

2008 Annual Report  
FAIRCOURT GOLD INCOME CORP.



Leading The Way To Prosperity.



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Faircourt Asset Management Inc. (“Faircourt”) was created to design, distribute and market innovative structured investment products to retail investors throughout Canada. Faircourt is credited with being the innovator of Canada’s first funds of Income Trusts using a dual security structure.

The unique structural benefits of our offerings allow investors to choose the type of return that they want to receive from our underlying portfolios. As a result, we can provide either fully taxable or tax advantaged solutions to retail investors.

We combine these unique structural benefits with leading investment management expertise that provides retail investors with the opportunity to achieve superior long-term performance.

Faircourt is employee-owned. We believe the skills of our management team, combined with the professional experience of our Directors, provide Faircourt with the expertise and governance structure to manage our publicly traded funds and mutual funds in accordance with the Investment Objectives and Investment Strategy of each Fund.



# FAIRCOURT GOLD INCOME CORP.

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TSX Symbols: FGX (Class A Shares)  
FGX-W (Warrants)

Eligibility: RRSF, RIF

Incorporation Date: September 6, 2007

Inception of Operations: November 16, 2007

Fund Manager: Faircourt Asset Management Inc.

Investment Advisor: Faircourt Asset Management Inc.

This annual management report of fund performance contains financial highlights of the investment fund. Complete annual financial statements of the investment fund are also attached. Securityholders may contact us by calling the toll-free number 1.800.831.0304, by writing to us at Faircourt Asset Management Inc., Suite 1402, 141 Adelaide Street West, Toronto, Ontario, M5H 3L5 or by visiting our website at [www.faircourtassetmgt.com](http://www.faircourtassetmgt.com) or by visiting the SEDAR website at [www.sedar.com](http://www.sedar.com) to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly disclosure relating to the investment fund.



## Management Report of Fund Performance

This Management Report of Fund Performance presents management's view of the significant factors and developments during the past period that have affected the Fund's performance and outlook and should be read in conjunction with the audited Financial Statements of the Fund for the period ended December 31, 2008 and December 31, 2007 together with the notes related thereto. In accordance with investment fund industry practice, all figures presented in this Management Report of Fund Performance are based on the Fund's published NAV, except for the figures presented in the Net Assets per Unit table, which can be found under Financial Highlights. In accordance with NI 81-106, the figures in this table must be derived from the financial statements.

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlook may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may," "will," "should," "could," "anticipate," "believe," "expect," "intend," "plan," "potential," "continue," and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.

### Investment Objective and Strategies

Faircourt Gold Income Corp. (the "Company", or the "Fund") has been created to provide investors with exposure to the leading global companies primarily involved in gold exploration, mining or production on the S&P TSX Global Gold Index, while also providing monthly distributions.

The Company's investment objectives are to provide Shareholders with:

- (i) monthly distributions, initially targeted to yield 5% (\$0.04167 per Class A Share per month) per annum based on the issue price of \$10.00 per Class A Share; and
- (ii) the opportunity for capital appreciation.

The Investment Advisor to the Company is Faircourt Asset Management Inc. ("Faircourt"). Faircourt, together with its affiliates, currently provides management services to two TSX listed closed-end funds, Faircourt Income & Growth Split Trust, and Faircourt Split Trust and one TSX listed corporation, Faircourt Gold

Income Corp., and one Mutual Fund Corporation with one class of shares, Faircourt Global Income Advantage Class. Faircourt also provides marketing and administrative support and other services to a program of Principal Protected Notes, issued by a Canadian chartered bank.

Connor, Clark & Lunn Capital Markets Inc. has been retained as the Option Advisor (the "Option Advisor") to execute and maintain the option writing program of the Company pursuant to an Option Advisory Agreement. In order to generate additional returns and to reduce risk, the Company will use the expertise of the Option Advisor to write covered call options on securities held in the Portfolio and cash secured put options on securities desired to be held in the Portfolio.

### Risk

There were no further material changes to the Company over the financial period that affected the overall level of risk associated with an investment in the Company. The risks of investing in the Company remain as discussed in the Prospectus dated October 30, 2007.

### Results of Operations

#### Market Commentary and Outlook

The price of gold began 2008 trading at US\$833.92/oz and ended the year at US\$882.05/oz, rising 5.8% in US\$ terms. Responding to the positive performance of the price of gold, the NAV of the Fund was relatively stable down a modest 7.7% for the year, compared to the broader equity indices, such as the S&P/TSX Composite Total Return Index, down 33.0% or the S&P 500 – CDN\$ Total Return Index, down 21.2%, respectively.

A key reason for the volatility in the capital markets was that 2008 saw the US housing slowdown rapidly and violently transform into a full blown world-wide credit crisis, the depths of which caught virtually all market participants by surprise. The crisis had its genesis in the over-heated US housing market, funded by global institutions that securitized the debt, and propelled by lax lending standards, flexible interest only mortgages, and low "teaser" rates, that effectively allowed individuals who would not otherwise qualify for credit to obtain large mortgages.

When housing prices began to decline, equity values eroded to the point where the value of houses fell well below the value of most mortgages. The losses on various mortgages and securitized debt related to mortgage issuance has become staggering, estimated in the trillions of dollars, and has required governments worldwide to inject capital into the financial system at unprecedented levels.

We have seen many ripple effects of the crisis. During the latter half of 2008, the credit crisis precipitated a massive sell off in the broader equity markets, as well as grinding international trade to a virtual halt. Co-ordinated global government intervention stabilized the credit market temporarily, preventing an all out freeze, but the problems in the credit markets are far from over, with credit still



expensive and difficult to obtain. In 2009 we expect that corporate borrowers, initially hit by the credit crisis, will begin to feel the effects of a slower economy, brought on by continued deleveraging as consumers in the US and elsewhere rein in spending and increase savings rates.

As a result of the mortgage crisis and the process of deleveraging still taking place, we believe that additional stimulus packages will be required from governments throughout the world in order to prevent their economies from slipping into a steep deflationary cycle. We expect that the massive stimulus proposed by various governments, to be injected into the worlds' money supply, will be an extremely positive environment for investors in gold and gold equities.

Gold performed well in 2008 against many currencies other than the US dollar, primarily due to the US\$ position as the global reserve currency. We believe that looking at the price of gold in currencies other than the US dollar may provide insight into the future of gold prices.

Currency	Gold price % increase 2008 (local currency)
US Dollar	5.75%
Euro	10.55%
Canadian Dollar	29.91%
Australian Dollar	31.6%
Pound Sterling	43.88%

In 2009, we believe gold will continue to perform well as the value of the US dollar should decline as the supply of US dollars increases as massive stimulus packages planned by the US President and Congress are implemented.

The Fund's focus on large capitalization, and more liquid names served it well during 2008, allowing it to substantially outperform its peer group as smaller, less capitalized or less liquid names were sold off severely during the year. The Fund's option strategy also performed well in 2008, as high sustained volatility allowed the Fund to capture rich options premiums, with the fund generating a total of \$1.77 million or approximately \$0.75 per share of option premium.

With our continued positive outlook for the price of gold, the Fund's strategy for 2009 will be an extension of the strategy employed in 2008. The Fund will continue to focus on the large capitalization names within the TSX Global Gold Index, but also positioning the Fund to benefit from expected consolidation in the sector by taking selective positions in promising, small or mid-cap gold companies with good growth prospects.

In 2009, the Fund's shareholders will be asked to vote on certain amendments to the investment restrictions to allow the Fund greater flexibility to invest in bullion, and to decrease the concentration of the Fund's top ten holdings.

## Performance

During the period ended December 31, 2008, the Company declared twelve distributions payable at \$0.04167 per Class A Share per month for a total of \$0.50004. The NAV of the Class A Shares, combined with paid distributions during the period ended December 31, 2008, provided a total return for holders of Trust Units of -7.71% which underperformed the S&P/TSX Global Gold Total Return Index of 1.52% over this same period. Unlike the index gains, the Company's return is after the deduction of fees and expenses paid by the Company.

## Portfolio Positions

As at December 31, 2008, the Company maintained a portfolio of 19 companies primarily involved in gold exploration, mining or production. The portfolio consists primarily of common shares which, by index weight are the largest companies in the S&P/TSX Global Gold Index, comprised 78.9% of the market value of the Company's investment portfolio; gold companies other than these portfolio companies comprised 12.1%; cash and cash equivalents 9.3%; covered call option contracts -0.1%; and cash secured put option contracts -0.2%. Subsequent to the period end, the Investment Advisor continues to patiently add to positions, at reasonable values, during intervals when market prices pull back.

## Shareholder Activity

As at December 31, 2008, the Company had 2,346,000 Class A Shares and 1,199,000 Warrants issued and outstanding. The NAV of the Class A Shares ended the period at a level of \$8.12 on December 31, 2008. The Class A Shares and Warrants ended trading on the Toronto Stock Exchange at \$7.11 and \$0.42, respectively. Closed end funds may trade above, at or below their NAV per share. At December 31, 2008, the Class A Shares were trading at a discount of 12.4% to the underlying NAV.

## Liquidity and Capital Resources

The Loan Facility will permit the Company to borrow funds for various purposes, including, without limitation, making investments in accordance with the Investment Objectives and Investment Strategy and subject to the Investment Restrictions, effecting market purchases or redemptions of Shares, paying fees and expenses of the Company or providing security for put options. During the period ended December 31, 2008, the Company's minimum and maximum borrowings were \$Nil and \$575,000 respectively. The percentage of net assets of the Company that the minimum and maximum borrowings represented as of the end of the borrowing periods was Nil% and 2.5% respectively.

Subsequent to year-end, the Company decided not to renew the loan facility at its annual renewal period in March 2009.

## Fees and Expenses

During the year, the Company paid management fees and operating expenses of \$0.55 million. The management expense ratio for 2008 was 2.77%, compared to 2.82% in 2007, which was annualized for periods less than 12 months.



## Recent Developments

### Adoption of New Accounting Standard for Fiscal 2008

On January 1, 2008, the Company adopted The Canadian Institute of Chartered Accountants Handbook Section 3862 Financial Instruments – Disclosures, and 3863 Financial Instruments – Presentation. Sections 3862 and 3863 enhance the disclosure and presentation requirements for financial instruments by expanding the disclosure of information on the nature and extent of risks arising from financial instruments and how those risks are managed. The Company adopted these standards prospectively. Adoption of the new standards does not impact the daily price of the Company's securities for subscription and redemption purposes, nor for the calculation of net assets.

Section 1535 of The Canadian Institute of Chartered Accountants Handbook establishes standards for disclosing information about an entity's capital and how it is managed. This standard applies to the financial statements relating to fiscal years beginning on or after October 1, 2007. The adoption of this standard results in additional disclosures relating to the redeemable Shares of the Company but does not affect the Company's results of financial positions. The disclosure requirements pertaining to Section 1535 have been adopted.

### Future Accounting Changes

The Canadian Accounting Standards Board ("AcSB") confirmed a plan to adopt the International Financial Reporting Standards ("IFRS") in 2011, for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Fund will adopt IFRS. At December 31, 2008 the Manager has not

developed a changeover plan to IFRS nor has it assessed the impact of IFRS on business arrangements, net asset value per unit and accounting policies.

## Related Party Transactions

The Company retained Faircourt Asset Management Inc. to act as Manager under the Management Agreement dated October 30, 2007. The Company will pay an annual management fee of 1.10% per annum of the Net Asset Value, calculated daily and payable monthly, plus an amount calculated daily and payable quarterly equal to the Service Fee (defined below) payable by the Manager to registered dealers, plus applicable taxes. During the period ended December 31, 2008, the Company paid approximating \$0.23 million to the Manager for management and administrative services.

The Manager will pay to registered dealers a service fee calculated daily and payable quarterly in arrears at an annual rate equal to 0.40% of the Net Asset Value per Share of the Shares held by clients of the sales representatives of such registered dealers, plus applicable taxes.

Connor, Clark & Lunn Capital Markets Inc. has been retained as the Option Advisor to execute and maintain the option writing program of the Company pursuant to the Option Advisory Agreement. For its services to the Company, the Option Advisor will be paid a fee pursuant to the terms of the Option Advisory Agreement. That fee will be calculated as a percentage of the fee paid to the Manager and will be paid by the Manager out of the Management Fee.



## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal period indicated. This information is derived from the Fund's audited financial statements.

All references to "net assets" or "nets assets per share" are references to net assets in accordance with Canadian GAAP as presented in the financial statements of the Fund. All references to "net asset value" or "net asset value per share" are references to net asset value as determined in accordance with Part 14 of National Instrument 81-106.

### The Fund's Net Assets Per Share (\$) <sup>(1)</sup>

Basic and Diluted	Year Ended Dec. 31, 2008	Period Ended Dec. 31, 2007 <sup>(2)</sup>
<b>Net assets, beginning of period (net of cost of issue)</b>	(3) <b>\$ 9.32</b>	<b>\$ 9.33</b>
<b>Increase (decrease) from operations:</b>	(3)	
Total revenue	0.82	0.07
Total expenses	(0.27)	(0.04)
Realized gains (loss) for the period	(0.38)	0.01
Unrealized gains (loss) for the period	(0.95)	(0.06)
<b>Total increase (decrease) in net assets from operations</b>	<b>(0.77)</b>	<b>(0.02)</b>
<b>Distributions:</b>	(3)(4)	
From income (excluding dividends)	-	-
From dividends	(0.05)	-
From capital gains	-	-
Return of capital	(0.45)	-
<b>Total distributions during the period</b>	<b>(0.50)</b>	<b>-</b>
<b>Net assets, end of period</b>	(3) <b>\$ 8.04</b>	<b>\$ 9.32</b>

### Ratios and Supplemental Data <sup>(1)</sup>

	Year Ended Dec. 31, 2008	Period Ended Dec. 31, 2007 <sup>(2)</sup>
Total net asset value	(5) \$19,043,154	\$21,890,728
Number of Class A shares outstanding	(5) 2,346,000	2,346,000
Management expense ratio	(6) 2.77%	10.10%
Management expense ratio, excluding issue costs	(7) 2.77%	2.82%
Management expense ratio, excluding issue costs and before waivers or absorptions	2.77%	2.82%
Portfolio turnover rate	(8) 67.58%	1.27%
Trading expense ratio	(9) 0.42%	0.71%
Net asset value per Class A share	(10) \$8.12	\$9.34
Closing market price per Class A share	(11) \$7.11	\$7.95
Closing market price per Warrant	(11) \$0.42	\$0.55

(1) This information is derived from the Fund's audited financial statements. The net assets per Class A share presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in Note 3 of the financial statements.

(2) Period from November 16, 2007 (date of commencement of operations) to December 31, 2007.

(3) Presented in accordance with National Instrument 81-106 and, as a result, is not intended to act as a continuity schedule of beginning and ending net assets per Class A share. This is because under NI 81-106 the increase (decrease) in net assets from operations per Class A share is based on the weighted average number of shares outstanding during the relevant period, while net assets per Class A share and distributions per Class A share are based on the actual number of shares outstanding at the relevant time. Issue costs were incurred in respect of the Fund's initial public offering which is a non-recurring expense.

(4) Regular monthly distributions were paid in cash.

(5) This information is provided as at end of the period shown. The inception date of the Fund was November 16, 2007.

(6) Management expense ratio is based on the requirements of NI 81-106 and includes the total expenses of the Fund for the stated period (excluding commissions and other portfolio costs) including issuance costs and is expressed as an annualized percentage of daily average net asset value of the Fund during the period. The management expense ratio is annualized for periods less than one year. This management expense ratio is significantly impacted by the inclusion of the costs of the issuance of the equity shares and warrants. Issue costs were incurred in respect of the Fund's initial public offering which is a non-recurring expense for the purposes of this ratio.

(7) Total expenses exclude issuance costs. Issuance costs are one-time costs incurred at inception. The Management expense ratio is based on total expenses for the stated period (excluding commissions and other portfolio costs) and is expressed as an annualized percentage of daily average net asset value during the period. The management expense ratio is annualized for periods less than one year. This ratio is more representative of the ongoing efficiency of the administration of the Fund.

(8) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a Fund's portfolio turnover rate in a period, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a Fund. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, and excluding cash and short term investments maturing in less than one year, by the average of the monthly market value of investments during the period. Premiums paid to purchase options have been included in the value of portfolio securities purchased during the period. Premiums received from the sale of options have been included in the value of the portfolio securities sold in the period. Where the reporting period is less than 12 months, the portfolio turnover rate has not been annualized and will not be comparable to the portfolio turnover rate calculated for reported 12 month periods.

(9) 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. The trading expense ratio is annualized for periods less than one year.

(10) The net asset value per Class A share is based on securities held in the portfolio being valued on the last traded price of the period shown.

(11) The closing market price as per the TSX as at end of the period shown.

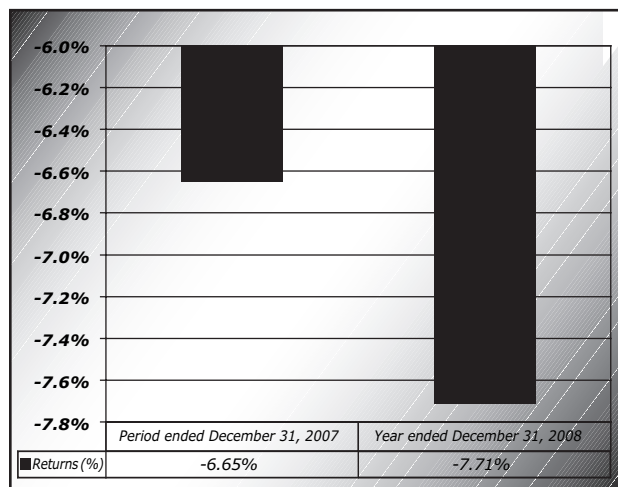


## Past Performance

The following chart and table shows how Faircourt Gold Income Corp. has performed in the past, and can help you understand the risks of investing in the Company. The performance information assumes that all distributions made by the investment fund in the periods shown were reinvested in additional Shares of the Company. The performance information does not include deduction of sales, redemption, distribution or optional charges (which dealers may charge) or income taxes payable that would have reduced returns or performance. The Company's past performance does not necessarily indicate how it will perform in the future. All rates of return are calculated based on the Transaction NAV.

## Year-by-Year Returns

The following bar chart shows Faircourt Gold Income Corp's performance for each of the periods shown, and illustrates how the Company's performance has changed from period to period. The chart shows, in percentage terms, how an investment held on the first day of each fiscal period would have increased or decreased by the last day of the fiscal period. The return for 2007 is for the period covering November 17, 2007, date of commencement of operations, to December 31, 2007 and based on initial public offering NAV.



Note: Over the period from November 17, 2007, date of commencement of operations, to December 31, 2007 and based on its inception NAV (net of cost of issue), the Company's Class A Shares returned 0.54%. Issuance costs are one-time costs incurred at inception.

## Annual Compound Returns

The following table shows the annual compound total returns for Class A Shares of Faircourt Gold Income Corp. for each of the periods indicated ending on December 31, 2008, compared with the S&P/TSX Global Gold Total Return Index. The return for since inception for Faircourt Gold Income Corp. is for the period covering November 17, 2007, date of commencement of operations, to December 31, 2008 and based on initial public offering NAV.

	Since Inception	Past 1 year
Faircourt Gold Income Corp.	-12.38%	-7.71%
S&P/TSX Global Gold Total Return Index	1.93%	1.52%

\* Over the period from November 17, 2007, date of commencement of operations, to December 31, 2008 and based on its inception NAV (net of cost of issue), the Company's Class A Shares returned -6.42%. Issuance costs are one-time costs incurred at inception.

The S&P/TSX Global Gold Index is designed to provide an investable index of global gold securities.



## Summary of Investment Portfolio as at December 31, 2008 (based on Transaction NAV)

Summary of Investment Portfolio	% of Net Assets	Portfolio Positions**	% of Net Assets
Long Positions – Equities	92.17%	<b>Long Positions – Equities:</b>	
Cash and Cash Equivalents	9.38%	1 Newmont Mining Corporation	10.09%
Short Positions – Covered Call Contracts	-0.10%	2 Agnico Eagle Mines Limited	9.42%
Short Positions – Cash Secured Put Contracts	-0.17%	3 Cash and cash equivalents	9.38%
Other net liabilities	-1.28%	4 Kinross Gold Corporation	9.31%
	<b>100.00%</b>	5 Gold Fields Limited	8.50%
		6 AngloGold Ashanti Limited	8.21%
		7 Yamana Gold Inc.	7.84%
		8 Goldcorp Inc.	7.70%
		9 Barrick Gold Corporation	7.17%
		10 Lihir Gold Limited	6.03%
		11 Harmony Gold Mining Company Limited	5.59%
		12 Detour Gold Corporation	3.72%
		13 Lake Shore Gold Corp.	2.33%
		14 European Goldfields Limited	2.30%
		15 IAMGOLD Corporation	1.00%
		16 Anatolia Minerals Developments Ltd.	0.99%
		17 Western Goldfields Inc.	0.62%
		18 Eldorado Gold Corp.	0.51%
		19 Etruscan Resources Inc.	0.50%
		20 Guyana Goldfields Inc.	0.34%
		<b>Total Net Asset Value represented by long positions</b>	<b>101.55%</b>
		<b>Short Positions – Covered Call Contracts</b>	
		1 Goldcorp Inc. – Jan 2009 @ US \$32.50	-0.04%
		2 Newmont Mining Corporation – Jan 2009 @ US \$42.50	-0.03%
		3 Agnico Eagle Mines Limited – Jan 2009 @ US \$55.00	-0.03%
		<b>Total Net Asset Value represented by short positions</b>	<b>-0.10%</b>
		<b>Short Positions – Cash Secured Put Contracts</b>	
		1 Barrick Gold Corporation – Jan 2009 @ US \$35.00	-0.04%
		2 Goldcorp Inc. – Jan 2009 @ US \$30.00	-0.03%
		3 AngloGold Ashanti Limited – Jan 2009 @ US \$25.00	-0.03%
		4 Yamana Gold Inc. – Jan 2009 @ US \$7.50	-0.03%
		5 Agnico Eagle Mines Limited – Jan 2009 @ US \$45.00	-0.02%
		6 Harmony Gold Mining Company Limited – Jan 2009 @ US \$10.00	-0.02%
		<b>Total Net Asset Value represented by short positions</b>	<b>-0.17%</b>
		<b>Total Net Asset Value represented by these holdings</b>	<b>101.28%</b>

\* The Fund commenced operations on November 16, 2007.

\*\* Where a fund holds less than 25 holdings, all investments have been disclosed.

The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of each quarter end by visiting [www.faircourtasstgmt.com](http://www.faircourtasstgmt.com).



## Management's Responsibility Statement

The financial statements of Faircourt Gold Income Corp's (the "Company") have been prepared by Faircourt Asset Management Inc. (the "Manager") and approved by its Board of Directors. The Manager is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

The Manager maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of Faircourt is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through its Audit Committee, of which a majority of the members are unrelated directors of the Board.

The Manager, with the approval of its Board of Directors, has appointed the external accounting firm of PricewaterhouseCoopers LLP as the auditor of the Company. They have audited the financial statements of the Fund in accordance with Canadian generally accepted auditing standards to enable them to express to Unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

**Douglas Waterson**  
Chief Financial Officer

**Charles Taerk**  
President and CEO  
March 11, 2009

## Auditors' Report

To the Shareholders of Faircourt Gold Income Corp (the "Fund")

We have audited the statement of investments of the Fund as at December 31, 2008, the statement of net assets as at December 31, 2008 and 2007 and the statements of operations and deficit, cash flows and changes in net assets for the year ended December 31, 2008 and for the period from November 16, 2007 (commencement of operations) to December 31, 2007. These financial statements are the responsibility of the manager of the Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations, its cash flows and the changes in its net assets for the year ended December 31, 2008 and for the period from November 16, 2007 (commencement of operations) to December 31, 2007 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants,  
Licensed Public Accountants**  
Toronto, Canada  
March 11, 2009



## Statement of Net Assets

	As at December 31, 2008	As at December 31, 2007
<b>Assets</b>		
Investments, at fair value	\$ 17,328,384	\$ 13,636,116
Cash and short-term investments	1,785,886	8,896,609
Dividends and interest receivable	3,764	1,330
	<u>19,118,034</u>	<u>22,534,055</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	142,362	378,984
Amounts payable for investments purchased	8,632	298,622
Distributions payable to shareholders (Note 5)	97,758	-
	<u>248,752</u>	<u>677,606</u>
<b>Net assets representing shareholders' equity</b>		
Shareholders' capital (Note 4)	21,895,846	21,895,846
Deficit	(3,026,564)	(39,397)
	<u>\$ 18,869,282</u>	<u>\$ 21,856,449</u>
Class A Shares outstanding (Note 4)	2,346,000	2,346,000
<b>Net assets per Class A Share – Basic and Diluted</b>	<u>\$ 8.04</u>	<u>\$ 9.32</u>

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors of Faircourt Asset Management Inc.

**Douglas Waterson**  
Director

**Jane Davis**  
Director

## Statement of Operations and Deficit

	Year ended December 31, 2008	For the period from November 16, 2007 (date of commencement of operations) to December 31, 2007
<b>Income</b>		
Dividends (net of withholding taxes of \$1,501; 2007 – \$165)	\$ 110,389	\$ 6,403
Options premium income (Note 6)	1,768,809	95,654
	<u>1,879,198</u>	<u>102,057</u>
Interest income	50,576	71,030
	<u>1,929,774</u>	<u>173,087</u>
<b>Expenses</b>		
Management fee (Note 7)	227,865	30,260
Service fee (Note 7)	82,859	11,004
Audit fees	35,670	15,520
Legal fees	37,512	2,530
Securityholder reporting costs	141,316	16,054
Independent review committee fees	5,124	-
Custodial fees	9,052	1,656
Interest and bank charges	7,469	378
	<u>546,867</u>	<u>77,402</u>
Net investment income	1,382,907	95,685
Commissions and other portfolio transaction costs (Note 9)	(83,206)	(19,509)
Net realized loss on sale of investments	(1,161,110)	(836)
Net realized gain on foreign exchange	270,186	18,942
Net change in unrealized gain (loss) on foreign exchange	252	(3,406)
Net change in unrealized gains on investments	(2,223,102)	(130,273)
	<u>(1,814,073)</u>	<u>(39,397)</u>
Decrease in net assets from operations	(1,814,073)	(39,397)
Deficit, beginning of period	(39,397)	-
Distributions to shareholders (Note 5)	(1,173,094)	-
	<u>\$ (3,026,564)</u>	<u>\$ (39,397)</u>
<b>Deficit, end of period</b>	<u>\$ (3,026,564)</u>	<u>\$ (39,397)</u>
<b>Decrease in net assets from operations per Class A Share – Basic and Diluted</b>		
	(1) <u>\$ (0.77)</u>	<u>\$ (0.02)</u>

The accompanying notes are an integral part of these financial statements.

(1) Based on the weighted average number of Class A Shares outstanding during the period (Note 4)



## Statement of Cash Flows

Year ended December 31, 2008	For the period from November 16, 2007 (date of commencement of operations) to December 31, 2007
<b>Cash flows provided by (used in) operating activities</b>	
Decrease in net assets from operations	\$ (1,814,073)    \$ (39,397)
<b>Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by (used in) operating activities</b>	
Purchase of investment securities	(17,445,485)    (13,786,272)
Proceeds from disposition of investment securities	10,639,443    34,583
Increase in dividends and interest receivable	(2,434)    (1,330)
Decrease (increase) in accounts payable and accrued liabilities	(236,622)    378,984
Decrease (increase) in amounts payable for investments purchased	(289,990)    298,622
Increase in distributions payable to unitholders	97,758    -
Net change in unrealized loss on investments	2,223,102    130,273
Net change in realized gain on foreign exchange	(270,186)    (18,942)
Net unrealized (gain) loss on foreign exchange	(252)    3,406
Net realized loss on sale of investments	1,161,110    836
	<u>(5,937,629)    (12,999,237)</u>
<b>Cash flows provided by (used in) financing activities</b>	
Proceeds from issuance of Class A shares, net	-    21,001,092
Proceeds from the issuance of warrants, net	-    894,754
Distributions to unitholders	(1,173,094)    -
	<u>(1,173,094)    21,895,846</u>
<b>Net increase (decrease) in cash and short-term investments during the period</b>	<b>(7,110,723)    8,896,609</b>
<b>Cash and short-term investments, beginning of period</b>	<b>8,896,609    -</b>
<b>Cash and short-term investments, end of period</b>	<b>\$ 1,785,886    \$ 8,896,609</b>

The accompanying notes are an integral part of these financial statements.

## Statement of Changes in Net Assets

Year ended December 31, 2008	For the period from November 16, 2007 (date of commencement of operations) to December 31, 2007
<b>Decrease in net assets from operations</b>	<b>\$ (1,814,073)    \$ (39,397)</b>
<b>Shareholder transactions</b> (Note 4)	
Proceeds from issuance of Class A shares, net	-    21,001,092
Proceeds from issuance of warrants, net	-    894,754
	<u>-    21,895,846</u>
<b>Distributions to shareholders</b> (Note 5)	
Net investment income	(112,673)    -
Return of capital	(1,060,421)    -
	<u>(1,173,094)    -</u>
<b>Net increase (decrease) in net assets during the period</b>	<b>(2,987,167)    21,856,449</b>
<b>Net assets, beginning of period</b>	<b>21,856,449    -</b>
<b>Net assets, end of period</b>	<b>\$ 18,869,282    \$ 21,856,449</b>

The accompanying notes are an integral part of these financial statements.

## Statement of Investments

As at December 31, 2008



Number of Shares	Security	Cost (\$)	Fair Value (\$)	Percent of Portfolio	
<b>Equities</b>					
20,012	Agnico-Eagle Mines Ltd.	\$ 1,180,950	\$ 1,254,953	6.57%	
8,500	Agnico-Eagle Mines Ltd.*	511,873	538,619	2.82%	
122,700	Anatolia Minerals Development Ltd.	364,117	184,050	0.96%	
45,692	AngloGold Ashanti Ltd., ADR*	1,728,749	1,537,536	8.04%	
28,318	Barrick Gold Corp.	1,160,703	1,265,248	6.62%	
2,200	Barrick Gold Corp.*	91,998	99,674	0.52%	
83,600	Detour Gold Corp.	971,905	708,928	3.71%	
10,000	Eldorado Gold Corp.	81,700	96,300	0.50%	
185,100	Etruscan Resources Inc.	430,942	94,401	0.49%	
135,000	European Goldfields Ltd.	794,274	433,350	2.27%	
132,100	Gold Fields Ltd., ADR*	2,208,104	1,619,359	8.47%	
36,478	Goldcorp Inc.	1,274,994	1,399,296	7.32%	
1,700	Goldcorp Inc.*	66,650	66,170	0.35%	
35,000	Guyana Goldfields Inc.	247,803	63,700	0.33%	
25,000	IAMGOLD Corp.	227,998	186,250	0.97%	
78,600	Harmony Gold Mining Co. Ltd., ADR*	960,149	1,025,421	5.36%	
71,404	Kinross Gold Corp.	1,350,280	1,599,450	8.37%	
6,400	Kinross Gold Corp.*	123,148	145,217	0.76%	
3,572	Kinross Gold Corp., Warrants, 2013/09/03	8,931	21,218	0.11%	
312,000	Lake Shore Gold Corp.	476,435	443,040	2.32%	
42,394	Lihir Gold Ltd., ADR*	1,405,115	1,098,295	5.75%	
23,329	Newmont Mining Corp.*	1,148,402	1,172,146	6.13%	
15,000	Newmont Mining Corp. of Canada Ltd., Exchangeable Shares	740,976	727,650	3.81%	
60,000	Western Goldfields Inc.	223,811	115,200	0.60%	
133,010	Yamana Gold Inc.	1,769,386	1,250,294	6.54%	
24,800	Yamana Gold Inc.*	291,755	235,740	1.23%	
<b>Total Equity Investments</b>		<b>\$ 19,841,148</b>	<b>\$ 17,381,505</b>	<b>90.93%</b>	
Number of Options	Holdings/Expiry Date/Strike Price	Underlying Interest	Cost (\$)	Fair Value (\$)	Percent of Portfolio
<b>Short Positions – Cash Secured Put Contracts</b>					
(35)	Agnico-Eagle Mines Ltd., January 2009, \$45.00 USD*	(3,500)	\$ (5,431)	\$ (4,537)	-0.02%
(60)	AngloGold Ashanti Ltd., January 2009, \$25.00 USD*	(6,000)	(8,949)	(5,926)	-0.03%
(45)	Barrick Gold Corp., January 2009, \$35.00 USD*	(4,500)	(8,082)	(6,944)	-0.04%
(50)	Goldcorp Inc., January 2009, \$30.00 USD*	(5,000)	(8,979)	(6,790)	-0.04%
(75)	Harmony Gold Mining Co. Ltd., January 2009, \$10.00 USD*	(7,500)	(5,773)	(4,166)	-0.02%
(105)	Yamana Gold Inc., January 2009, \$7.50 USD*	(10,500)	(6,799)	(5,833)	-0.03%
<b>Total Short Positions – Cash Secured Put Options</b>			<b>\$ (44,013)</b>	<b>\$ (34,196)</b>	<b>-0.18%</b>
<b>Short Positions – Covered Call Contracts</b>					
(25)	Agnico-Eagle Mines Ltd., January 2009, \$55.00 USD*	(2,500)	\$ (5,253)	\$ (5,401)	-0.03%
(45)	Goldcorp Inc., January 2009, \$32.50 USD*	(4,500)	(7,533)	(7,777)	-0.04%
(35)	Newmont Mining Corp., January 2009, \$42.50 USD*	(3,500)	(6,713)	(5,747)	-0.03%
<b>Total Short Positions – Covered Call Contracts</b>			<b>\$ (19,499)</b>	<b>\$ (18,925)</b>	<b>-0.10%</b>
<b>Total Investments before Cash and Cash Equivalents</b>			<b>\$ 19,777,636</b>	<b>\$ 17,328,384</b>	<b>90.66%</b>
<b>Cash</b>					
	Canadian Dollar		\$ 82,061	\$ 82,061	0.43%
	U.S Dollar*		6,205	6,449	0.03%
<b>Short-Term Investments – USD</b>					
1,050,000	United States Treasury Bill, 1.12%, 2009/03/05*		1,286,014	1,296,200	6.78%
325,000	United States Treasury Bill, 3.11%, 2009/04/16*		408,692	401,176	2.10%
<b>Total Cash and Short-Term Investments</b>			<b>\$ 1,782,972</b>	<b>\$ 1,785,886</b>	<b>9.34%</b>
<b>Total Investments</b>			\$ 21,560,608	\$ 19,114,270	100.00%
Less: Adjustments for transactions costs (Note 2)			(87,354)	-	
			<b>\$ 21,473,254</b>	<b>\$ 19,114,270</b>	<b>100.00%</b>

\* US denominated; all others are Canadian denominated

The accompanying notes are an integral part of these financial statements.

# Notes to the Financial Statements

December 31, 2008



## 1. Operations

Faircourt Gold Income Corp. (the "Company") was incorporated under the laws of the Province of Ontario by Articles of Incorporation dated September 6, 2007. Faircourt Asset Management Inc., pursuant to a Management Agreement dated October 30, 2007, is the Manager (the "Manager") and is responsible for managing the affairs and providing portfolio management services to the Company. Connor, Clark & Lunn Capital Markets Inc. has been retained as the Option Advisor (the "Option Advisor") to execute and maintain the option writing program of the Company pursuant to the Option Advisory Agreement. CIBC Mellon Global Securities Services Company acts as custodian. CIBC Mellon Trust Company acts as the registrar, transfer agent and distribution agent for the Shares and the Warrants. The Company was listed on the Toronto Stock Exchange and effectively commenced operations on November 16, 2007, trading under the symbols "FGX" for the Class A Shares and "FGX-W" for the Warrants.

The Company has been created to provide investors with exposure to the leading global companies primarily involved in gold exploration, mining or production, while also providing monthly distributions.

## 2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which include estimates and assumptions made by management that may affect the reported amounts of assets and liabilities at the date of these financial statements and the reported amounts of income and expenses during the period. Actual results could differ from these estimates.

The following is a summary of significant accounting policies followed by the Company in the preparation of its financial statements:

### a) Valuation of Investments

Investments are deemed to be held for trading and recorded at fair value. The Company's investments in long positions that are publicly traded are valued at their latest bid price on the valuation date. Investments in short positions, such as covered call option contracts on securities held in the Portfolio and/or cash secured put option contracts on securities desired to be held in the Portfolio, are publicly traded and valued at their latest offer price on the valuation date. Short-term investments, such as treasury bills and overnight deposits, are valued at the bid quotations from recognized investment dealers. The difference between fair value and average cost is reported as unrealized gain (loss) of the investment portfolio.

### b) Investment Transactions and Income Recognition

Investment transactions are recorded on the trade date and any realized gains or losses are recognized using the average cost of the investments, which exclude brokerage commissions and other trading expenses. Interest income and expenses are recognized on an accrual basis. Dividends are recognized on the ex-dividend date.

### c) Transaction Costs

Transaction costs such as brokerage commissions incurred in the purchase and sale of securities are expensed and presented on the Statement of Operations. Prior to the adoption of Section 3855, brokerage commissions were added to the adjusted cost base when

a security was purchased or they were deducted from the proceeds of disposition when a security was sold. There is no impact on the net assets of the investment fund in using either of these methods. The cost of investments for each security is determined on an average cost basis.

### d) Foreign Exchange

The fair value of investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the London close (11am Eastern Time) rate of exchange on each valuation date. Purchases and sales of investments and income derived from investments are translated at the rate of exchange prevailing at the time of such transactions.

### e) Income Taxes

The Company qualifies as a mutual fund corporation as defined in the Income Tax Act (Canada) (the "Act") and is subject to tax in respect of its net realized capital gains. The tax is refundable in certain circumstances. Also, the Company is generally subject to a refundable tax of 33 $\frac{1}{3}$ % under Part IV of the Act on taxable dividends received from Canadian Corporations by the Company during the year to the extent that such dividends were deductible in computing the Company's taxable income for the year. This tax is fully refundable upon payment by the Company of sufficient dividends other than Capital Gains Dividends ("Ordinary Dividends"). The Company qualifies as a "financial intermediary corporation" (as defined in the Act) and, thus, is not subject to tax under Part IV.1 of the Tax Act on dividends received by the Company.

Given the investment and dividend policy of the Company and taking into account the deduction of expenses and taxable dividends on shares of taxable Canadian corporations, the Company does not expect to be subject to any significant amount of non-refundable Canadian income tax. Accordingly, no income tax provision has been recorded.

### f) Fair Value of Financial Instruments

The fair value of the Company's financial instruments, which are composed of cash and short-term investments, dividends and interest receivable, accounts payable and accrued liabilities, accounts payable for investments purchased, and distributions payable to shareholders approximate their carrying values due to their short-term nature.

### g) Net Assets per Share

Net assets per share is computed by dividing the net assets by the total number of Company Class A shares outstanding at the time.

Diluted Net Assets per Share refers to the Net Assets of the Company plus the net proceeds that would have been received by the Company as if all outstanding Warrants were exercised, divided by the number of Shares outstanding plus the additional Shares that would be outstanding if all of the outstanding Warrants had been exercised on the applicable Valuation Date. Diluted Net Assets per Share will be calculated when the Basic Net Assets per Share exceeds \$10.00 on the applicable Valuation Date.

## 3. Changes in Significant Accounting Policies

### a) Adoption of New Accounting Policies

Section 3855 was adopted by the Company on January 1, 2007. Section 3855 requires that securities be valued at fair value, which in an active market will commonly be measured based on the last bid price for the security.



# Notes to the Financial Statements

December 31, 2008

National Instrument 81-106 (“NI 81-106”), Investment Fund Continuous Disclosure, previously required the daily net asset value of an investment fund to be calculated in accordance with GAAP. The Canadian Securities Administrators (“CSA”) have issued amendments to NI 81-106 to replace the previous requirements to calculate the daily net asset value for the purpose

of processing shareholder transactions (“Net Asset Value”) in accordance with GAAP and allow investment funds to value their investments using fair value measures as defined in NI 81-106. A Net Asset Value per Share is determined as of the close of business each day that the Toronto Stock Exchange is open for trading.

The reconciliation of the Company’s net asset value per share (Transaction) and the Company’s net assets per share (GAAP) as at December 31, 2008 is presented in the following table:

Net Assets	Difference	Net Asset Value	Net Assets Per Share	Difference	Net Asset Value Per Share
\$18,869,282	\$ 173,872	\$19,043,154	\$ 8.04	\$ 0.08	\$ 8.12

The reconciliation of the Company’s net asset value per share (Transaction) and the Company’s net assets per share (GAAP) as at December 31, 2007 is presented in the following table:

Net Assets	Difference	Net Asset Value	Net Assets Per Share	Difference	Net Asset Value Per Share
\$21,856,449	\$ 34,279	\$21,890,728	\$ 9.32	\$ 0.02	\$ 9.34

Effective for years beginning on or after October 1, 2007, the Company is required to adopt two new accounting standards that were issued by the CICA: CICA Handbook Section 3862 Financial Instruments – Disclosures, and 3863 Financial Instruments – Presentation. Sections 3862 and 3863 enhance the disclosure and presentation requirements for financial instruments by expanding the disclosure of information on the nature and extent of risks arising from financial instruments and how those risks are managed. The Company adopted these standards prospectively. Adoption of the new standards does not impact the daily price of the Company’s securities for subscription and redemption purposes, nor for the calculation of net assets. The detailed risks of investing in the Company are disclosed in the Company’s Prospectus. Refer to Note 10 for new disclosure relating to adoption of the new requirements.

CICA Handbook Section 1535 – Capital Disclosures establishes standards for disclosing information about an entity’s capital and how it is managed. This standard applies to the financial statements relating to fiscal years beginning on or after October 1, 2007. The adoption of this standard results in additional disclosures relating to the redeemable Class A Shares of the Company but does not affect the Company’s results of financial positions. The disclosure requirements pertaining to Section 1535 are contained in Note 11.

## b) Future Accounting Changes

The Canadian Accounting Standards Board (“AcSB”) confirmed a plan to adopt the International Financial Reporting Standards (“IFRS”), for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will adopt IFRS. At December 31, 2008 the Manager has not developed a changeover plan to IFRS nor has it assessed the impact of IFRS on business arrangements, net assets per share and accounting policies.

## 4. Share Capital

The Company is authorized to issue an unlimited number of Class A Shares (“Shares”) and Common Shares. The Company issued 100 Common Shares for nominal consideration of \$100 to the Manager.

Units of the Fund were offered to the public by way of prospectus. The Company offered Units at a price of \$10.00 per Unit. Each Unit consists of one redeemable Class A share of the Company (a “Share”) and one-half of a transferable warrant to acquire a Share (a “Warrant”). The Units separated into Shares and Warrants immediately upon issue (November 16, 2007). Each whole Warrant entitles the holder to purchase one Share of the Company at a subscription price of \$10.00 at 4:00 p.m. (Toronto time) on either October 30, 2009 or May 31, 2010 (each an “Exercise Date”). Holders who exercise the warrants will become holders of Class A Shares issued through the exercise of the Warrants. Warrants not exercised by 4:01 p.m. (Toronto time) on May 31, 2010 (the “Expiry Time”) will be void and of no value. Upon the exercise of a Warrant, Faircourt Gold Income Corp. will pay a fee equal to \$0.15 per Warrant to the dealer whose client is exercising the Warrant and \$0.10 per Warrant will be payable to the agents.

Shares may be redeemed on the second last Business Day of April of any year commencing in 2009 (an “Annual Redemption Date”), subject to certain conditions, but in order to effect such a redemption the Shares must be surrendered by the last Business Day of March. Shareholders whose Shares are redeemed on an Annual Redemption Date will receive, subject to the Manager’s right to suspend redemptions in certain circumstances, a redemption price in an amount equal to 100% of Net assets per Share less the amount which is the lesser of (a) \$0.25 per Share and (b) the pro rata share of the aggregate of all brokerage fees, commissions and other costs relating to disposition of Portfolio securities necessary to fund such redemptions. Payment of the redemption price will be made on or before the applicable Redemption Payment Date. For the Annual Redemption Dates occurring in 2009 and 2010, if the Net assets per Share is above \$10.00, a Shareholder will receive a redemption price (for each Share redeemed) in an amount equal to 100% of the Diluted Net assets per Share, otherwise such Shareholder will

# Notes to the Financial Statements

December 31, 2008



receive 100% of the Net assets per Share (in either case, less any costs associated with the redemption, including brokerage costs).

On November 16, 2007 (date of commencement of operations), the Company issued 2,200,000 Class A Shares and 1,100,000 Warrants for total gross cash proceeds of \$22.00 million. On December 12, 2007, the Company issued an additional 146,000 Class A Shares and 99,000 Warrants for total gross cash proceeds of \$1.48 million, as

part of the closing of the over-allotment option. Agents' fees and other costs of \$1.58 million were incurred in connection with the issuance of the Class A Shares and Warrants. These fees and other costs have been netted against gross proceeds. Approximately \$0.96 million of the proceeds were allocated as the fair value of the issued and outstanding warrants.

## Period Ended December 31, 2007

	Class A Shares	Class A Amounts (\$)	Number of Warrants	Amounts (\$)	Total (\$)
Balance, beginning of period	-	\$ -	-	\$ -	\$ -
Issued at commencement	2,346,000	21,001,092	1,199,000	894,754	21,895,846
Balance, end of period	2,346,000	\$ 21,001,092	1,199,000	\$ 894,754	\$ 21,895,846
Weighted average number of Class A Shares and warrants outstanding during the period		2,346,000	1,199,000		

## Year Ended December 31, 2008

	Class A Shares	Class A Amounts (\$)	Number of Warrants	Amounts (\$)	Total (\$)
Balance, beginning of year	2,346,000	\$ 21,001,092	1,199,000	\$ 894,754	\$ 21,895,846
Issued at commencement	-	-	-	-	-
Balance, end of year	2,346,000	\$ 21,001,092	1,199,000	\$ 894,754	\$ 21,895,846
Weighted average number of Class A Shares and warrants outstanding during the year		2,346,000	1,199,000		

### 5. Distributions Payable to Shareholders

Distributions, as declared by the Manager, are made on a monthly basis to shareholders of record on the last business day of each month. The distributions are payable no later than the tenth business day of the following month. The initial distribution of the Company of \$0.04167 per Class A Share per month was declared payable to Shareholders of record on January 31, 2008. The Company declared twelve regular monthly distributions of \$0.04167 per class A Share during the year ended December 31, 2008.

The amount of distributions may fluctuate from month to month and there can be no assurance that the Company will make any distribution in any particular month or months. The Company may make additional distributions in any given year.

### 6. Option Writing

In order to generate additional returns and to reduce risk, the Company will use the expertise of the Option Advisor to write covered call options on securities held in the Portfolio and cash secured put options on securities desired to be held in the Portfolio.

### 7. Management and Service Fees

The Company retained Faircourt Asset Management Inc. to act as Manager under the Management Agreement dated October 30, 2007. The Company will pay an annual management fee of 1.10% per annum of the Net Assets, calculated daily and payable monthly, plus an amount calculated daily and payable quarterly equal to the Service Fee (defined below) payable by the Manager to registered dealers, plus applicable taxes.

The Manager will pay to registered dealers a service fee calculated daily and payable quarterly in arrears at an annual rate equal to

0.40% of the Net Assets per Share of the Shares held by clients of the sales representatives of such registered dealers, plus applicable taxes.

Connor, Clark & Lunn Capital Markets Inc. has been retained as the Option Advisor to execute and maintain the option writing program of the Company pursuant to the Option Advisory Agreement. For its services to the Company, the Option Advisor will be paid a fee pursuant to the terms of the Option Advisory Agreement. That fee will be calculated as a percentage of the fee paid to the Manager and will be paid by the Manager out of the Management Fee.

### 8. Loan Facility

Pursuant to an agreement with a Canadian chartered bank (the "Bank"), the Company maintains a 364-day revolving term loan facility for a maximum amount of \$6 million or 20% of the Company's assets, whichever is less. As at December 31, 2008 and December 31, 2007, \$Nil was drawn under the loan facility. The loan facility is secured by a first-ranking and exclusive charge on all of the Company's assets and is renewable annually at the option of the Company with the approval of the Bank. The Company has the option of borrowing at the prime rate of interest or at the bankers' acceptance rate plus a fixed percentage.

The Loan Facility will permit the Company to borrow funds for various purposes, including, without limitation, making investments in accordance with the Investment Objectives and Investment Strategy and subject to the Investment Restrictions, effecting market purchases or redemptions of Shares, paying fees and expenses of the Company or providing security for put options. The amount of leverage, if any, utilized by the Company will vary from time to time based on the Manager's assessment of market conditions and cash flow requirements. During the period ended December 31, 2008,



# Notes to the Financial Statements

December 31, 2008

the Company's minimum and maximum borrowings were \$Nil and \$575,000 respectively.

Subsequent to year-end, the Company decided not to renew the loan facility at its annual renewal period in March 2009.

## 9. Brokerage Commissions

Brokerage commissions paid to dealers for portfolio transactions during the period ended December 31, 2008 totaled \$83,206 (2007 – \$19,509). For the year ended December 31, 2008 there were no soft dollar amounts paid (2007 – \$Nil).

## 10. Financial Instrument Risk

The Company may be exposed to a variety of financial risks. The Company's exposures to financial risks are concentrated in its investment holdings, including derivative instruments. The Statement of Investments groups securities by asset type and currency denomination.

The Company's risk management practice includes the monitoring of compliance to investment guidelines. The Manager manages the potential effects of these financial risks on the Company's performance by employing and overseeing professional and experienced Portfolio Advisors and Option Advisors that regularly monitor the Company's positions, market events and diversify investment portfolios within the constraints of the investment guidelines, recognizing that the Company is limited to investments within a particular sector. Sensitivity analysis' provided in the following sections are for illustrative purposes only and may have no bearing on the Company's financial results. Further, the percent changes for the market factors (interest rates, exchange rates, equity market moves) may not be representative of actual market moves in these factors.

### a) Currency Risk

Currency risk is generally viewed as the risk that the value of investments denominated in currencies, other than the functional currency of the Company, will fluctuate due to changes in foreign exchange rates. The nature of gold equities makes this definition less relevant as i) gold is a global commodity priced in US\$ terms and ii) the currency in which the costs of the company are denominated determine its expenses. As such, the currency in which the security is denominated is often of less relevance than the price of gold, and the currency in which the company's expenses are in. As gold is generally priced in US\$, assuming all else is equal (including a constant US\$ price of gold), a 5% weakening in the value of the Canadian dollar vs. the US dollar would result in an increase in the net assets of \$459,000. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

### b) Interest Rate Risk

Interest rate risk is the risk that the fair value of the Company's interest bearing investments will fluctuate due to changes in market interest rates. The Company's exposure to interest rate risk is concentrated in its investment in debt securities (such as bonds, T-Bills, and money market instruments) and changes in interest rates on floating rate debt. Other assets and liabilities are short-term in nature and/or non interest bearing.

The majority of the Company's investments are non-interest bearing, accordingly, the Company is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Using average loan balances outstanding, the effect of a 1% change in variable interest rates on this loan facility would not have resulted in a significant change in interest expense or the fair value of the related debt for the period ended December 31, 2008.

### c) Market Risk

Other market risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The single most important determinant for the value of the Fund's investments is the price of gold. Higher gold prices will, all else being equal, increase the value of the Fund's investments, while lower gold prices will reduce the value of the Fund's investments. During 2008, a 1% change in the price of gold resulted in a 1.73% change in the value of gold equities. Over the past 5 years, a 1% change in the price of gold had led to a 1.47% change in the price of gold equities. There can be no assurance that this relationship will hold in future periods.

Shares of gold companies are exposed to high levels of political and operational risk due to the complex nature of mining operations and operation of mines in politically unstable regions. Other assets and liabilities are monetary items that are short term in nature and are not subject to other market risk.

In order to generate additional returns and to reduce risk, the Company will use the expertise the Option Advisor to write covered call options on securities held in the Portfolio and cash secured put options on securities desired to be held in the Portfolio. All other things being equal, sustained volatility in the price of a security results in higher option premiums in respect of such security. Conversely, a sustained reduction in the volatility of gold equities would require the Option Advisor to write on a greater percentage of the fund. The Manager believes gold stocks, which have historically maintained a high degree of volatility, are well suited to a covered call writing strategy.

Assuming market volatility of 34% and certain other factors, the Option Advisor estimates that it would be required to write calls on approximately 23% of the anticipated initial Portfolio in order to meet the annual distribution target of 5% per annum without reducing capital. During 2008 average volatility substantially exceeded 34%, however, over time volatility is expected to return to historical levels.

As at December 31, 2008, 100% of the Company's investments were traded on global stock exchanges. If equity prices on the global stock exchanges had increased or decreased by 10% as at the period end, with all other factors remaining constant, Net Assets would have increased or decreased by approximately \$1,900,000. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

### d) Credit Risk

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the-counter derivative instruments is based on the Company's unrealized gain of the contractual obligations with the counterparty as at the reporting date. The credit exposure of other assets is represented by its carrying amount. As

# Notes to the Financial Statements

December 31, 2008



at December 31, 2008, the Company did not have significant exposure to credit risk.

All transactions in listed securities, including short term investments, are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. The trade will fail if either party fails to meet its obligation.

#### e) Liquidity Risk

As at December 31, 2008, substantially all of the Company's investment holdings are in publicly listed securities and are considered readily realizable, as they are actively traded on public exchanges. In addition, the Company is permitted to borrow in the short-term to ensure settlement. The Company may however, from time to time, make investments in securities that have low trading volumes. Accordingly, it may be difficult for the Company to make trades in these securities without adversely affecting the price of such securities and consequently the Net assets of the Company.

As at December 31, 2008, the Company did not have significant exposure to liquidity risk.

## 11. Capital Management

The Company has been created to provide investors with exposure to the leading global companies primarily involved in gold exploration, mining or production on the S&P/TSX Global Gold Index, while also providing monthly distributions. The capital of the Company is represented by shareholders' capital and retained earnings, as disclosed in the Statement of Net Assets. They are entitled to distributions, if any, and to payment of a proportionate share based on the Company's net assets per share upon redemption (refer to Note 4). The Company has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements are shown on the Statement of Changes in Net Assets. In accordance with its investment objectives and risk management practices, as outlined above and throughout Note 10, the Company endeavours to invest its capital in appropriate investments while maintaining sufficient liquidity to meet redemptions.

## 12. Comparative Financial Statements

The Company commenced operations on November 16, 2007 and as such comparative financial statements are for the period from November 16, 2007 to December 31, 2007.

# Corporate Information

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Faircourt Asset Management Inc. (“Faircourt”) was created to design, distribute and market innovative structured investment products to retail investors throughout Canada. Faircourt is credited with being the innovator of Canada’s first funds of Income Trusts using a dual security structure. As at December 31, 2008, Faircourt, together with its affiliates, currently provides management services to two TSX listed closed-end funds, Faircourt Income & Growth Split Trust, and Faircourt Split Trust and one TSX listed corporation, Faircourt Gold Income Corp., one Mutual Fund Corporation with one class of shares, Faircourt Global Income Advantage Class. Faircourt also provides marketing and administrative support and other services to a program of Principal Protected Notes, issued by a Canadian chartered bank.

For more information, please visit the Manager’s website at [www.faircourtassetmgt.com](http://www.faircourtassetmgt.com).

## Directors & Officers

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Jane Davis  
*Director*

Stephen Kangas, CA, CFA  
*Director*

Marshall Miller  
*Director*

Charles Taerk  
*President, CEO & Director*

Douglas Waterson, CA, CFA  
*Chief Financial Officer, Portfolio Manager & Director*

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Legal Counsel  
Stikeman Elliott LLP

Auditors  
PricewaterhouseCoopers LLP

## Trust Units/Shares

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Trustee & Custodian  
RBC Dexia Investor Services Trust  
CIBC Mellon Global Securities Services

Registrar, Transfer Agent & Distribution Agent  
CIBC Mellon Trust Company

## Preferred Securities

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Indenture Trustee, Registrar, Transfer Agent & Payment Agent  
CIBC Mellon Trust Company

## Faircourt Asset Management Inc.

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Email: [info@faircourtassetmgt.com](mailto:info@faircourtassetmgt.com)

Website: [www.faircourtassetmgt.com](http://www.faircourtassetmgt.com)

## Closed End Funds (listed on the TSX)

### Faircourt Income & Growth Split Trust

Trust Units – **FIG.UN**

Preferred Securities – **FIG.PR.A**

### Faircourt Split Trust

Trust Units – **FCS.UN**

Preferred Securities – **FCS.PR.A**

### Faircourt Gold Income Corp.

Class A Shares – **FGX**

Warrants – **FGX-W**

## Mutual Funds (available through FundSERV)

### Faircourt Global Income Advantage Class

