perpetual	5,957	149,040	110,860
Canadian Utilities Ltd., Preferred, Series 'CC', 4.50%, Perpetual	5,400	136,836	93,420
Canadian Utilities Ltd., Preferred, Series 'DD', 4.50%, Perpetual	402	9,688	6,938
Canadian Utilities Ltd., Preferred, Series 'EE', 5.25%, Perpetual	506	12,954	10,277
Canadian Utilities Ltd., Preferred, Series 'FF', Variable Rate, Perpetual	16	358	362

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

As at June 30, 2023

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Capital Power Corp., Preferred, Series '1', Variable Rate, Convertible, Perpetual	7,636	100,846	97,741
Capital Power Corp., Preferred, Series '3', Variable Rate, Convertible, Perpetual	1,821	33,920	37,913
Capital Power Corp., Preferred, Series '5', Variable Rate, Perpetual	2,611	45,895	53,917
CU Inc., Preferred, Series '1', 4.60%, Perpetual	661	15,957	11,386
Emera Inc., Preferred, Series 'A', Variable Rate, Convertible, Perpetual	21,916	352,383	295,976
Emera Inc., Preferred, Series 'C', Variable Rate, Convertible, Perpetual	13,085	277,605	262,485
Emera Inc., Preferred, Series 'F', Variable Rate, Perpetual	14,708	302,748	253,713
Emera Inc., Preferred, Series 'L', 4.60%, Perpetual	2,668	66,700	45,623
Fortis Inc., Preferred, Series 'G', Variable Rate, Perpetual	4,848	100,935	89,930
Fortis Inc., Preferred, Series 'H', 4.25%, Perpetual	413	6,854	5,198
Fortis Inc., Preferred, Series 'K', Variable Rate, Perpetual	7,118	139,618	117,376
Fortis Inc., Preferred, Series 'M', Variable Rate, Perpetual	50,626	1,033,315	837,860
TransAlta Corp., Preferred, Series 'C', Variable Rate, Convertible, Perpetual	9,195	169,412	166,062
TransAlta Corp., Preferred, Series 'E', 5.00%, Perpetual	2,965	51,997	61,998
TransAlta Corp., Preferred, Series 'G', Variable Rate, Perpetual	2,353	41,985	45,201
		8,567,852	7,108,642
<b>Communication Services (8.98%)</b>			
BCE Inc., Preferred, Series 'R', Variable Rate, Perpetual	34,505	591,682	520,681
BCE Inc., Preferred, Series 'Y', Variable Rate, Perpetual	30,029	596,346	539,021
BCE Inc., Preferred, Series 'Z', Variable Rate, Perpetual	3,943	69,025	70,974
BCE Inc., Preferred, Series 'AA', Variable Rate, Perpetual	56,997	1,061,278	988,328
BCE Inc., Preferred, Series 'AB', Variable Rate, Perpetual	18,338	354,444	330,267
BCE Inc., Preferred, Series 'AD', Variable Rate, Perpetual	32,550	587,660	588,504
BCE Inc., Preferred, Series 'AE', Variable Rate, Perpetual	5,998	120,754	107,964
BCE Inc., Preferred, Series 'AF', Variable Rate, Perpetual	31,650	538,837	512,414
BCE Inc., Preferred, Series 'AG', Variable Rate, Perpetual	43,103	805,531	648,700
BCE Inc., Preferred, Series 'AH', Variable Rate, Perpetual	11,177	235,711	200,739
BCE Inc., Preferred, Series 'AI', Variable Rate, Perpetual	38,827	673,252	563,768
BCE Inc., Preferred, Series 'AJ', Floating Rate, Convertible, Perpetual	3,177	63,636	57,821
BCE Inc., Preferred, Series 'AK', Variable Rate, Convertible, Perpetual	50,412	792,703	726,437
BCE Inc., Preferred, Series 'AM', Variable Rate, Perpetual	42,579	670,708	621,653
BCE Inc., Preferred, Series 'AQ', Variable Rate, Convertible, Perpetual	1,953	38,122	39,958
		7,199,689	6,517,229
<b>Industrials (0.07%)</b>			
Element Fleet Management Corp., Preferred, Series 'E', Variable Rate, Perpetual	1,965	47,337	48,437

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

As at June 30, 2023

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
<b>Consumer Staples (0.01%)</b>			
George Weston Ltd., Preferred, Series 'III', 5.20%, Perpetual	259	6,524	5,079
George Weston Ltd., Preferred, Series 'V', 4.75%, Perpetual	18	337	324
		6,861	5,403
<b>TOTAL CANADIAN PREFERRED SECURITIES</b>		<b>71,561,054</b>	<b>60,019,931</b>
<b>CANADIAN FIXED INCOME SECURITIES (16.04%)</b>			
<b>Corporate Bonds (16.04%)</b>			
Algonquin Power & Utilities Corp., Callable, 5.25%, 2082/01/18	545,000	534,200	431,889
AltaGas Ltd., Variable Rate, Callable, 5.25%, 2082/01/11	381,000	381,000	303,772
AltaGas Ltd., Variable Rate, Callable, 7.35%, 2082/08/17	375,000	375,000	360,904
Bank of Montreal, Variable Rate, Perpetual, 7.37%, 2027/11/26	190,000	193,895	186,857
Bank of Montreal, Variable Rate, Perpetual, 7.06%, 2028/04/26	800,000	800,000	778,261
Bank of Montreal, Variable Rate, Callable, 5.63%, 2082/05/26	425,000	425,000	393,479
Bank of Montreal, Variable Rate, Callable, 7.33%, 2082/11/26	242,000	243,640	237,727
Bank of Nova Scotia (The), Variable Rate, Perpetual, 4.90%, 2025/06/04	170,000	234,166	213,175
Bank of Nova Scotia (The), Series '1', Variable Rate, Callable, 3.70%, 2081/07/27	250,000	250,000	180,884
Bank of Nova Scotia (The), Variable Rate, Callable, 7.02%, 2082/07/27	339,000	339,000	328,811
Canadian Imperial Bank of Commerce, Variable Rate, Perpetual, 7.37%, 2027/09/28	833,000	833,350	817,669
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 4.00%, 2082/01/28	450,000	438,750	350,234
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 7.15%, 2082/07/28	335,000	334,374	325,498
Capital Power Corp., Variable Rate, Callable, 7.95%, 2082/09/09	355,000	355,000	347,781
Enbridge Inc., Convertible Bonds, Variable Rate, Callable, 6.00%, 2077/01/15	20,000	21,218	24,622
Enbridge Inc., Series 'C', Variable Rate, Callable, 6.63%, 2078/04/12	172,000	172,000	166,187
Gibson Energy Inc., Convertible Bonds, Series '20-A', Variable Rate, Callable, 5.25%, 2080/12/22	370,000	374,937	306,617
Gibson Energy Inc., Variable Rate, Callable, 8.70%, 2083/07/12	62,000	62,000	62,479
iA Financial Corp. Inc., Series '22-1', Variable Rate, Callable, 6.61%, 2082/06/30	257,000	257,000	248,347
Intact Financial Corp., Variable Rate, Callable, 7.34%, 2083/06/30	276,000	276,000	273,931
Inter Pipeline Ltd., Series '19-A', Variable Rate, Callable, 6.88%, 2079/03/26	548,000	548,000	514,487
Keyera Corp., Convertible Bonds, Floating Rate, Callable, 6.88%, 2079/06/13	410,000	410,000	384,899

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

As at June 30, 2023

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Laurentian Bank of Canada, Series '1', Variable Rate, Callable, 5.30%, 2081/06/15	350,000	351,750	271,958
Manulife Financial Corp., Variable Rate, Callable, 7.12%, 2082/06/19	490,000	490,000	475,150
National Bank of Canada, Series '1', Variable Rate, Callable, 4.30%, 2080/11/15	195,000	193,635	178,132
National Bank of Canada, Variable Rate, Callable, 7.50%, 2082/11/16	350,000	350,000	343,208
Rogers Communications Inc., Restricted, Variable Rate, Callable, 5.00%, 2081/12/17	1,195,000	1,193,800	1,086,991
Royal Bank of Canada, Series 'BT', Variable Rate, Perpetual, 4.20%, 2027/02/24	1,696,000	1,699,824	1,273,080
Toronto-Dominion Bank (The), Series '27', Variable Rate, Perpetual, 5.75%, 2027/10/01	232,000	232,000	196,548
Toronto-Dominion Bank (The), Series '28', Variable Rate, Perpetual, 7.23%, 2027/10/01	98,000	98,980	96,261
Toronto-Dominion Bank (The), Variable Rate, Callable, 7.28%, 2082/10/31	481,000	481,388	472,433
		12,949,907	11,632,271
<b>TOTAL CANADIAN FIXED INCOME SECURITIES</b>		<b>12,949,907</b>	<b>11,632,271</b>
<b>DERIVATIVES (0.00%)</b>			
<b>Currency Forwards (0.00%)</b>			
Currency forward contract to buy C\$664,992 for US\$499,904 maturing September 20, 2023		-	3,558
		-	<b>3,558</b>
<b>TOTAL DERIVATIVES</b>		-	<b>3,558</b>
Transaction Costs		(66,136)	
<b>TOTAL INVESTMENT PORTFOLIO (98.78%)</b>		<b>\$ 84,444,825</b>	<b>\$ 71,655,760</b>
<b>Cash and cash equivalents (1.48%)</b>			1,075,060
<b>Other assets less liabilities (-0.26%)</b>			(188,961)
<b>TOTAL NET ASSETS (100.00%)</b>			<b>\$ 72,541,859</b>

(See accompanying notes to financial statements)

## Notes to Financial Statements (unaudited)

June 30, 2023

### 1. REPORTING ENTITY

Horizons Active Hybrid Bond and 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. HYBR may hedge some or all of its non-Canadian dollar currency exposure at the discretion of its Sub-Advisor.

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

### 2. BASIS OF PREPARATION

#### *(i) Statement of compliance*

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 11, 2023, by the Board of Directors of the Manager.

#### *(ii) Basis of measurement*

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value though profit or loss, which are measured at fair value.

#### *(iii) Functional and presentation currency*

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.

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

June 30, 2023

**(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

**(ii) Fair value measurement**

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

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

Investments held that are not traded in an active market, including some derivative financial instruments, are valued using observable market inputs where possible, on such basis and in such manner as established by the Manager. Derivative financial instruments are recorded in the statements of financial position according to the gain or loss that would be realized if the contracts were closed out on the Valuation Date. Margin deposits, if any, are included in the schedule of investments as margin deposits. See also, the summary of fair value measurements in note 6.

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

June 30, 2023

Fair value policies used for financial reporting purposes are the same as those used to measure the net asset value (“NAV”) for transactions with unitholders.

The fair value of other financial assets and liabilities approximates their carrying values due to the short-term nature of these instruments.

### ***(iii) Offsetting***

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at FVTPL and foreign exchange gains and losses.

### ***(iv) Specific instruments***

#### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on deposit and short-term, interest bearing notes with a term to maturity of less than three months from the date of purchase.

#### **Forward foreign exchange contracts**

Forward foreign exchange contracts, if any, are valued at the current market value thereof on the Valuation Date. The value of these forward contracts is the gain or loss that would be realized if, on the Valuation Date, the positions were to be closed out and recorded as derivative assets and/or liabilities in the statements of financial position and as a net change in unrealized appreciation (depreciation) of investments and derivatives in the statements of comprehensive income. When the forward contracts are closed out or mature, realized gains or losses on forward contracts are recognized and are included in the statements of comprehensive income in net realized gain (loss) on sale of investments and derivatives. The Canadian dollar value of forward foreign exchange contracts is determined using forward currency exchange rates supplied by an independent service provider.

#### **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.

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

June 30, 2023

**(b) Investment income**

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

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

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

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

**(c) Foreign currency**

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

**(d) Cost basis**

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

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

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

**(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.



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

June 30, 2023

**(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.

**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.

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

June 30, 2023

**(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, 2023, and December 31, 2022, 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.

The following table summarizes the ETF's exposure to interest rate risk, including the ETF's assets categorized by the remaining term to maturity:

<b>Investments</b>	<b>Less than 1 year</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>&gt; 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
As at	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
<b>June 30, 2023</b>						
Investments	1,048	–	–	11,776	60,126	72,950
<b>December 31, 2022</b>						
Investments	574	–	–	10,743	62,437	73,754

The percentage of the ETF's net assets exposed to interest rate risk as at June 30, 2023, was 100.6% (December 31, 2022 – 100.3%). The amount by which the net assets of the ETF would have increased or decreased, as at June 30, 2023, 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 \$2,356,552 (December 31, 2022 – \$2,588,546). The ETF's interest rate sensitivity was determined based on portfolio weighted duration. In practice, actual results may differ from this sensitivity analysis.

**(iii) Other market risk**

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

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

June 30, 2023

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

<b>Comparative Index</b>	<b>June 30, 2023</b>	<b>December 31, 2022</b>
S&P/TSX Preferred Share Index™	\$707,977	\$717,902

**(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.

**Analysis of credit quality**

The ETF's credit risk exposure by designated rating of the invested portfolio as at June 30, 2023, and December 31, 2022, is listed as follows:

<b>Canadian Preferred Securities by Credit Rating</b>	<b>Percentage of Net Asset Value (%)</b>	
	<b>June 30, 2023</b>	<b>December 31, 2022</b>
P-2 - Second best credit	70.1%	0.1%
P-3 - Third best credit	21.8%	8.7%
<b>Total</b>	<b>91.9%</b>	<b>8.8%</b>
<b>U.S Preferred Securities by Credit Rating</b>	<b>Percentage of Net Asset Value (%)</b>	
	<b>June 30, 2023</b>	<b>December 31, 2022</b>
AAA	0.8%	0.8%
A	–	5.0%
BBB	2.6%	66.8%
BB	5.3%	18.4%
B	–	0.4%
<b>Total</b>	<b>8.7%</b>	<b>91.4%</b>

Designated ratings are obtained by Standard & Poor's, Moody's and/or Dominion Bond Rating Services. Where more than one rating is obtained for a security, the lowest rating has been used. Credit risk is managed by dealing with counterparties the ETF believes to be creditworthy and by regular monitoring of credit exposures. The maximum exposure to any one debt issuer as of June 30, 2023, was 9.4% (December 31, 2022 – 9.4%) of the net assets of the ETF.

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

June 30, 2023

**(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.

**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, 2023, and December 31, 2022, in valuing the ETF's investments and derivatives carried at fair values:

	June 30, 2023			December 31, 2022		
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
<b>Financial Assets</b>						
Bonds	–	11,632,271	–	–	10,586,015	–
Equities	60,019,931	–	–	62,279,681	–	–
Currency Forward Contracts	–	3,558	–	–	405	–
<b>Total Financial Assets</b>	<b>60,019,931</b>	<b>11,635,829</b>	–	<b>62,279,681</b>	<b>10,586,420</b>	–
<b>Total Financial Liabilities</b>	–	–	–	–	–	–
<b>Net Financial Assets and Liabilities</b>	<b>60,019,931</b>	<b>11,635,829</b>	–	<b>62,279,681</b>	<b>10,586,420</b>	–

There were no significant transfers made between Levels 1 and 2 as a result of changes in the availability of quoted market prices or observable market inputs during the period or year shown. In addition, there were no investments or transactions classified in Level 3 for the period ended June 30, 2023, and for the year ended December 31, 2022.

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

June 30, 2023

**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.

The aggregate closing market value of securities loaned and collateral received as at June 30, 2023, and December 31, 2022, was as follows:

As at	Securities Loaned	Collateral Received
June 30, 2023	\$339,790	\$357,012
December 31, 2022	\$455,990	\$479,399

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, 2023 and 2022. 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, 2023	% of Gross Income	June 30, 2022	% of Gross Income
Gross securities lending income	\$961		\$354	
Withholding taxes	(80)	8.32%	(29)	8.19%
Lending Agents’ fees:				
Canadian Imperial Bank of Commerce	(352)	36.63%	(130)	36.73%
<b>Net securities lending income paid to the ETF</b>	<b>\$529</b>	<b>55.05%</b>	<b>\$195</b>	<b>55.08%</b>

**8. REDEEMABLE UNITS**

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

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

June 30, 2023

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.

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, 2023 and 2022, 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:

<b>Period</b>	<b>Beginning Units Outstanding</b>	<b>Units Issued</b>	<b>Units Redeemed</b>	<b>Ending Units Outstanding</b>	<b>Average Units Outstanding</b>
2023	9,560,405	225,806	(200,000)	9,586,211	9,638,718
2022	7,696,915	1,207,173	(675,000)	8,229,088	8,372,737

## 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

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

June 30, 2023

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.

**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, 2023 and 2022, were as follows:

<b>Period Ended</b>	<b>Brokerage Commissions Paid</b>	<b>Soft Dollar Transactions</b>	<b>Amount Paid to Related Parties</b>
June 30, 2023	\$9,540	\$1,200	\$nil
June 30, 2022	\$17,515	\$nil	\$nil

In addition to the information contained in the table above, the management fees paid to the Manager described in note 9 are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statements of comprehensive income. The management fees payable by the ETF as at June 30, 2023, and December 31, 2022 are disclosed in the statements of financial position.

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

June 30, 2023

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

**11. INCOME TAX**

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

**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, 2022, 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
\$10,160,304	–	–

**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, 2023, and December 31, 2022. 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, 2023	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	3,558	–	3,558	–	–	3,558
Derivative liabilities	–	–	–	–	–	–

Financial Assets and Liabilities as at December 31, 2022	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	405	–	405	–	–	405
Derivative liabilities	–	–	–	–	–	–



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

June 30, 2023

**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, 2023, and December 31, 2022, the ETF had no exposure to subsidiaries, associates or unconsolidated structured entities.

Manager

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