

NSX Limited

NSX
ACN 089 447 058

Explanatory Memorandum

for the issue of 20,250,000
fully paid ordinary shares of NSX Limited in
consideration for all the issued capital of

**Watergroup Management Pty Ltd and controlled
entities**

IMPORTANT NOTICE

This is an important document and shareholders should read the document in its entirety.

EXPLANATORY MEMORANDUM

Section A.

Explanatory Statement for the Annual General Meeting to be held on Monday 15 October 2007 at 2.00pm

This Explanatory Memorandum provides information on the Resolution to be considered at NSX's Annual General Meeting on Monday 15th October 2007 at 2:00 PM. The Resolution relates to the issue of 20,250,000 shares, that is, 37.35% of the issued capital of NSX to the members of Watergroup Management Pty Limited ("WGM") (which holds 69.09% of the ordinary shares in The Waterexchange Pty Limited ("WEX") and 100% of the ordinary shares in Settlement & Registry Services Pty Ltd ("S&RS")) under the terms of the Share Purchase Agreement for NSX's proposed acquisition of WGM.

NSX has entered into agreements with members who hold the remaining 30.91% of WEX. If the Resolution is approved, NSX will ultimately hold 100% of WGM, WEX and S&RS. If the Resolution is approved, the WGM members will be issued in total 20,250,000 new NSX Shares in return for the transfer of the whole of the issued capital of WGM to NSX. NSX will then be the ultimate 100% holding company of WGM which is the owner of 69.09% of WEX, and through the remaining shareholding held by NSX, the control of the whole of WEX.

Initial Transaction

NSX has entered into and completed its agreements with each of the members of WEX, other than WGM, which together hold 30.91% of the total issued share capital of WEX ("Minority Shareholders") for such members to sell their shares in WEX. In consideration for the sale of the WEX shares by the members of WEX other than WGM (collectively "the Minority Shareholders"), NSX has issued the Minority Shareholders 4,750,000 new NSX Shares (being 6.38% of NSX Limited issued capital after the issue of new NSX Shares to WGM if the Resolution is approved.).

Proposed Transaction

NSX has entered into a Share Purchase Agreement with the members of WGM to purchase 100% of the issued share capital in WGM. The purchase of WGM would give NSX the remaining 69.09% interest in WEX as well as a 100% interest in S&RS. The consideration would be the issue of 20,250,000 new NSX Limited shares. **This transaction is subject to NSX member approval and is the subject of the Resolution.**

Table 1: Current Issued Capital and Proposed New Issued Capital

	New Issued Capital subsequent to the Initial Transaction	New Issued Capital subsequent to the Proposed Transaction
Current Shares on Issue	49,460,003	46,460,003
New Issue of shares	4,750,000	25,000,000
New [proposed] shares total	54,210,003	74,460,003

About Watergroup Management Pty Limited (ACN 108 862 479) – (“WGM”)

WGM owns 4,000,000 shares, that is, 69.09% of the issued capital in The Waterexchange Pty Ltd the operator of the Waterexchange (see below). WGM also owns 100% of the issued capital of Settlement and Registry Services Pty Ltd. The purchase of WGM is required to purchase the water exchange group of operating entities.

About The Waterexchange Pty Ltd (ACN 084 332 132) – (“WEX”)

Web: www.waterexchange.com.au

WEX is the operator of The Waterexchange.

The Waterexchange was formed in 1994 to engage in the trading of physical rural water products. Trading is facilitated through a broker network using WEX proprietary software for trading and settlement. The platform covers settlement, data and trading capabilities. In addition to trading WEX provides key value to its membership via active involvement in representing member interests at a political level through negotiation, education, representation and lobbying. Customers receive weekly industry/market newsletters, in addition to numerous special issue reports.

Product development work is being undertaken to develop the trading base of temporary and permanent rural water licences to include expansion into urban water licences. In the future forward contracts and derivative products could be constructed. As derivatives are financial products these would be traded on the NSX Australian Markets Licence after appropriate rules, approvals and licence variations have been obtained from ASIC and the Minister, and compliance by NSX with the Terms of Separation dated and announced on 20 December, 2006 in relation to a joint venture between NSX and COM AGEX ASIA,

Alongside the established trading facilities WEX is working to further expand its interest to include water assets.

In order to grow the WEX business NSX expects these activities to continue in the future. NSX will provide support and resources to facilitate the successful outcomes to these activities.

History of the Waterexchange

Table 2:

1994	<ul style="list-style-type: none"> • The Waterexchange commences operations in 1994 and trades as Irrigation Extension Services. • The business offers various water asset management services in the Macquarie Valley of NSW.
1998	<ul style="list-style-type: none"> • The National Waterexchange was formed, and operates as an exchange service for water brokers across the northern river valleys of NSW. • Waterexchange.com.au website launched, as an auction platform and conducts the worlds first online trading of water entitlements.
1999	<ul style="list-style-type: none"> • Name changed to The Waterexchange Pty Ltd • New premises in Dubbo NSW purchased and all technology centrally located. • Western NSW's first optical fibre laid into building. • Waterexchange named as a feature company for Chinese Water Week.
2000	<ul style="list-style-type: none"> • Waterexchange expands operations across entire Murray Darling basin. • 1000th auction based trade finalised.
2001	<ul style="list-style-type: none"> • 2000th auction based trade finalised
2002	<ul style="list-style-type: none"> • Operational platforms changed to pure exchanged based trading. • 24 hour online trading commences. • Victorian gerrymander broken, and VIC trading commences
2004	<ul style="list-style-type: none"> • First forward water contract trades conducted. • First groundwater trades conducted
2005	<ul style="list-style-type: none"> • New office opened in Canberra ACT
2006	<ul style="list-style-type: none"> • New office opened in Cohuna VIC. • WMG acquires interest in WEX. • MDB Water availability index launched. • First South Australian trades transacted.
2007	<ul style="list-style-type: none"> • 10,000th online trade transacted on exchange based platform since 2002. • First urban water transactions concluded

	<ul style="list-style-type: none"> • Re-organisation of WEX shareholdings
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About Settlement & Registry Services Pty Ltd (ACN 125 057 749) – (“S&RS”)

Settlement and Registry Services Pty Ltd is a company newly created to handle operations concerning the settlement and registration of WEX transactions. In addition S&RS would provide services for a proposed carbon trading exchange to be operated by FEX Climate Pty Ltd. S&RS is in the process of creating policies and procedures for the operation of the services. NSX intends to enable this platform to carry out settlement and registration services for other non-financial markets that NSX proposes operating in the future.

Business Benefits

The benefits of these businesses to NSX include the following:

- Diversification of revenue streams into non-financial products trading;
- Creation of settlement and registration functions for non-financial products;
- Increased economies of scale for back office administration across the businesses operated by NSX;
- The expansion of the broker and adviser networks for all markets and businesses that NSX operates;
- Increase awareness of WEX and NSX markets through the clear promotion of the NSX and NSX WEX brands.

(1) The Consideration for the Proposed Transaction

The issue of 20,250,000 new ordinary NSX shares for the two (2) ordinary shares held equally by Iron Mountain Entertainment Pty Limited (ACN 050 108 944) (“IME”) and Irrico Pty Limited (ACN 002 780 654) (“Irrico”) in WGM for completion within three (3) Business Days of the adoption of the proposed Resolution by the NSX shareholders.

Pursuant to ASX Listing Rule 7.3.3 the issue price will be 43 cents per share as at the date of Heads of Agreement made the 9th day of July, 2007, as announced, and:-

- (a) any fall in the market price of the shares in NSX on and from that date is at the risk of IME and Irrico. If the market price of NSX shares falls after the 9th day of July, 2007, no further shares are to be allotted in NSX; or
- (b) any rise in the market price of the shares in NSX on and from that date is to the benefit of IME and Irrico. If the market price of NSX shares rise after the 9th day of July, 2007, there is no deduction in the number of ordinary shares that are to be allotted in NSX.

(2) Conditions to be met and other key important terms of the proposed acquisition

The Proposed Transaction is subject to the following conditions precedent:

1. NSX shareholder approval at a meeting of shareholders to be held as soon as practicable for the Proposed Transaction; and
2. WEX and WGM are to procure a written warranty from IME, Irrico, Brian John Peadon and Brian John Price in favour of NSX for certain identified liabilities that are outstanding and exceed \$25,000 in aggregate. For all of these outstanding identifiable liabilities, the NSX Board has agreed to a cap on payments by Irrico, IME, John Brian Peadon and John Brian Price to the value of 10% of 20,250,000 shares of the NSX volume-weighted share price as at the date payment is due by IME, Irrico, Brian John Peadon or Brian John Price (**Indemnity Cap**). The indemnity is limited to a period of 2 years or the date any escrow is released, whichever date is the earlier.
3. The satisfaction by WGM, WEX and S&RS of any and all liability for its net debt obligations including extinguishing of all charges, debentures and external liabilities (both actual and contingent) prior to the transaction being effected; and

Further completion obligations and key terms include:

4. Subject to the Separation Agreement terms of 20 December, 2006, Brian John Price to procure a non-compete agreement from FEX Climate and FEX for the S&RS business; and
5. IME, Irrico, Brian John Price and Brian John Peadon to agree to voluntary holding lock of NSX shares for a period of 24 months from the date securities are allotted. The NSX Ltd Board may consider in exceptional circumstances an application from Irrico and Brian John Peadon for waiver of the holding lock provisions; and
6. WEX to sign a service agreement with S&RS for the provision of settlement and registration services; and
7. FEX Climate Pty Ltd (ACN 124 127 224) ("FEX Climate") and Financial & Energy Exchange Limited (ACN 112 251 911) ("FEX") to enter into negotiations for the entry into a service agreement with S&RS for the provision of settlement and registration services on terms and conditions to be agreed.
8. There are certain outstanding tax, accounting and book-keeping issues in WEX, WGM and S&RS which have been identified. NSX has been informed that such issues are currently in the process of being rectified. The Share Purchase Agreement provides NSX recourse against the members of WGM in relation to these issues but any such recourse is capped at the Indemnity Cap. The indemnity is limited to a period of 2 years or the date any escrow is released, whichever date is the earlier.

(3) Board representation and management of new business

After completion of the proposed transaction, Brian John Peadon, currently a director of WEX, WGM and S&RS, will be invited to join the Board of NSX Limited as an executive Director.

(4) The Resolution

Shareholder approval is sought for the issue of NSX Shares to WGM under the Resolution for the purposes of ASX Listing Rule 7.1

“That pursuant to ASX listing rule 7.1 shareholders approve the issue of 20,250,000 shares in NSX Limited as consideration for the purchase of the whole of the issued capital of Watergroup Management Pty Ltd”

A failure to pass the above resolution will result in the following:

- (a) NSX will have no interest in WGM or S&RS; and
- (b) NSX will only have an interest of 30.91% in WEX (pursuant to the Initial Transaction), making it a minority shareholder in a proprietary limited company. There is no shareholders agreement between NSX and WGM in relation to WEX. This will mean that NSX will have little involvement in the day to day management of WEX, and will only be able to participate in matters specified or required by law or the constitution of the company that require a special resolution, such as a change in the WEX constitution or a change of the company's name. If the Resolution is not passed, NSX and WGM will enter into negotiations to execute a shareholders agreement which will include usual minority shareholder protection provisions.

Your directors encourage you to carefully consider the information in this Explanatory Memorandum that relates to this Resolution.

(5) Current and Intended Share Capital of NSX Limited

Table 3:

Securities	Initial Transaction	Proposed Transaction	Combined Effect of Transactions
Ordinary Equity (fully paid)	49,460,003	54,210,003	49,460,003
Partly Paid Securities (paid to 1 cent)	1,500,000	1,500,000	1,500,000
Options	1,680,000	1,680,000	1,680,000
Total if fully diluted	52,640,003	57,390,003	52,640,003
Proposed New Issue	4,750,000 ordinary shares only	20,250,000 ordinary shares only	25,000,000 ordinary shares only
Total after transaction (undiluted)	54,210,003	74,460,003	74,460,003
Total after transaction (diluted)	57,390,003	77,640,003	77,640,003
Percentage of new shares issued (undiluted)	9.60%	37.35%	50.54%
Percentage of new shares issued (diluted)	9.02%	26.08%	47.49%

(6) WEX and WGM Beneficiaries

Table 4: Proposed Transaction

Share distribution amongst WEX and WGM beneficiaries if 20,250,000 shares are issued.

Beneficiary	NSX Shares to be issued	Number of NSX Shares Held Currently	Number of Direct and Indirect Shares Held on Completion	% of DIRECT and INDIRECT shares held on completion
Irrico Australia Pty Ltd	10,500,000	0	10,500,000	14.10%
Iron Mountain Entertainment Pty Ltd	9,750,000	4,942,574	14,692,574	19.73%
Total	20,250,000			33.83%
Total NSX Shares on Issue (undiluted)				

Note: *Comprising 4,925,024 ordinary shares to Iron Mountain Pty Limited

Directors of The Waterexchange Pty Ltd (ACN 084 332 132) – Ian Cush, Brian John Peadon, Brian John Price.

Directors of Settlement and Registry Services Pty Ltd (ACN 125 057 749) – Brian John Peadon, Thomas Joseph Price

Directors of Watergroup Management Pty Ltd (ACN 108 862 479) – Brian John Price,

Directors of Irrico Australia Pty Ltd (ACN 002 780 654) – Brian John Peadon, Toni Peadon.

Directors of Iron Mountain Entertainment Pty Ltd (ACN 050 108 944) – Brian John Price

Directors of Iron Mountain Pty Ltd (ACN 050 108 944) – Brian John Price, Margaret Poppelwell and Mary Le Clair.

Breakdown of share allocation to significant personsBrian John Price

Brian John Price through the holding of shares by IME and FEX is not considered a related party as they currently own 9.99% of NSX Limited. This beneficial share holding or control in NSX Limited shares prior and post to the transaction is as follows. Breakdown of holdings is provided here for clarification as a principal person.

Table 5A: Breakdown of ownership, beneficial interest or control in NSX Limited by Brian John Price.

Brian John Price Break Down of Interests	
	On Completion
Iron Mountain Pty Ltd	4,942,574
Total Shares before transaction	4,942,574
% Held before transaction	9.99%
New Proposed Issued Shares	9,750,000
Total shares after transaction	14,682,574
% Held after transaction	19.73%

Brian John Peadon

Brian John Peadon and Irrico are not considered a related party for the purposes of this transaction and currently own 0% of NSX Limited shares prior to this transaction. Breakdown of holdings is provided here for clarification as a principal person.

Table 5B: Breakdown of ownership, beneficial interest or control in NSX Limited by Brian Peadon.

Brian John Peadon Break Down of Interests	
	On Completion
Total Shares before transaction	0
% Held before transaction	0%
New Proposed Issued Shares (Irrico Australia Pty Ltd)	10,500,000
Total shares after transaction	10,500,000
% Held after transaction	14.10%

(7) Effective Date, Issue Date and allotment of the securities

Effective Date and Issue Date

The purchase will be effective three (3) business days after the AGM or EGM held by NSX for the approval of the Resolution. The Issue Date communicated to the NSX share registry will be the same as the Effective Date.

Allotment of securities

The securities will be allotted by the NSX share registry as soon as practicable after the Issue Date but pursuant to ASX Listing Rule 7.3.2 the securities will be issued no later than three (3) months of the date of the Meeting.

Transfer of WGM Securities

The transfer of WGM securities will begin after the AGM or EGM and before the Effective Date and will complete at the same time as NSX securities are allotted.

(8) Intended use of funds

Pursuant to ASX Listing Rule 7.3.6 no cash funds are to be raised as part of the issue for the Proposed Transaction.

(9) Restriction of new NSX shares

The Board have asked for, and IME, Irrico, Brian John Peadon and Brian John Price have agreed to, a two year voluntary restriction of their NSX Limited shares starting from the Issue Date. Restriction means that the shares cannot be sold and a holding lock will be placed on the securities at the NSX share registry. Pursuant to ASX listing rules, NSX will provide ASX at least ten business days notice for quotation of the previously restricted securities and the securities will become freely tradeable. The total holding for IME to be restricted pursuant to the Proposed Transaction is 9,750,000 shares. The total holding for Irrico to be restricted pursuant to the Proposed Transaction is 10,500,000.

Exceptions to the Restriction

The Board may allow variation of the restriction to the shares in the case of hardship. The Board has agreed that margin loans not exceeding 40% of the value of the securities may be executed. The beneficial ownership of the securities cannot change without the written permission of the Board for the period of the restriction.

(10) Voting Power

Voting power held by Brian John Price will be 19.73% pursuant to the Initial and Proposed Transactions. Pursuant to section 9 of the NSX Limited constitution Brian John Price will be restricted from voting the excess of shares above 15%. That is, 4.73% of the shares will effectively be non voting shares if the Proposed Transaction is implemented.

Irrico will have 14.10% voting power after the Proposed Transaction is completed.

(11) Distribution of ownership in the Watergroup Management Pty Limited and The Waterexchange Pty Limited pursuant to the Proposed Transaction

The following diagrams provide an understanding of ownership structures in the target companies and the ultimate distribution of NSX Limited shares.

Figure 1: Current Ownership in WGM, WEX and S&RS.

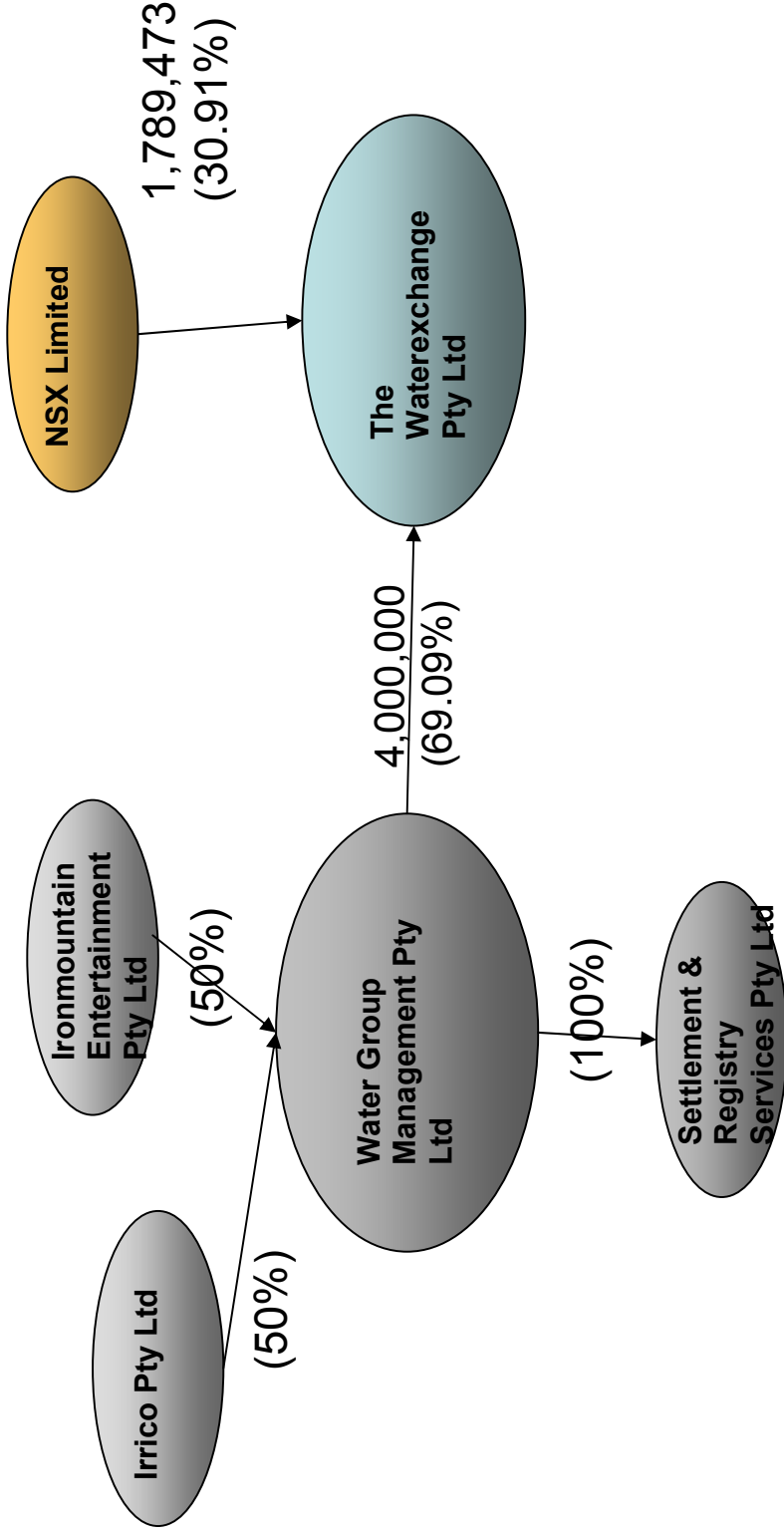
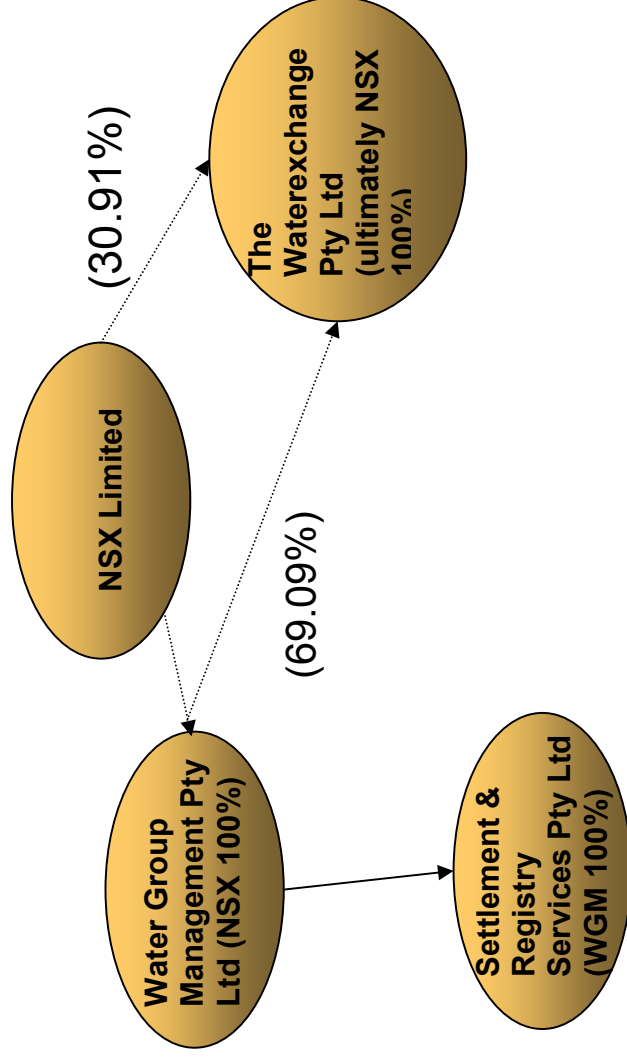


Figure 2 : Final ownership profile of the Resolution is passed and the transaction is completed.



Section B.

Shareholder information required pursuant to ASX Listing Rule 7.1

ASX Listing Rule 7.1 requires a listed company to gain shareholder approval to issue or agree to issue securities if the securities will, when aggregated with the securities issued by the company during the previous 12 months, exceed 15% of the number of securities on issue at the commencement of that 12 month period. Under the Share Purchase Agreement with the members of WGM, and subject to certain conditions precedent, NSX will issue WGM members with 20,250,000 new NSX shares as consideration for the acquisition of all the issued shares in the capital of WGM by NSX. Together with the shares that NSX will issue to the Minority Shareholders of WEX for 30.91% of WEX shares, NSX will be issuing 50.54% of its capital on an undiluted basis.

ASIC Regulatory Guide 74 “acquisitions agreed by shareholders” and ASX Listing Rule 7.3 also specify the information required to be provided to shareholders where their approval of a proposed issue of shares in a company is sought. Accordingly the following information is provided regarding the issue to WGM according to the Share Purchase Agreement.

(1) Identify the person(s) proposing to acquire NSX shares

The people proposing to acquire NSX shares are the current members of WGM, set out in the table at Table 4 above.

(2) Associates of WGM

Table 7: The associates of WGM are:

Associates
1. Brian John Price
2. Brian John Peadon
3. IME
4. Irrico
5. Iron Mountain Pty Ltd

NSX will disregard from the voting process any NSX shares held by the above persons.

(3) Details (including the number and the percentage) of the NSX shares which WGM members will be entitled to, immediately before and after the proposed acquisition, of NSX shares. Details of the maximum number of NSX shares that will be issued to WGM members.

Before the acquisition no WGM member is entitled to an issue of new NSX shares. After completion of the issue please refer to Table 4 above. The maximum number of NSX shares that will be issued to IME and Iirrico jointly as part of the Proposed Transaction are 20,250,000.

(4) The date by which NSX will issue the NSX shares

The securities will be allotted by the NSX share registry as soon as practicable after the Issue Date but pursuant to ASX Listing Rule 7.3.2 the securities will be issued no later than three (3) months of the date of the Meeting.

(5) The issue price of the NSX shares

Pursuant to ASX Listing Rule 7.3.3 the issue price will be 43 cents per share as at the date of Heads of Agreement made the 9th day of July, 2007, as announced.

(6) The identity of any person who will have a relevant interest in the NSX shares to be allotted.

See Table 4 above.

(7) The voting power that WGM members would have as a result of the acquisition of new NSX shares, and the maximum extent of the increase in WGM members voting power in NSX that would result from its acquisition of new NSX shares.

See Table 4 above.

(8) The identity, associations and qualifications of any person who is intended to become a Director of NSX if the resolution is passed.

As part of the transaction it is proposed to appoint one WGM director to the NSX Board as an executive Director.

The qualifications and experience of the director are as follows:

Brian John Peadon –

Is the founder, major shareholder and current chief executive officer of the Waterexchange Pty Ltd, Settlement & Registry Services Pty Ltd and Watergroup Management Pty Ltd. Brian Peadon established the Waterexchange in 1994. The market was originally run from his family's farm in Dubbo, NSW before setting up permanent offices in Canberra, ACT. In 1999 Brian was awarded a BAgSc (Irrigation) from Charles Sturt University

(9) The intended use of the funds raised

Pursuant to ASX Listing Rule 7.3.6 no cash funds are to be raised as part of the issue for the Proposed Transaction.

(10) The terms of any other contract or proposed contract between NSX and WGM or any of their associates which is conditional upon, or directly or indirectly dependent on, shareholders' agreement to the acquisition by WGM members of NSX shares.

NSX and the members of WGM entered into a Share Purchase Agreement with the terms and conditions outlined above in section A. As an executive director, Brian John Peadon will be paid a remuneration package commensurate with the position and responsibilities.

- (a) a term of 5 years;
- (b) remuneration of \$250,000.00 per annum including superannuation;
- (c) short and long term incentive;
- (d) a non-compete clause on termination of the contract;
- (e) reviews of the remuneration, short and long term incentive on an annual basis on the anniversary of the commencement ; and
- (f) appointment as an executive director of NSX responsible for environmental markets including the Waterexchange, subject to appropriate procedures required by law and the constitution of NSX.

GLOSSARY

This glossary of terms is provided to assist persons in understanding some of the expressions used in the Explanatory Memorandum.

\$ means Australian dollars.

ASX means Australian Stock Exchange Limited (ACN 008 129 164).

ASX Listing Rules means the official listing rules of the ASX

ASIC means Australian Securities & Investments Commission.

Australian Market License means an Australian market licence issued by ASIC allowing the operation of a financial securities market in Australia.

Australian Market Licensee means a holder of an Australian Market Licence.

Board means the board of Directors of NSX duly appointed in accordance with the Constitution of NSX.

Business Day means a day on which trading banks are open for Business in Sydney, New South Wales.

Completion means the completion of the sale and purchase of WEX/WGM shares under a Share Purchase Agreement.

Company or **NSX** means NSX Limited (ABN 33 089 447 058).

Constitution means the constitution of NSX.

Corporations Act means Corporations Act 2001 (Cth).

Directors mean directors of NSX.

Effective Date means three (3) Business Days after the resolution is approved

FEX means Financial & Energy Exchange Limited (ACN 112 251 911)

FEX Climate means Fex Climate Pty Limited (ACN 124 127 224)

IME means Iron Mountain Entertainment Pty limited (ACN 050 108 944)

Initial Transaction means the transaction between NSX and the Minority Shareholders.

Irrico means Irrico Pty Limited (ACN 002 780 654)

Issue means the Issue of 25,000,000 Shares under this Explanatory memorandum.

Issue Date means three (3) Business Days after the Resolution is approved.

Minority Shareholders means the remaining ordinary shareholders of WMG other than IME and Irrico as at the 22nd August, 2007

NSX means NSX Limited (ABN 33 089 447 058).

Peadon means Brian John Peadon.

Price means Brian John Price.

Proposed Transaction means the transaction between NSX and IME and Irrico if approved by shareholders for the allotment of 20,250,000 ordinary share in NSX.

Resolution means the resolution set out in this Notice of Meeting.

Share means an ordinary fully paid share in the capital of NSX.

Share Purchase Agreement means an agreement between NSX and the members of WGM for the sale and purchase of WGM shares.

S&RS means Settlement & Registry Services Pty Ltd (ACN 125 057 749)

Trading Day has the meaning set out in the ASX Listing Rules.

WEX means The Waterexchange Pty Limited (ACN 084 332 132)

WEX/WGM means WEX/WGM The Waterexchange Pty Ltd (ACN 084 332 132) and Watergroup Management Pty Ltd (ACN 108 862 479)

WGM means Watergroup Management Pty Limited (ACN 108 862 479)