FAIRCOURT

# GOLD INCOME CORP.

Fourth Quarter 2015

**Inception Date**: November 16, 2007
**Fund Manager**: Faircourt Asset Management Inc.
**Portfolio Advisor**: Faircourt Asset Management Inc.
**TSX Symbol**: FGX

## FAIRCOURT GOLD INCOME CORP.

The Company invests in gold equities which include senior and intermediate gold producers that are part of the S&P/TSX Global Gold Index.

## INVESTMENT OBJECTIVES

The Company's investment objectives are to provide Shareholders with: (i) monthly distributions targeted to yield $0.04167 per month and currently $0.024 per month; and (ii) the opportunity for capital appreciation. Based on the market price as at December 31, 2015, the current yield was 10.63%.

## TOP TEN HOLDINGS as at December 31, 2015

- Agnico Eagle Mines Ltd.
- Detour Gold Corp.
- Franco-Nevada Corp.
- Goldcorp Inc.
- MAG Silver Corp.
- Newmont Mining Corp.
- Pretium Resources Inc.
- Primero Mining Corp.
- Randgold Resources Ltd.
- Tahoe Resources Inc.

## OPTION WRITING

Our Manager believes that option writing has the potential to add value in certain sectors that have sustained volatility. Gold equities, which have historically maintained a high degree of volatility are well suited to an option writing strategy.

The sustained volatility in the gold equity sector allows the option writer the potential to generate significant premium income. In addition, an option writing strategy is an effective way to help lower the level of volatility for an investor, and potentially improve returns. In addition to its strong current fundamentals, the Manager believes the volatility in gold stocks will remain high relative to the broader market, producing sound returns for investors.

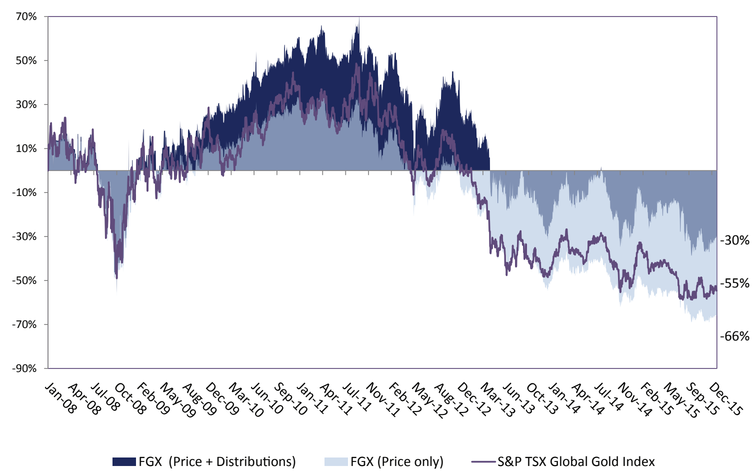
## PRECIOUS METALS OUTLOOK

The Portfolio Advisor believes the fundamentals for investments in precious metals companies continue to be strong, especially during this uncertain global economic environment. Driving the Portfolio Advisor's view are the following factors related to the demand for precious metals equity investments.

**Current Global Economic Environment Supports Gold:**

- High sovereign debt to GDP ratios of OECD countries
- Sluggish economic recovery leading to new rounds of quantitative easing
- Concerns about sovereign debt defaults
- Prolonged period of zero interest rates.

## PERFORMANCE SINCE JANUARY 1, 2008




Data is based on market price Source: Bloomberg

**Returns for Year Ended December 31, 2015**

| | 1 Year | 3 Year | 5 Years | Since Inception |
|---|---|---|---|---|
| FGX – Market Price [1,2] | -5.01% | -18.20% | -15.38% | -6.41% |
| FGX – Basic NAV [1,3] | -6.14% | -20.98% | -15.37% | -6.17% |
| S&P/TSX Global Gold Index | -10.13% | -23.64% | -19.97% | -9.18% |

Notes:
(1) Assumes reinvestment of distributions;
(2) Source: Bloomberg
(3) Based on Basic NAV; Source: Faircourt Asset Management

| Distribution History | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|
| Total Distributions Per Share | $0.50 | $0.58 | $0.58 | $0.58 | $0.57 | $0.51 | $0.50 | $0.50 |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# GOLD INCOME CORP.

## Faircourt Gold Income Corp – December 2015 Update

The final quarter of 2015 witnessed increased volatility and negative price pressures for most equity sectors in both Canada and the US. Markets were pre-occupied with weaker than anticipated consumer sentiment, a persistent lack of wage growth despite growth in monthly non-farm payrolls, the continued fall in energy prices, sub par global GDP growth and questions surrounding interest rate policies around the world.

One sector that was able to provide a positive return in the quarter, was gold related equities. Despite physical gold being down modestly in the fourth quarter at -4.81%, gold equities were able to post a positive quarter, with the SPTSX Global Gold index up 4.54%. Companies in the sector continued to pursue operational improvements and financial flexibility due to the overall weak conditions surrounding equity markets. In this environment, the Fund outperformed the index, up 4.75% over the quarter.

The US employment picture improved considerably during the fourth quarter, with December's Non Farm Payrolls result coming in at over 290,000 jobs. Illustrating further stability in the US labour market was the upward revisions to both October and November payrolls that resulted in a very strong monthly average for the quarter of over 280,000 jobs. This result was a key piece of data that assisted the US Federal Reserve in determining that the US economy was on stable enough footing for its first although small interest rate hike in almost a decade.

The stance of the US Federal Reserve has led to significant volatility and new opportunities for gold equities. Prior to and during 2015, the perception on the part of investors was that coordinated Central Bank policy would reduce volatility as the global economy grew after the financial crisis of 2008. That coordinated effort ended in August when the Chinese Central Bank (PBOC) abruptly devalued its currency. Central Banks were caught off guard and came to assist in the sudden volatility the move caused. The year ended with US Fed acting to raise rates while all other Central Banks have remained on the sidelines, not willing at this stage to increase rates. With central banks no longer acting in a coordinated manner, we witnessed increased volatility in currency and capital markets that have continued into the new-year. The uncertainty in currency and capital markets has brought some renewed interest to the gold sector.

The Fund continues to invest in leading global gold companies primarily involved in gold exploration, mining or production on the S&P/ TSX Global Gold Index while using its option writing program to lower the fund's volatility and generate a monthly income stream. In order to generate additional returns and reduce risk, the Fund may write covered calls on securities held in the portfolio and cash secured put options on securities desired to be held in the portfolio. Writing a call options tends to decrease the Fund's exposure to the underlying instrument. Writing put options tends to increase the Fund's exposure to the underlying instrument.

The challenge for gold producers is that there is still an overall caution in the gold market driven by the uncertainty surrounding the timing of future interest rate increases by the US Federal Reserve. The December rate announcement and market reaction illustrated the caution. With the sentiment for gold related equities muted, gold companies continue to adjust to this lower gold price environment, reducing costs, re-analyzing mine sites for more efficient development and production and as a result, share prices have recovered substantially from the July lows. Operating costs continue to fall as currency effects and low oil prices assist many gold companies. Debt reduction, operational efficiency, and a focus on free cash flow continue to be key themes for gold companies.

Overall our investment strategy has not changed. We continue to position the Fund taking into account the challenges of the sector. The Portfolio Manager maintains solid weightings in senior producers, with selective exposure in smaller capitalization names that have top quality assets and a path to production and free cash flow. We continue to prefer higher quality names that have less debt, reasonable cost structures, and have shown good operational effectiveness. Agnico-Eagle screens well on these metrics and is a core holding in the Fund. With approximately two thirds of its production coming from Canada, it is well positioned to benefit from the decline in the Canadian dollar. Agnico also maintains one of the highest reserve grades among senior gold companies. Solid operational execution also make this name attractive. Similarly, Detour Gold, with its Detour Lake mine in northern Ontario performing well in the last few quarters, is well positioned to benefit from the declining Canadian dollar. We also continue to like Randgold Resources. Randgold operates in more politically challenging jurisdictions in Central Africa but has shown an ability to be successful in these jurisdictions over a number of years. We also like that it has low operational costs, no debt, and is exceptionally disciplined in allocating capital.

In addition to our core positon in these larger producers, we also took advantage of attractive valuations to add positions in development stage companies that have high quality assets and are fully funded. These include Torex, which is commissioning its El Limon-Guajes mine in Mexico and announced its first gold pour on December 29th. We expect the stock to re-rate higher as the mine moves to commercial production in the middle of 2016.

Moderately high volatility provided attractive opportunities for the Fund to both reduce the volatility of the portfolio and allowed the Fund to generate cash flow from option writing of approximately $0.72 million or $0.11 per weighted average number of shares outstanding during the quarter ending December 31, 2015. The Fund declared three regular monthly distributions totalling $0.072 per Class A Share in the same period. Since inception of the Fund, the option-writing program has been effective in managing the risks of the underlying investments and funding the monthly distribution by allowing the Fund to generate cash flow from option writing of approximately $20.6 million and pay out approximately $19.5 million in distributions to shareholders.

The NAV of the Class A Shares, combined with paid distributions during the quarter ended December 31, 2015, providing a total return for holders of Class A Shares of 4.75% outperforming the return posted by the S&P/TSX Global Gold Index return of 4.54% over the same period.

Outlook:

Looking to 2016, we are expecting a transitional year for gold and gold equities as the circumstances (primarily US dollar appreciation) that drove gold price weakness in 2014 begin to fade. The US economy has performed well in 2015, allowing the Fed to begin fiscal tightening with its first interest rate increase in 7 years at its December meeting, but it is facing a number of growing headwinds. The US dollar as measured by the DXY index has appreciated 25% since 2014 causing US exports to drop considerably. In addition credit spreads have widened, indicating growing concern about the ability of corporate and other private issuers of debt to service their debt obligations. Also contributing to an already uncertain environment is that the IMF that has reduced its forecast for global growth in 2016 to to 3.4%. At the same time, the precipitous drop in oil prices has slashed oil exploration capital expenditures, dragging down economic activity and leading to deflationary pressures around the world. Given this backdrop of slow global growth and a rising US dollar, we believe that the Fed is unlikely to raise interest rates the 3-4 times widely anticipated by the market, as any such move would exacerbate the rising dollar problem for the US economy. With faltering global growth, and a more benign US dollar we are optimistic on the prospects for gold in 2016.