

Market Overview

Canadian energy stocks continued a remarkable performance, with the S&P/TSX Capped Energy Index™ posting a total return of 3.55% during the second quarter ended June 30, 2022 (Q2). The Index has now had seven consecutive quarters of positive returns – in what is a particularly strong run in prices. However, this latest quarter has been volatile with both economic and geopolitical situations in flux. The big driver of fossil fuel prices continues to be the Russia and Ukraine conflict, with the European Union (EU) committing to phasing out Russian oil imports while attempting to reduce its use of Russian gas. While it may be possible for Europe to phase out oil imports, it will be much more difficult to substitute gas, as the liquid natural gas (LNG) infrastructure does not yet exist, and major exporters, such as Qatar or the United States, will need time to boost production. In the meantime, Russian oil is finding its way into China and India and leading to a bifurcated market. Despite all this volatility, natural gas prices were only modestly lower in North America during Q2, this was a minor move down after the Q1 increase of over 50%. West Texas Intermediate (WTI) oil prices continued its trend higher, with the front month's futures closing at \$106, above the key psychological \$100 level. Despite the gains in the Index and Canadian oil & gas companies, the month of June saw a sharp correction in stock prices, with the Index declining almost by 15% during the final month of the quarter. Central banks have had to reassess views on inflation and are determined to raise rates aggressively, possibly leading to a recession. This led to the driving down of oil prices. Significantly for Canadian energy producers, a combination of strong demand and supply discipline kept the spread between Western Canada Select (WCS) oil prices, and WTI prices, to a less than \$15 discount per barrel throughout the first quarter, although spreads have started to increase in the past two months, to as much as \$20 in June.

Quarter in Review

The portfolio was split during Q2, with close to 50% of energy shares producing positive returns. Cenovus Inc. (CVE) was the top performer in our portfolio, with a total return of 17.94% during the second quarter. Strong financial performance, as well as continued strong commodity prices, have led analysts to revise targets higher for CVE through Q2. Whitecap Resources Inc. (WCP) fared the worst, declining by -12.78%, despite a recently announced dividend increase.

Dispersion in the overall returns of the stocks in the portfolio only further confirms that volatility continues to be elevated in the energy sector as there remains substantial uncertainty on both supply and demand of oil and gas. This elevated volatility increases the call premiums received on the covered call option overlay strategy. This benefit, however, has been somewhat offset by a large underlying move in securities.

At the end of the Q2 period, unitholders of the Horizons Enhanced Income Energy ETF (HEE) approved a name change to the Horizons Canadian Oil and Gas Equity Covered Call ETF (ENCC) and a change in the investment objective for the fund. The ETF will now track, to the extent possible, the Solactive Equal Weight Oil & Gas Index. This Index tracks the major Canadian oil & gas producers as well as pipeline companies.

ENCC Quarterly Commentary

Horizons Canadian Oil and Gas Equity Covered Call ETF

Q2 2022

Outlook and Positioning

With fears of a recession, governments using emergency oil reserves, and the ongoing conflict in Europe, more volatility is expected. With both the supply and demand side in flux, there remains the possibility of large moves in the underlying crude oil prices. This elevated volatility increases the call premiums received on the covered call option overlay strategy. This benefit, however, has been somewhat offset by a large underlying move in underlying securities.

During each month, options are dynamically written on the equities in the portfolio of the ETF. The ETF's monthly distributions are not fixed, but vary as the premiums generated from covered call writing are earned and passed through, and will change with fluctuations in implied volatility, and the duration of time to option expiration. Distributions also vary based on the timing of the dividends received from the underlying securities in the ETF's portfolio during the period.



Effective June 24, 2022, the investment objectives of Horizons Canadian Oil and Gas Equity Covered Call ETF ("ENCC") (formerly Horizons Enhanced Income Energy ETF ("HEE")), were changed following receipt of the required unitholder and regulatory approvals. The ETF began to trade under its new fund name and ticker symbol on June 27, 2022. For more information, please refer to the disclosure documents of ENCC on www.HorizonsETFs.com

Commissions, management fees and expenses all may be associated with an investment in Horizons Canadian Oil and Gas Equity Covered Call ETF ("ENCC" or the "ETF") managed by Horizons ETFs Management (Canada) Inc. The ETF is not guaranteed, its value changes frequently and past performance may not be repeated. The prospectus contains important detailed information about the ETF. **Please read the relevant prospectus before investing.**

Certain statements may constitute a forward-looking statement, including those identified by the expression "expect" and similar expressions (including grammatical variations thereof). The forward-looking statements are not historical facts but reflect the author's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking statements. These forward-looking statements are made as of the date hereof and the authors do not undertake to update any forward-looking statement that is contained herein, whether as a result of new information, future events or otherwise, unless required by applicable law.

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