



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

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Our Ref: CO2 ASX Announce Appendix 4C - 30 September 2007 (197)

ANNOUNCEMENT NUMBER 197

10 October 2007

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

By: ASX Online
Number of pages: 16
(including this page)

Dear Sir

QUARTERLY REPORT - PERIOD ENDING 30 SEPTEMBER 2007

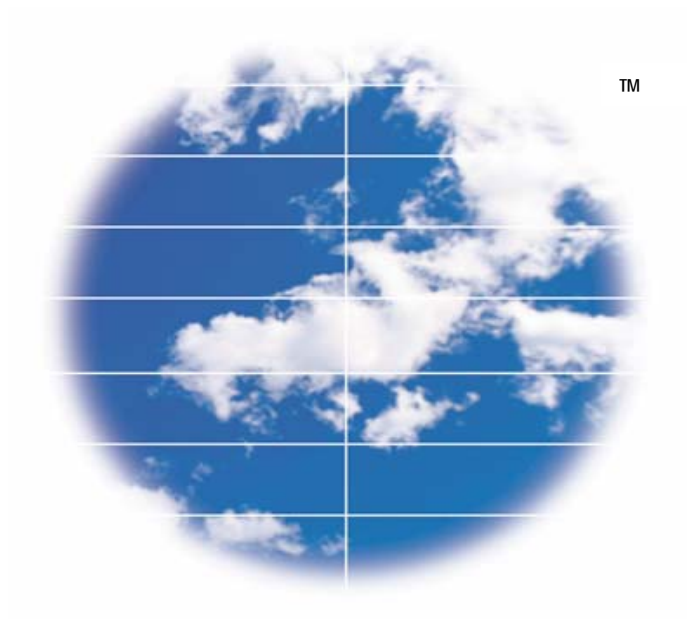
Please find attached the Quarterly Report for the activities of CO2 Group Limited for the period ending 30 September 2007 as required under Listing Rule 4.7B.

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 2007

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 (Program) offers a low cost solution to mitigating climate change.

CO2 Australia remains the only Australian company that has gained accreditation as a carbon sink offset provider under both the NSW Government Greenhouse Gas Abatement Scheme and the Federal Government's Greenhouse Friendly™ Program and remains the only carbon sink provider that has gained accreditation under the Greenhouse Friendly™ Program.

CO2 Australia was the first Australian company to secure membership as an Associate Member and Participant Member of the largest carbon voluntary scheme in the US, the Chicago Climate Exchange (CCX). 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 into the North American carbon market.

CO2 Australia has already successfully completed numerous accredited carbon offset programs for various major Australian companies and has been contracted to establish and manage carbon offset programs for the 2008 planting season for existing clients and a number of new major Australian companies, multinationals and the Victorian State Government.

For a brief overview of the Company's Program please refer to Attachment 1.

HIGHLIGHTS FOR THE QUARTER

Operations

- ◆ Planting operations for the 2007 planting season were completed during the quarter. A large part of the 2007 planting program was undertaken under a joint venture with Macquarie Bank.
- ◆ Carbon offset programs are scheduled for both NSW and Victoria for the 2008 planting season.
- ◆ Planning to significantly scale up the 2008 carbon offset planting program continued during the quarter.
- ◆ A number of new carbon business opportunities continued to be advanced during the quarter.
- ◆ Extensive research projects undertaken over the last 4 years have identified a number of new environmental science business opportunities. A number of selected projects have been advanced during the quarter.
- ◆ During the quarter, further investments were being finalised to enhance the Company's substantial core intellectual property assets covering carbon inventory, modelling and genetics.

New Business Opportunities

- ◆ The Company was successful in securing new carbon offset programs during the quarter, including being selected as the carbon offset provider for Qantas. A number of existing CO2

Australia's clients including Eraring Energy have committed to new additional carbon offset plantings for the 2008 planting season.

- ◆ A number of negotiations concerning substantial carbon offset programs to be undertaken over a number of consecutive planting years were advanced during the quarter. Given these negotiations the Company remains confident of securing additional new carbon offset programs in the short to medium term.

Corporate

- ◆ CO2 Group's CEO Mr Andrew Grant has been appointed to the internationally recognised Voluntary Carbon Standard Panel.
- ◆ CO2 Group's CEO Mr Andrew Grant and other senior executives continue to be invited to present at industry and climate change conferences.
- ◆ Cash reserves reported at the end of the quarter are \$2.5m. A number of major converting preference shareholders have converted their holdings into fully paid shares during the quarter. Further conversions of convertible preference shares are expected during the current quarter.

Australian Carbon Sink Developments

New Regulatory Environment endorses accredited Carbon Sink Providers

During the quarter, the Federal Government released its discussion paper¹ regarding early carbon offset incentives prior to the commencement of the Australian Emission Trading Scheme.

The Federal Government has already given an assurance that companies, events or individuals will not be disadvantaged in their permit allocation as a result of abatement action they undertake in the lead up to emission trading.

The Federal Government has adopted the Prime Ministerial Task Group recommendation which proposed that the Greenhouse Friendly™ Program will be used to provide the initial administrative mechanism for approving carbon offsets and early action credits for use in the emission trading scheme.

The Greenhouse Friendly™ Program already has an accreditation process/protocol for carbon offsets from new carbon sink forests, CO2 Australia Limited – a 100% owned subsidiary of CO2 Group remains the only accredited carbon sink provider accredited under this Program.

The Federal Government discussion paper has re-stated that with regard to the rapidly emerging voluntary carbon market, “that purchasers of offsets and carbon neutral products should be wary of products that are not accredited by a reputable source”.

Carbon sinks endorsed by Australia’s Chief Scientist²

Australia’s Chief Scientist Mr Jim Peacock has stated that governments and businesses need to do more in the short term to address climate change. Mr Peacock also stated that planting of new forests across large parts of the country would play a major role in mitigating greenhouse gas emissions.

Federal Government releases its policy³ on a national emissions trading scheme.

During the quarter, the Federal Government announced its policy position on a national emissions trading scheme.

The Government has endorsed the key design features of the emissions trading system set out in the report of the Prime Ministerial Task Group on Emission Trading. The key government regulatory

body governing the proposed trading scheme will be the Department of Treasury.

It is the Government’s ‘firm intention’ to commence the trading scheme in 2011.

As part of the development of a national emissions trading scheme, the Federal Government has successfully introduced new mandatory energy and greenhouse emissions reporting legislation which was passed by Parliament on the 20th September 2007.

Mandatory reporting requirements commence from 1 July 2008.

Federal Election

The Australian Labor Party continues to have a significant lead in the opinion polls. The Opposition Leader Mr Kevin Rudd has committed Labor to ratifying the Kyoto Protocol before the scheduled United Nations Conference of the Parties meeting in mid December in Bali should Labor win the election.

The Company believes that ratification of the Kyoto Protocol by Australia will have significant implications to the commercialisation of its CO2 AUSTRALIA™ Carbon Sequestration Program, as it provides the opportunity for ratified developed countries to undertake carbon offset programs in Australia and recognise the carbon credits generated in Australia in offshore carbon jurisdictions.

The Federal Labor Party has previously committed to a national emissions trading scheme with a target commencement date of late 2010.

Brief Overview of Other Major Carbon Developments

During the quarter, the momentum for further carbon regulatory measures continued to gather pace both domestically and internationally.

For a brief overview of these significant carbon developments, please refer to Attachment 2 for more detail.

¹ Australian Government. Department of the Prime Minister and Cabinet. Abatement Incentives prior to the commencement of the Australian Emissions Trading Scheme September 2007

² ABC news. More needs to be done on climate change. Chief Scientist. 3 October 2007.

³ Australian Government Report. Australia’s Climate Change Policy – our economy, our environment, our future. July 2007

Overview of EU ETS Scheme and NSW Scheme and Greenhouse Friendly™ Program

The EU ETS

- ◆ The tables below highlight recent trading activities on the EU ETS. Over allocations made during Phase I of the EU-ETS have led to an oversupply of credits available to be sold. However, “carbon” prices for European Union Allowances (“EUA”) in 2008 and 2009 remain less volatile and have continued to increase during the quarter.

Many ‘credits’ created in Phase 1 have no value post December 2007.

- ◆ 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.

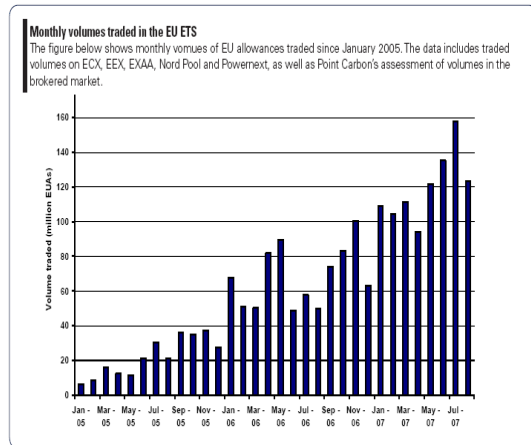


EU ETS closing price rolling averages (€/t)

Delivery	Five day	Change	20 day	Change
Spot	0.07	0.00	0.07	0.00
EUA 2007	0.08	0.00	0.07	0.00
EUA 2008	21.56	0.00	20.27	0.04
EUA 2009	22.12	0.01	20.76	0.04
EUA 2010	22.67	0.01	21.26	0.04
EUA 2011	23.27	0.04	21.78	0.04
EUA 2012	23.92	0.06	22.31	0.04

Source: Point Carbon

Around 123.4 million EU allowances changed hands across all platforms in August, which is lower than last month’s record volume of 157.7 million.



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).
- ◆ With regard to the size and value of the EU ETS, a recent report⁴ by Point Carbon has provided a summary of the EU ETS and other carbon markets. Below are extracts from this report.
- ◆ In 2006, trading on the EU ETS totalled 817 million tonnes (through brokers or exchanges). This equates to a carbon market value of €14.6 billion, representing a threefold increase from 2005, and two hundred times more than in 2004. In addition to the brokers and exchanges there is a sizeable direct bilateral market, bringing the financial value even higher.
- ◆ There was an expected boost in trading for delivery in the Kyoto period (2008-2012), with trades of 200 million tonnes CO_{2-eq} worth €3.7 billion. 75 per cent of this came in the second half of the year, with activity peaking around the EC's announcement on new allocation plans⁵.

New Forecast Carbon EU-ETS Prices

An EU target to reduce greenhouse gas emissions by 20 per cent by 2020 will drive up the price of EU allowances (EUAs), according to Deutsche Bank⁶, which has raised its average price forecast to €35.00 from €25.00 per carbon credit from 2008 through 2020.

Deutsche Bank had not investigated the price effects if the EU would reduce emissions by 30 per

cent by 2020, which it has pledged to do if other industrialised countries do the same, but the bank stated that it would increase prices "significantly".

In the Point Carbon report⁷ entitled Auctions Add Upwards Price Pressure for 2008, the company said uncertainty over when and how many carbon allowances member states will auction could force the December 2008 contract higher.

Point Carbon has downgraded its forecast for the 2008-2012 period to €29.00 from €30.00. Carbon is currently trading around €21.30.

In a report published by Societe Generale⁵, the bank predicts that European carbon prices could reach €39.00 (\$53.14) per tonne in 2012, pushed up by the inclusion of aviation in the EU emissions trading scheme (ETS) and market participants not fully utilizing the option of using Kyoto project credits for compliance.

Brief Background to NSW Benchmark Scheme

- ◆ The NSW Benchmark Scheme requires energy retailers and certain other parties (benchmark participants) to reduce the CO₂ intensity of the power purchased (i.e. their CO₂ 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). Legislative amendments to the Scheme have now extended the Scheme to 2021 (and beyond - with automatic 15 year extensions).
- ◆ The volume of New South Wales Greenhouse Gas Abatement Certificates (NGACs = carbon credits) transferred on the registry tripled from 6 million in 2005 to 20 million in 2006. According to Point Carbon, the estimated financial value jumped three-and-a-half times from A\$78.2 million (€48.5 million) in 2005 to A\$268.3 million (€160 million) in 2006.
- ◆ During the quarter NGAC prices have declined due to a short term oversupply of abatement certificates generated by energy efficiency abatement actions. The main supplier of these abatement actions has since announced its intention to significantly scale back its work force due to the correction in price of abatement certificates. Spot prices are currently trading in the range of \$5.75 to \$5.80 per tonne of CO_{2e}.

⁴ Point Carbon. "Carbon 2007 – A new climate for carbon trading" (March 2007)

⁵ Carbon Market Europe 12 January 2007

⁶ Carbon Market Daily, 24 July 2007

⁷ Carbon Market Daily, 5 July 2007

Brief Background to Federal Government's Greenhouse Friendly™ Program

The Federal Government's Greenhouse Friendly™ Program which was officially launched on 7 November 2001 allows certification of goods and services where associated cradle-to-grave greenhouse emissions have been fully offset (i.e. carbon neutral). Certification entitles the participating companies to display the Greenhouse Friendly™ logo in conjunction with the sale and marketing of their certified product/service.

Greenhouse Friendly™ accredited carbon offset providers have the ability to provide carbon credits to:

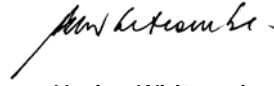
- Greenhouse Friendly™ product and service providers to offset the greenhouse emissions associated with their certified product or service; and
- Greenhouse Challenge Plus (GCP) Members as an offset in their greenhouse inventories or to meet greenhouse goals as GCP Members.

Importantly, Greenhouse Friendly™ approved carbon credits can also be bought and sold to other parties outside the GCP framework.

The Federal Government's Greenhouse Challenge Plus (GCP) Program was established in 1995. The GCP Program is based upon Australian industry/organizations signing voluntary greenhouse co-operative agreements with the Federal Government under which Australian industry/organizations agree to develop, progress and report on action plans to abate greenhouse gas emissions. This involves the development of a thorough and independently verified greenhouse gas inventory and the establishment of business greenhouse targets.

It is currently estimated that there are over 800 companies/organisations registered as participating companies (offering carbon neutral products/services) under GFP and/or are members of the GCP. The Federal Government has recently announced mandatory membership requirements to the GCP Program for high greenhouse emission development projects as well as companies receiving \$3m (or more) in fuel excise. These initiatives are expected to further increase overall membership to the GCP Program by 100 to 200 companies with most of these new GCP members coming from the transport, mining and resources sectors⁸.

Yours faithfully
CO2 Group Limited



Harley Whitcombe

Director

⁸ Australian Government. Greenhouse Challenge Plus – an Australian Government – industry partnership to reduce greenhouse gas emissions and improve energy efficiency (2005).

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 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 km² since European settlement⁹) 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"¹⁰.

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"¹¹. The Council of Australian Governments has stated that the total cost of land and water degradation is approximately A\$3.5 billion per annum¹². 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 investors¹³.

The Program is well supported by over 15 years of research and development, which in turn has generated unique intellectual property on many aspects of the overall Program. It is also 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"¹⁴ and "integrating forest sinks with NRM forms an important priority"¹⁵.

The Company has already undertaken (or are scheduled to undertake in the 2008 planting season) numerous contracted carbon offset programs for a number of major Australian companies, state governments and multinationals. These include Origin Energy, Eraring Energy, Macquarie Bank, EDS, Victorian Government, City of Sydney and Qantas.

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), the winning of a number of international environmental and sustainability awards and the recent invitation and subsequent membership to the Chicago Climate Exchange.

Domestically, recognition has been achieved by the Program with a number of Australian industry awards as well as being nominated as a finalist in 3 Australian industry environmental awards.



Mallees incorporated into farmers cropping system.

⁹ Australian Government. Australian Native Vegetation Assessment 2001 – Vegetation Profile Fact Sheets Mallee Woodland and Shrublands

¹⁰ NLWRA (2002)

¹¹ Commonwealth Environment Expenditure 2003-04

¹² COAG – Communiqué, 3 November 2003

¹³ 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).

¹⁴ Australian Government March 2005.

¹⁵ Australian Government: Greenhouse Action in Regional Australia, Annual Prospectus 2005-2006.

Major Carbon News

Growing International call for significant action

A number of significant international meetings concerning climate change occurred during the quarter. These include:

UN Vienna Climate Change Talks (August 2007)

- o Agreed that developed countries would require emission reductions "in the range of 25-40% below 1990 levels".

APEC Summit in Sydney - "Sydney Declaration (September 2007)"

- o Agreed that "the world needs to slow, stop and then reverse the growth of global greenhouse emissions"
- o Agreed on aspirational goals to reduce energy intensity 25% by 2030 and increase forest cover by at least 20 million hectares by 2020.

US Major Economies Meeting (September 2007)

- o White House "Agree upon a post 2012 framework that could include a long-term global goal, nationally defined mid-term goals and strategies and sector-based approaches.

UN (September 2007)

- o Convened by Secretary-General Ban Ki-moon
- o +150 countries, most with heads of state
- o A strong political signal to accelerate work under UNFCCC at Bali.

These meeting built on the momentum established at the previous G8 Summit in Heiligendamm (June 2007) which:

- o Called for global agreement on post-2012 framework under UNFCCC in 2009
- o Endorsed Bush proposal for major emitters' process, to report back to UNFCCC
- o Agreed to consider seriously at least a halving of global emissions by 2050.

The next significant international meeting on climate change is the Conference of the Parties meeting in Bali in December 2007. The key issue to be address will to commence negotiations under the UN Convention regarding emission targets etc for the post 2012 period.

Australian Carbon News

Climate change 'top security risk

Climate change will be "the security issue of the 21st century", stated Mr Mick Keelty, Australian Federal Police Commissioner. He stated that mass displacement of people, particularly in the Asia-Pacific region, due to global warming could create social uncertainty and unrest.

Federal Government to introduce renewables target

Federal legislation will be introduced next year setting a national clean energy target (CET) for Australia, replacing existing and proposed state and territory schemes with a single national scheme. PM John Howard stated that the CET will require 15% to 20% of Australia's energy from low-emission sources by 2020.

ACT commits \$100 million to climate change

The ACT has announced \$100 million climate change strategy for the next decade, including \$8.8 million to be spent in the first year. The blueprint includes a target to cut greenhouse emissions by 60% of 2000 levels by 2050, as well as a mid-term milestone of returning to 2000 greenhouse levels by 2025.

House of Representatives committee urges three-phase approach to sequestration liability¹⁶

A new House of Representatives report on geosequestration has recommended that financial liability for carbon capture and storage (CCS) projects initially rest with the operators and gradually transfer to governments. The transition would include an interim phase of shared liability. "The major challenge is to mount a project at the 500MW scale," says committee chair Petrou Georgiou in his foreword to the report. The report recommends the Federal Government fund "one or more large-scale projects" to demonstrate the operation and integration of CCS. It also calls for the development of a regulatory risk environmental risk mitigation framework that covers site selection criteria, leakage risk assessment and monitoring requirements.

The report also highlights the current estimated high carbon cost of CCS which has recently been confirmed by an advisor to Chevron who stated that capturing carbon dioxide from power plants and storing it underground will cost utilities well over US\$100 (€72.00) per tonne in view of the huge infrastructure and legal costs involved.

WA State of Environment report: miners making 'limited progress'¹⁷

WA's latest State of the Environment Report classifies the mining and petroleum sector, along with the energy, water and tourism sectors, as having made "limited progress" towards sustainability. Prepared by the WA EPA, the report says of the mining and petroleum sector that there has been "significant progress at the individual business level but a uniform sector approach to sustainability is lacking".

¹⁶ Thomson Environmental Manager, 14 August 2007

¹⁷ Thomson Environmental Manager, 3 July 2007

Power giant joins greenhouse drive¹⁸

Electricity giant TRUenergy, which supplies about one-quarter of Victoria's power and is one of the nation's largest CO2 emitters, has announced that it will cut greenhouse gas emissions by 60 per cent by 2050.

Anvil Hill watchdog group applies for Federal Court review¹⁹

The proposed Anvil Hill open-cut coal mine is facing a fresh challenge under federal assessment law. The challenge rests in large part on a claim that decision-makers did not properly account for greenhouse emissions resulting from use of coal from the mine.

PwC report

PwC has published a new report Carbon value: Protecting and Enhancing Shareholder Value in Response to Climate Change, where it argued that "Companies that fail to identify, manage and report on these risks are in violation of the fiduciary responsibilities to shareholders".

USA Carbon Developments

US presidential candidate Clinton lays out climate agenda²⁰

US presidential candidate Hillary Clinton has stated that as president she would implement an economy wide cap-and-trade system to lower greenhouse gas emissions 80 per cent by 2050 and increase federal funding for green buildings.

US Senators present bipartisan climate bill draft²¹

Independent Senator Joe Lieberman and Republican Senator John Warner outlined an economy-wide cap-and-trade proposal, which aims to cut US greenhouse gas emissions 70 per cent below current levels by 2050.

Still in draft form, the senators' America's Climate Security Act of 2007 combines elements of the five economy-wide cap-and-trade proposals presented in Senate and several sector-by-sector proposals.

Refer to the Pew Center of Global Climate Change website for a summary of proposed US greenhouse legislative bills currently before the Congress.

Momentum of individual state legislating greenhouse gas emissions reductions continues to gather momentum.

The province of British Columbia is set to introduce legislation to implement its Premier's

climate plan of cutting greenhouse gas emissions by 33% below current levels by 2020 and to set up a carbon market.

If the greenhouse targets become law, British Columbia will follow US States California, Hawaii, New Jersey and Oregon in making emission reduction targets into official state policy after requiring them by executive order.

Florida Governor orders greenhouse gas emission cuts²²

Florida is aiming to cut its greenhouse gas emissions in the power sector to 1990 levels by 2025 and by 80 per cent under 1990 levels by 2050, according to an executive order signed on 13. July by Republican Governor Charlie Crist.

Maryland Governor Martin O'Malley is considering legislation to cut greenhouse gas emissions 20 per cent below current levels by 2020.

Western States to cut greenhouse by 15% by 2020²³

The eight members of the North American Western Climate Initiative (WCI) announced a regional goal to reduce emissions 15 per cent below 2005 levels by 2020, a joint statement announced.

The participating jurisdictions emitted about 917 million tonnes of carbon dioxide equivalent (mtCO2e) in 2005. The agreed cuts would bring their collective emissions down to around 846 mtCO2e in 2020, assuming no other states or provinces join.

Virginia outlines greenhouse gas emission reduction goals¹⁰

Virginia Governor Timothy Kaine called on the state to reduce its greenhouse gas emissions by 30 per cent in 2025 to 2000 levels.

More US cities sign up to Kyoto targets²⁴

Around 600 mayors from cities in all 50 US states and Puerto Rico have signed onto the US Conference of Mayors' Climate Protection Agreement, a pledge to reduce their cities' carbon dioxide emissions 7 per cent below 1990 levels by 2012.

The mayors who signed on to the pact represent over 67 million Americans. Over two-thirds of the US population lives in cities.

The 7 per cent goal below a 1990 emissions baseline is the same greenhouse gas reduction target that the US would have been subject if it had ratified the Kyoto Protocol, an international agreement to address global climate change.

US court ruling boosts California auto emission standards¹³

¹⁸ The Australia, 4 July 2007

¹⁹ Thomson Environmental Manager, 17 July 2007

²⁰ Point Carbon News, 25 July 2007

²¹ Point Carbon News, 3 August 2007

²² Carbon Market North America, 18 July 2007

²³ Point Carbon News, 23 August, 2007

²⁴ ²⁴ Carbon Market North America, 18 July 2007

US car manufacturers failed to prevent 15 US states from adopting stricter limits on vehicle greenhouse gas emissions after a federal court judge ruled that New York and Vermont can adopt California's auto emission standards.

US companies lag in setting greenhouse gas targets: report¹²

US corporations are lagging behind their global counterparts in implementing greenhouse gas reduction programs with specific targets and timelines, according to results from the latest Carbon Disclosure Project (CDP), a collaboration of over 315 investors with assets under management of more than \$41 trillion. It concluded that a lack of US Federal controls was clearly a factor in this outcome.

US business group calls for immediate action on climate change²⁵

An association of 160 chief executives of leading US companies has called for immediate action to combat climate change and have called on the US Federal Government to establish a cap on greenhouse gas emissions and a trading program.

The group includes leaders from large companies such as Alcoa, Rio Tinto, Exelon, ConocoPhillips, Boeing Co., Coca-Cola, Dow Chemical Co. NRG Energy, Xerox and IBM.

Growing list of major corporates becoming members to Chicago Climate Exchange (CCX)

Climate Exchange has stated that it had increased the number of members of CCX by 100 to 338 over the first six months of this year, while more members had also joined the European Climate Exchange and the Chicago Climate Futures Exchange.

The Chicago Climate Exchange held its first **auction** of CERs (certified carbon credits) a first of its kind on a regulated exchange based in the US and denominated in US dollars. The auction representing 163,784 tonnes carbon dioxide equivalent was sold for US\$22.11/t or €15.69/t¹⁴.

Citigroup downgrades US coal stocks due to climate policy²⁶

Researchers at Citigroup released a report on 19 July predicting a dark future for the US coal industry because political momentum toward cutting carbon is building.

The report downgraded US coal stocks "across the board," saying the coal industry has failed to address concerns about climate change by delaying research and development of coal-burning technologies that reduce greenhouse gas emissions.

The coal sector's lack of interest in carbon capture and storage technologies, which aim to take

carbon emitted from the burning of coal for electricity and store it underground, has perpetuated a bad image for the fuel among policymakers, according to the report.

Recent Global Carbon Politics¹⁴

The Chicago Climate Exchange held its first **auction** of CERs this week from a wind farm in India managed by Tata Motors, India's largest automotive company. The CERs, representing 163,784 tonnes carbon dioxide equivalent, have been issued by the United Nations Framework Convention on Climate Change and the auction was a first of its kind on a regulated exchange based in the US and denominated in US dollars. The auction clearing price was \$22.11 or €15.69.

Global concern over environment grows rapidly²⁷

A Pew Research Centre survey on global attitudes has found large increases in the number of people concerned over environmental issues. In the US, 37% (up 14% since 2002) now rate environmental problems as the top global threat. Countries where more than half the population see environment as the major threat include Canada, France, Italy and the Ukraine. Concern is highest in China and Japan (70%) and South Korea (77%), with concern in India rising by 17% to 49%. Australia was not among the 47 nations included in the survey

Investors call on SEC for disclosure

A coalition of investors and fiscal officials from US states filed a petition requesting the US Securities and Exchange Commission (SEC) to require publicly-traded companies to assess and fully disclose financial risks from climate change.

Shareholder activists have 'most successful year yet' on corporate climate action²⁸

Shareholders filed 43 climate-related shareholder resolutions with US companies this year, of which 15 led to positive actions by businesses such as oil companies such as ConocoPhillips, said a report from Ceres, a national coalition of investors and environmental groups that helped coordinate the action.

The pressure group added that shareholder resolutions on taking action on climate change had received stronger levels of support this year, with almost 40 per cent support filed with power producer Allegheny Energy, the highest vote ever on a global warming shareholder resolution.

Other resolutions that went to a vote won average voting support of 21.6 per cent, including 31.1 per cent from stockholders in ExxonMobil, the world's most profitable oil company.

²⁵ Point Carbon News, 18 July 2007

²⁶ Carbon Market North America, 1 August 2007

²⁷ Thomson Environmental Manager, 3 July 2007

²⁸ Point Carbon News, 14 August 2007

Other Carbon Developments

New Zealand presents emissions trading scheme for 2008⁴⁷

The New Zealand Government has presented the key building blocks of its domestic emissions trading scheme, which will be launched for the forestry sectors of 1 January 2008 and gradually expanded to include other sectors.

The cap-and-trade scheme will cover the transport sector from January 2009, stationary energy and energy-intensive industry sectors from January 2010, and finally agriculture from January 2013.

Switzerland sets up domestic carbon trading scheme²⁹

Switzerland's Parliament has passed legislation paving the way for a domestic emissions trading scheme.

The country will introduce a CO₂ tax on heating and process fuels from 2008, which an option for companies to accept binding targets under a domestic cap-and-trade scheme instead of paying the tax.

The tax will be applied to all imported heating and process fuels and will be levied at the rate of €8.00 per tonne from 2008. The tax will double in 2009 if emissions from heating fuel are above 90 per cent of 1990 levels, and will rise to €24.00 per tonne in 2010 if emissions are above 86.5 per cent of 1990 levels.

In addition, fossil fuel generators will be obliged to offset all CO₂ emissions through investments in emission reduction projects.

²⁹ Carbon Market Europe, 6 July 2007

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

50 009 317 846

Quarter ended ("current quarter")

30 September 2007

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	474	474
1.2 Payments for		
(a) staff costs	(601)	(601)
(b) advertising and marketing	-	-
(c) research and development	(28)	(289)
(d) leased assets	(5)	(5)
(e) other working capital	(2,223)	(2,223)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	21	21
1.5 Interest and other costs of finance paid	(11)	(11)
1.6 Income taxes paid	-	-
1.7 Other	152	15
Net operating cash flows	(2,358)	(2,358)

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (3 months) \$A'000
1.8 Net operating cash flows (carried forward)	(2,358)	(2,358)
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	(62)	(62)
(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	608	608
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
Net investing cash flows	546	546
1.14 Total operating and investing cash flows	(1,812)	(1,812)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	1,026	1,026
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	639
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other (provide details if material)	-	-
Net financing cash flows	1,026	1,026
Net increase (decrease) in cash held	(786)	(786)
1.21 Cash at beginning of quarter/year to date	3,296	3,296
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 Cash at end of quarter	2,510	2,510

+ 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	239
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

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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

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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	639	639
3.2	Credit standby arrangements	Nil	Nil

+ See chapter 19 for defined terms.

Reconciliation of cash

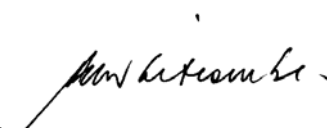
Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	772	698
4.2 Deposits at call	1,738	2,598
4.3 Bank overdraft		
4.4 Other (provide details)		
Total: cash at end of quarter (item 1.23)	2,510	3,296

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: 10 October 2007
(Director/Company secretary)

Print name: **Harley Whitcombe**

+ See chapter 19 for defined terms.