

Chicago Climate Exchange ("CCX")

The Chicago Climate Exchange ("CCX") is a voluntary GHG reduction and trading system for members that have voluntarily agreed to reduce their GHG emissions below their baseline emissions. CCX members have adopted emissions reduction targets of 6% below their baselines by 2010. The reductions are made through a legally binding mechanisms with independent third party verification and price transparency. Members can meet their targets by reducing emissions or by purchasing allowances from other CCX members who are below their emission targets or by purchasing offsets from third parties.

The CCX has 300 members or participants who are categorized into one of four membership categories which have different roles and participation levels. "CCX Members" are those entities that have direct GHG emissions in the United States, Canada or Mexico. "CCX Associate Members" do not have direct GHG emissions, but comply with CCX rules by offsetting all indirect emissions associated with their business related activities. The third category of CCX participants is a "CCX Participant Member" and is comprised of Offset Providers and Liquidity Providers. "CCX Exchange Participants" are entities that have created a CCX Registry Account for the purpose of acquiring and retiring CFIs.

The emissions reductions are to be phased in using two compliance periods. The first compliance period ("Phase I") ended December 2006 and the second compliance period ("Phase II") will end in 2010. The baseline emissions are calculated using the average emissions of each member from 1999 through including 2001.

The trading instrument is the CCX Carbon Financial Instrument ("CFI") which represents 100 tons of CO₂ equivalent ("CO₂e"). The CCX calculates a CO₂e using the global warming potential of CH₄, N₂O, HFCs, PFCs and SF₆. The CFI contract consists of an Exchange Allowance and an Exchange Offset. Exchange Allowances are issued to Members in accordance with their emission baseline and the CCX Emission Reduction Schedule. The CCX operates a registry that serves as the official database for CFIs owned by Registry Account Holders.

Trading occurs through a web-based trading system that has three components. The Trading Platform is a marketplace where trades are executed among Registry Account Holders. There are three transaction methods: a traditional exchange-cleared offer and bid system to preserve anonymity, an exchange of electronic bilateral agreements between the various classes of CCX members and pre-negotiated block trades and cash transactions. Exchange-cleared transactions are completed on the trade day while the bilateral agreements are settled according to the requirements of the participating parties.

Entities may also participate in the CCX for several types of offset projects. Offset projects can be registered by Members, Offset Providers and Offset Aggregators. Participants must have their projects verified by CCX-approved verifiers. Once approved, they may then register and trade their offsets on the CCX.

CCX will issue CFI contracts to Offset Providers or Offset Aggregators of eligible projects. An Offset Provider is an owner of an offset project involving more than 10,000 metric tons of CO₂e per year who may register and sell offsets on its own behalf. An Offset Aggregator is an entity that services as the administrative representative on behalf of project owners, of multiple offset generating projects. Smaller offset projects may be registered through an Offset Aggregator.

Offset Providers and Offset Aggregators cannot themselves have significant GHG emissions. Offsets are available for forestry, agricultural soil carbon, agricultural methane, and landfill methane. Other offsets that may be approved on a project basis include those relating to energy efficiency and fuel switching and CDM eligible projects. CCX has developed standardized rules for issuing CFI contracts for these projects with the NASD providing offset project verification.

Chicago Climate Futures Exchange ("CCFE")

The CCFE is a wholly-owned subsidiary of the CCX and offers standardized and cleared futures and options contracts on emission allowances and other environmental products. The CCFE trades four futures and options products: Certified Emissions Reductions (CER), Carbon Financial Instrument Futures Controls, ECO Index Futures Contracts, Nitrogen Financial Instruments and Options on Sulphur Financial Instrument Futures Contracts.

European Climate Exchange ("ECX")

For companies with operations in Europe and the United States, the CCX an exchange operating in the European Union Greenhouse Gas Emissions Trading System ("EU ETS"). The CCX is linked to the EU ETS through the ECX and allowances held in an "EU ETS" account can be transferred between the two systems.

An account holder with excess EU allowances could transfer those allowances to the CCX to meet GHG compliance measures in the United States. To transfer allowances, a CCX registry account must be established in the United Kingdom and the EU allowances are transferred to the CCX U.K. account. The CCX will then cancel the EU allowances and issued an equivalent amount to the account holder's CCX account.

Trading Platforms for Regional Trading Systems

CCX recently announced the creation of the New York Climate Exchange ("NYCX") and the Northeast Climate Exchange ("NECX") to develop financial instruments for the Regional Greenhouse Gas Initiative (RGGI). The NYCX and the NECX will commence operations when RGGI begins trading. The CCX has also announced the creation of a California Climate Exchange that will trade instruments relevant to California AB 32.28