

31 January 2019

ACTIVITIES REPORT FOR THE QUARTER ENDED 31 DECEMBER 2018

BUSINESS AND TRADING UPDATE

First Growth Funds Limited provides the following update on the Company's activities during the quarter ended 31 December 2018.

In the December quarter, FGF generated \$160,584 in new income from \$86,000 in fees, \$26,000 in dividends and interest and \$48,584 in trading revenue.

FGF continued to operate a strict fiscal policy over its operating expenditure with spending on staff costs and overheads remaining stable with previous quarter. There was some additional one off expenses incurred in the December quarter.

FGF held \$10.3M in cash and investments at cost value. This included a strong cash position of \$4.2M, \$3.3M at cost value in listed equities, \$1.6M at cost value in private equity and \$1.2M at cost value in Digital Currency. The Company is holding a well-balanced portfolio that is generating income, and with plenty of cash available for investments when the opportunity arises.

FGF is a diversified investment company investing across a broad range of asset classes and industry verticals. FGF is a first mover and the only listed Investment Company on the ASX that invests in the crypto and digital assets sector. FGF operates and complies with all regulatory requirements including its authorisation as a corporate representative of a Australian Financial Services License (AFSL).

FGF has executed more crypto and digital asset related investments and transactions than any other institutional investor in Australia. In the past 12 months, it invested in token offerings from around the world and across multiple industries, acquired blockchain company LINCD and then sold it 6 months later to listed company Harris Technology Limited, completed a placement of digital currency (Penta Global) into listed company CCP Technologies Limited and also led the investment into YPB Group Limited that has regulatory approval to launch their own digital token under AFSL authorisation.

FGF has completed these transactions under strict regulatory oversight. Indeed, some of these transactions have never been attempted nor completed before by any listed company.

FGF is well positioned to take advantage of the institutionalisation of the crypto and digital assets industry. As the market matures, large institutional investors will look to other institutional investors that have the appropriate experience to co-invest with. They will also seek advisory firms that are fully licensed and have the specialist domain expertise to advise on institutional grade investments in the crypto and digital assets industry. In the December Quarter, FGF announced the launch of a new subsidiary, First Growth Advisory with the aim to generate fees from service revenue and bring forward some of our facilitation revenue. First Growth Advisory will be active in the institutional crypto a digital assets market and is expecting to make further announcements.

We are starting to see a shift in the market with falling liquidity in crypto markets largely due to the exit of retail investors and speculators. This is partly driven by more regulation from around the world that is helping wholesale and institutional investors enter the market. However, these institutional investors are not just investing in utility tokens akin to loyalty rewards points. Their interest is in security tokens that help solve liquidity of illiquid assets, improving efficiency and reducing cost of transactions in finance, improving the governance and oversight of transactions.

Most private assets (including venture capital, private equity and property) are relatively illiquid, which means investors face cost and time difficulties trying to convert them into cash. Security tokens solve these fundamental problems as they digitally represent ownership in any asset, such as a piece of a startup, a private equity fund, or a high rise building and can provide investors with fractional ownership to that company, fund or property. Furthermore, Security tokens provide liquidity to investors, access to greater compliance, and oversight to regulators.

Some examples of institutional investors moving into the crypto and digital assets industry include:

- Goldman Sachs launch of Circle, a crypto Over the Counter (OTC) and trading company. Circle also acquired crypto exchange Poloniex for US\$400M;
- Fidelity (manages 7.2 trillion dollars of client money) announced the launch of a trade execution OTC and custody for digital assets in 2019;
- Commonwealth Bank to deliver its first blockchain Bond product;
- Coinbase has raised over US\$200M in funding from traditional venture capital and launched a new institutional custody and trading platform; and
- Propellr, a NY licensed investment bank, tokenised the first Manhattan apartment block by raising US\$30M via a fully regulated security token.

The market is moving beyond bitcoin and 'cryptocurrencies 1.0' to more regulated and institutional crypto assets and we expect this trend to continue into 2019, which is positive for FGF with ambitions to be a dominant force and market leader in the regulated and institutional grade crypto and digital assets industry, as part of its diversified investment strategy. It should be noted that despite FGF's 12-month share price trending almost identical to bitcoin, FGF has zero exposure to bitcoin. Additionally, FGF's cash flow and performance of its diversified portfolio is not correlated with bitcoin.

FGF believes it is well positioned to lead investments in security tokens that are fully compliant and regulated. It also believes the crypto and digital asset market will be significantly bigger over time with involvement of institutional investors, as there are trillions of dollars of assets that have the potential to become tokenised in the future. First Growth Advisory will be an active participant in this market and will help drive deal flow and new revenue for FGF.

At 31 December 2018, FGF's utility token holding was valued at US\$46M on digital currency exchanges. There have been multiple bull and bear markets in crypto over the past 10 years, and when liquidity shifts back into the market, FGF will exit some of its tokens via the exchanges.

The FGF board has extensive transactional experience and is also actively pursuing a corporate transaction for some of its listed tokens.

1. Selling tokens via Over the Counter (OTC) to strategic investors;
2. M&A activity; and
3. Investing tokens in private or public companies in exchange for shares that can later be converted to cash.

As previously announced, we actively look for liquidity for our crypto assets. However, it should be noted that as a diversified Investment Company we are not solely reliant on immediate liquidity from our existing listed tokens to generate cash flow and grow the business. Our total cash investment for crypto and digital currencies is well below 20% of our target portfolio weighting and indeed for Acudeen, FGF did not invest any capital. FGF will continue to generate income from advisory and facilitation fees, dividends and trading

income. It should be noted that over the past 12 months, FGF has maintained its combined cash and investments, at cost value, at well over \$10M. When liquidity is achieved from the sale of our tokens it may provide a materially increase in FGF's cash and investment holdings.

Strategic Investments in Small Listed Companies:

FGF investments in listed companies CCP Technologies and YPB Systems are highly strategic. They all have proprietary technology, have high growth potential, their market capitalisation provides a good entry price point, and by securing a material shareholding allows FGF to be closely aligned with the company and strategically add value, when required.

As FGF builds its portfolio, it creates a footprint and sales channel for First Growth Advisory to provide a range of advisory services to these listed companies to support their growth plans. This not only provides a source of revenue for First Growth Advisory and FGF but also helps FGF's portfolio companies accelerate their growth.

In FGF's investment strategy released in February 2017 announced it would allocate 15% of its portfolio to small cap listed companies and 22% into large cap top 50 listed companies. The board has resolved it will continue to invest a total of 37% of its portfolio in listed companies but the percentage allocation between small cap and large cap investments will change over time. This will provide greater flexibility for FGF to allocate its investments over time.

In the September Quarterly, FGF announced the acquisition of private company LINCD HQ Pty Ltd. Once acquired, FGF's board saw an opportunity to position LINCD for a strategic sale that would help secure a material equity position in another listed company. On 17 January 2019, FGF announced the sale of LINCD HQ to Harris Technology Limited for 30,000,000 (15.38% shareholding) of ASX:HT8 shares, representing \$600,000 in value and increasing FGF's net asset position, based on the last closing price.

FGF is also entitled to:

20,055,334 of HT8 options with exercise price of \$0.025 to FGF, when LINCD generates no less than \$1.35M in revenue within 24 months of the Issue Date; and

20,000,000 of HT8 options with exercise price of \$0.035 to FGF, when LINCD generates no less than \$1.05M in revenue within 24 months of the Issue Date

The shares and options, if exercised, would value the transaction at \$2.45M for FGF.

In addition to the shares and options, FGF's US\$250,000 loan to LINCD will also be paid back with repayments to be made as a priority from new revenue generated in the business.

Harris Technology has an established brand, over \$1M in the bank, over \$10M in revenue and a customer email database of over 70,000. With a market cap of only \$3M, FGF believes it is an ideal time and entry point to hold ASX:HT8 stock as LINCD could provide the catalyst for growth.

On 27 December 2018, FGF announced it has signed an agreement to invest in Zyber Holdings Limited (ASX:ZYB) of \$300,000 at \$0.008 per share, representing a 43% discount to last close. The investment is subject to Zyber receiving ASX and shareholder approval for the acquisition of EQUAL Networks. If the approvals are not granted, FGF will not invest and has no further obligations. FGF has conducted extensive due diligence on Equal and believes the acquisition to be a strategic fit that would add value to Zyber's file sharing and security products.

+Rule 4.7B

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

First Growth Fund Limited

ABN

Quarter ended ("current quarter")

34 006 648 835

31 December 2018

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
1	Cash flows from operating activities		
1.1	Receipts from customers	86	86
1.2	Payments for:		
	(a) research and development	0	0
	(b) product manufacturing and operating costs	0	0
	(c) advertising and marketing	(61)	(94)
	(d) leased assets	0	0
	(e) staff costs	(84)	(153)
	(f) administration and corporate costs	(248)	(414)
1.3	Dividends received (see note 3)	9	14
1.4	Interest received	17	44
1.5	Interest and other costs of finance paid	(1)	(1)
1.6	Income taxes paid	0	0
1.7	Government grants and tax incentives	0	0
1.8	Other - proceeds from trading	3,320	5,473
	Other - trading payments	(4,545)	(8,135)
1.9	Net cash from / (used in) operating activities	(1,507)	(3,180)

2 Cash flows from investing activities		Current quarter \$A'000	Year to date (6 months) \$A'000
2.1	Payments to acquire:		
	(a) property, plant and equipment	0	0
	(b) businesses (see item 10)	0	(1)
	(c) investments	(495)	(853)
	(d) intellectual property	0	0
	(e) other non-current assets	0	0
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	0	0
	(b) businesses (see item 10)	0	0
	(c) investments	98	312
	(d) intellectual property	0	0
	(e) other non-current assets	0	0
2.3	Cash flows from loans to other entities	0	0
2.4	Dividends received (see note 3)	0	0
2.5	Other (provide details if material)	0	0
2.6	Net cash from / (used in) investing activities	(397)	(542)

3	Cash flows from financing activities	Current quarter \$A'000	Year to date (6 months) \$A'000
3.1	Proceeds from issues of shares	0	0
3.2	Proceeds from issue of convertible notes	0	0
3.3	Proceeds from exercise of share options	0	0
3.4	Transaction costs related to issues of shares, convertible notes or options	0	0
3.5	Proceeds from borrowings	0	0
3.6	Repayment of borrowings	0	0
3.7	Transaction costs related to loans and borrowings	0	0
3.8	Dividends paid	0	0
3.9	Other (provide details if material)	0	0
3.10	Net cash from / (used in) financing activities	0	0

4	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	6,207	8,025
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,507)	(3,180)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(397)	(542)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	0	0
4.5	Effect of movement in exchange rates on cash held	0	0
4.6	Cash and cash equivalents at end of quarter	4,303	4,303

5	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	4,303	6,207
5.2	Call deposits	0	0
5.3	Bank overdrafts	0	0
5.4	Other (provide details)	0	0
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,303	6,207

6	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	146
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	0

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

7	Payments to related entities of the entity and their associates	Current quarter
		\$A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	0
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	0
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8	Financing facilities available	Total facility amount at quarter end	Amount drawn at quarter end
		\$A'000	\$A'000
	<i>Add notes as necessary for an understanding of the position</i>		
8.1	Loan facilities	0	0
8.2	Credit standby arrangements	0	0
8.3	Other (please specify)	0	0
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9	Estimated cash outflows for next quarter	\$A'000
9.1	Research and development	0
9.2	Product manufacturing and operating costs	0
9.3	Advertising and marketing	0
9.4	Leased assets	0
9.5	Staff costs	(70)
9.6	Administration and corporate costs	(150)
9.7	Other - trading payments	0
9.8	Total estimated cash outflows	(220)

10	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1	Name of entity	n/a	n/a
10.2	Place of incorporation or registration	n/a	n/a
10.3	Consideration for acquisition or disposal	n/a	n/a
10.4	Total net assets	n/a	n/a
10.5	Nature of business	n/a	n/a

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: 
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Company secretary

Date: 31 January 2019

Print name: Julie Edwards

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
- 2 If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
- 3 Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.