

QUARTERLY REPORT

For the Quarter Ended 31 December 2008

HIGHLIGHTS

- **Positive results from the scoping study on Image's existing identified heavy mineral resources in the North Perth Basin, showing several potential paths for production.**
- **The scoping study highlighted the value adding potential of synthetic rutile-grade ilmenite, with test work to determine the SR ilmenite content of the identified resources in progress.**
- **Memoranda of Understanding signed with two local heavy mineral producers to facilitate the commercialisation of the indentified North Perth Basin HM resources.**
- **Drilling to upgrade the resources at Cooljarloo in progress.**
- **45km of new targets identified by ground surveys at Gingin, increasing the cumulative length of targets on the North Perth Basin to 292km.**
- **Two new HM joint ventures on the prospective Gingin Scarp increase Image's holdings in the North Perth Basin to 2,410 sq km.**

NORTH PERTH BASIN MINERAL SANDS

SCOPING STUDY

Image completed its scoping study on its North Perth Basin heavy mineral (HM) project (ASX release 1 December 2008). The scoping study was carried out on Image's initial identified indicated and inferred resources which contain 6.4 million tonnes of heavy minerals (ASX release 8 May 2008).

The object of the study was to assess the potential economics of the development and commercialisation of the initial resources and in particular to examine the possible:

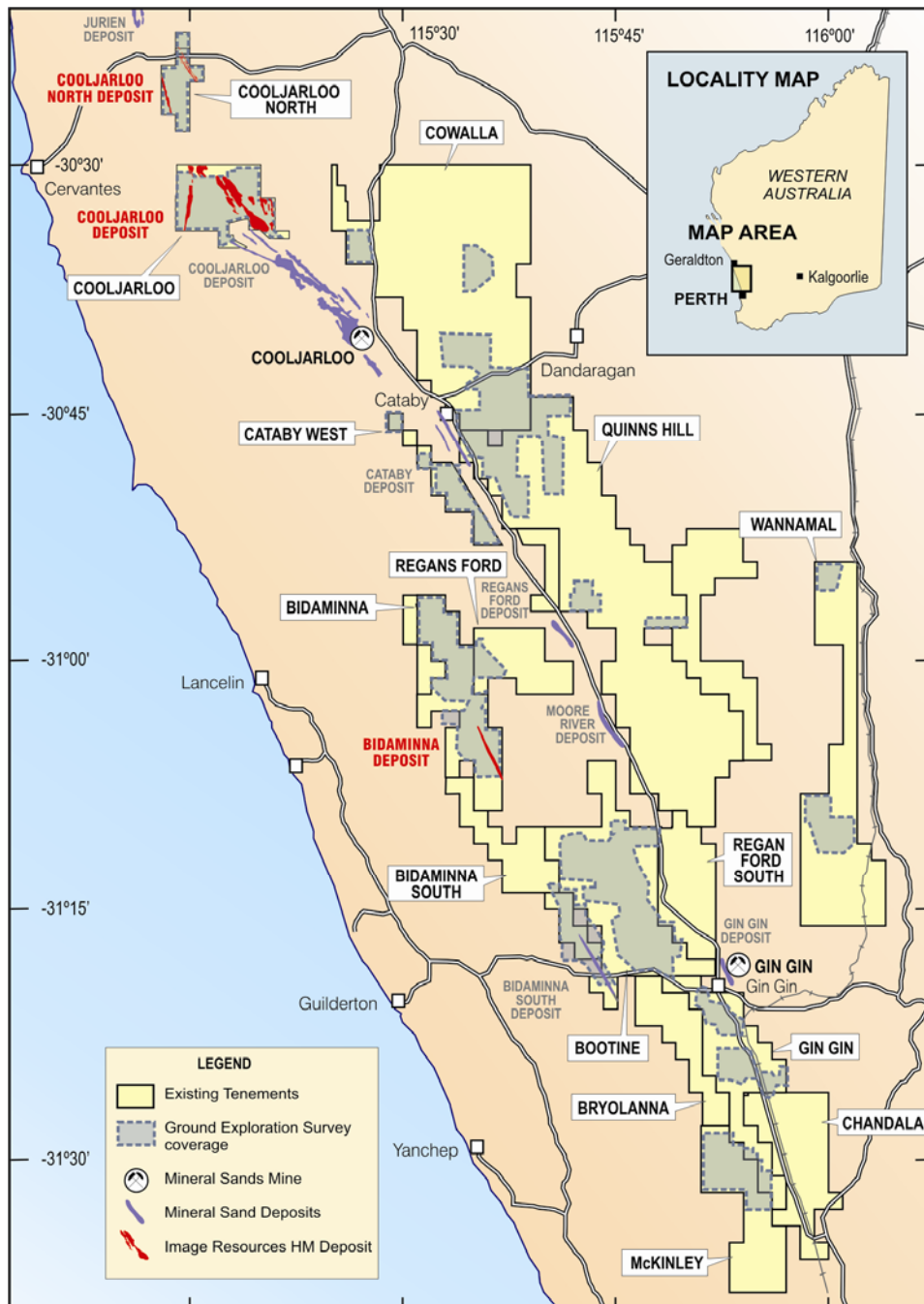
- mining scenarios for a stand alone operation producing concentrate which could then be toll processed by existing underutilised dry separation plants in the region.
- value of the resources to existing producers with established but underutilised infrastructure and depleted reserves in this mature mineral sands province.

The scoping study had several positive outcomes summarised as follows:

- Image has several options for the commercialisation of its existing North Perth Basin resources: stand alone dry mining; stand alone dredging; and larger scale dredging/dry mining by a third party ("incremental case").
- The incremental case dredging (2,000tph) and dry mining (800tph) combination gives a best case (US60c exchange rate) Net Present Value (10% discount, before tax) of \$180M (Internal Rate of Return 294%) with potential to increase this NPV to \$298M if a Synthetic Rutile ilmenite premium is applied for ilmenite suitable for processing to synthetic rutile (SR ilmenite).
- Stand alone dredging (800tph and viable on part only of the resources) gives a best case NPV of \$87M (IRR 105%), of which Image's share is \$68M plus any participation by Image in the NPV (up to \$160M with SR ilmenite premium) to a third party mining the balance of the resources.
- The presence of SR ilmenite has the potential to add significantly to the NPV of both stand alone and incremental cases, illustrating the need to determine the distribution of SR ilmenite throughout the project.
- Only the resources identified from the drilling of 20% of Image's targets are addressed. The value of resources identified in the remaining 80% has the potential to be substantially greater by leveraging sunken capital and/or economies of scale.

The scoping study highlighted the value adding potential of SR ilmenite and test work to determine the SR ilmenite content of the identified resources has commenced.

Following the positive results of the scoping study Image has signed memoranda of understanding (MOU) with two Western Australian heavy mineral producers. The MOU's provide for the release of composite samples and resource models from Image's North Perth Basin project to enable the producers to further assess these resources with a view to their possible commercialisation. In addition, Image has commenced discussions for MOU's with other interested parties.



North Perth Basin Project

COOLJARLOO (Image 70%)

During the quarter Image carried out infill aircore drilling on the Atlas inferred resource (9.7 million tonnes at 5.8% HM, containing 560,000 tonnes of HM) and on nearby geophysical targets (total 370 holes, 4,535m). Laboratory processing of these samples is in progress. The infill drilling at Atlas is closing the drill spacing to approximately 200m x 20m which is expected upgrade the inferred resource to an indicated resource and provide greater confidence in the grade and continuity of the HM mineralisation.

COOLJARLOO NORTH (Image 100%)

Aircore drilling was carried out on the northern strike extension of the Helene indicated resource (11.5 million tonnes at 4.5% HM, containing 520,000 tonnes of HM) and nearby geophysical targets (88 holes, 2,478m). Laboratory processing of samples is in progress.

GINGIN (Image 100%)

Geophysical surveys on this 95sq km tenement near Iluka's mine at Gingin have identified at least 45km of new targets, one of which is more than 8.6km in length and 0.35km in width (ASX release 21 October 2008). Image has increased the total cumulative length of identified targets to 292km, up from 247km. This number is expected to grow as ground surveys are progressively carried out on the remaining 66% of Image's tenements which have not yet been surveyed.

CHANDALA (Image right to earn 80%)

Image has agreed terms for a joint venture with Derby Mines Pty Ltd on a 107sq km exploration licence at Chandala south of Gingin (ASX release 18 December 2008). The tenement is strategically situated on the Gingin Scarp between Iluka's operating Gingin mine and the Bullsbrook HM deposit. The Gingin Scarp is a major paleo-coastline known to host major HM deposits such as Eneabba and Capel.

The joint venture tenement is believed to host potentially economic mineralisation at the Muchea HM deposit where historic exploration outlined a mineralised zone reported to contain 2.25 million tonnes at 8.5% HM. Image has yet to verify this estimate but is most encouraged by the potential of the area. Significantly, the tenement is in close proximity to Tiwest's dry separation plant and synthetic rutile plant at Chandala.

Under the terms of the agreement Image has the right to earn up to an 80% interest in the joint venture tenement by expenditure of \$350,000 within a six year period, subject to completing certain access agreements. Discussions with landowners regarding access are underway prior to commencing geophysical surveys to define the extent of the mineralisation and to outline drilling targets.

REGAN'S FORD SOUTH (Image right to earn 75%)

Image has agreed terms for a joint venture with Kingsreef Pty Ltd on an 85sq km exploration licence south of Regan's Ford (ASX release 29 December 2008) increasing Image's holdings in the North Perth Basin to about 2.410 sq km. The joint venture tenement is situated on the Gingin Scarp approximately 15km north of the Chandala tenement mentioned above.

Significantly, the Regan's Ford South tenement covers the strike extension of high-grade mineralisation identified by Westralian Sands (now Iluka Resources Ltd) in 1998 where a best drill intersection of 3m at 12.0% HM from 21m was reported.

Under the terms of the agreement Image has the right to earn a 75% interest in the joint venture tenement by expenditure of \$300,000 within a six year period, subject to completing certain access agreements.

EUCLA BASIN (Image 100%)

As reported in Image's September 2008 quarterly report, first pass aircore drilling was carried out on the Serpentine Lakes tenements situated along strike from Diatreme Resources' zircon-rich Cyclone HM discovery. Results from about 20% of the drilling have been announced with results from the balance being awaited from the laboratory.

BRONCO PLAINS JV (Image 100%,diluting)

AngloGold Ashanti and Independence Group have the right to earn a combined 72% interest in this 230sq km project situated on the Tropicana-Beachcomber gold trend some 140 km east of Kalgoorlie. Permitting for a 60-hole aircore drilling programme to test gold-in-soil anomalies and for further geochemical sampling of other target areas is in progress.

CORPORATE

ASX code; IMA

Cash position; \$4.9 million

Issued capital; 79,644,246 fully paid ordinary shares

1,214,604 options exercisable at 39 cents by 26 November 2009

2,000,000 options exercisable at 37 cents by 21 November 2010

2,500,000 options exercisable at \$1.80 by 16 November 2011

1,000,000 employee options exercisable at \$2.38 by 26 March 2012

2,200,000 options exercisable at \$2.12 by 20 November 2012

2,500,000 options exercisable at \$1.50 by 19 November 2011

For more information on the company visit www.imageres.com.au

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The information in this report is based on information compiled or reviewed by Roger Thomson BSc, ARSM, MAusIMM., or Scott Carruthers BSc, MSc, MAusIMM. Roger Thomson is a director of Image Resources NL and Scott Carruthers is a full time employee of Image Resources NL. Messrs Thomson and Carruthers have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Persons as defined in the 2004 edition of the 'Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Messrs Thomson and Carruthers consent to the inclusion of this information in the form and context in which it appears in this report.