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"Pollution stems from a fundamental failure of markets to incorporate the full cost of economic activities"
G Hardin (1968)

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23 October 2006

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

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Dear Sir

QUARTERLY REPORT - PERIOD ENDING 30 SEPTEMBER 2006

Please find attached the Quarterly Report for the activities of CO2 Group Limited for the period ending 30 September 2006 as required under Listing Rule 4.7B.

Yours faithfully
CO2 Group Limited

Harley Whitcombe
Company Secretary

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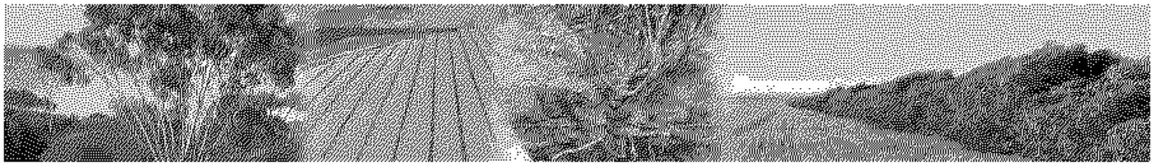
"Pollution stems from a fundamental failure of markets to incorporate the full cost of economic activities"
G Hardin (1968)



CO2 GROUP LIMITED QUARTERLY REPORT - PERIOD ENDING 30 SEPTEMBER 2006

CO2 Group Limited is a Company that specialises in the commercialisation of business opportunities within the environmental sciences sector.

The Company's CO2 AUSTRALIA™ Carbon Sequestration Program specialises in offering a low cost solution to meeting the challenges of mitigating the effects of global warming and increasing government regulatory actions targeted at the rapidly emerging carbon constrained global economy. For a brief overview of the Company's CO2 AUSTRALIA™ Carbon Sequestration Program please refer to Attachment 1.

HIGHLIGHTS FOR THE QUARTER

Operations

- The planting program for this year was well advanced by the end of the quarter.
- Further recognition of the CO2 AUSTRALIA™ Carbon Sequestration Program, with a 2004 planting being awarded the NSW Environmental Planning Award as well as receiving the Sir Thomas Mitchell Award for the most outstanding overall project across seven award categories. For the full media release refer to Attachment 2.
- A number of new research and development programs were initiated during the quarter. All research and development programs are designed to increase the medium term scalability of the CO2 AUSTRALIA™ Carbon Sequestration Program as well as enhancing and increasing the overall intellectual property of the Program.

Corporate

- The Company received further agency fees during the quarter in relation to the Eraring contract. Going forward, the Company will receive an annual management fee which will commence in 2006/2007 financial year and continue for 30 years. Eraring's first annual option arrangement is due to expire during the current quarter. Each option allows Eraring to secure new additional mallee environmental plantings of up to a maximum of 5,000 hectares.
- CO2 Group has recently announced that its 100% owned subsidiary, CO2 Australia Limited (CO2 Australia) had been invited and subsequently secured membership as an Associate Member and Participant Member of the Chicago Climate Exchange (CCX). These memberships represent a world first, as CO2 Australia is the only Australian company that has gained membership to CCX. For the full media release refer to Attachment 3.

New Business Opportunities

- CO2 Australia has experienced increasing interest from corporate Australia in its CO2 AUSTRALIA™ Carbon Sequestration Program, particularly over the last 6 to 12 months. CO2 Australia expects demand for carbon sink projects to grow significantly, given Australia's greenhouse emission profile is projected to reach 122% of the 1990 level by 2020[1].
- Discussions undertaken by CO2 Australia have also highlighted a growing new trend amongst corporate Australia, that any actions they take to reduce their greenhouse emissions profile must be fungible. Greenhouse schemes and programs such as the NSW Greenhouse Gas Abatement Scheme and the Federal Government's Greenhouse Friendly Program are becoming increasingly of interest to such companies as they provide a regulatory framework and accountability for their abatement actions taken.

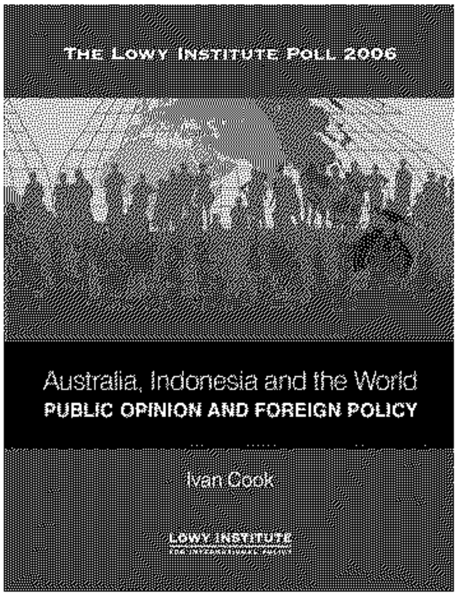
[1] Australian Government. 2005 Tracking to the Kyoto Target. Australia's Greenhouse Emission Trends 1990 to 2008-2012 and 2020.

- Negotiations regarding new plantings have been advanced during the quarter.

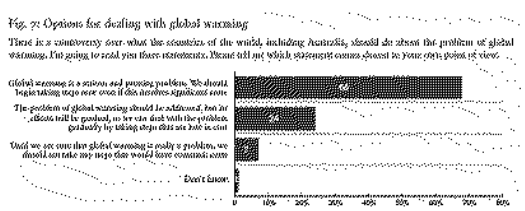
CARBON MARKET DEVELOPMENTS

AUSTRALIAN CARBON DEVELOPMENTS

Lowy Institute Survey



A recent poll undertake by the Lowy Institute has highlighted the growing concern of global warming amongst the Australian community.

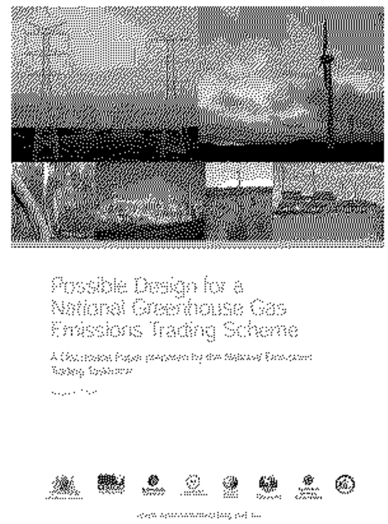


Global Warming Report for Cabinet

According to the Financial Review[2], the Prime Minister John Howard has requested the Australian Intelligence Analysis Agency, the Office of National Assessment (ONA) to prepare a detailed report for cabinet on global warming and its security implications.

National Emissions Trading Scheme

- The Australian State and Territory Governments have released their proposed design for a National Emission Trading Scheme (NETS).



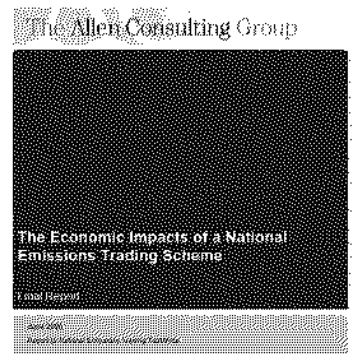
- Under the proposal, all States and Territories will adopt a cap and trade greenhouse gas emission trading scheme which is consistent with other international frameworks for carbon trading, notably the Kyoto Protocol and the EU-ETS.
- Key features of the NETS are:
    - The Scheme would commence as early as 1 January 2010, with legal framework established well before so that companies have time to adjust to the new carbon constrained future.
    - Mandatory caps on greenhouse gas emissions would apply to the stationary energy sector.
    - The caps would be modest on commencement, but would gradually increase over time. A cap on emissions would be specified for the ten years to 2020. A range of emission caps referred to as "gates" would be identified for the period 2020 to 2030. From the first year of the Scheme, each year the Governments would set the cap for an additional year ten years into the future (which must be between these gates). The gates would be extended in a similar way in five yearly intervals. No conclusion has been reached on the emissions

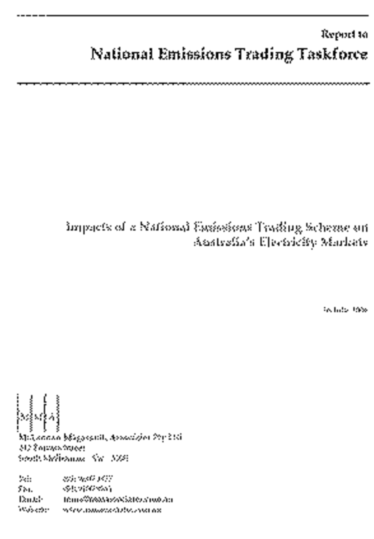
[2] Australian Financial Review "Howard gets Warmer". 9 October 2006

caps, however modeling has been conducted based on two scenarios representing electricity generation emissions reductions of 5% and 19% by 2030 compared with 2005.

- The mandatory caps on emissions will be enforced by a non-compliance penalty, set to achieve a balance between procuring compliance and capping the maximum cost of compliance with the Scheme at an acceptable level.
- These caps would be implemented via a system of annual permits. One permit represents an allowance to emit one tonne of carbon dioxide equivalent of greenhouse gases. This is a similar structure to the European Union Emissions Trading Scheme (EU ETS).
- Offsets could be created from projects that result in reduced greenhouse gas emissions that are additional to emissions below a plausible baseline. Projects that could create offsets include forestry, carbon capture and storage, reductions in industrial process emissions, or reductions in methane emissions from the waste sector.
- Once issued, permits and offsets can be traded or banked (for an indefinite period of time). The Scheme will be designed to link into the global carbon trading market, so that credits (Certified Emissions Reductions) from the Kyoto Protocol's Clean Development Mechanism can be utilised to offset greenhouse gas emissions under the Scheme. The rules and procedures of the Kyoto Protocol's Joint Implementation framework will also, as far as possible, form the basis for the design of the offset portion of the scheme.
- The non-compliance penalty will be imposed on those liable entities that do not surrender permits and offsets equivalent to the volume of their actual greenhouse gas emissions in a given year.

♦ Some initial economic modelling has been undertaken to predict the impact of the proposed Scheme on various sectors. Under different "Domestic Action Scenarios" carbon prices were expected to range from \$17 to \$31 per tonne of CO_2e by 2020[3].





♦ The Scheme acknowledges that trade-exposed companies (that is, those companies that are most likely to suffer international competitive disadvantages as a result of the Scheme) deserve special consideration. The Scheme will extend breaks to these companies and energy-intensive industries through free allocations of permits.

[3] The Allen Consulting Group. The Economic Impacts of a National Emissions Trading Scheme. June 2006

South Australia introduces draft Climate Change and Greenhouse Emissions Reduction Bill

- The Premier of South Australia has introduced a draft Climate Change and Greenhouse Emissions Reduction Bill (2006), that will make South Australia the first Australian state to legislatively enforce a reduction in greenhouse gas emissions. The Bill enforces greenhouse targets with at least 20 per cent of the state's electricity be derived from renewable energy sources. The Bill also proposes to commit South Australia to a target of reducing greenhouse gases by 60 per cent of 1990 levels by 2050.

WA State Government moves closer to mandatory greenhouse reporting requirements

- The Western Australian Government has proposed new environment regulations that would require industry to report greenhouse gas emissions. The aim is to establish a Western Australian Greenhouse Inventory, consistent with the national scheme that is currently being evaluated.

The Victorian Government's new renewable mandatory target

- Victoria has become the first state to set its own mandatory renewable energy target and support scheme. According to the Victorian Energy Minister Theo Theophanous, "the Bracks Government's Victorian Renewable Energy Target (VRET) scheme will require electricity retailers purchase a minimum of 10 per cent renewable energy by 2016, up from the current level of around 4 per cent"[4].

- Also Victoria's top 250 energy and water users will now have to submit compulsory resource efficiency plans to the State Government, demonstrating their attempts to reduce their environmental impact. The program is based on the Greenhouse Program operated by EPA Victoria which requires EPA licence holders to implement energy efficiency measures.

- A recent parliamentary committee meeting has recommended an urgent assessment of the extent to which companies have acted on commitments made in EPA-required energy efficiency and greenhouse action plans. This assessment will verify the extent of actual implementation, with a report on its finding being made public.

Council of Australian Government seek mandatory reporting of greenhouse gas emissions

- Australian states have won agreement from the Federal Government for a new national framework for reporting greenhouse emissions.

- The recently held Council of Australian Governments (COAG) meeting has agreed to draw up proposals for the new scheme by the end of 2006. Greenhouse gas emissions would become subject to "national purpose-built legislation to provide for cost effective mandatory reporting and disclosure at the company level at the earliest practicable date," the COAG communiqué said. Currently, greenhouse gas emissions in Australia are tracked under a number of programs, none of which mandate economy-wide reporting down to the company or installation level.

- But "a single streamlined system that imposes the least cost and red tape burden is the preferable course of action," the COAG communiqué said.

EU rejects Australia's Prime Minister's view of EU-ETS

- The European Commission has released a detailed rebuttal of Prime Minister Howard's criticism of the EU-ETS and insisted that, contrary to the Prime Minister's claim that the scheme was a failure; it was "working well".

- The commission is convinced that "emission trading must remain at the core of EU climate policy and that market mechanisms provide a successful long-term response to climate change. The ETS will remain at the heart of Europe's strategy to cut greenhouse gas emissions, and should be the nucleus of the international carbon market"[5].

WWF report.

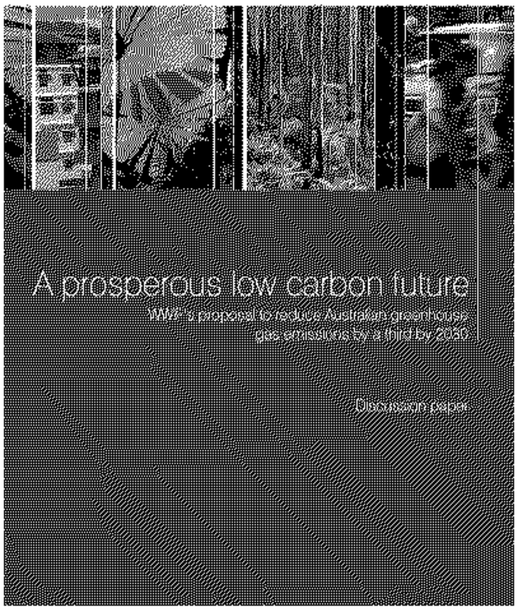
- A new report[6] has been released by WWF highlighting a proposal to reduce Australia's greenhouse gas emissions by 30% below 1990 levels by 2030. The report highlights that the two key drivers to achieving major cuts are energy efficiency improvements and a requirement for new electricity

[4] Environmental Manager. July 2006.

[5] The Australian Financial Review, August 2006.

[6] WWF. A prosperous low carbon future (2006).

generators to use low emission technologies. The report supports the need for a carbon price signal.



AFL to go carbon neutral by 2009

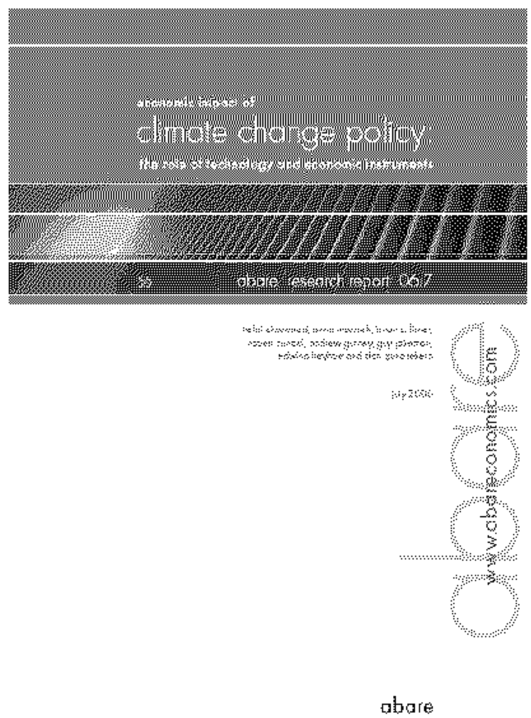
- The AFL to introduce an AFL Green scheme, with all AFL games to be carbon neutral by 2009.

Other Australian carbon news

- A report by the Climate Institute has stated that "over the last 12 to 18 months, action on climate change around the world is moving at a new velocity across the spectrum of climate science, politics, technology and community attitudes". However "while the world moves forward on climate change with determination, ingenuity and positive action, Australia is, at best, hesitant, at worst, recalcitrant".
- The Climate Institute has planned a major advertising campaign to make Australians more aware of the threats of global warming and to elevate the issue of global warming at next year's Federal election.
- A consortium including Origin Energy, BP Solar, Big Switch and ANZ have been successful in receiving a $15 million grant under the $75 million Federal Government sponsored Solar Cities Program.
- A senior CSIRO researcher and former Treasury official Steve Hatfield-Dodds told the Australian National University hosted Climate Change Forum that "delayed action reduces options and flexibility and involves greater risks of adverse climate impacts and rapid system changes"[7].
- The NSW Land and Environment Court Chief Judge Brian Preston has stated that "it is clear the time for sustainable development has come, and it is essential that individual judges and national judiciaries seize the opportunity"[8]. Further "the law on sustainable development is gaining momentum" the judge noted.

Further climate change reports released

- ABARE released a CSIRO-commissioned report[9], on climate change policy during the quarter. The report calls for governments to adopt "proactive technology push measures" but stated that "in the long run, both technology push policies and technology pull policies such as carbon taxes and an emission trading scheme would be needed.



- The report modelled a range of scenarios for greenhouse gas abatement this century. One of the lower-cost scenarios where all the major identified potential

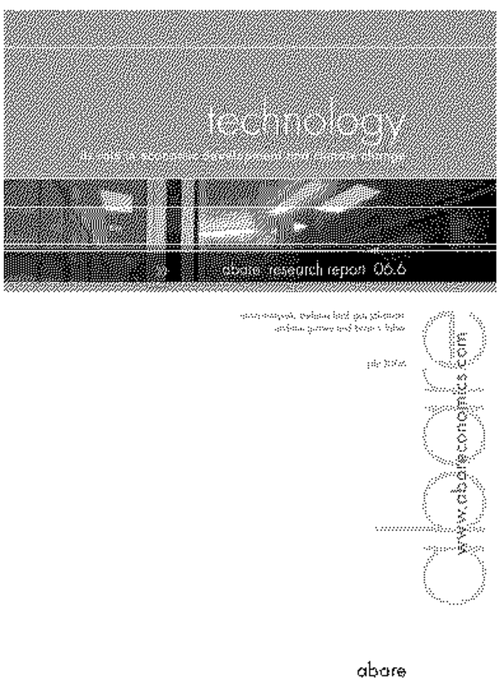
[7] Environmental Manager. Issue 593, September 2006.

[8] Environmental Manager. Issue 592, August 2006.

[9] Commonwealth of Australia. ABARE. Economic impact of climate change policy –the role of technology and economic instruments July 2006

abatement technologies become available, including carbon capture and storage, sees a global carbon tax levied starting at $1.00 in 2010 and rising to $39.00 in 2030 and $75.00 in 2050 to meet the 40 per cent target.

- With regard to carbon capture and storage technologies, the report assumes that the additional cost of generating electricity with CCS technology comprises a capture cost and a transport and storage cost. The capture costs alone were assumed to range between US$25-US$30 per tonne of CO2e.
- In another report by ABARE "Technology - its role in economic development and climate change" concluded that "trading or taxes could be useful in the shorter term to foster deployment of existing technologies. Global or multilateral emissions taxes or tradeable permit schemes may be a cost-effective tool for bringing currently available technologies off the shelf to induce near-term emission reductions"[10].



- The report estimates that without technology partnerships or further intervention Australia's greenhouse gas emissions will rise from 497 million tonnes of CO_2e to 560 million tonnes in 2010, 716 million tonnes in 2030 and 838 million tonnes in 2050.
- The Federal Government has also released a "national action plan" to help deal with the effect of climate change on water availability, farm production systems and heightened risks of pest, weed or disease.

Annual review of NSW Greenhouse Gas Abatement Scheme

- The NSW Greenhouse Gas Abatement Scheme administrator IPART has released its annual Scheme Review. Energy efficiency initiatives and other demand-side measures accounted for 15% of the total certificates created in 2005. In 2005, the 33 participants with obligations under the scheme surrendered more than 9 million certificates. A total of 146 projects were eligible to create abatement certificates, a rise of 57% on 2004.
- In June 2005 the former Premier of NSW, Bob Carr announced the extension of the Scheme from its legislated end date of 2012 to 2020 and beyond on a rolling 15 year basis. In November 2005 the NSW Greenhouse Plan confirmed the extension of the Scheme to 2020. It is anticipated that a new Bill to extend the Scheme to 2020 will be introduce to the NSW Parliament over the coming months.
- On 1 January 2005, the ACT Government formally introduced the ACT Greenhouse Gas Abatement Scheme modelled on their existing NSW Scheme, with the ACT Scheme administrator being performed by IPART.
- NGAC's generated from carbon sequestration total 538,471 for 2005.

A House of Representatives committee inquiry into geo-sequestration

- In submissions and evidence to the inquiry, companies and peak industry bodies warned that investment in geo-sequestration would not occur without an emissions trading system.
- A joint submission by a number of Federal Government departments has set out a number of estimates for the likely take-up of geosequestration. For instance, assuming capture and storage costs ranging from US$25 (A$34) to US$40 (A$54) per tonne of CO_2e and a carbon price of US$25 (A$34) per tonne, it has been estimated that Australia would

[10] Commonwealth of Australia. ABARE. Technology- its role in economic development and climate change July 2006

economically store about 20 million tonnes of CO_2e per annum[11].

- CSIRO stated that installing geo-sequestration at existing power stations would double the cost of electricity. Even with further future improvements in this technology, geo-sequestration would still significantly increase the cost of power.
- The Energy Supply Association of Australia and the Australian Coal Association both agreed that carbon capture will only be implemented once an emissions trading system allows electricity generators to recoup their investment.
- Santos stated that it "supports the introduction of a national emissions trading scheme as part of a set of mechanisms allowing the market to determine the least cost means of greenhouse gas abatement. A viable carbon emission abatement trading system with a CO2 price signal does not currently exist in Australia; hence there is no economic incentive to consider geo-sequestration as a long term business proposition"[12].
- Origin Energy stated that "a carbon signal is an essential component of a regulatory framework to support the development of geo-sequestration in Australia"[13].
- The CRC for Greenhouse Accounting stated that the challenge of climate change "is probably the most significant that civilisation has faced. In the past five years, all remaining credible scientific argument against human-induced climate change has evaporated."[14] Further it supports the thorough investigation of geological sequestration and the introduction of emissions trading.
- Stanwell stated that potential legal liabilities are a "significant barrier to industry being willing to undertake projects to develop CCS technologies. These potential liabilities, even if small and likely to be dormant for many years, are not compensated for by an adequate revenue stream, particularly for demonstration projects"[15].
- Senator Ian Campbell, Minister of the Environment and Heritage, has recently stated carbon dioxide capture and storage technologies (CCS), such as geo-sequestration are "not yet covered by the current international legal framework, which was first developed more than 30 years ago"[16]. This framework includes the 1996 Protocol to the London Convention of 1972, which aims to protect the marine environment from pollution caused by the dumping of land-based wastes at sea. The Australian Government has proposed a number of amendments that "would ensure that the carbon-dioxide stream could not be pumped into the ocean water, only into geological formations beneath the seabed"[17].
- Climate Action Network Europe (CAN Europe) which represents over 100 non-government organisations has called on the second Meeting of the Parties (MOP2) to the Kyoto Protocol to reject the inclusion of carbon capture and storage (CCS) under the clean development mechanisms. CAN Europe stated that the technology "has not yet been shown to be environmentally safe and sound, which is a requirement for the inclusion of the technology under the Marrakech Accords"[18]

INTERNATIONAL CARBON DEVELOPMENTS

State of the Kyoto Protocol

- The map[19] on page 10 highlights the significant acceptance of the Kyoto Protocol as the internationally accepted policy mechanism to combat climate change. Since coming into force in February 2005, over 26 countries have ratified the Kyoto treaty.
- German Chancellor Angela Merkl has stated that Germany will continue to put climate change at the forefront in international forums next year when her country takes over the EU and G8 presidencies and signalled her resolve to bring the USA into international greenhouse gas agreements. The USA remains the only G8 country not to ratify

[11] Environmental Manager, Issue 598. October 2006.

[12] Environmental Manager, Issue 595. September 2006.

[13] Environmental Manager, Issue 595. September 2006.

[14] Environmental Manager, Issue 595. September 2006.

[15] Environmental Manager, Issue 595. September 2006.

[16] Senator the Hon Ian Campbell. Minister for the Environment and Heritage. Media Release September 2006

[17] Senator the Hon Ian Campbell. Minister for the Environment and Heritage. Media Release September 2006

[18] Point Carbon. Carbon Market News 4 October 2006

[19] Wikipedia

the Kyoto Protocol. Besides the growing international pressure on the US, there is growing domestic support for the US to take action.

- The USA remains the world's largest emitter of greenhouse gases. Its emissions are approximately 25% higher than those of either China or the EU 25. The USA originally agreed under Kyoto to reduce its emission profile by 7% below 1990 baseline levels by 2012. Its emissions are now 16% higher than in 1990[20].
- According to a Time, ABC and Stanford poll, 85% of Americans now believe that global warming poses a serious threat in the future, whereas 38% believe that global warming already is a threat now.
- According to Point Carbon this consensus also extends across the political landscape. "An ABC, Washington Post poll of June 2005 indicated that 80% of Democrats and 63% of Republicans favour US participation in multinational mitigation efforts such as Kyoto Protocol. The majority also believes that the Federal Government should mandate greenhouse emissions reductions from power plants"[21].
- 288 US mayors (representing 48.8 million Americans) as part of the "US Mayors Climate Protection Agreement" have agreed to try and meet or exceed the US's original Kyoto target.

International Carbon Market News

G8 - continued support for Kyoto Protocol.

- The G8 leaders formally voiced support for the Kyoto Protocol framework and included it among several emission reduction strategies to be considered after the first phase of Kyoto expires in 2012. British Prime Minister, Tony Blair urged G8 leaders to include five major developing countries - China, India, Brazil, Mexico and South Africa - in future discussions of climate policy due to the impact their growth is expected to have on global CO_2 emissions and negotiations.

Developing countries call for trade sanctions

- Brazil, China, India and South Africa, acting as a group called BASIC Project, released a proposed successor treaty to the Kyoto Protocol which would impose trade sanctions on nations that refuse to take on mandatory cuts in greenhouse emissions. The proposal also calls for mandatory greenhouse gas reduction targets to be gradually implemented in developing nations once the Kyoto Protocol expires.

New records achieved in Private Sector Investments in Carbon Funds and Carbon Deals

- Climate Change Capital, a London based carbon-investment bank, has raised approximately US$1 billion that will be invested in carbon reduction programs.
- World Bank has negotiated the largest greenhouse gas agreement, largely by private capital, to acquire 19 million tonnes of CO_2e for US$1.02 billion.

Ex-USA President Bill Clinton receives strong support from Richard Branson and Rupert Murdoch for the need for climate action

- The Clinton Foundation and the Large Cities Climate Leadership Group have announced the Clinton Climate Initiative in which more than 20 of the world's largest cities will work towards reducing greenhouse gas emissions in major urban areas.
- News Corporation boss Rupert Murdoch who took part in former US President Bill Clinton's global forum on climate change in New York has decided to make News Corp carbon neutral. Already New's BSkyB has achieved carbon neutral status. According to The Financial Review article regarding Murdoch's new climate change direction Murdoch stated that "more fund managers are demanding environmental responsibility - and in some cases refusing to own stocks of companies that show no willingness to change"[22].
- Virgin boss Richard Branson announced at the annual meeting of the Clinton Global Initiative a commitment to spend US$3 billion over the next ten years to promote renewable energy in the fight against global climate change. The pledge comes one day after the Bush administration said it was committing US$3 billion to climate technology research and development.

[20] Point Carbon. Carbon Market Analyst 13 September 2006.

[21] Point Carbon. Carbon Market Analyst 13 September 2006.

[22] The Financial Review 22 September 2006

USA Carbon Developments

- There have been further significant movements in the US to regulate greenhouse gas emissions continue.

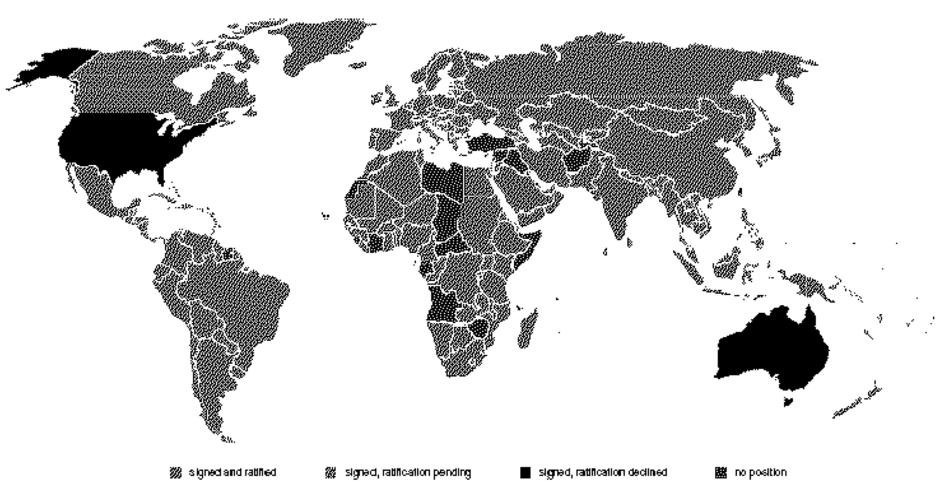
State of California - first US State to legislate a cap on its emissions.

- The California State Assembly Bill AB 32 "The Global Warming Solutions Act", which would require the State of California to reduce its greenhouse gas emissions to 1990 levels by 2020, was passed by the State Assembly on August 31 and represents the first US State to cap its CO_2e emissions.
- California is currently the 12th largest global emitter of greenhouse gases, with 465 million tonnes CO_2e emissions per year. The Bill would require the state's greenhouse gas emissions to drop to 417 million tons CO_2e per year. The law states that the California Air Resources Board may employ a cap-and-trade system to help achieve the objectives. According to AB32, any emissions limits for California will be adopted by 2011 and "become operative beginning on January 1, 2012."
- Other measures include California's own power utilities will be required to purchase 20% of their power from renewable sources by 2010.

Previously the law stated that this target had to be achieved by 2017.

- California's Governor Arnold Schwarzenegger stated that "we can now move forward with developing a market-based system that makes California a world leader in the effort to reduce carbon emissions," adding that its success "will be an example for other states and nations to follow."
- The Bill directs state agencies to consider relevant programs in "other states, localities, and nations, including the north-eastern states of the United States, Canada, and the European Union" and "to facilitate the development of integrated and cost-effective regional, national, and international greenhouse gas reduction programs."
- The British Prime Minister Tony Blair and California Governor Arnold Schwarzenegger have signed an agreement to collaborate on the evaluation of technology research, scientific research and market-based policy mechanisms such as greenhouse gas emissions trading. As a complement to this information sharing, the two governments will explore the possibility of linking the existing UK and the planned California carbon markets.

World Map



Source: Wikipedia

60 While the treaty has been ratified by 163 countries as of April 2006, only Annex I states are subject to legally binding GHG emission reduction targets. The Annex I countries that have ratified the Kyoto Protocol are obligated to reduce their GHG emissions by an average of 5.2% from a 1990 baseline by 2012.

- "We do not want to wait for the federal government to take action, comment Governor Schwarzenegger at a press conference, adding that the Bush government had not shown strong leadership in the climate change issue.
- Mr Blair described the agreement as "exciting". The Prime Minister said the UK is hoping for an international post-2012 framework on climate change whose two main components should be a strong market mechanism and a binding stabilization goal for emissions.

Another 7 US States move towards cap and trade scheme. More states likely to follow

- During August 2006, The Regional Greenhouse Gas Initiative (RGGI) released its final Model Rule. If adopted, the Rule would cap participating states' greenhouse gas emissions from electric generation facilities at current levels until 2015 and then requires cuts of a further 10% by 2019.
- Current plans will see CO_2 emissions from power plants in the region capped around current levels, approximately 121 million tons annually - with this cap remaining in place until 2015. The states would then begin reducing emissions incrementally over a four-year period to achieve a 10 per cent reduction by 2019. Compared to the emissions increases the region would see without the program, RGGI will result in an approximately 35 per cent reduction by 2020, according to official estimates
- The plan allows emitters from participating states to comply with their targets by purchasing credits from domestic, and in some cases international abatement projects. The final version incorporates changes which simplify the way in which offset projects from outside the electricity sector are incorporated into the program.
- The next step for the states involved is to seek the required legislative or regulatory approvals to adopt the programme so that RGGI can enter into force on 1 January, 2009.
- The seven participating states in the RGGI include Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York and Vermont. Other US states Maryland, Massachusetts, Pennsylvania, Rhode Island and the District of Columbia are observers to RGGI. Maryland's state government recently adopted legislation requiring it to join RGGI by June 2007, and Rhode Island, a former member of the initiative, have indicated that their state will rejoin the scheme before its start as well.

Other regulatory measures

- According to the latest Carbon Disclosure Project, 22 States in the US have established renewable portfolio standards or goals that require electric utilities to generate a certain amount of power from renewable sources by a specific date. A further 10 states (including New York and California) have adopted automobile emissions standards that require a 3.0% reduction in greenhouse gas emissions by 2016.

Other US States continue to explore their response to global warming

Arizona

- Arizona Governor Janet Napolitano required her state to reduce its greenhouse gas emissions to 2000 levels by 2020 and to 50 per cent below 2000 levels by 2040. The reduction goals are based on recommendations of a report from Arizona's Climate Change Advisory Group, which has been assessing climate policy measures for the state over the last year. The report's recommendations to the governor included "exploring development of a regional or national, economy-wide cap and trade program" for greenhouse gases. The executive order of statewide reductions is similar to the one issued for California by Arnold Schwarzenegger last year, calling for reductions to 1990 levels by 2020. Those have now been made law by the California's state legislature.

Oregon

- Oregon's Carbon Allocation Task Force has finalised the details of a cap-and-trade system for greenhouse gases which it recommended to the governor later this year. Governor Ted Kulongoski appointed the advisory group to design a load-based carbon allowance standard for Oregon as part of the state's strategy for greenhouse gas reductions. That plan sets a state goal of reducing emissions 10 per cent below 1990 levels by 2020 and 75 per cent by 2050.

Colorado

- Colorado has created an advisory group on combating climate change, with an eye toward cooperation with other states trying to get a handle on their emissions. Mayors of the state's three largest cities and business leaders announced they will appoint a panel of experts to develop a 'Colorado climate agenda' of recommendations to the state's government on how to reduce greenhouse gas emissions. Similar to initiatives in other states like Arizona, New Mexico and Oregon, Colorado's is the first to be launched by private groups and municipalities rather than the state government.

North Carolina

- The North Carolina Climate Change Advisory Council (CCAC) narrowed the options it will propose to the state legislature on how to best reduce greenhouse gases in the state. Among the items favoured by the task force on "cross-cutting issues" was establishing a greenhouse gas registry, possibly in concert with other states, and adopting a cap-and-trade system for greenhouse gases.

Montana

- The Montana Climate Change Advisory Committee (CCAC) had its first meeting on July 13. The CCAC will consider more than 200 state-level policy options, ranked by greenhouse gas mitigation potential, in drafting the final policy, which is scheduled for completion in July 2007. Montana Governor Brian Schweitzer convened the CCAC in December 2005. Montana is the sixth largest coal producer and has the largest coal reserves in the country.

New York

- The California and New York mayors have announced that they will collaborate on efforts to reduce greenhouse gas emissions in the absence of action at the national level. The New York Mayor Michael Bloomberg has also announced the undertaking of a greenhouse gas inventory assessment of all municipal operations which is expected to be completed over the next six months.

Illinois

- The Governor of Illinois has signed an executive order creating an advisory group on reducing greenhouse gas emissions, with state officials to consult with their California counterparts to explore potential partnerships. The Governor also announced that his state has become a member of the Chicago Climate Exchange.

Growing number of US Resolutions/Climate Bills for action

- On May 10, the U.S. House Appropriations Committee passed a bipartisan resolution calling for a mandatory cap on U.S. greenhouse gas emissions. This resolution follows the denial of a $5 million fiscal year 2007 request to fund the Asia-Pacific Partnership, a voluntary, technology-based approach to tackle climate change that includes Australia, Japan, South Korea, China and India.
- On May 23, the U.S. Senate Foreign Relations Committee voted in favour of a resolution calling for U.S. engagement in the United Nations Framework Convention on Climate Change (UNFCCC), the governing body of the Kyoto Protocol. Senators Richard Lugar and Joe Biden introduced the bill, which calls for common but differentiated GHG targets for all countries that are major emitters. The resolution calls for a bipartisan group of Senate observers to monitor future climate change negotiations.
- U.S. Representative Henry Waxman introduced the Safe Climate Act to Congress on June 20. The bill seeks to stabilize greenhouse emissions at 2010 levels and cut emissions 2% per year over the period 2011-2020, then 5% per year over the period 2021-2050, for total reductions of 80% below 1990 levels by 2050. The bill calls for an economy-wide cap-and-trade program. The bill was referred to the Committee on Energy and Commerce, of which Representative Waxman is a senior member, and to the Committee on International Relations.
- Vermont Senator Jim Jeffords, ranking member of the Senate Environment and Public Works Committee, introduced a broad greenhouse gas emissions reduction bill to the Senate on July 20. The Global Warming Pollution Reduction Act would require the United States to reduce GHG emissions to 1990 levels between 2010 and 2020, to 27% below 1990 levels by 2030, 53% below 1990 levels by 2040, and 80% below 1990 levels by 2050. These targets are similar to long-term goals proposed by the European Council in 2005.
- The Department's Energy Information Administration (EIA) published an analysis

of a cap-and-trade program proposed by US congressmen Tom Udall, a Democrat from New Mexico, and Thomas Petri, a Republican from Michigan. Their plan would cut greenhouse gas emissions by 827 million tonnes of CO_2e and 1.1 billion tonnes of CO_2e by 2020 and 2030, respectively.

- The U.S. Conference of Mayors have adopted the "2030 Challenge", which calls for a 50% cut below national average in the fossil fuel energy consumption of new and renovated buildings, with the ultimate goal of fossil fuel independence for all buildings by 2030. The resolution was put forward by the mayors of Chicago, Albuquerque, Miami and Seattle. Santa Fe, New Mexico was the first city to formally adopt the Challenge, on May 31. New Mexico Governor Bill Richardson issued an executive order calling for all State-owned buildings to meet the Challenge.
- The Western Governors' Association has adopted a package of proposals aimed at reducing greenhouse emissions by supporting renewable energy and energy efficiency projects. Tax credits for renewable energy and efficiency projects, as well as extended federal tax credits for clean fossil fuel technologies and carbon sequestration, are among the policies to be called upon in achieving emission reductions and energy independence.

US Corporates go on the front foot calling for action

- The President of the American Public Power Association, Alan Richardson, representing 15 per cent of United States power generation stated that "the issue is no longer whether there is a human contribution to global warming but the extent of that contribution," he said. There is, he added, "an emerging public consensus and a building political directive that inaction is not a viable strategy"[23].
- US power company Exelon has released its environmental progress report, highlighting new voluntary commitments to reduce its greenhouse gas emissions, and supporting a federal-level cap and trade system.
- Exelon's targets were taken under a program of the US Environmental Protection Agency, and commit the company to lowering emissions 8 per cent below 2001 levels by the end of 2008. Representatives from Exelon participated in the April hearing of the senate energy committee regarding the structure of potential federal regulation of greenhouse gases, and along with several other power companies, including American Electric Power and Duke Energy, favoured a cap and trade approach.

Continued Court challenges on climate change

- The U.S. Supreme Court has agreed to hear a case on the legality of federal regulation of GHG emissions from cars and stationary sources. The case, Commonwealth of Massachusetts et. al. vs. United States Environmental Protection Agency (EPA), was filed by Massachusetts along with the states of California, Connecticut, Illinois, Maine, New Jersey, New Mexico, New York, Oregon, Rhode Island, Vermont and Washington, other parties include New York City, Baltimore and American Samoa. According to the Massachusetts Attorney General's Office, the suit will argue, "that EPA has clear statutory authority to regulate greenhouse gas emissions."
- The State of California has filed a lawsuit to sue the world's largest automakers (General Motors, Ford, Toyota and DaimlerChrysler) for contributing to climate change. It seeks financial compensation under common law on public nuisance for past and ongoing contributions to climate change. The case is expected to commence in January 2007.

Climate change science.

- A recent study by NASA has concluded that the Earth is the hottest it has been in the past 12,000 years. Research leader James Hansen NASA's top climate expert stated "this evidence implies that we are getting close to dangerous levels of human-made pollution"[24]. The study said that global warming was already beginning to have visible effects in nature where plant and animal survival was dependent on certain temperate ranges.
- The United Nations Intergovernmental Panel on Climate Change (IPCC) is currently preparing its fourth major assessment of the current state of global

[23] San Francisco Chronicle article, 24 August 2006.

[24] The Western Australian 27 September 2006

scientific knowledge on climate change. More than 500 leading scientists from around the world are involved in this work, including more than 20 top Australian scientists. A report is expected to be released in 2007.

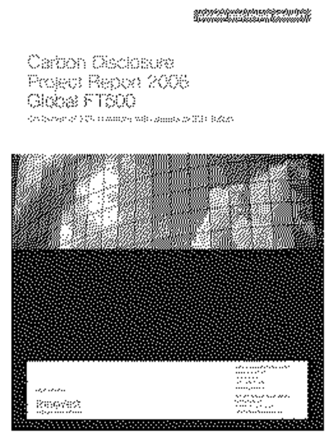
Other US news

- The US Department of Energy has released a strategic plan at a hearing of the House Committee in Science, for its Climate Change Technology Program (CCTP), which outlines measures to accelerate the development and deployment of new carbon reducing technologies. The Plan has requested US$3.0 billion in government funding for 2007. The committee's Chairman Sherwood Boehlert stated "the plan explicitly fails to deal with technology deployment"[25] and expressed the need to create a carbon market "whether that be tax incentives, regulations or some other measures"[26] so necessary to introduce these new technologies into market place.

Other International Carbon News

4th annual Carbon Disclosure Project. Institutional investor support continues to significantly grow

- The Carbon Disclosure Project's 4th survey report (CDP4) was officially launched at Merrill Lynch's New York headquarters. Other regional launches are planned that will provide details on 2,100 surveyed companies, including the ASX100, NZ50, 150 of the largest Japanese companies and 40 other major Asian companies. The Australian and New Zealand results will be launched on October 17th in Melbourne and October 19th in Sydney.
- The CDP is now supported by 225 investors with collective assets under management of US$31.5 trillion, up from 155 investors with US$21 trillion last year, US$10 trillion in 2004 and US$4.5 trillion in 2003.
- This year's survey of 2,100 companies is much more comprehensive than the top 500 global businesses surveyed last year. And it shows climate change is a rapidly growing concern for US corporations. "2006 may have been a tipping point in US public and corporate perception of climate change," the report says. "Many prominent leaders in the US business community now recognise climate change will result in physical, regulatory, competitive and reputational risks for their firms along with substantial market opportunities." The report suggests there is increasing disquiet with US govt inaction. Businesses are "calling for US govt action on climate change to provide regulatory certainty for companies whose global competitiveness may be at risk because of lack of clarity and leadership from the US fed govt", it says.



- CDP4 report's key findings:
  - CDP4 generates highest-ever response rate, with 72%, or 360 of the FT500 companies responding, up from 47% of the companies that responded when CDP first surveyed the FT500 in 2003.
  - CDP4 sees a dramatic increase in the response rate from US companies, with 50% answering the questions, up from 42% in 2005. But many US companies continue to lag.
  - US companies responding for the first time to CDP's request for information include American Express, Boeing, Home Depot, Disney and Wal-Mart.
  - 87% of responding companies indicated climate change represented "commercial risks and/or opportunities.
  - Action to reduce emissions trails awareness of the issue. Less than half (48%) of companies that consider climate change to present commercial risks and/or opportunities to their business have implemented a greenhouse gas (GHG) reduction program.

[25] Point Carbon. Carbon Markey News 21 September 2006

[26] Point Carbon. Carbon Markey News 21 September 2006

- Financial implications:
  - Greenhouse gas emission reduction less costly than expected. At a fixed marginal abatement cost of US$25 per tonne, many companies could reduce their "business as usual" 2012 emissions to 10% below 2005 levels for less than 1% of their reported 2005 earnings.
  - In North America "clean tech" has become the fifth largest venture capital investment category. It has been estimated that the clean energy market will grow from US$39.9 billion currently to US$167.2 billion by 2015[27].
- Other:
  - A number of financial institutions, including AIG, Allianz and Goldman Sachs have released dedicated climate change policies in the past 12 months. Citigroup, JP Morgan Chase, Merrill Lynch and Morgan Stanley have published equity research reports analysing the financial performance of the carbon markets.
  - According to the Social Investment Forum a total of 33 climate change resolutions were filed by shareholders in the first half of 2006. This compares with 34 during the same time period in 2005. Fully 12 climate change resolutions were withdrawn in 2006 after significant concessions by the receiving companies.
  - Institutional investors representing more than US$1 trillion in managed assets have called on the US Securities and Exchange Commission (SEC) to require publicly-traded companies to disclose the financial risks of global warming in their securities filings.
  - Ceres a US based NGO, has published its first corporate climate change ranking. The report graded 100 companies (76 US and 24 international) on the relative merits of their climate change strategies.
  - The Investor Network on Climate Change (INCR) asked 30 large publicly traded North American insurers, including American International Group, Manulife Financial, Prudential Financial and MetLife, to disclose their financial exposure to climate change risk.
  - The treasurers of seven US states and New York City successfully pressured ExxonMobil's board of directors for a meeting to discuss the company's plans to address climate change.
  - The UN Secretary General Kofi Annan has launched the "Principles for Responsible Investment" at the New York stock Exchange. Investors with assets in excess of US$4 trillion have backed the principles, which set out 35 possible actions that institutional investors and asset managers can take to integrate environmental, social and corporate governance (ESG) considerations into their investment activities.

Other Carbon News

- The British Environment Secretary David Miliband has announced the government's intention to research the feasibility of emissions trading among citizens as a means to reducing greenhouse gas emissions in the private sector. Miliband suggested households may be given allocations for emissions generated by electricity, heating fuel and gasoline use, as well as air travel. The program was proposed as a more equitable alternative to a carbon tax.
- David Cameron, the leader of the UK's main opposition party, today called on the government to pass national legislation setting annual CO_2 reduction targets of 3 per cent per year. Cameron today sent a letter to British Prime Minister Tony Blair urging him to include the programme for legislation in the Queen's speech in November, which traditionally lists the bills that the government intends to bring to parliament in the following year. As well as annual targets of 3 per cent, the letter calls for the establishment of an independent board to assess government policy and promised his party's support in parliament.

[27] Clean Edge. Clean Energy Trends March 2006

- Out of 80 Canadian companies that responded to consulting firm Deloitte's 'GHG Emissions Management Survey 2006,' half said they do not include greenhouse gas emissions in their overall risk management policy or strategy, despite 80 per cent ranking greenhouse gas emissions management as an issue of moderate to critical importance.

European Union

- According to the working group under the EU high level group on competitiveness, energy and environment, the European Commission should explore the introduction of a broader tax on imported products from countries not covered by an emission trading scheme.
- Investment bank Goldman Sachs will buy 10.1 per cent of the shares in Climate Exchange, which owns the main North American and European carbon exchanges.

THE EU ETS

- During the quarter, prices for allowances (carbon credits) were extremely volatile driven largely by market speculation regarding Phase II allocations under the EU-ETS.
- Phase II of the EU-ETS scheme (2008-2012) will see the penalty rate for non-compliance increased from €40 per tonne to €100 per tonne.

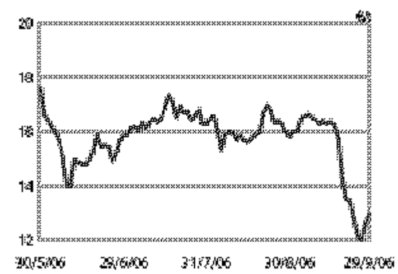
EU ETS OTC closing prices (€/t)

Delivery	Bid	Offer	Close
Spot	12.70	12.80	12.75
EUA 2006	12.90	13.00	12.95
EUA 2007	13.25	13.40	13.33
EUA 2008	16.10	16.25	16.18

EU ETS closing price rolling averages (€/t)

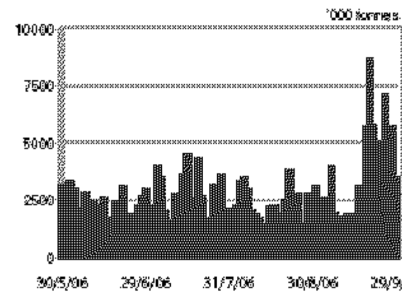
Delivery	Five day	Change	20 day	Change
Spot	12.30	-0.10	14.80	-0.15
EUA 2006	12.50	-0.10	15.00	-0.16
EUA 2007	12.85	-0.10	15.44	-0.16
EUA 2008	15.72	0.01	17.15	-0.08

EUA 2006 historical closing prices



* Visit www.pointcarbon.com for methodology.

EUA total volumes OTC and exchanges



Source: Point Carbon

Background to 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 1st January 2005.
- The EU ETS is planned to operate in two phases. Phase 1, commonly referred to as the warm-up phase from 2005 to 2007 focuses on carbon dioxide only (the principal greenhouse gas) and on a range of large installations in key industrial sectors. In Phase 1 of the EU ETS, over 6 billion tonnes of European Union Allowances (a form of carbon credits) have been allocated, equivalent to a value of some €120 billion.
- The second phase from 2008 to 2012 is set to coincide with the first Kyoto compliance period. The second phase will involve tighter overall caps (in line with economy-wide emissions targets under the Kyoto Protocol) and may be expanded to other greenhouse gases and additional sources and sectors (e.g. aluminium and aviation).

Brief Background to NSW Benchmark Scheme

- The NSW Benchmark Scheme requires energy retailers and certain other parties (benchmark participants) to reduce the CO_2 intensity of the power purchased (i.e. their CO_2 emissions) or pay penalties. Currently there are 32 benchmark participants involved in the scheme.
- The NSW Benchmark Scheme became operational on the 1st January 2003 and was originally designed to expire at the end of 2012, to coincide with the first Kyoto commitment period (i.e. 2008-2012). Proposed legislative amendments to the Scheme extend the Scheme to 2020 (with automatic 15 year extensions) and are expected to be passed shortly.
- During the quarter NGAC prices have consolidated around $12.20 per tonne of CO_2e. A recent fall in NGAC prices has been attributed to an unexpected supply of 'carbon credits' generated from a one-off energy efficiency project. Any further supply of NGACs from this project is expected to be significantly reduced as a result of a change in the deeming provision rules of the Scheme. As a consequence of this change in the deeming provisions, NGAC spot prices have recently firmed and are currently trading at $12.60 per tonne of CO_2e.

NGAC	**5 June 2006**	**2 October 2006**
Spot	14.65	12.30
Cal 06	15.25	12.35
Cal 07	16.10	13.20
Cal 08	16.40	14.30
Cal 09	16.60	15.30
Cal 10	16.90	16.00

Source: Next Generation Energy Solutions

- An estimated 6.1 million certificates were exchanged in 2005, a 20% increase over 2004. During the first three months of 2006, 5.5 certificates were exchanged. The overall market value for 2005 was estimated at US$57.2m, while the market value for the first 3 months of 2006 has been estimated at US$86.6m.

Yours faithfully
CO2 Group Limited

Harley Whitcombe

Harley Whitcombe
Director

Brief Overview of Project

CO2 Group's CO2 AUSTRALIA™ Carbon Sequestration Program (Program) offers a low cost solution to meeting the challenges associated with mitigating the effects of climate change.

The Program is unique in the Australian marketplace. The Program involves establishing long term environmental plantings in agricultural areas of rural Australia that have been denuded of native vegetation. Mallee Eucalypts have been selected due to their ecological qualities: they are long lived; survive drought and fire; are resistant to pest and disease; are unpalatable to stock; and do not require irrigation or fertilisation. Most importantly, they accumulate large amounts of biomass, both above and below the ground and therefore generate significant carbon offsets.

The Program, undertaken in partnership with individual farmers generates significant additional community benefits by retarding salination and thereby reducing the loss of biodiversity, increasing farm productivity as well as creating regional employment.

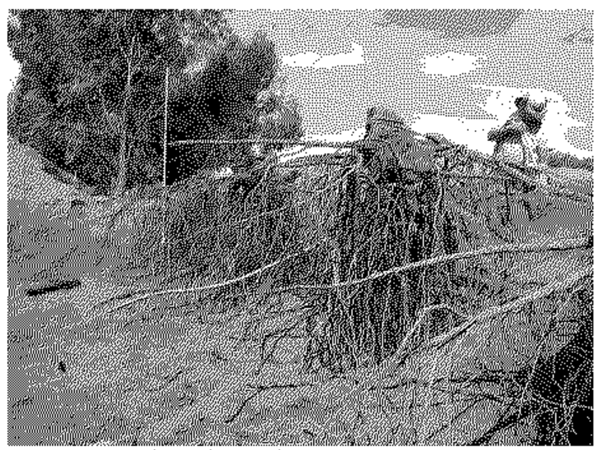
The Mallee Eucalypts is an indigenous tree species of southern Australia. Extensive clearing of the mallee has occurred (approximately 133,000 km^2 since European settlement[28]) in establishing the wheat-belt regions of southern Australia. As such, this over-clearing has resulted in the mallee being "recognized as one of the most affected of the major vegetation groups in Australia"[29].

As a consequence of over-clearing Australia now 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"[30]. The Council of Australian Governments has stated that the total cost of land and water degradation is approximately A$3.5 billion per annum[31]. 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 if no action is taken now.

Much of the effort to date to address these significant environmental problems has been by the Federal and State Governments funding 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.

A recent progress report on salinity has stated that more attention must be diverted in "securing greater industry involvement in salinity and the capacity to attract large-scale private investors[32].



Research and Development Program

The Program is well supported by over 15 years of research and development, which in turn has generated contains unique intellectual property on many aspects of the overall Program. It is also is supported by State and Federal Government policies on both climate change and natural resource management. For instance, the Federal Government has stated that "the Australian Government supports the establishment of appropriate forest carbon sinks projects as part of a comprehensive economy-wide response to achieving greenhouse gas emissions reductions"[33] and "integrating

[28] Australian Government. Australian Native Vegetation Assessment 2001 – Vegetation Profile Fact Sheets Mallee Woodland and Shrublands

[29] NLWRA (2002)

[30] Commonwealth Environment Expenditure 2003-04

[31] COAG – Communiqué, 3 November 2003

[32] Commonwealth of Australia. Environment, Communications, Information Technology and the Arts Reference Committee – Living with Salinity – a report on progress. The extent and economic impact of salinity in Australia. (March 2006).

[33] Australian Government March 2005.

forest sinks with NRM forms an important priority"[34].

The Program has gained international recognition by being invited to present at the Australian side event at the annual Kyoto Protocol Conference of Parties (COP10) and the recent invitation and subsequent membership to the Chicago Climate Exchange.

Domestically, recognition has been achieved by the nomination of the Program as a finalist for both the Australian Corporate Sustainability and Banksia Environmental Awards. A recent planting was awarded the NSW Environmental Planning Award as well as receiving the Sir Thomas Mitchell Award for the most outstanding overall project across seven award categories.

Mallees incorporated into farmers cropping system.

Carbon Sinks and the Kyoto Protocol

The Kyoto Protocol recognises the benefits and provides the basic framework for the inclusion of carbon sequestration (carbon sinks) in meeting developed countries emission commitments. Early action involving carbon sinks is being taken by many entities by offsetting greenhouse gas emissions through carbon sinks and/or trading in carbon rights both internationally and in Australia.

The eighth meeting of the Natural Resource Management Ministerial Council endorsed the Farm Forestry National Action Statement which sets out the policy to increase the adoption of commercial tree growing and management as a potential element of Australian farming and a component of regional natural resource planning.

The National Trading Scheme being developed by the State and Territory Governments includes the ability to use carbon sinks as offsets.

The various State Governments are already actively promoting the use of carbon sinks in their greenhouse strategy programs. For instance, the Victorian Greenhouse Strategy "encourages investment in carbon sinks, including nature conservation plantings and sustainable plantations, with an emphasis on maximising multiple benefits such as salinity mitigation and biodiversity enhancement".

Forest Based - Carbon Sequestration Rights

Australia has been a leader in developing the legal and technical basis for using carbon sinks as part of the policy framework for climate change. All Australian State Governments have now established mechanisms to register carbon rights over tree plantations either as an interest in land or as a property right in trees.

These legal frameworks make it possible to trade in forest based carbon sequestration rights (carbon credits). Carbon sequestration rights are a targeted market based measure designed to complement greenhouse gas abatement strategies. They can provide a credit for the amount of CO_2 sequestered that is equal to the credit earned by reducing CO_2 emissions to the same extent.

The Federal Government has established a number of measures to enhance sinks through revegetation programs and sustainable forestry and revegetation management through the National Greenhouse Strategy.

[34] Australian Government: Greenhouse Action in Regional Australia, Annual Prospectus 2005-2006.

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Our Ref: CO2 ASX Announce Media Release NSW Awards (129)

ANNOUNCEMENT NUMBER 129

11 October 2006

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

By: ASX Online
Number of pages: 2
(including this page)

Dear Sir

MEDIA RELEASE

JOINT APPLICATION WINS PRESTIGIOUS ENVIRONMENTAL PLANNING AWARD AND THE SIR THOMAS MITCHELL AWARD

CO2 Group Limited 100% owned subsidiary CO2 Australia has been successful in a joint application with DH McMahon Pty Ltd and Polkinghorne Harrison and Longhurst Surveyors to the NSW Awards for Excellence in Surveying and Spatial Information. These awards are sponsored by the Institution of Surveyors NSW Inc and the Association of Consulting Surveyors NSW.

The joint application submitted by Polkinghorne Harrison and Longhurst Surveyors titled "The Mines – Carbon Credits and Surveying for Plan Registration" refers to a recent environmental planting undertaken by CO2 Australia in the central wheat belt of NSW.

The Mines environmental planting project, a joint surveying project by all application participants, required the comprehensive use of a wide variety of spatial data sources for site investigation, including satellite imagery, aerial photography, topographic maps, regional environmental datasets and GPS survey. These spatial data sets were then consolidated by innovative methods using existing GIS software and by new software developed specifically for the project.

This joint application was successful in winning the Environmental Planning Award as well as the overall winner of the Sir Thomas Mitchell Award for the most outstanding overall project across all seven award categories.

The following comments were made by the judges:

Environmental Planning Award – The winner epitomizes the diversity of the surveying profession and the co-operative spirit engendered by the surveying team. The collective effort has sought and found an innovative solution for our future in the area of environmental management. This is a timely approach to a monumental global problem. The concepts may have far reaching effects.

The Sir Thomas Mitchell Award – This prestigious award was chosen from a wonderful array of entries for its originality, professionalism, presentation and the potential benefits to the wider community

The winners of NSW awards categories will now be entered into the National APSEA Awards being held in Brisbane in November.

For further information regarding this media release please contact CO2 Australia's Managing Director Mr Andrew Grant on (03) 9787 9766.

Yours faithfully
CO2 Group Limited

Harley Whitcombe
Company Secretary

ATTACHMENT 3

CO2 Group Limited
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Our Ref: CO2 ASX Announce CCX Media Release 25-09-06 (126)

ANNOUNCEMENT NUMBER 126

25 September 2006

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

By: ASX Online
Number of pages: 2
(including this page)

MEDIA RELEASE

CO2 Australia Limited becomes first Australian member of the Chicago Climate Exchange - a global leader in greenhouse emissions trading

CO2 Group Limited is pleased to announce that its 100% owned subsidiary, CO2 Australia Limited (CO2 Australia) has been invited and subsequently secured membership as an Associate Member and Participant Member of the Chicago Climate Exchange (CCX). These memberships represent a world first, as CO2 Australia is the first Australian company to join CCX. As an Associate Member of the CCX, CO2 Australia has agreed to offset 100% of its indirect greenhouse gas emissions associated with its business activities.

Overview of CCX

The CCX is North America's only, and the world's first legally binding multi-sectoral, rule-based and integrated greenhouse gas emissions registry, reduction and trading system. CCX enables members to receive credit for reductions, and to buy and sell credits to determine the most cost–effective means of achieving greenhouse emission reductions. CCX Members include corporations such as Ford, Du Pont, Baxter and Bayer; utilities such as American Electric Power and Tampa Electric, the state of New Mexico and a number of non-governmental organisations and universities. Over 12 million tonnes of CO2 equivalent have been traded in CCX since its inception in December 2003.

CO2 Australia's CCX Membership

CCX Members have entered into legal binding agreements with CCX that require Members to reduce their direct greenhouse emission by 1% per year over a four year period (2003-2006, commonly referred as Phase I). Phase II will reduce greenhouse emissions by an additional 2% below baseline by 2010.

CCX Members that cannot reduce their own emissions can purchase carbon credits referred to as Carbon Financial Instruments (CFIs) from existing Members or from Participation Members via verified Offset Projects. Verified Offset Projects include forest carbon sink developments, commonly referred to as Forestry Carbon Emission Offset Projects under the CCX.

Also as a Participant Member of CCX, CO2 Australia intends to act as an Offset Provider thus enabling CO2 Australia to be a supplier of carbon credit offsets produced by its CO2 AUSTRALIA™ Carbon Sequestration Program into the North American market.

According to Managing Director of CO2 Australia Mr Andrew Grant, "CO2 Australia's membership to the CCX highlights the continued momentum in market leadership that the CO2 AUSTRALIA™ Carbon Sequestration Program has gained over the last two years. During this time period, CO2 Australia has been invited to present at side events associated with the United Nations Conference of Parties (COP9) and other international (and domestic) conferences, gained accreditation under the NSW Greenhouse Gas Abatement Scheme, secured 3 carbon credit contacts with corporate Australia, and has been nominated as a finalist in both the Australian Corporate Sustainability and Banksia Environmental Awards. Interest in the Program remains very strong, with CO2 Australia confident that additional new contracts will be negotiated".

"We are delighted that CO2 Australia is setting the pace in the climate change issue for other Australian entities by 100% offsetting its greenhouse gas emissions. The CCX is proud and welcomes them to the CCX family as our first Australian member. This is further validation that CCX provides high quality, credible credits from offset projects from around the globe. We look forward to active participation by CO2 Australia in CCX." said Dr. Richard Sandor, Chairman and CEO of CCX.

Yours faithfully,
CO2 Group Limited

Harley Whitcombe
Director & Company Secretary

Media enquiries: Andrew Grant (03) 9787 9766

Rule 4.7B

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

CO2 Group Limited

ABN	Quarter ended ("current quarter")
50 009 317 846	**30 September 2006**

Consolidated statement of cash flows

	Cash flows related to operating activities		Current quarter $A'000	Year to date (3 months) $A'000
1.1	Receipts from customers		994	994
1.2	Payments for	(a) staff costs	(594)	(594)
		(b) advertising and marketing	-	-
		(c) research and development	-	-
		(d) leased assets	(16)	(16)
		(e) other working capital	(1,732)	(1,732)
1.3	Dividends received		-	-
1.4	Interest and other items of a similar nature received		39	39
1.5	Interest and other costs of finance paid		(5)	(5)
1.6	Income taxes paid		-	-
1.7	Other		16	16
	Net operating cash flows		(1,298)	(1,298)

+ See chapter 19 for defined terms.

		Current quarter $A'000	Year to date (3 months) $A'000
1.8	Net operating cash flows (carried forward)	(1,298)	(1,298)
	Cash flows related to investing activities		
1.9	Payment for acquisition of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	(143)	(143)
	(e) other non-current assets	(50)	(50)
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	-	-
1.14	**Total operating and investing cash flows**	(1,491)	(1,491)
	Cash flows related to financing activities		
1.15	Proceeds from issues of shares, options, etc.	-	-
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	-	-
	Net increase (decrease) in cash held	(1,491)	(1,491)
1.21	Cash at beginning of quarter/year to date	4,664	4,664
1.22	Exchange rate adjustments to item 1.20	-	-
1.23	**Cash at end of quarter**	3,173	3,173

+ See chapter 19 for defined terms.

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	254
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

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

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

+ See chapter 19 for defined terms.

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	560	440
4.2 Deposits at call	2,613	4,224
4.3 Bank overdraft		
4.4 Other (provide details)		
Total: cash at end of quarter (item 1.23)	3,173	4,664

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: [signature] Date: 23 October 2006
(Director/Company secretary)

Print name: **Harley Whitcombe**

+ See chapter 19 for defined terms.