FAIRCOURT

# GOLD INCOME CORP.

Second Quarter 2017

**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 be $0.04167 per month and currently $0.024 per month; and (ii) the opportunity for capital appreciation. Based on the market price as at June 30, 2017, the yield was 7.83%.

## TOP TEN HOLDINGS as at June 30, 2017

- Agnico Eagle Mines Ltd.
- Aurico Metals Inc.
- Franco-Nevada Corp.
- Kirkland Lake Gold Ltd.
- Mag Silver Corp.
- Newmont Mining Corp.
- Osisko Mining Inc.
- Pretium Resources Inc.
- Randgold Resources Ltd.
- Wheaton Precious Metals Corp.

## 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.

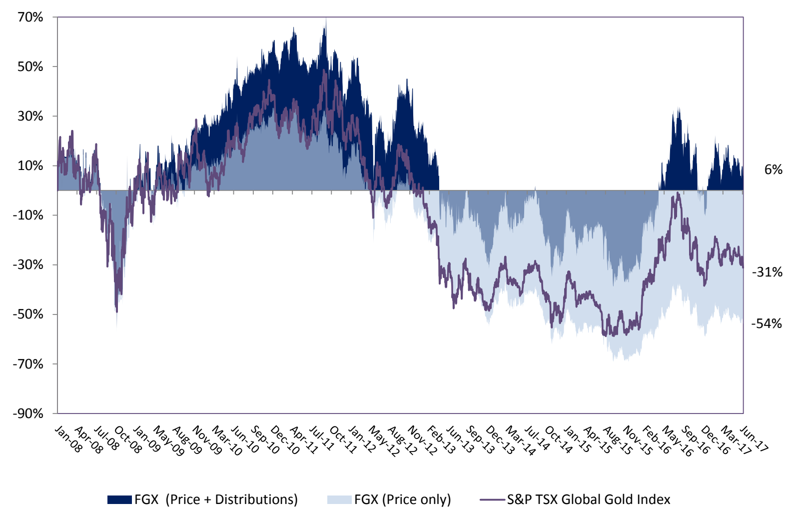
## PRECIOUS METALS OUTLOOK

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 negative interest rates utilized globally
- Fear of inflation in the U.S. with the new Trump Presidency

## PERFORMANCE SINCE JANUARY 1, 2008




Inception date is November 16, 2007, initial portfolio fully invested January 1, 2008.
Data is based on market price Source: Bloomberg

**Returns for Period Ended June 30, 2017**

| | 1 Year | 3 Year | 5 Years | Since Inception |
|---|---|---|---|---|
| FGX – Market Price [1,2] | -10.62% | 2.87% | -3.04% | -1.23% |
| FGX – Basic NAV [1,3] | -17.80% | 2.46% | -2.52% | -1.19% |
| S&P/TSX Global Gold Index | -22.33% | 0.64% | -7.45% | -3.71% |

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

| Distribution History | Since Inception | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Total Distributions Per Share | $4.73 | $0.29 | $0.48 | $0.58 |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## Faircourt Gold Income Corp – June 2017 Update

As gold hovers in the mid $1,200 to $1,250 USD range, we see upside in the precious metal as geopolitical volatility abounds in many parts of the world. There is an inability of the Trump administration to get legislation passed most notably the Republican controlled Congress has been unable to repeal Obama care. At the same time, there are concerns about Russian interference in the U.S. election and whether members of the Trump campaign were involved, which has lead to the appointment of a special prosecutor. And while the North American press focuses on the dysfunction in Washington, North Korea has escalated security concerns in Asia announcing the successful launch of intercontinental capable missiles, bringing the country one step closer to nuclear confrontation with the west. In addition, the US has increased its military support for anti-government insurgents in Syria, leading to higher tensions with Russia.

Any one of these situations could be an indication for increased uncertainty and a reason for higher gold prices in the second half of the year. We believe that there are also fundamental economic reasons that support higher gold prices. During the second quarter in the US, the economy appeared to be slowing down and consumer confidence began to waver as the University of Michigan's consumer confidence index fell in June to its lowest level since November. Retail sales numbers declined in April and May, while construction spending in the US fell in April. Those factors continued to weigh down overall growth for the US economy. It has been a focus of President Trump to bring in legislation that will both reduce red tape and boost growth. But Republicans in Congress have focused first on trying to repeal and replace Obama-care, and Trump has released few details about tax reform or infrastructure spending. Despite some weaker economic data points, US labour markets have maintained a healthy pace of job creation, and we have seen a falling unemployment rate. What is confusing is that with all the job gains, we have not seen acceleration in wage rates and hence a lack of inflation.

The lack of inflation is also a sticking point for the US Federal Reserve that in mid July chose not to raise the Federal Funds Rate a further quarter point, as concerns over the resiliency of the US economy was again front and centre. US data released mid month under-delivered from an inflation perspective once again, and has put into question further rate hikes for the balance of 2017. The US economy, despite recent jobs growth remains lacklustre, with the labour participation rate still historically low. GDP forecasts from different Federal Reserve branches project a mere 1.8% to 1.9% growth rate for Q3. As a result, we see continued accommodative posture from the US Federal Reserve for the balance of the year.

We believe that the global economy will continue to operate in a very low interest rate environment, with fragile consumer sentiment. The US Federal Reserve is still using delicate language when discussing economic progress. The latest patch of negative economic performance in early July has lead to another discussion among interest rate watchers and that is the topic of the eventual unwinding of the Fed's US Treasury position, amassed since 2008. By most accounts, the Federal Reserve is not ready to sell it's position that it built over several rounds of quantitative easing.

With gold viewed as a hedge against market turmoil, its prices changed direction from seven-week lows on July 4 following North Korea's missile launch. If political risks take the upper hand in the balance of the year, whether related to Trump's policy uncertainty or any of the aforementioned geo-political tensions, we believe that higher gold prices would be present for the remainder of the year. During the second quarter gold equities trended downward as precious metals were less attractive for investors relative to the broader S&P 500 indices.

Following the gold price decline that began in 2012, many gold companies needed to cut spending dramatically and sell assets or shutter unprofitable operations in order to survive. Since the gold price bottoming that occurred in 2015, many companies have been able to operate profitably within the modestly higher gold price environment, reduce operational costs, and have increasingly greater access to capital to repair and strengthen their balance sheets. With the overall sector in 2017 in substantially better financial condition, investor focus has shifted towards growth once again.

Looking forward, we believe that their are opportunities for further investment in development stage companies. While some senior producers have been able to make acquisitions or develop growth opportunities through expansion and development of existing assets, many of the larger producers still face a flattening or even declining production profile. As a result, the fund will continue to invest in promising development stage companies that have good quality assets.

Faircourt Gold is cross capitalization portfolio, with holdings that range from exploration to development stage all the way to senior gold producers. Over the past two years, the fund has added to its development stage company holdings, as we believed that after several years of curtailed exploration, larger producers would need to look externally for growth projects. Since taking this position, development stage companies have contributed significantly to the growth and stability of the portfolio. One example of Faircourt's development stage companies has been Integra Gold. Integra's principal asset is the Lamaque project near Val-d'Or Quebec, with over 8 million tonnes at a grade range of between 7.9 and 9.1 g/t. We believed that Integra not only had a great asset but also had the management team to drive the company forward. On May 12, Integra announced that Eldorado Gold had agreed to acquire Integra, with a 52% premium over Integra's May 12 closing price, generating a solid return for the Fund.

We continue to benefit from our investment in Osisko Mining, another development stage company. Its Windfall Lake, Quebec, site and experienced management team provide Osisko with the wherewithal to bring this potentially large deposit into production. Osisko is well funded with approximately $190 million in cash, which it is using to carry out an extensive 400,000 metre drilling and exploration program. The drilling program has been very successful to date and the company expects provide a resource update in late 2017.

Kirkland Lake Gold is an intermediate producer we continue to see solid production and cash flow growth from. For the company's first quarter, the company had consolidated production of over 130,000 ounces, on track to meet production guidance of 500,000 ounces. Even more significant is the efficient mine operation at both Macassa Mine and Fosterville Mine, with recovery rates over 97% and 93% respectively. In addition to these strong operating results, the company announced considerable increases in mineral reserves at both sites, that will allow it to continue to generate increased cash flow and dividends for quarters to come. Kirkland is well capitalized holding $267 in cash, with only $46 million in debt as at the end of the second quarter.

Agnico continues to be a key holding of the Fund. A consistent performer, Agnico reported quarterly net income of $61.9 million, or $0.27 per share for its most recent quarter. With continued strong production in addition to cost containment strategies at their mine sites, management was able to bring cash costs down to $556/oz from $592 a year earlier, while they have also been able to increase production guidance to over 1.6 million oz, for the year. With production guidance on track, the company's longer-term goal is to generate 2 million oz of annual production by 2020.

In order to generate additional returns and reduce risk, the Fund writes covered calls on securities held in the portfolio and cash secured put options on securities desired to be held in the portfolio. We believe that option writing can continue to add incremental value going forward. For the period ended June 30, 2017, the Fund generated income from option writing of approximately $0.36 million or $0.072 per weighted average number of shares outstanding.

The Fund declared regular monthly distributions totalling $0.072 per Class A Share for the period. Since inception of FGX the Fund has generated over $23.9 million in option premium, or $5.09 per weighted average share. Year to date to June 30, 2017, the Fund's NAV combined with paid distributions during the period generated a return of 4.27% outperforming the TSX Gold Index return of 0.74%.