Image Resources (IMA)

Active exploration and emerging developer in mineral sands

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Gavin Wendt |Head of Research
gwendt@breakawayinvestmentgroup.com

Andrew McLeod |Research Analyst
amcleod@breakawayinvestmentgroup.com

Recommendation: BUY

Key Points

- ***Significant resources in the North Perth and Eucla Basins***
- ***Acquisition of mining leases allows for fast tracking development***
- ***High grade Boonanarring deposit could extend a further 7.7km***
- ***Resource upgrade likely on drilling of high priority targets***
- ***MOU signed with a view to develop high grade Cyclone deposit***
- ***Longer term demand/supply forecasts suggest robust prices***

Image Resources is a well-placed mineral sands explorer with significant projects in both the Eucla and North Perth Basins (WA). The company also has an active drilling campaign in both basins to delineate further resources to augment already defined resources. The acquisition of Mining Leases in the North Perth Basin, the MoU with Diatreme and favourable commodity prices bode well for the company as they progress towards commercialisation.

Company Information

ASX Code	**IMA**
Share Price A$	**0.51**
Ord Shares	**89.6m**
Options	**10.5m**
Diluted Market Cap A$	**51.m**
Cash A$	**4.2m**
Total Debt	**-**

Source: Image Resources

Directors

Non-Exec Chairman	**Peter Thomas**
Managing Director	**George Sakalidis**
Executive Director	**Roger Thomson**

Source: Image Resources

Substantial Share Holders

Frederick Ribton	**8.4%**
Pontian Orico Plantations	**7.3%**
Cairnglen Investments	**6.9%**
George Sakalidis	**2.9%**
Roger Thomson	**2.4%**

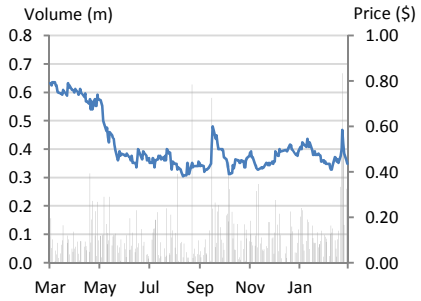
Source: Bloomberg

Company Details

Address	**Level 2, 16 Ord Street West Perth WA 6005**
Phone	**+618 94852410**
Web	**www.imageres.com.au**

Source: Image Resources

1 Year Price Chart



Source: Bloomberg

Company Overview

Image Resources (Image) (ASX:IMA) is a mineral sands focused explorer with a major land holding and expanding resource base in both the North Perth and the Eucla Basins of WA.

Using a cut-off grade of 2% and 2.5% respectively, Image has accumulated a Dry Mining Resource of ~70Mt containing 3.5Mt of valuable Heavy Minerals (HM) to date.

Dry Mining Resource

Project Area	Resource Size Mt	Cut-off %	HM grade %	Contained HM Mt
North Perth Basin	43.6	2.5	6.4%	2.7
Eucla Basin	26	2.0	3.2%	0.8
Total	69.6		5.0%	3.5

Source: Image Resources

Image recently announced the acquisition of four strategic Mining Leases within the North Perth Basin. The Mining Leases allow Image to now fast track the permitting process and ultimately get into production.

Within the Eucla Basin Image has signed an MOU with Diatreme Resources with a view to develop the contiguous Cyclone and Cyclone Extended deposits. Both deposits are of particularly high zircon grade (~32% of HM) which should allow for attractive economics once commercialisation is achieved.

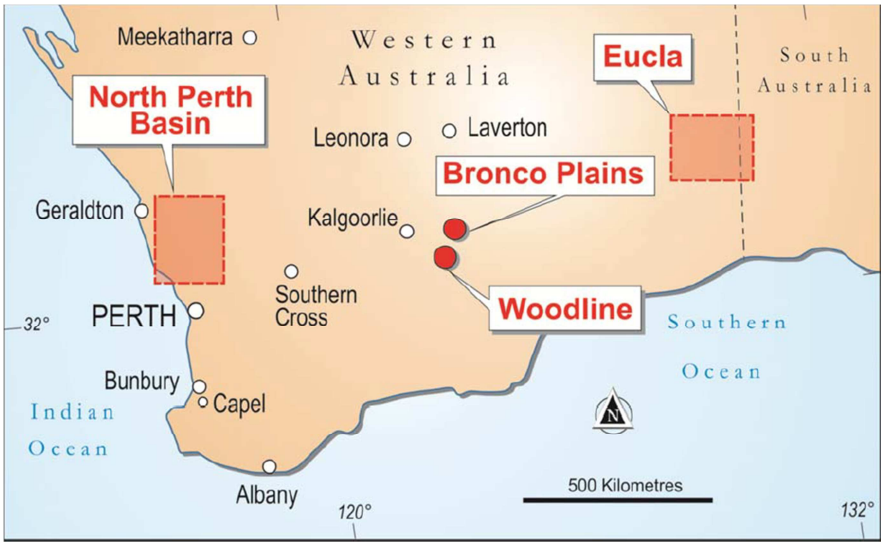
Image also holds significant equity interests in a diverse package of gold, nickel, iron and uranium tenements through JV's with Emu Nickel, Meteoric Resources, Magnetic Resources, Catalpa Resources and Sipa Resources.

Investment Review

Image Resources is a well-positioned mineral sands explorer with extensive holdings in two key provinces: the North Perth Basin and the Eucla Basin in WA, Australia.

Image Resources – Project location map

2 key project areas in the North Perth Basin and the Eucla Basin



Source: Image Resources

Using a cut-off grade of 2.5% for the North Perth basin and 2% for the Eucla, Image has a combined Dry Mining resource of ~70Mt containing 3.5Mt of valuable Heavy Minerals (HM). The combined total HM for Dry and Dredge Mining is 8.3Mt.

Rising HM prices are forecast

The individual component prices that make up the basket of 'Heavy Minerals' have been rising steadily with zircon prices reaching >US$1200/t. Industry leaders, TZMI, expect this trend to continue as global supply constraints force prices higher.

New Mining Leases allow for fast tracking into production

Image Resources recently announced the acquisition of four strategic Mining Leases situated on the Gingin Scarp within the North Perth Basin. The Mining Leases are of significant commercial value as it will now facilitate the fast track of these resources through the permitting process and ultimately into production. Image also now has complete control of 65km of 'target zone' within the Gingin Scarp which should lead to significant resource upgrades as high priority targets are drilled out.

High grade Cyclone Extended deposit likely to be developed as a JV with Diatreme

Within the Eucla Basin, Image has defined a large Mineral Sands deposit called Cyclone Extended which contains very high grades of zircon. It is anticipated the deposit will be developed as part of a JV with neighbouring Diatreme, who own the contiguous resource.

An increase in resources, development progress within the newly acquired mining leases and from the impending Diatreme JV, coupled with higher HM prices would lead to a substantial rerating in the company valuation.

Global Mineral Sands Market Characteristics

	Zircon	Titanium
Size of market (2009)	1.3Mt	6.0Mt
Historical demand growth (2000-08)	4.1% p.a.	3.0% p.a.
Major markets	China (40%) Europe (20%) Asia ex. China (20%)	Europe (30%) North America (25%) China (20%) Other (25%)
Pricing Start 2010	~US$800/t	Rutile: ~US$550/t SR: ~US$450/t
End of 2010	>US$1000/t	Chloride Ilmenite ~US$100/t

Source: Iluka Resources

Zircon demand is outstripping supply

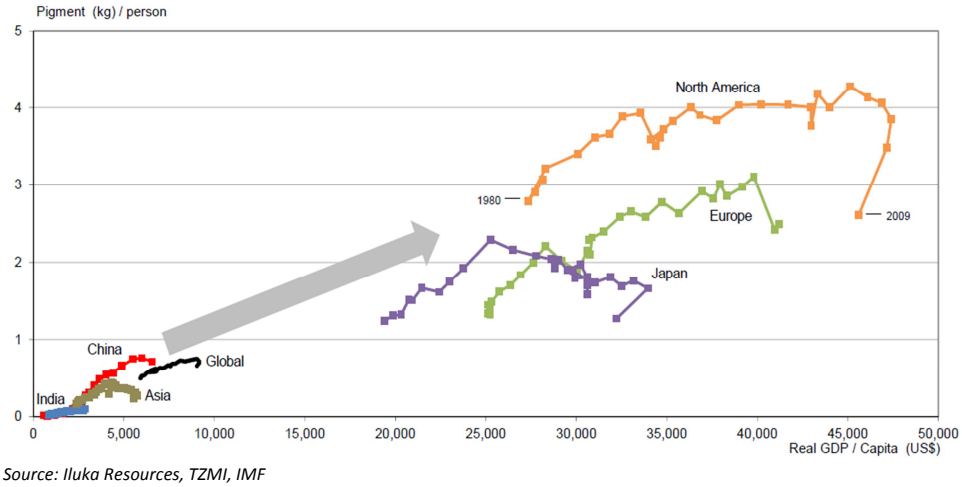
Global consumption of zircon in 2009 was 1.3Mt while actual demand was appreciably higher. China's demand for zircon is now tracking above pre GFC levels with 2010 imports estimated at ~595kt while actual consumption in China is estimated at ~645kt.

Annual incremental zircon production of ~60kt pa would be required to satisfy recent demand from China, excluding expected continuing strong demand from other developing economies. Since 1990, Chinese zircon demand has grown by 18% p.a. albeit from a low base. According to Iluka, in a scenario where China's demand growth is a low 6% p.a. and the Rest of the World (RoW) demand growth is at 0%, a supply deficit would still be forecast.

Titanium dioxide demand likely to increase as China, India, Asia and RoW develop

Demand for high grade titanium dioxide feedstocks (Rutile and Synthetic Rutile) also remain high. Pigment is the largest end use for titanium feedstocks. Historically, pigment demand per capita increases in line with GDP. The impact of China's GDP growth has accelerated demand now making China the 2nd largest global pigment market.

Pigment Demand by Region 1980 - 2009



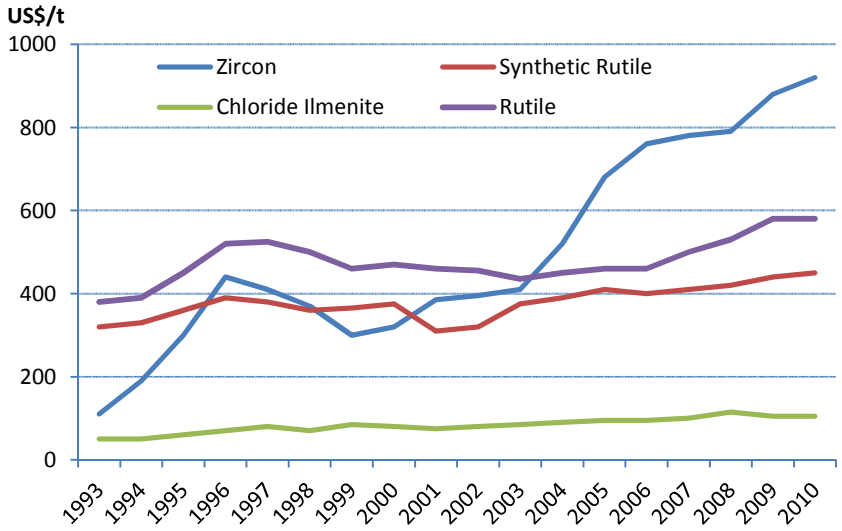
Source: Iluka Resources, TZMI, IMF

The chart above illustrates the intensity of pigment use per capita by region and highlights the relatively low levels of pigment use by China, Asia, India and the RoW.

China has its own domestic titanium sources but relies on imports for high grade pigment which accounts for ~30% of Chinese demand.

The chart below shows the price variation of the relative Heavy Mineral groups from 1993-2009. As illustrated, prices have been trending up and are likely to remain robust for the foreseeable future.

Historical Mineral Sands Pricing 1993-2009



Source: TZMI, Iluka Resources

Forecast product pricing

Product	2011 US$/t	2014 US/t$
Zircon	1000	1200
Rutile	600	750
Chloride Ilmenite	160	190

Source: Image Resources

Mineral sands and their uses

Mineral sands or 'Heavy Minerals' (HM) generally refer to minerals with a specific gravity greater than that of 2.85 and the grade of a given deposit is characterised by the percentage of HM found. These Heavy Minerals fall within two discreet product streams. The first is titanium dioxide (TiO_2) in the form of rutile, ilmenite and leucoxene and the second is zircon.

Titanium Dioxide (TiO_2)

The titanium products of ilmenite, rutile, and leucoxene as well as upgraded products from synthetic rutile and titanium slag are used principally as feed for the production of white pigment. This accounts for over 90% of global titanium dioxide consumption. The remaining 10% is used in the production of titanium sponge, used in the manufacture of titanium metal, welding and electrode flux.

Titanium dioxide predominantly used as a feed for white pigment

TiO_2 Content of Titanium Dioxide Products

Form of Titanium	% TiO_2 Content
Rutile	92 - 96
Leucoxene	65 - >90
Titanium slag/ Synthetic Rutile	88 - 94
Ilmenite	48 - 55

Source: Iluka Resources

Titanium dioxide has a high refractive index which allows it to bend and scatter light. When enough titanium oxide is used in a medium, almost all visible light will be reflected giving it the appearance of it being opaque, white and bright. It is this quality which is extensively used in the manufacture of paints, plastics, paper and in a range of other applications including inks, fibres, rubber, food, cosmetics and pharmaceuticals. Plastics are the fastest growing sector with its major application in the packaging industry.

TiO_2 pigment is non-toxic and biologically inert making it safe for use in foods, cosmetics and pharmaceuticals. TiO_2 replaced lead in many applications, such as paint due to health issues related to lead toxicity.

Titanium Metal

Titanium dioxide products are also the principle feed in the manufacture of titanium metal. Applications for titanium are wide ranging from aerospace and military applications to common infrastructure we use every day.

TiO_2 is the principle feed for the manufacture of Titanium metal

Titanium has the highest strength to weight ratio of any metal as well as particularly good resistance to corrosion. In its unalloyed form, titanium is as strong as steel but 45% lighter. The obvious advantage of this property is fuel efficiency in the aerospace industry. The Airbus A380 uses ~67 tonnes in the aircraft body and ~10 tonnes in the engines.

The high corrosion resistant property of titanium makes it ideal for industrial applications, used in highly corrosive environments, such as chemical processing plants and desalination plants. When titanium is exposed to oxygen in the air and/or water, it immediately forms a stable, strongly adherent protective oxide film that is resistant to many highly corrosive environments. As long as oxygen is present, the oxide film will self-repair if it undergoes any mechanical damage. Titanium metal is also used in heat exchangers, in propeller shafts, rigging and other parts of vessels exposed to salt water.

Zircon

Largest end use for zircon is in ceramics

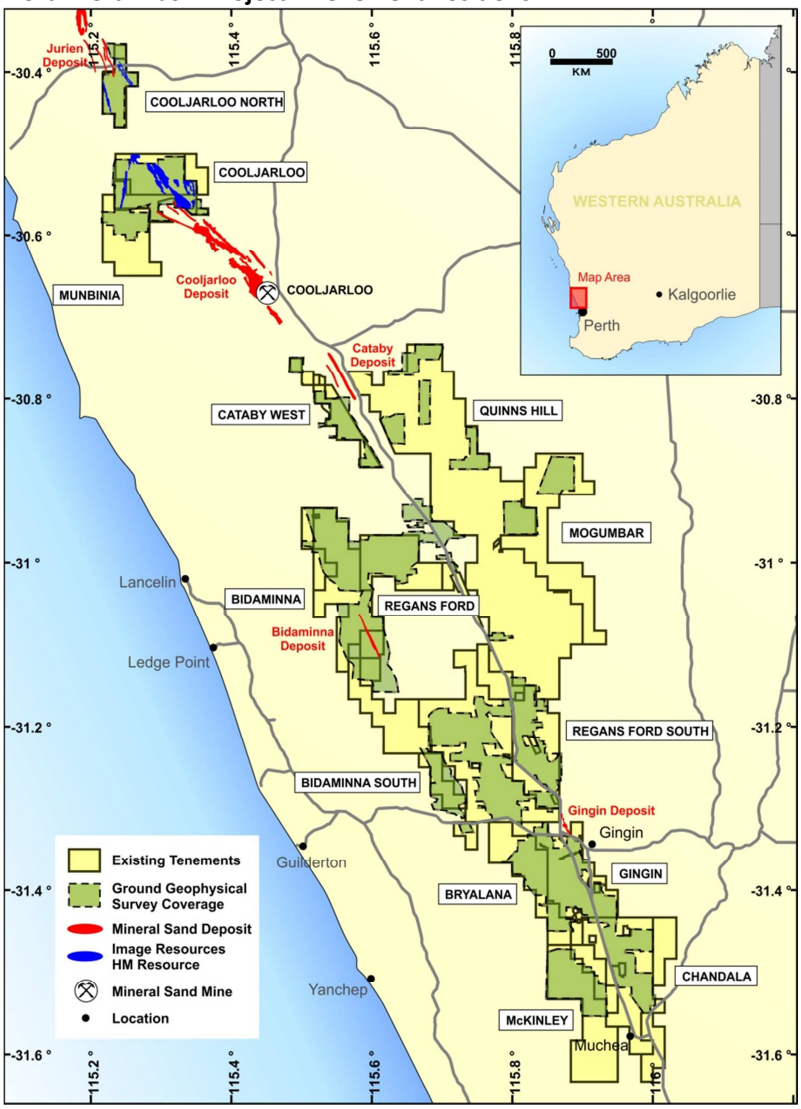
The largest end use of zircon is as an opacifier (an opacifier is a substance added to a material in order to make the ensuing system opaque) used in the manufacture of ceramics including tiles and sanitary ware (toilets, baths etc). One of the biggest growing sectors for the use of zircon is in the production of zirconium chemicals used in paper coatings, paint driers, antiperspirants and catalysts. Zirconium metal has a high melting point and is chemically resistant which makes it ideal for use in specialised metal alloys and nuclear fuel rods.

North Perth Basin

Image Resources have a significant presence in the North Perth Basin with tenement positions covering more than 2000km^2.

Land position >2000km^2 in the North Perth Basin

North Perth Basin Project – Tenement Positions



Source: Image Resources

Cooljarloo North (100% Interest)

The Cooljarloo North project lies ~ 18km east of the town of Cervantes and ~ 180km north of Perth. The project area encompasses 3 licences namely E70/2892, E703328 and P70/1540 and lies on the Swan Coastal Plain adjacent to the Gingin Scarp.

Image has carried out ground magnetic surveys and numerous drilling campaigns on the project area and has identified a number of north-north-westerly mineralised paleostrandlines. Two of these strand lines, Hyperion and Helene, are highly mineralised and both are ~4.5km in length.

Cooljarloo North Project 100% Interest– Helene and Hyperion Inferred Resource

Cooljarloo North	Size	H.M Grade	HM	Contained Zircon	Contained Rutile + Leucoxene	Contained Ilmenite
	Mt	(%)	kt	(t)	(t)	(t)
				0.50%	0.17%	3.40%
Helene	11.5	4.5	517.5	57,500	19,550	391,000
				0.60%	0.50%	4.30%
Hyperion	3.7	7.8	288.6	22,200	18,500	159,100
Total	**15.2**	**4.8**	**806**	**79,700**	**38,050**	**550,100**

Source: Image Resources

Helene sits to the north of the exploration area and comprises 3 sub parallel strandlines. Drilling undertaken by Image encountered consistently high grade drill intersections mostly in excess of 5% HM with some intersection sampling as high as 20%. Hyperion lies slightly to the south and hosts a significantly higher grade resource at 7.8% HM

2009 Cooljarloo North Scoping Study indicated a combined NPV ranging A$0.21-A$0.62/share

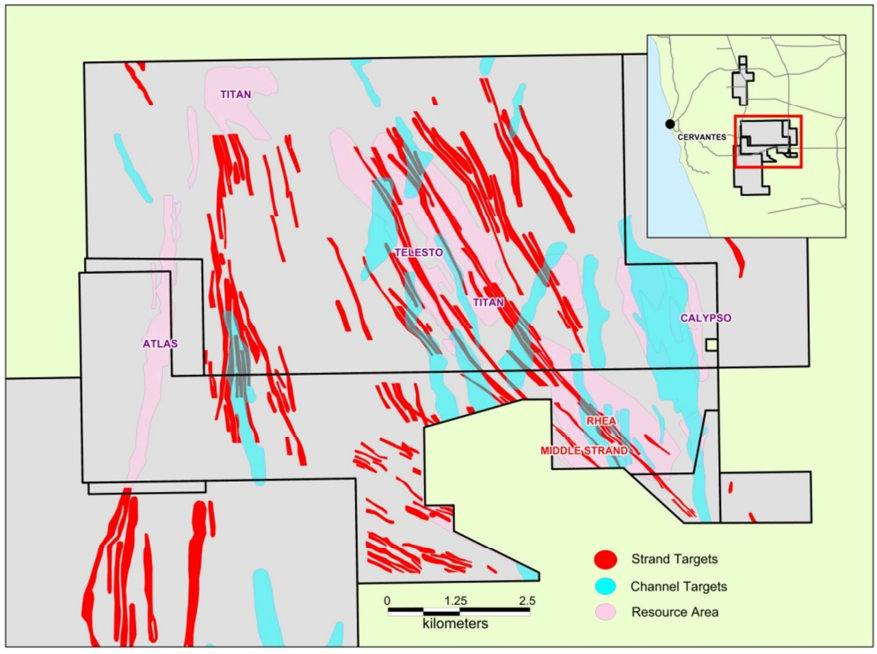
In 2009, Image carried out a scoping study on the Hyperion and Helene projects. The results of the study demonstrated a combined NPV ranging between A$3.9m and A$18m under dry mining options (A$0.04 –A$0.20/share). Under dredge mining conditions, the NPV ranged between A$15m-A$38m (A$0.17-A$0.42/share). The scoping study assumed Image would produce a concentrate which is toll treated at an existing dry mineral separation plant.

Cooljarloo -70% Interest (Metal Sands - 30%)

Cooljarloo encompasses four licences (E70/2636, E70/2898, P70/1502 and P70/1516) and adjoins ground held by TiWest's existing HM mine. The area hosts six discrete targets namely Atlas, Titan, Calypso, Telesto, Rhea and Middle Strand.

Cooljarloo target and resource areas

Six discreet targets at Cooljarloo



Source: Image Resources

Cooljarloo Prospect Total Resources– 70% interest

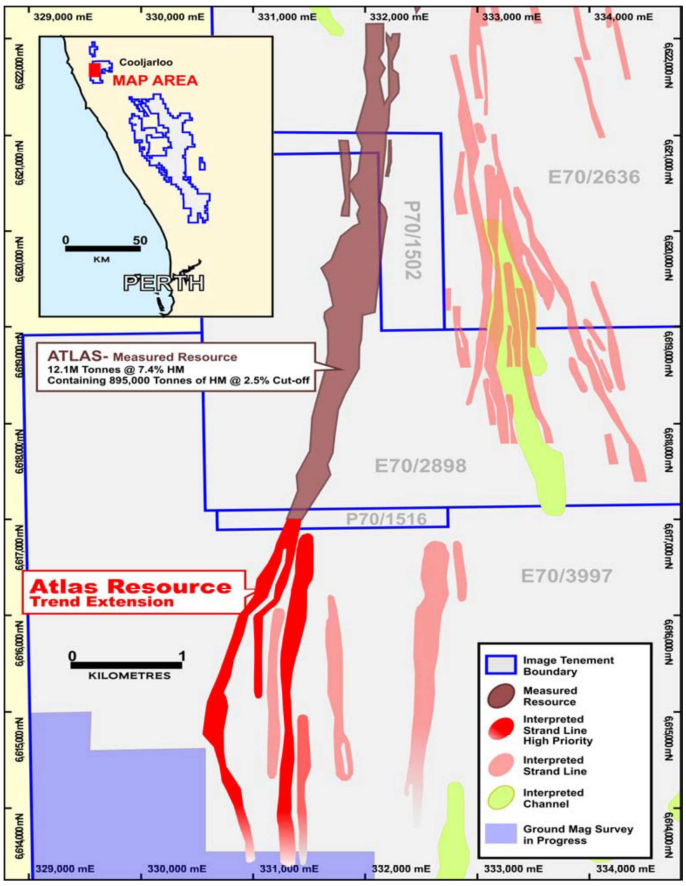
Cooljarloo	Resource	HM Grade	Contained HM	Contained zircon	Contained Rutile + Leucoxene	Contained Ilmenite
	Mt	(%)	kt	(kt)	(kt)	(kt)
				11.3%	7.3%	61.3%
Atlas (Dry)	12.1	7.4	895	101	65	548
				9.4%	3.0%	73.1%
Titan (Dredge)	136	1.9	2,600	245	79	1,900
				10.6%	5.2%	70.6%
Calypso (Dredge)	51.5	1.7	850	90	44	600
				9.1%	5.4%	66.2%
Telesto (Dry)	1.9	5.8	110	10	6	73
Total	**201.5**	**2.2**	**4,455**	**447**	**194**	**3,121**

Source: Image Resources and Breakaway Research

A potential Atlas Resource extension onto a 100%-owned Image tenement to the south has been outlined by detailed ground magnetics over a 3.5km strike length. This extension would be in addition to the measured and indicated 12.1Mt (2.5% HM cut-off) resource already defined.

Potential extension of the Atlas Resource

Atlas deposit likely to extend to the south



Source: Image Resources

The Atlas extension is a high priority target for the company and will be followed up as soon as possible on completion of permitting. Exploration will comprise of geophysical surveys followed by air core drilling.

Rhea -70% Interest

Rhea Measured Resource expected in coming months

Within E70/2898, ~7.5km to the east of the Atlas deposit lies a newly defined high grade channel which is now been called Rhea (see figure on pg7). Image recently completed a 401 hole drill out of this prospect which was designed to define a resource to Measured status. Visual estimates suggest a similar mineral assemblage to other deposits in the area. Image expects assays to be completed in the March quarter with a Measured Resource expected in the following quarter.

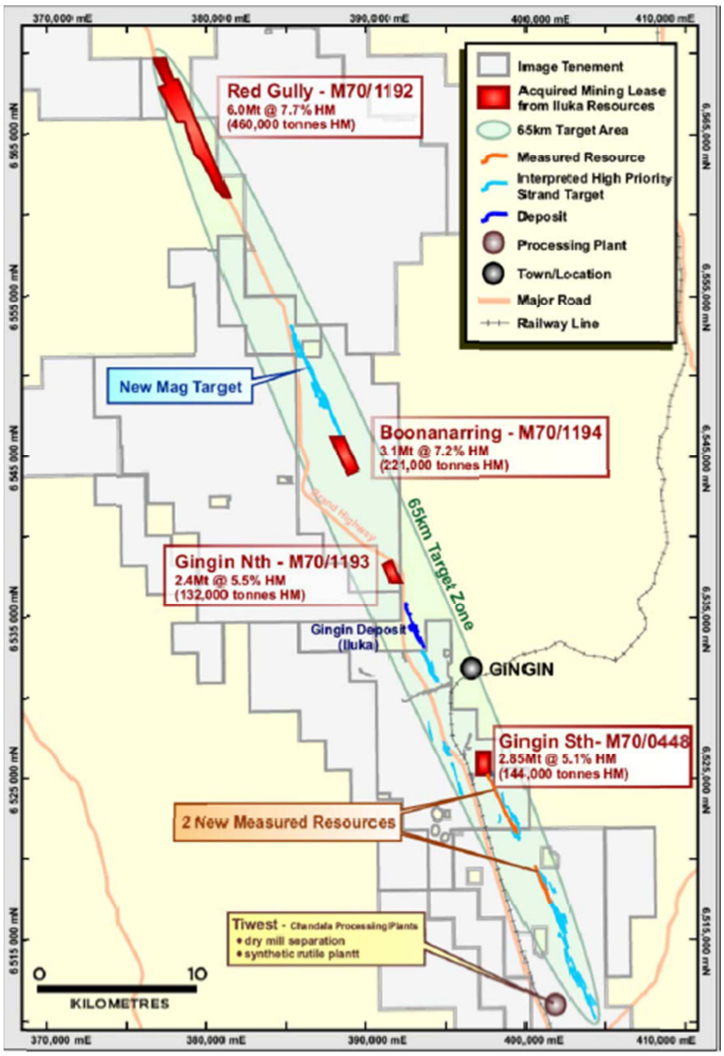
Gingin (Image 100%)

Image purchased four strategic Mining Leases from Iluka

Image recently entered into an agreement with Iluka Resources to purchase four Mining Leases; 'Gingin South', 'Gingin North', 'Boonanarring', and 'Red Gully' for a combination of 1.2million IMA shares and A$190k, valuing the transaction at ~A$750k. These Mining Leases sit along a 65km target zone where Image already has a major presence.

Gingin target corridor and New Acquisitions

Image now has control over 65km of target zone



Source: Image Resources

The TiWest Chandala processing complex lies within Image tenure and is of great potential significance to the commercialisation of the Image deposits. The complex includes three plants; a dry mill which separates the minerals, a synthetic rutile plant which upgrades ilmenite into high quality synthetic rutile and a residue management plant.

Breakaway views the acquisition of these four Mining Leases as significant as it now allows Image to commercialise and develop assets within the North Perth Basin.

The acquisition now gives Image the full control of the 65km target zone which has been recognised as a high grade, high priority target area based on detailed ground magnetics surveys and previous drilling within the area. Other world class deposits along the Gingin scarp include Eneabba and Cooljarloo.

The four respective resources in the acquired leases using a 2.5% HM cut off are listed below:

Total purchased leases contain 14.3Mt @ 6.7% HM

Project	Resource Mt	HM %	HM kt	Zircon %	Leucoxene %	Rutile %	Ilmenite %
Gingin South	2.8	5.1	144	7.8	14.2	5.3	54.1
Boonanarring	3.1	7.2	221	15.0	0.9	2.65	48.5
Gingin North	2.4	5.5	130	5.7	10.2	3.45	57.3
Red Gully	6	7.7	460	12.4	8.3	3.1	65.8
Total	**14.3**	**6.7**	**955**	**11.3**	**7.7**	**3.4**	**58.9**

Source: Image Resources

Boonanarring hosts a deposit with an estimated zircon grade of 15%. Image has already carried out a ground magnetic survey over part of the tenement area which shows the potential for Boonanarring to extend a further 7.7km to the north. As ground magnetics are incomplete, the target area may even be bigger than first anticipated. **The potential size of Boonanarring is not to be underestimated**. The Gingin deposit located to the south and mined by Iluka only extended 2.5km.

The acquisition of Iluka's four Mining Leases also significantly increases Image's Dry Mining resource inventory by 55% from 1.8Mt to 2.8Mt with over 90% of the resource in the Measured and Indicated category. A total detailed dry mining resource is listed in the table below using a 2.5%HM cut-off.

The Total Detailed Dry Mining Resource - North Perth Basin

Total North Perth Basin resource is 43Mt @ 6.4% HM

Project	Resource Size Mt	HM %	HM (kt)	Slimes %
Dry Mining **Inferred** Resource @ 2.5% HM cut off				
Gingin North	1.1	5.0	60	14
Red Gully	2.6	7.5	190	10.7
Sub-Total	3.7	6.8	250	11.7
Dry Mining **Indicated** Resource @ 2.5% HM cut off				
Atlas	1.10	3.2	35	19.2
Telesto	1.90	5.8	110	18.6
Helene	11.50	4.6	523	18.6
Hyperion	3.70	7.8	290	19.3
Gingin South	1.32	6	77	9
Gingin North	1.32	6	75	16
Red Gully	3.41	7.8	267	11.5
Sub-Total	24.25	5.7	1,377	17
Dry Mining **Measured** Resource @ 2.5% HM cut off				
Atlas	11.06	7.8	860	15.7
Boonanaring	3.06	7.2	221	9.9
Gingin South	1.53	4.4	67	7.2
Sub-Total	15.65	7.3	1,148	13.7
Dry-Total	**43.60**	**6.4**	**2,775**	**11.8**

Source: Image Resources

Slimes are those minerals that are typically too fine (<63µm) to be economically extracted and as such are regarded as a waste product.

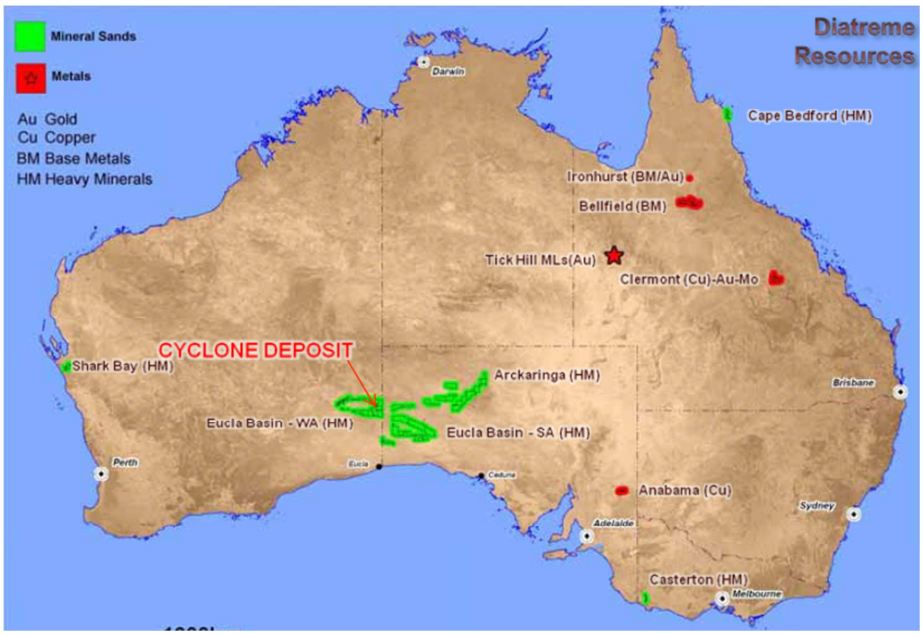
Eucla Basin

The Eucla Basin is a ~2000km wide marginal marine basin straddling the South Australia and Western Australia border, with a thickness of ~300m of Tertiary marine sediments.

Eucla Basin hosts high grade zircon deposits

Image holds strategically located tenements (E69/2033, E69/2034, E69/2033, called Serpentine Lakes) covering 1,589km^2 in the Eucla Basin. Within the area, Diatreme Resources has announced a 132Mt @ 2.3% HM deposit with very high zircon grades of ~32% and Iluka has constructed the Jacinth HM mine to process the Jacinth-Ambrosia deposits.

The Eucla Basin - Cyclone Deposit

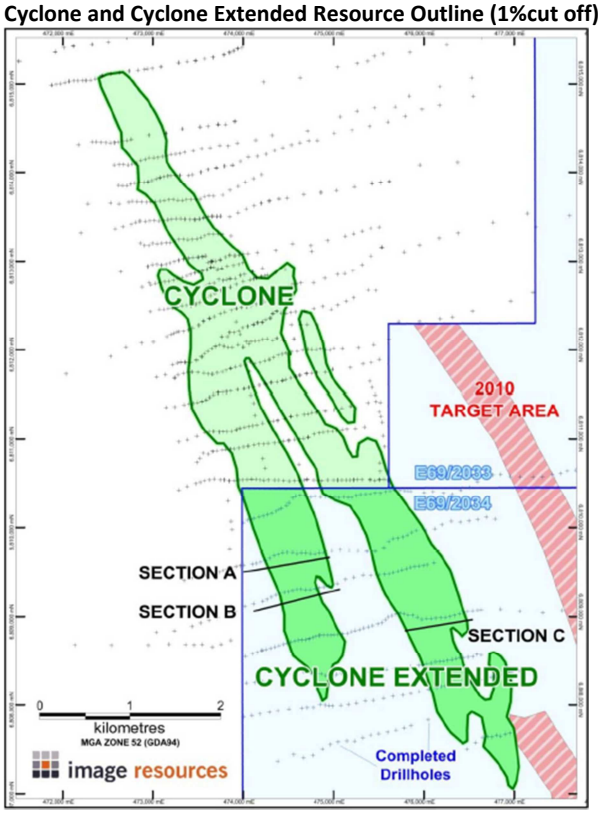


Source: Diatreme Resources

Image has carried out a major drilling program at Serpentine Lakes to test the strike extension of the zircon rich Cyclone deposit. During this program, four areas of mineralisation were identified, three of which extend south from Cyclone and a new zone (called Monsoon) about 25km to the east near the South Australian border.

Cyclone and Cyclone Extended are likely to be developed as a JV with Diatreme Resources

Cyclone and Cyclone Extended Resource Outline (1%cut off)



Source: Image Resources

The figure above shows the outline of mineralisation at a 1%HM cut-off, which consists of two arms averaging 13km in strike length and vary between 400-600m in width. The deposit ranges in thickness from 1 to 26 meters.

The high zircon content is of great significance as it is the highest value mineral normally found in heavy mineral deposits. Image also reports the HM's have a very low slime content which is favourable as the material is easier to treat and as such, operating costs of the mine are reduced.

Image has completed its own resource estimate for Cyclone Extended as well as a combined resource estimate to include Diatreme's Cyclone deposit.

Image Resources estimates - Cyclone and Cyclone Extended - 2% cut-off

Deposit	Resource	HM	HM	Slimes	Zircon	Rutile + Leucoxene	TiO2	Altered Ilmenite
	Mt	%	kt	%	kt	kt	kt	kt
Cyclone	94.7	3.2	3040	4.2	867	391	1076	428
Cyclone Extended	26	3.2	825	4.5	168	95.3	322.1	174.1
Total	120.7	6.4	3865	8.7	1035	486.3	1398.1	602.1

Source: Image Resources

Diatreme and Image have signed a Memorandum of Understanding (MOU) in September 2010 indicating their agreement to cooperate with each other with the aim of entering into a joint venture. The combining of the two deposits should significantly enhance the possibility of future mining operations The MOU now allows advances to be made on a feasibility study.

Diatreme also have signed a MOU with a large Chinese company called BaoTi Group Ltd. The MOU will allow BaoTi to make an investment in Diatreme and jointly develop the Cyclone deposit and secure off take.

Analyst Verification

We, Gavin Wendt and Andrew McLeod, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Disclosure

Breakaway Investment Group (AFSL 290093) may hold direct and indirect shares in the Image Resources. It has also received a commission on the preparation of this research note.

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Breakaway Investment Group
AFSL 290093 ABN 84127962387
T+61292621363
F+61292792727
PO Box H116 Australia Square
Sydney, NSW 2001
Suite 505, 35 Lime Street,
Sydney, NSW 2000