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**The Manager
Company Announcements Office
ASX Limited**

CARBON MARKETS UPDATE - STRONG GROWTH IN VOLUNTARY MARKETS

- Voluntary markets increase 34%
- Forestry products represent 45% of growth
- Markets forecast 60% growth in 2011

First Growth Funds Limited group (ASX: FGF) announces the independent endorsement of our target markets and forestry credits from the leading industry report. While international carbon markets were generally subdued in 2010, voluntary markets ignored this trend with strong growth, especially for providers of forestry based credits such as FGF's. The "State of the Voluntary Carbon Markets 2011", reports transacted volumes of voluntary credits of 131 m, 34% above 2009 and above pre-GFC levels.

FGF's forestry credits projects in developing countries are perfectly positioned to participate in this growth. Key highlights for FGF emerging from this report are:

- the voluntary markets for our products (where emitters buy credits for corporate social responsibility and marketing purposes, not to satisfy a regulated obligation) increased 34% from 2009
- annual carbon credit volumes in 2010 are the largest ever traded in the voluntary market with forecast growth expected to increase further
- the most successful product type was REDD with 34% of the market
- the VCS standards used for our products remain the market leader and key contributor to the growth of forestry products in the market
- average prices for carbon credits remained strong at US\$6/credit (down from \$6.50/credit, mainly due to a handful of large, low priced trades)
- the increased recognition that credits from the voluntary market must address other values than just carbon, with sustainability and biodiversity being highly valued.

Land based products such as FGF's were the breakthrough product. Doubling their market share to 45%, demand was driven by corporates and individuals demonstrating their commitment to conserve forests and reduce emissions, and pre-compliance buyers buying cheaper products with attractive upsides, such as from on-sell into the California forest friendly cap-and-trade program.

This increased demand for REDD was driven by:

- international donors assisting developing countries to create frameworks and capabilities (\$4.5B was pledged by developed countries in 2009 in aid for REDD) which has led to increased governance and mechanisms to confidently develop projects
- the UN Climate Change Conference in Cancun ending with an agreement on REDD
- the VCS approving a number of REDD standards (including FGF's IFM "logged to protected status" methodology) alleviating buyers' concerns
- increasing prospects of emerging protocols in cap-and-trade schemes (e.g. forestry was included in Australia's initial formulation of a carbon price reduction scheme)
- voluntary buyers shifting their expectations from "just carbon solutions" to also require sustainability and biodiversity objectives be satisfied which has broadened the market and segmented products on non-price features.

While credit pricing for comparable products to FGF's averaged \$6/credit, the trading range of reported sales was very wide. Significantly, where products (including some IFM) were accepted into the California cap and trade system, average prices increased from the range of \$4-7/credit to \$7-11/credit. FGF continues to monitor developments in emerging compliance practice to create its credits that will be acceptable.

Prospects for credits from FGF developed projects are strong. Surveyed participants for the report forecast growth in the market to 213 m credits in 2011, an increase of 63%. This forecast looks conservative as equivalent participants in the 2010 report under-forecast growth in 2010 volumes by 35%. The perception of developing compliance or semi-compliance markets appears to be a significant underlying factor in this forecast growth.

Growth across all voluntary products is not uniform. The report concluded "*we anticipate continued demand for the iconic forestry projects*".

Authors of report

The State of the Voluntary Carbon Markets 2011 has been prepared for five years by Ecosystem Marketplace and Bloomberg New Energy Finance. A copy of the report is available on-line through a link on FGF's web site www.fgfunds.net at "News".

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About: First Growth Funds Limited

First Growth Funds Limited is an ASX-listed investment company (**FGF**).

Through its 100% owned subsidiary First Growth Ventures Pty Ltd (**FGV**), it has agreed to provide project financing and development assistance to project developers operating in Indonesia, Asia and the South Pacific region. Project development is conducted through the First Growth Forests Joint venture.

Immediate project focus is on developing forestry carbon credits from preserving rainforests in South East Asia, creating credits each year of the project's life. Typically project lives are greater than 20 years, representing a sound annuity income stream. All projects are subject to a technical and commercial assessment prior to commitment of resources with further commitments dependent on satisfactory progress and compliance.

Subject to the timely completion of third party verification, the first FGV project is expected to enter validation in Quarter 2, 2011. The annual income stream will initially be approved for five years, with further extensions subject to on-going satisfactory monitoring and evaluation. Initial sales from each project are expected to repay all funds advanced and deliver significant profits.

Subject to market conditions and the finalization of project funding, FGF is targeting completion of a book of projects with a forecast annual yield in excess of \$4 million to be established by December 2011, positioning FGF for recurrent profitability.

FGV has been working in Asia/China building a pipeline of verified credits (VERs) and complying credits (CERs) projects in conjunction with its partners in each region. FGV continues to review new project opportunities as it extends and diversifies its pipeline of carbon credit projects.

FGF has a significant investment in the production of digital video cards by Bluefish, the "professional's choice", for high quality uncompressed video card systems since 1998.

For further information see: fgfunds.net.

About: First Growth Forests

FGFJV is a joint venture between FGF Group and GCS. The Venture combines deep forestry and development expertise with commercial project development and fund raising. The primary focus is agriculture, forestry and other land use (AFOLU) projects in the Western Pacific, initially in forest preservation through an Indonesia program and PNG projects.

FGFJV owns the intellectual property associated with the world's first VCS approved, Improved Forest Management "logged to protected" status methodology. The methodology provides the mechanism for validating and verifying carbon credits from projects that stop industrial forest logging. This methodology has already been adopted for use in third party Tasmanian projects for the preservation of forests threatened by logging and is expected to have broad appeal for the emerging industry further establishing the joint venture's credentials.

About: The Verified Carbon Standard (VCS)

The VCS is the most widely used carbon accounting standard among projects issuing credits in the voluntary market. This reputation has in large part been established by its inclusion of AFOLU activities. The VCS Association was founded in 2005 by the Climate Group, the International Emissions Trading Association and the World Business Council for Sustainable Development. It has pioneered trusted and innovative tools for generating quality green house gas credits.

For further information see: v-c-s.org/W