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ANNOUNCEMENT NUMBER 81

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Company Announcements Office
Australian Stock Exchange
10th Floor
20 Bond Street
SYDNEY NSW 2000

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Dear Sir

QUARTERLY REPORT - PERIOD ENDING 31 DECEMBER 2004

Please find attached the Quarterly Report for the activities of CO2 Group Limited ("CO2 Group") for the period ending 31 December 2004 as required under Listing Rule 4.7B.

Yours faithfully
CO2 Group Limited

Harley Whitcombe
Director

ENC

Encl.

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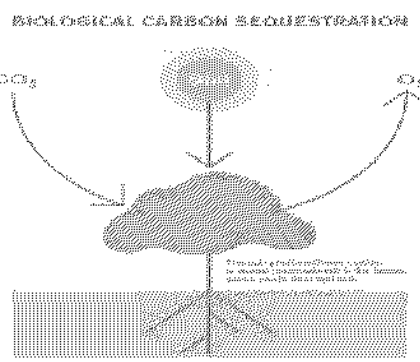
QUARTERLY REPORT - PERIOD ENDING 31 DECEMBER 2004

This report details the activities of CO2 Group Limited ("CO2 Group") for the quarter ending 31 December 2004 as required under Listing Rule 4.7B.

Brief Overview of Project

CO2 Group's CO2 AUSTRALIA ™ Carbon Sequestration Program is unique and offers a low cost solution to meeting the challenges associated with mitigating climate change.

CO2 AUSTRALIA's ™ Carbon Sequestration Program involves the production of carbon credits from long-term Mallee Eucalypt plantings. The carbon dioxide absorbed by the growing of trees is permanently removed from the atmosphere and converted into the biomass of the tree (roots, stems, foliage) through a process known as "carbon sequestration", with such forestry projects commonly referred to as carbon sinks. The amount of carbon sequestered can be measured to generate carbon credits that can be sold to large corporations or government utilities under existing voluntary and mandatory greenhouse gas emission reduction programs or potential new programs.



Mallee Eucalypts are a tree species indigenous to southern Australia. They are long lived, have a large lignotuber (underground stem), which rapidly regenerates if the above ground stem is damaged, for example by fire, and they can survive long periods of drought. They are a proven plantation species that thrive in poor soils and low rainfall areas such as the wheatbelt regions of southern Australia where re-afforestation is required to address one of Australia's greatest environmental threats - dry land salinity.

Mallee integrated into farmer's cropping regime

Australia faces an increasing impact on its agricultural productivity, water quality and environmental health as a result of dryland salinity.

The Federal Government has stated that "salinity and water conservation are considered to be two of the most serious resource management issues threatening Australia's rural industries, regional communities and our unique environment". The Council of Australian Governments has stated that the total cost of land and water degradation is approximately A$3.5 billion per annum. The National Land and Water

Resources Audit (2000) estimates that the area of land in Australia with shallow water tables, that is at risk of being salt affected, is currently 5.7 million hectares and will exceed 17 million hectares by 2050.

Much of the effort to date to address these significant environmental problems has been by the Federal and State Governments to fund the reintroduction of deep rooted perennial vegetation systems back into rural landscapes which have been extensively cleared for agriculture. Funding commitments in these areas total A$5.4 billion.

HIGHLIGHTS FOR THE QUARTER

Corporate

- CO2 Australia has successfully gained accreditation under the carbon sequestration provisions of the NSW Government's Greenhouse Gas Abatement Scheme. A world first. No other organisation under any mandatory emissions trading scheme has been accredited to create carbon credits from forests.
- Finalises the first major carbon credit contract to supply carbon credits to Origin Energy, a leading Australian energy company. Represents the largest dedicated carbon sink project ever to be undertaken in Australia and sets a new benchmark on the global emissions trading market.
- The CO2 Group continues to advance a number of carbon credit contracts, interest in the program continues to grow.
- Advances a number of off-balance sheet financial instruments and regulatory requirements associated with such instruments ie ATO ruling/AFSL licence.
- Appointment of a number of senior management positions including General Manager of Operations and Corporate Counsel.
- Initiates further research and development programs designed to up-scale the size of potential plantings to 50,000 hectares per annum within three years.
- Completes a successful $2.4m capital raising.
- Evaluation of a number of different corporate mechanisms regarding the divestment of the company's residual exploration assets continues with the likely timetable seeing divestment in the June quarter of 2005.

Carbon Market Developments

International

- The Kyoto Protocol will become international law on 16 February. The entry into force of the Kyoto Protocol secures international emission trading at the core of on-going global emission management.
- Acceptance of the Kyoto Protocol continues to grow. 137 countries are now signatories to the Protocol.
- Negotiations concerning the second Kyoto commitment period (i.e. post 2012) are due to commence in 2005 under the United Nations Framework Convention on Climate Change ("UNFCCC").
- The world's largest mandatory greenhouse gas emission scheme the European Unions Emission Trading Scheme ("EU ETS") commenced trading on 1 January 2005.
- Significant increase in volumes traded on EU ETS continues during the December quarter. In total 6.6 million tonnes of carbon were traded in the fourth quarter, compared to 1.97 million tonnes in the first three quarters of 2004.
- The tenth meeting of the Conference of the Parties (COP10) marked the 10th anniversary of the entry into force of the UNFCCC. Discussions at COP10 highlighted a range of climate-related issues including, the impacts of climate change and adaptation measures, mitigation policies and their impacts, and technology. Participants had also taken stock of the entry into force of the Kyoto Protocol.

- Next international report on climate change is likely to include a stronger warning on the prospect of "non linear sudden changes in climate" according to Professor Andy Pitman of Macquarie University. Prof. Pitman was a lead author for the third assessment report of the Intergovernmental Panel on Climate Change and is involved in the preparation of the fourth report.
- A report by the World Business Council on Sustainable Development has estimated that global carbon dioxide emissions could double by 2050 if appropriate measures are not introduced.
- British Prime Minister Tony Blair continues to seek USA backing for a new international treaty that would end America's isolation from participation in international efforts to prevent global warming.
- The UK Government has placed climate change as an agenda item at this year's G8 meeting. The agenda includes the potential linkage of the EU ETS with other trading schemes, particularly at state-level in the USA.
- Continued international calls for more significant reductions in global emissions by 2050. The governments of Britain, France and Canada and Australia all stated the need for greater reductions.
- Increased voluntary actions being taken by corporations and multinational companies.

Australia

- ACT's mandatory greenhouse gas abatement scheme became operational on 1 January 2005. It aims to reduce greenhouse gases caused by electricity production, and is modeled on the Greenhouse Gas Abatement Scheme in operation in NSW.
- The State Governments and ACT continue to explore the possibility of a multi-jurisdictional emission trading platform and are endeavoring to ensure that such a multi-state scheme would be compatible with the EU ETS and other emerging schemes.
- Push by the State Governments and the ACT to introduce a new multi-state version of the Federal Government's Mandatory Renewable Energy Target scheme (MRET).
- The Victorian Government has released a position paper on Greenhouse Challenge for Energy. The report confirmed the Victorian Government's commitment to the establishment of a national emission-trading scheme and included an undertaking by the Victorian Government to develop and implement a Renewable Energy Strategy, an Energy Efficiency Strategy, and an Energy Technology Innovation Strategy.
- The NSW Government may extend its current Greenhouse Gas Abatement Scheme until 2020 and will consider introducing minimum emission performance standards, for new power generators and push for these to be nationally adopted. New generators may need to purchase offsets to reduce the greenhouse emissions associated with theses projects.
- The Victorian Civil and Administrative Tribunal (VCAT) has ordered a panel considering submissions on the Hazelwood West Field Project that it cannot exclude submissions about greenhouse gas implications using brown coal. Justice Morris also said that greenhouse gas considerations are relevant for a planning scheme amendment, which would facilitate mining of coal for use in the power station.
- NSW Government is exploring the possibility that the NSW and EU ETS schemes could be linked And the Victorian Government has also reportedly expressed interest in a potential linkage to the EU ETS.
- NSW Premier Bob Carr has announced a "cleaner fleet program" which aims to reduce government fleet greenhouse gas emissions by 20% by 2008 and

urges owners of large private fleets to follow program.

- Continued calls from the South Australian Premier Mike Rann for the Council of Australian Governments to convene a meeting to set concrete targets and clear timelines on reducing greenhouse emissions.
- Western Australia Government released its greenhouse strategy document, which contained several new initiatives, including the establishment of a Western Australian Greenhouse Unit to coordinate the implementation of the strategy, mandatory reporting by significant emitters and research programs.
- Federal Government releases a report that highlights the key role being played by NSW Government's existing mandatory greenhouse scheme and NSW and Queensland Governments' one off land reforms in keeping Australia on track in meeting its Kyoto target.
- Stationary energy emission estimates continue to grow and are now expected to be 46% above 1990 levels by 2010.
- An influential draft report by the Productivity Commission, commissioned by the Federal Treasurer, Mr Peter Costello, has identified the fragmented and uncertain state of Australia's greenhouse policy as a priority for reform. The Productivity Commission advises that immediate action be taken by the Council of Australian Governments to remedy the situation. The Minerals Council of Australia and the Energy Retailers Association of Australia have supported this view.
- Federal environmental minister, Senator Ian Campbell and his state and territory counterparts have directed senior officials to present them with a detailed strategy to vary the National Pollutant Inventory to cover greenhouse gases.
- Federal Government has for the first time distanced itself from the USA policy on climate change and is "prepared to engage in a new agreement (post Kyoto) as long as it is comprehensive".
- The Federal Government set to make further changes to its Greenhouse Challenge program, Australia's largest voluntary greenhouse gas program.

Other

- Climate change initiatives are continuing to have an impact on corporate behaviour. Boards are facing ever increasing corporate governance obligations in relation to environmental issues, including greenhouse gas emissions. Systems for allocating responsibility for greenhouse gas emission reductions and taxing greenhouse gas emissions are being developed and governments, customers and community groups are targeting emitters and new projects to ensure these issues are adequately addressed. In addition, environmental compliance legal actions, by both governments and private individuals, are becoming more prevalent and mainstream institutional investment markets are showing increased demand for "green" and responsible investments. Recent developments in this area are:

    1. The United Nations (UN) Environment Program and the UN Global Compact have joined forces to create the UN Responsible Investment Initiative aimed at developing a set of best practice principles for responsible investment.
    2. Driven by initiatives such as the International Finance Corporation's Equator Principles, banking institutions both internationally and domestically are developing procedures to better assess environmental risk in their project financing areas. These environmental risks include climate change risks.

3. Further significant growth in sustainability driven retail funds under management globally. For instance funds registered in Europe are estimated at €19 Billion an increase of over 50% compared to a year earlier.

Some of these highlights are discussed in more detail below.

Quarterly Overview

Accreditation under the NSW Government's Greenhouse Gas Abatement Scheme (NSW Benchmark Scheme)

CO2 Australia Limited is the only entity currently accredited to produce abatement certificates commonly referred to as NGACs (a form of carbon credits) from sequestration activities under the NSW Benchmark Scheme. This represents a world first. No other organisation under any mandatory emissions trading scheme has been accredited to create carbon credits from forests.

Accreditation will enable CO2 Australia Limited to create NGACs, from its CO2 AUSTRALIA™ Carbon Sequestration Program. NGACs will be sold to liable parties to meet emission reduction obligations under the NSW Benchmark Scheme.

This rigorous accreditation process was undertaken by the Scheme Administrator (IPART), a NSW Government instrumentality, and involved the project satisfying a number of compliance issues including:

1. complex legal issues, particularly relating to land use and title to the trees;
2. eligibility of the forests (in accordance with the Kyoto Protocol);
3. annual productivity growth curve of plantings i.e. estimates of the ability of the plantings to generate NGACs;
4. monitoring and audit systems for measuring and quantifying annual generation of NGACs; and
5. risk management strategies and procedures

Brief Background to NSW Benchmark Scheme

The NSW Benchmark Scheme requires energy retailers and certain other parties to reduce the CO_2 intensity of the power purchased (i.e. their CO_2 emissions) or pay penalties.

The NSW Benchmark Scheme became operational on the 1st January 2003 and recent announcements by the NSW Government indicates that the scheme may be extended to 2020 if a national greenhouse gas emission trading scheme is not introduced.

The Scheme includes a penalty of A$10.50 per tonne CO_2.e of excess emissions over the benchmarks (i.e. non compliance) adjusted by CPI annually. The penalties are not tax deductible but as the cost of purchasing offsets (i.e. NGACs) is tax deductible, the effective price of such offsets could be as high as A$15.00 per tonne of carbon dioxide equivalent. Current NGAC prices are highlighted below:

NGAC Prices		
Term	**Mean all Bids**	**Mean all Offers**
Spot	$10.70	$11.03
Cal 04	$10.83	$11.18
Cal 05	$11.66	$12.25
Cal 06	$12.36	$12.97
Cal 07	$13.01	$13.72
Cal 08	$13.58	$14.45

In 2004, the number of NGACs traded up to December was approximately 4.62 million representing a market value of approximately A$48.5 million.

NSW Premier Carr has indicated that he intends to encourage other Australian State Governments to join this scheme and develop a national emissions trading regime from the bottom up.

Recent agreements/negotiations demonstrate the willingness of liable parties under the NSW Bench Scheme to acquire NGACs (carbon credits) from carbon sequestration activities.

First major carbon credit contract finalised.

During the quarter, a subsidiary of CO2 Group was successful in finalising its first major contract to supply carbon credits to Origin Energy, a leading Australian energy company through to 2012. The carbon credit contract will involve the establishment of a maximum of 6,500 hectares of Mallee eucalypt plantations across regional New South Wales.

The contract will require the establishment of the largest dedicated carbon sink project ever undertaken in Australia and sets a new benchmark on the global emissions trading market. It confirms that plantations using native trees can make a significant contribution to meeting the challenge of mitigating climate change and addressing landscape degradation in mid to low rainfall regions of rural Australia.

The plantations will be located in western NSW and will be integrated with cereal cropping agricultural systems. The plantations are not harvested and will be in place for more than 100 years. The plantations also provide significant environmental benefits including the mitigation of dry land salinity, enhanced biodiversity, soil conservation and water catchment protection as well as providing significant employment opportunities in regional NSW.

The issues of climate change, dryland salinity and water conservation have been well publicized over the last few years. The Commonwealth and State Governments have allocated over A$6.0 billion in funds to address these serious environmental issues facing Australia.

Appointment of new senior management positions

During the quarter a number of new senior management positions were finalised. This included the appointment of Mr Aaron Soanes to the position of General Manager of Operations and Ms Kate Philips to the position of Corporate Counsel.

Aaron has an extensive track record in plantation forestry establishment and management. Aaron was previously employed by Timbercorp Limited as their treefarms Operations Manager where he led the design, development and management of over 80,000 hectares of plantation forestry in Victoria, South Australia and Western Australia. Aaron has also held regional management roles with the Queensland Department of Primary Industries Forestry.

Kate is a qualified lawyer. Prior to joining the CO2 group she was a solicitor with Baker & McKenzie for 4 years and has considerable experience in property and property related transactions.

Development of off balance financial instruments.

As stated in the Information Memorandum sent to shareholders on 3 August 2004, CO2 Group is developing a number of off-balance sheet financial instruments which will seek third party investors to fund the establishment of the mallee tree plantings.

During the quarter, significant progress has been made in developing these instruments and the associated statutory requirements attached to such instruments (i.e. ATO tax rulings and AFSL).

A number of contracts to supply carbon credits are being finalised

CO2 Group is currently conducting negotiations with several large corporates seeking greenhouse reduction solutions, both in voluntary and mandatory environments. The Company will keep shareholders informed, should any of these negotiations be successful in securing additional carbon credit contracts.

A number of corporates are looking to fund the establishment of the mallee plantings using their own balance sheets. In these cases, CO2 Group and its associated entities will act in an agency capacity.

Interest in the CO2 AUSTRALIA™ Carbon Sequestration Program continues to gather momentum as awareness of the business increases, particularly since the announcement of accreditation under the NSW Benchmark Scheme.

Overview Carbon Market Developments

International Developments

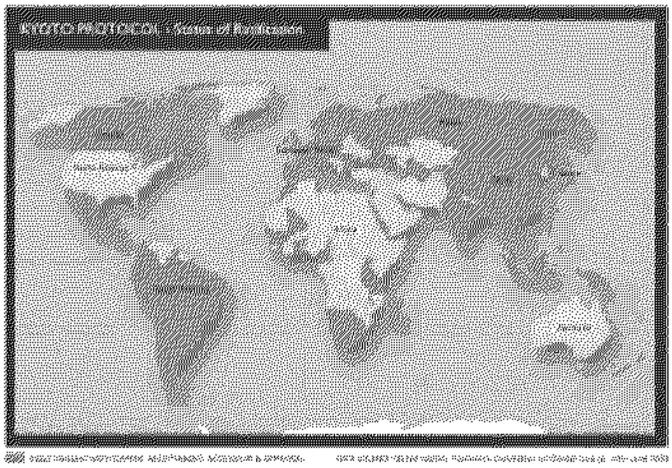
Following the Russian ratification of the Kyoto Protocol, the Protocol will enter into force on 16 February 2005. Upon its entry into force, the Kyoto Protocol will:

- require developed countries which have ratified the Kyoto Protocol to reduce their greenhouse gas emissions to their agreed baseline by the end of the first commitment period (December 2012)
- allow parties (and ultimately corporations within those countries) to meet their liability in part through market based mechanisms or trading carbon rights.

The entry into force of the Kyoto Protocol, has reinvigorated the coordinated multilateral approach to the control of global emissions, and secured international emission trading platforms as the core of on-going global emissions management. These international emission-trading platforms have in turn provided a daily market price for carbon.

	Commenced	*Penalty Rate CO2e/t*	*Sport Market CO2e/t*	*Estimated Market Size*
Mandatory Markets Australia				
NSW GGAS	Jan-03	A$10.50 (CPI Adjusted)	A$10.70	A$1.7b
MRET	April-01	A$40.00	A$38.41	A$6.6b
Mandatory Markets International				
EU ETS	Jan-05	€40 to €100	€6.80	€billions

Since the Russian ratification of the Kyoto Protocol, an additional 9 countries have become signatories to the Protocol, bringing the total number of countries to 137. Of 37 developed countries, which have agreed to a target for their greenhouse emissions, only two have not ratified; the United States and Australia.

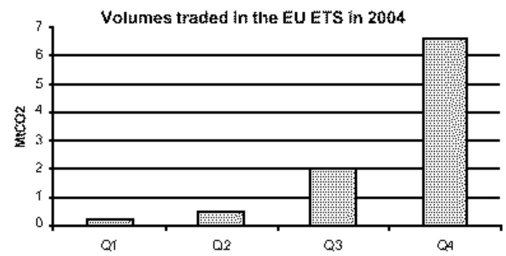


Significant international focus on the United States and Australia continues to place pressure on both countries current position on their greenhouse gas policies.

The United Kingdom's Prime Minister continues to press the US to ratify and start reducing its emissions profiles.

Significant increase in carbon trading continues on the EU ETS prior to scheme becoming operational on 1st January 2005

Initial pre-compliance trading on the EU ETS was very illiquid, as companies used the relatively low volume trades to gain experience in the market. However, trading dramatically increased over the 2004 calendar year, with significant volumes being traded over the last two quarters of 2004. In total 6.6 million tonnes of carbon were traded in the fourth quarter, compared to 1.97 million tonnes in the third quarter of 2004 (see graph below).



Source: Point Carbon

It has been estimated that the total of allowances (i.e. carbon credits) traded in 2004 was 9.148 million, equating to a total market value of €79.2 million.

This growth in momentum of trading has continued into 2005. Over 5 million tonnes have already been traded in January 2005.

The market price for allowances has been in a downward drift in bid-offer spreads, with prices currently consolidating around €6.80 per tonne of $C0_2e$. The fall in carbon prices as been attributed to mild weather which in turn has led to low greenhouse gas production across Europe, falling fuel prices and national allocation plans (NAP) were less stringent than anticipated.

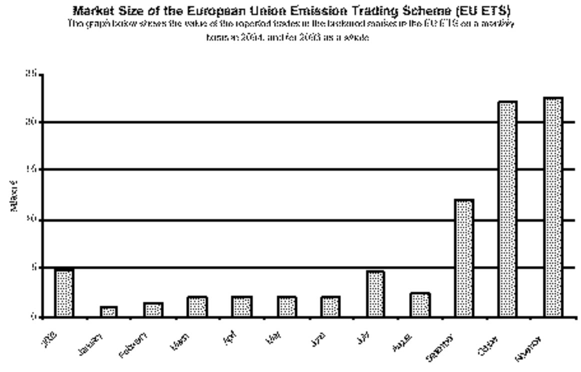
The lowest price recorded on the EU ETS was €5.50 per tonne of $C0_2e$ in May 2003 with the highest at €13.20 per tonne of $C0_2e$ in January 2004. Since trading began the total value of trading has been estimated at €88.2 million at an average price of €8.82 per tonne of $C0_2e$.

A major Australian mining company has stated that it "is committed to helping the EU ETS market develop so as to better service both our internal and customer needs". The company also stated, that the many of its customers were participating in the EU ETS.

The statements reflect the growing issue for many of the major international mining houses (i.e. that their customers problems are becoming their problems). This view has been recognised by the Minerals Council of Australia, which stated "there was an emerging consensus that shared responsibility by all participants in the material lifecycle is a key part of the sustainable development delivery equation".

Background on EU ETS

The European Union Emission Trading Scheme (EU ETS) encompasses the 28 countries, which make up the European Union (EU) and has been implemented to achieve targets set out in the Kyoto agreement. The EU ETS became European law in June 2003 and became operational on the 1st January 2005. The EU ETS represents the largest emissions trading scheme in the world today.



Source: Point Carbon

The EU ETS will:

a) cover the 28 member countries of the EU;
b) be Kyoto compatible but not Kyoto dependent;
c) place emission restrictions and liability for over 14,000 installations/facilities, with the potential to expand the scope of regulations to include other sectors. The chemicals and aluminium industries are not currently subject to the EU ETS, however, they may be drawn in to Phase II of the EU ETS which commences in 2008;
d) include industries, which cover power generation, metal and minerals, glass, concrete and paper and pulp sectors. These industries currently account for 45 percent of the EU carbon dioxide emissions;
e) enable companies to purchase EU allowances (carbon credits) on the market to meet their liabilities; and
f) impose penalties for non-compliance of €40 per tonne of CO_2-e between 2005 and 2007, increasing to €100 per tonne of CO_2-e between 2007 and 2012.

Australian Developments

Australia is presently close to meeting its Kyoto Protocol target for the first commitment period predominantly because reductions in the rates of land clearing are offsetting greenhouse gas emissions from increasing energy use. The recent Australian Federal Government Report, *Tracking the Kyoto Target 2004*, has Australia's projected greenhouse gas emissions between 2008 and 2012 at 108% of their 1990 level, which would meet Australia's Kyoto Protocol commitment.[1] However the papers released by the Federal Government show that the large majority of this abatement is due to the actions of the Queensland and New South Wales State Governments. Of the 94.0 million tonnes of CO_2e abatement projected to occur by 2010, it is projected that 27.6% will be due to vegetation reforms in Queensland and New South Wales and 19.3% will be due to the introduction of the New South Wales Greenhouse Gas Abatement Scheme.[2]

Australia biggest greenhouse gas emission sector is the stationary energy sector, which accounts for approximately 50% of all greenhouse gas emissions generated in Australia. Greenhouse gas emissions from this sector are now expected to be 46% above 1990 levels in 2010.

This will place greater emphasis on other abatement measures, such as technological change in order to meet emission targets in future commitment periods (i.e. beyond 2012). The Australian Federal Government has recognised leading scientific advice that greenhouse gas emissions will need to be reduced by 50 - 60% by the end of this century[3] in order to decrease the negative impacts of climate change on the world and is prepared to engage in a new international agreement operating after 2012 (i.e. post Kyoto) provided it is comprehensive.

Australia's greenhouse gas emission profile is quite different from that of other developed countries. Our agricultural and land use emissions are much higher relative to fuel combustion (energy) than for the average for other developed countries. At the same time fuel combustion emissions are increasing, more rapidly than the average, with the continued growth in the Australian economy.

[1] Ian Campbell, "On Right Track without Kyoto", *The Australian Financial Review*, 7 December 2004.

[2] "Fed Papers show key role played by state schemes in delivering abatement" Environmental Manager, Issue 512, 14 November, 2004

[3] Ian Campbell, "On Right Track without Kyoto", *The Australian Financial Review*, 7 December, 2004

In Australia, the Federal Government continues to resist mounting pressure to establish a national greenhouse gas emission trading platform despite recommendations or recognition of the benefits of such a scheme in *the Council of Australian Governments' Energy Market Review, 2002*[4], the Ministerial Council on Energy, the Commonwealth Government's *Energy White Paper*, and the Australian Government Productivity Commission's "*Review of National Competition Policy Reforms*".

The Federal Treasurer Mr Peter Costello commissioned the recently released draft report by the Productivity Commission. This report made a number of recommendations with respect to Australia's greenhouse gas emission policies. The key recommendation was the need to reduce regulatory fragmentation. The draft report states that:

> "there is a growing recognition in policy circles that the creation of managed markets can reduce the cost of meeting some important environmental and sustainability goals. Recent or mooted initiatives to allow for trade in water and greenhouse gas emissions are cases in point. Again, therefore, incorporation of this area within the mainstream reform agenda would seem highly desirable."

The draft report has called for the Council of Australian Governments to play a greater role in addressing greenhouse gas abatement policies and states that a lack of cohesion is impeding investment in many parts of the economy.

The State Governments also continue to urge the Federal Government to implement a national emissions trading scheme, and are looking at setting up State based Schemes that will be able to operate on a national level.

In the NSW Energy Green Paper, released in December 2004, the NSW Government stated that "rather than extend the current scheme the New

[4] AETF Review, October/November, 2004

South Wales Government would prefer the introduction of a single national emissions trading scheme."[5] The Victorian Government's position paper "The Greenhouse Challenge for Energy" stated that

> "In the absence of action at the federal level, the States and Territories have established an inter-jurisdictional emissions trading working group to design a scheme that can deliver efficient and effective greenhouse gas abatement while recognising the economic interests of each State and Territory. The Victorian Government is strongly committed to this process."

The paper further notes that "the Victorian Government would prefer that the federal government take the lead on emissions trading, but to do so in close collaboration with all States and Territories in designing and implementing the scheme" [6]

As mentioned above, the Council of Australian Governments, which comprises the Prime Minister, State and Territory Premiers and heads of local government, supported an economy wide emissions trading system.

Clearly, the Australian Federal Government is continually being urged to review the possibility of implementing a national emissions trading scheme, even if Australia does not ratify the Kyoto Protocol.

The Greenhouse Challenge

The Federal Government is expected to revamp its Greenhouse Challenge program. This will see the Greenhouse Challenge program amalgamated with the Greenhouse Friendly Scheme and the generator efficiency standards program. These combined programs will be referred to as the Challenge Plus program and will have common reporting procedures.

These changes are in addition to several other changes announced in the Federal Government's *Energy White Paper*, which has made membership mandatory for some companies.

The Greenhouse Challenge is one of the Federal Government's climate change initiatives to encourage industry to reduce their greenhouse gas emission profiles. The Federal Government has allocated total funding of A$1.8 billion in climate change initiatives. It has been estimated that by 2010, the Greenhouse Challenge will deliver 14.4 million tonnes of abatement.

Residual Exploration Assets Review

Evaluation of a number of different corporate mechanisms regarding the divestment of the company's residual exploration assets continued during the quarter, with the likely timetable seeing divestment in the June quarter of 2005.

Overall the level of on ground exploration activities reduced during the quarter. Activities were more focused on refining and delineating drilling targets on a number of joint venture properties. A number of these properties should have drilling undertaken over the coming months.

Exploration Projects Overview

CO2 Group retains its interest in the following properties:

1.0 Goldsworthy Joint Venture Project
(CO2 Group 100 percent, reducing to 20 percent)

Independence Group NL (Independence) can earn 80% interest in all tenements by completing a pre-feasibility study.

Below is Independence's summary of exploration activities undertaken during the quarter.

Aircore targets TG1 and TG2 detailed last quarter were tested by a short RC drill program comprising 9 holes for 822m.

[5] "Energy Directions Green Paper," op. cit.

[6] "The Greenhouse Challenge for Energy: Driving Investment, Creating Jobs, and Reducing Emissions," position paper, Government of Victoria, December 2004

Nine holes on 3 traverses 200m apart were completed at TG1 and 3 holes on a single traverse were completed at TG2. A detailed aeromagnetic survey was completed over the two main shear zones to assist with target delineation.

At TG1, RC drilling intercepted a strong zone of gold mineralization dipping 75°-80° to the south.

Goldsworthy- RC Drilling Results Summary

Hole	Depth (m)	Width (m)	Au (g/t)
GRC004	31-36	5	1.10
GRC006	70-75	5	1.14
GRC008	58-60	2	1.26

The main zone of mineralization occurs as a cherty quartz vein ranging from 2 to 5 metres in width and is consistent over the three sections tested. Depth of cover is very shallow averaging 6m.

Although no economic intercepts were encountered at TG1, the style of shear zone mineralization along with continuity of quart veins is encouraging for the potential of a large gold mineralised system

2.0 Irwin Bore Project
(CO2 Group 10 percent)

The Irwin Bore Project covers a sector of the Fisher greenstone belt some 140 kilometres west of Wiluna in the Eastern Goldfields of Western Australia. This project now consists of two separate joint ventures, with CO2 Group retaining a 10% free carried interest in both joint venture projects until the completion of a pre-feasibility study.

Joint Venture 1 (Gold):
CO2 Group 10%
Cullen Resources Limited 90%

No new exploration work was carried out during the quarter.

Joint Venture 2 (Nickel and Base Metals):
CO2 Group10%
Cullen Resources Limited 90%

Cullen's 90% interest in the nickel rights for the Irwin Bore Project has been farmed out to the Independence Group NL (Independence). The CO2 Group owns the remaining 10% interest which is free carried to completion of a pre feasibility study in the project.

Below is a summary of exploration activities undertaken by Independence during the quarter.

A number of conductive responses associated with interpreted ultramafic units were identified during the ground EM survey commenced last quarter. A follow-up fixed loop survey to better define the best bedrock conductor for drill testing is scheduled for January/February 2005 together with continuation of the systematic first pass survey over the remainder of the project area.

3.0 Zanthus Project
(CO2 Group 100 percent)

The Zanthus Project consists of four exploration licence applications in the Zanthus region, some 200 kilometres southeast of Kalgoorlie, Western Australia.

The tenements cover the western flank of a metamorphosed Neoproterozoic mafic layered complex, considered by CO2 Group to be prospective for nickel, copper, chromium and platinum group element mineralisation.

No progress has been made in advancing these applications during the quarter.

4.0 Balgarrie Project
(CO2 Group 40 percent)

The Balgarrie Gold Project, located approximately 50 kilometres northwest of Kalgoorlie, consists of two mining tenements M16/23 and P16/1373 in Joint Venture with Placer Dome Asia Pacific Limited (Placer Dome) Revesco holds a 40 percent interest in the two tenements that is free-carried to decision-to-mine.

Only limited exploration work was undertaken during the quarter. No significant results were obtained.

5.0 Lake Lefroy
(CO2 Group 100 percent)

This single exploration licence application covers a sector of the Zulieka Shear some kilometres southwest of Kambalda.

No work was carried out during the quarter.

Yours faithfully
CO2 Group Limited

Harley Whitcombe
Director

Enc

Rule 4.7B

Appendix 4C

Quarterly report
for entities admitted
on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity

CO2 Group Limited

ABN	Quarter ended ("current quarter")
50 009 317 846	**31 December 2004**

Consolidated statement of cash flows

	Cash flows related to operating activities		Current quarter $A'000	Year to date (6 months) $A'000
1.1	Receipts from customers			
1.2	Payments for	(a) staff costs	(288)	(518)
		(b) advertising and marketing		
		(c) research and development		
		(d) leased assets		
		(e) other working capital	(1,334)	(1,832)
1.3	Dividends received			
1.4	Interest and other items of a similar nature received		71	225
1.5	Interest and other costs of finance paid			
1.6	Income taxes paid			
1.7	Other (provide details if material)			
	Net operating cash flows		**(1,551)**	**(2,125)**

		Current quarter $A'000	Year to date (3months) $A'000
1.8	Net operating cash flows (carried forward)	**(1,551)**	**(2,125)**
	Cash flows related to investing activities		
1.9	Payment for acquisition of:		
	(a) businesses (item 5)		
	(b) equity investments	179	(171)
	(c) intellectual property		
	(d) physical non-current assets	(8)	(16)
	(e) other non-current assets		
1.10	Proceeds from disposal of:		
	(a) businesses (item 5)		
	(b) equity investments		
	(c) intellectual property		
	(d) physical non-current assets		
	(e) other non-current assets		
1.11	Loans to other entities		
1.12	Loans repaid by other entities		
1.13	Other (provide details if material)		
	Net investing cash flows	171	(187)
1.14	**Total operating and investing cash flows**	(1,380)	(2,312)
	Cash flows related to financing activities		
1.15	Proceeds from issues of shares, options, etc.	2,296	2,339
1.16	Proceeds from sale of forfeited shares		
1.17	Proceeds from borrowings		
1.18	Repayment of borrowings		
1.19	Dividends paid		
1.20	Other (provide details if material)		
	Net financing cash flows	2,296	2,339
	Net increase (decrease) in cash held	916	27
1.21	Cash at beginning of quarter/year to date	11,656	12,545
1.22	Exchange rate adjustments to item 1.20		
1.23	**Cash at end of quarter**	12,572	12,572

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter $A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	158
1.25	Aggregate amount of loans to the parties included in item 1.11	Nil

1.26 Explanation necessary for an understanding of the transactions

Wages

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities	Nil	Nil
3.2	Credit standby arrangements	Nil	Nil

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter $A'000	Previous quarter $A'000
4.1	Cash on hand and at bank	420	206
4.2	Deposits at call	12,152	11,450
4.3	Bank overdraft		
4.4	Other (provide details)		
	Total: cash at end of quarter (item 1.22)	**12,572**	**11,656**

Acquisitions and disposals of business entities

		Acquisitions *(Item 1.9(a))*	Disposals *(Item 1.10(a))*
5.1	Name of entity		
5.2	Place of incorporation or registration		
5.3	Consideration for acquisition or disposal		
5.4	Total net assets		
5.5	Nature of business		

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.

2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date: **31 January 2004**
(Director/Company secretary)

Print name: **Harley Whitcombe**