

IMAGE RESOURCES NL

(ABN 57 063 977 579)

NOTICE OF 2006 ANNUAL GENERAL MEETING

incorporating **Explanatory Notes** and **Proxy Form**

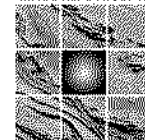
to be held on

16 November 2006 at 2:00pm (WST)

At

Celtic Club, 48 Ord Street, West Perth, Western Australia

This is an important document and should be read in its entirety. If you are in doubt as to the course you should follow, consult your financial or other professional adviser.



NOTICE OF 2006 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Shareholders of Image Resources NL (ACN 063 977 579) ("**Image**") will be held at the Celtic Club, 48 Ord Street West Perth, Western Australia on Thursday 16 November 2006 at 2.00pm (WST) (**Meeting**).

The *Explanatory Statement* that accompanies and forms part of this notice of Meeting (**Notice of Meeting**) describes in more detail the matters to be considered.

AGENDA

FINANCIAL REPORT:

Tabling of Image's Financial Report as prepared in respect of the year ended 30 June 2006 and the reports by directors and auditors thereon.

ORDINARY BUSINESS:

To consider and, if thought fit, to pass the following as ordinary resolutions:

Resolution No. 1 – Adoption of Remuneration Report:

That the Remuneration Report contained in the 2006 Annual Report be adopted.

Note: This resolution is advisory only and does not bind the Directors or the Company

Resolution No. 2 – Re-election of Director:

That Mr Thomas, a Director retiring by rotation in accordance with the Constitution, being eligible and offering himself for re-election, is re-elected a Director of Image.

Resolution No. 3 – Issue of Options RM Thomson:

That for the purposes of ASX Listing Rule 10.11, Section 195 and Chapter 2E of the Corporations Act 2001 and all other purposes, the directors be authorised to grant a total of 950,000 Options to subscribe for Shares (on the terms and conditions set out in the Explanatory Statement accompanying this Notice of General Meeting) to RM Thomson or his nominee(s).

Resolution No. 4 - Issue of Options to G Sakalidis

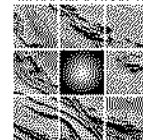
That for the purposes of ASX Listing Rule 10.11, Section 195 and Chapter 2E of the Corporations Act 2001 and all other purposes, the directors be authorised to grant a total of 950,000 Options to subscribe for Shares (on the terms and conditions set out in the Explanatory Statement accompanying this Notice of General Meeting) to G Sakalidis or his nominee(s).

Resolution No. 5 - Issue of Options to PS Thomas

That for the purposes of ASX Listing Rule 10.11, Section 195 and Chapter 2E of the Corporations Act 2001 and all other purposes, the directors be authorised to grant a total of 600,000 Options to subscribe for Shares (on the terms and conditions set out in the Explanatory Statement accompanying this Notice of General Meeting) to PS Thomas or his nominee(s).

Voting Exclusion Statement

Image will disregard any votes cast on a resolution by any director ("Director") who may benefit from the resolution and any person who for the purposes of the Corporations Act 2001 would be regarded as a person ("Associate") associated with the Director. However Image need not disregard a vote if it is cast by a Director or Associate as proxy for a person who is entitled to vote in accordance with the directions on the proxy form or it is cast by the Director or Associate who is chairing the meeting, as proxy for a person who is entitled to vote in accordance with a direction on the proxy form to vote as the proxy decides.



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By order of the Board

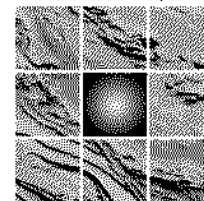
DIRECTOR

DATED: 16 October 2006

PROXIES

For the purposes of determining voting entitlements at the general meeting, shares will be taken to be held by persons who are registered as holding shares at 2.00pm on Wednesday 15 November 2006. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the general meeting.

A shareholder entitled to attend and vote at the above meeting may appoint not more than two proxies to attend and vote at this meeting. A proxy may, but need not be, a shareholder of Image. Proxy forms must reach the Registered Office of Image by mail, or be received by facsimile on (08) 9485 2840, or be received by email at info@imageres.com.au at least 48 hours prior to the meeting. For the convenience of shareholders, a Proxy Form is enclosed.



EXPLANATORY STATEMENT

1. Introduction

This Explanatory Statement has been prepared for the information of members of Image in connection with the business to be conducted at the general meeting of members to be held at the Celtic Club, 48 Ord Street West Perth, WA on Thursday 16 November 2006 at 2:00pm (WST).

This Explanatory Statement forms part of and should be read in conjunction with the accompanying Notice of 2006 Annual General Meeting.

2. Receiving Financial Statements and Reports

The Corporations Act 2001 requires that the Annual Company Financial Statements and reports of the Directors and the Auditor be laid before Shareholders at every annual general meeting.

Shareholders will be given an opportunity to ask questions of the Directors and the Auditor in relation to the financial statements of the Company that have been provided to shareholders with this Notice and Explanatory Statement at the Annual General Meeting.

3. Adoption of the Remuneration Report (Resolution 1)

Section 250R(2) of the Corporations Act 2001 requires at a listed company's AGM, a resolution that the remuneration report be adopted must be put to the vote. This resolution will be non-binding on the directors and the Company and will be advisory only. The Remuneration Report is incorporated into the Directors' Report which in turn appears in the Annual Report.

Shareholders will be given an opportunity to ask questions of the Directors in relation to the Remuneration Report of the Company.

4. Re-election of PS Thomas as a Director (Resolution 2)

The Company's Constitution requires that one third of all directors retire by rotation each year. Mr Thomas will retire at the meeting and, being eligible, offers himself for re-election.

5. Issue of Options (Resolutions 3, 4 and 5)

The Proposal

It is proposed to issue an aggregate of 2,500,000 Options to the parties and in the proportions as follows:

Name	Position	No. of Options
Mr RM Thomson	Managing Director	950,000;
Mr G Sakalidis	Exploration Director	950,000;
Mr PS Thomas	Chairman	600,000;

free of charge and otherwise on the terms and conditions set out in Annexure "A" to this Explanatory Statement.

Corporations Act 2001 Requirements

Chapter 2E of the Corporations Act 2001 ("the Act") prohibits, subject to certain exceptions, a company from giving a financial benefit to a related party or the company without prior shareholder approval.

The Act (Section 219) requires the approval of shareholders be obtained in circumstances where certain information has first been provided to them.

Section 195 of the Act provides, in essence, that a director of a public company may not vote or be present during meetings of directors when matters in which that director holds a "material personal interest" are being considered. As each director may be considered to have a material personal interest in the outcome of resolutions 3, 4 and 5, it was arguable whether a quorum could be formed to consider the matter at Board level other than under section 195(4) of the Act which permits directors to resolve (as they did in this instance) to put matters in which they have a material personal interest to shareholders for consideration and resolution.

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The Act prohibits a public company which is listed on ASX from giving a financial benefit to a related party of the public company unless the benefit falls within one of various exceptions to that general prohibition. Exceptions include where:

- the company first obtains the approval of shareholders in general meeting where the pre-conditions set out in the Act have been complied with in relation to the resolution; or
- the terms and conditions upon which the financial benefit is being given are not more favourable to the related party than those on which it is reasonable to expect that the company would give the benefit if dealing with the related party at arm's length in the same circumstances; or
- the financial benefit is paid or provided as remuneration to a person in a capacity as an officer of the company and it is reasonable for a company in the company's circumstances to pay or provide that remuneration to an officer in the person's circumstances.

A "related party" for the purposes of the Act is defined widely. It includes a director of the public company and specified members of the director's family. It also includes an entity over which a director maintains control.

A "financial benefit" for the purposes of the Act has a very wide meaning. In determining whether or not a financial benefit is being given, it is necessary to look to the economic and commercial substance and effect of what the public company is doing (rather than just the legal form). Any consideration which is given for the financial benefit is to be disregarded, even if it is full or adequate.

ASX Listing Rule Requirements

ASX Listing Rule 10.11 requires, as a general rule, the issue of securities to a director to first be approved by shareholders in circumstances where certain information required by ASX Listing Rule 10.13 has been provided to shareholders; this Explanatory Statement provides that information. If approval is given under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1.

Application of Corporations Act and ASX Listing Rules to Proposal

The provisions of Chapter 2E and ASX Listing Rule 10.11 apply to the proposed issue of Options to Messrs RM Thomson, G Sakalidis and P Thomas (the parties to which resolutions 3, 4 and 5 relate) as they are related parties (by virtue of section 228 of the Act) to whom the proposed resolutions would permit financial benefits to be given.

ASX's Corporate Governance Guidelines

The granting of options to non-executive directors does not fall within the guidelines of recommendation 9.3 of the ASX's Principles of Good Corporate Governance and Best Practice Recommendations.

Nevertheless, for reasons set out in this Explanatory Statement, the proposal contemplates the issue of securities to the non executive director as well as the executive director.

Share Trading history

The price of Image's shares quoted on the ASX over the twelve month period ending 10 October 2006 has ranged from a low of 31 cents on 10 October 2005 to a high of \$1.25 by 8.56 am WST on 109 October 2006. The latest available closing price of Image's shares quoted on the ASX, prior to the date of this Explanatory Statement on 6 October 2006 was \$1.15 cents.

It is to be noted that the market price of Image's shares at close of business 16 November 2006 or 20 cents (whichever is the higher) will be the price at which the Options are exercisable.

Valuation

The Directors requested Provisio Corporate Pty Ltd, Risk and Assurance Consultants to provide an indicative valuation of the Options proposed to be granted to the related parties for inclusion in this Explanatory Statement (to satisfy the legal requirement that a value be placed on the Options and disclosed to shareholders using a legally mandated approach to valuation).

Provisio Corporate Pty Ltd (**Provisio**), by letter dated 6 October 2006, concluded that to all intents and purposes, the options are an unlisted "American style" option on a listed security which will be issued "at the money". Given the long time period over which

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the option can be exercised, there is no material difference between using a Black-Scholes model or a Binomial model to calculate the "at the money" option value. Given the fact that the strike price of the option is to be determined at a future date, it is not possible to provide a definitive valuation. The volatility of the market and the speculative nature of the Company's principal activity of exploration leads Provisio to conclude that it would be unfair to ascribe a value to the option based on a single day's closing price of the underlying security. Provisio therefore utilised two alternative approaches to value the underlying security and attribute a value of between 17.8 cents and 18.5 cents to each Option based on the following assumptions:

- the Options are issued free of charge;
- the exercise price of the share Options will be the closing share price on the day before the Annual General Meeting set down for 16 November 2006;
- the Options shall lapse at 5.00pm WST on the 16 November 2011;
- the Options shall be exercisable wholly or in part at any time until the expiry date on payment of the Exercise Price per Option;
- the Options are not subject to any restrictions on transferability;
- the Options will not be quoted on the ASX;
- risk free rate of return— 5% was used;
- a share price volatility factor of between 29.7% and 18% (calculated by reference to either a 200 day or 30 day historical average of the Company's share price and the application of the historic volatility over the 30 days preceding the valuation date);

with the result that notional values using the average of the two indicative values, \$0.1815 can be attributed to the Options proposed to be issued to each director as follows:

Name	No. of Options	Indicative Value
Mr RM Thomson	950,000	\$172,425
Mr G Sakalidis	950,000	\$172,425
Mr PS Thomas	600,000	\$108,900

The Options will, at the date of approval, have a value determined by reference to the potential value that might be derived from any increase in the value of fully paid shares during the currency of the Options. It is this potential value uplift that is a key reason for the proposal that the Options be issued to the directors so as to motivate them to achieve that outcome which will likely benefit all shareholders.

Dilution Effect and Costs of Issue

The potential cost to Image of the issue of an aggregate of 2,500,000 Options pursuant to resolutions 3, 4 and 5 is that there will be a dilution of the issued share capital if the Options are exercised. Based on 73,897,978 shares currently on issue, the exercise of the proposed Options would have a dilution effect of approximately 3.38% on non-associated shareholders' interest in Image. The issue of the Options will not restrict Image's ability to issue further securities as it sees fit and should it do so, that will further diminish the potential dilution impact of the Options.

The opportunity costs to Image or benefits foregone by Image in respect of the proposed issue of Options are:

- the price at which the Options might have been issued pursuant to an arms length transaction for cash (or other value);
- if the Options are exercised at a time when the market price of Image's shares is greater than the exercise price of the Options, there will be a detriment insofar as Image will be required to issue shares at a price lower than it might otherwise have then been able to, with the result that less funds will be raised for the number of shares issued.



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Capital Structure

The change in capital structure of Image as a result of the proposed issue of Options is as follows:

Before New Issues:

Shares

<i>Number</i>	<i>Description</i>
73,897,978	fully paid ordinary shares

Options

<i>Number</i>	<i>Exercise Price</i>	<i>Expiry Date</i>
1,035,000	25 cents	4.7.2007
1,850,000	33.5 cents	27.11.2008
2,000,000	39 cents	26.11.2009
2,000,000	32 cents	21.11.2010

And in addition, on Completion of New Issues, the following Options:

<i>Number</i>	<i>Exercise Price</i>	<i>Expiry Date</i>
2,500,000	say \$1.25*	16.11.2011

* Price to be set at the date of the meeting so not yet known.

Directors' emoluments and equity interests

The emoluments of each Director for the financial year ended 30 June 2006 were as follows:

Director	Position	Salary & Fees	Super- Annuation	Equity Options (1)	Total
Roger Thomson	Executive Managing Director	\$95,323	\$8,579	\$117,840	\$221,742
George Sakalidis	Executive Director	\$143,772	\$12,939	\$117,840	\$274,551
Peter Thomas	Non-Executive Chairman	\$40,000	100% of salary & salary entitlements by way of salary sacrifice	\$58,920	\$98,920

Note (1)

Equity remuneration represents share options granted during the year as approved at the general meeting of shareholders held 21 November 2005. These options have been valued at grant date using the Black-Scholes option valuation methodology.

It is expected that directors' emoluments will be paid at similar levels in respect of the year ended 30 June 2007.

Excluding any securities proposed to be issued to the related parties pursuant to resolutions 3, 4 and 5, the parties have a relevant interest in the securities set out below:

Name	Shares	Options
Mr RM Thomson	1,176,015	2,400,000
Mr G Sakalidis	6,080,220	2,250,000
Mr PS Thomas	569,000	1,200,000

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Rationale for the proposal

The issue of Options as proposed is thought by the board to be justified because:

- it will provide directors with an opportunity to participate in Image's future growth by rewarding them for their contribution and give them an incentive to further contribute to that growth;
- the directors will thereby have a vested interest in the affairs of Image and in increasing the market value of its securities - thus they will have a common interest with all shareholders. If they achieve this result, all shareholders will benefit;
- the issue of Options has the benefit of conserving cash whilst rewarding and motivating the directors;
- the real cost to the Image will be the opportunity cost and will not result in dilution of shareholders' equity unless the Options are exercised;
- the exercise of the Options will provide working capital for Image;
- if all the Options proposed to be issued pursuant to resolutions 3, 4 and 5 are exercised, and the exercise price happens to be \$1.25, an amount of approximately \$3,125,000 will be raised;
- the purpose is to provide the specified directors with an incentive and the success of Image depends in large measure on the skills and motivation of the people engaged in and overseeing the management of Image's operations. It is therefore important that Image is able to attract and retain people of the highest calibre.

Other Information

If approval is forthcoming, the Options will be issued to Directors free of charge and within one month after the date of the meeting.

There is no other information known to the Directors or Image that is reasonably required by shareholders to make a decision whether or not it is in Image's interests to pass resolutions 3, 4 or 5 other than as set out throughout this Explanatory Statement (including the current entitlements of the Directors to securities in Image).

Recommendation

Messrs RM Thomson, G Sakalidis and PS Thomas, current directors of Image, express no opinion and make no recommendation in respect of the issue of Options proposed by resolutions 3, 4 and 5 as they are each regarded as having a material personal interest in the outcome of those resolutions.

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Annexure "A"

TERMS AND CONDITIONS OF THE OPTION

The Options granted will entitle the holder to subscribe for and be issued Shares as follows:

- (i) each Option entitles the holder to subscribe for and be issued with one fully paid ordinary share upon payment of an amount per Option equivalent to the greater of the closing share price on 16 November 2006 or 20 cents, this being the minimum price ("the Exercise Price");
- (ii) the Options shall lapse at 5.00pm Western Standard Time on 16 November 2011;
- (iii) the Options shall be exercisable wholly or in part by notice in writing to the directors of the Company at any time until the expiry date on payment of the Exercise Price per Option;
- (iv) the Options will not be subject to any restrictions on transferability;
- (v) the Option-holders will not be entitled (by reason of being holders of the Options) to participate in new issues of capital which may be offered to shareholders during the currency of the Option;
- (vi) Option holders have the right to exercise their Options prior to the date of determining entitlements to any capital issues to the then existing shareholders of the Company made during the currency of the Options, and will be granted a period of at least 9 business days before the date for determining entitlements to exercise the Options;
- (vii) within 5 business days of receipt of a properly executed Option notice and the required application monies, the number of shares specified in the notice will be issued;
- (viii) shares issued on the exercise of the Options will rank pari-passu with the then existing issued ordinary shares. The Company will apply for Official Quotation by ASX of all shares issued upon exercise of the Options within three business days after the date of issue of those shares;
- (ix) in the event of any reorganisation (including reconstruction, consolidation, subdivision, reduction or return) of the issued capital of the Company, the Options will be reorganised as required by the Listing Rules, but in all other respects the terms of exercise will remain unchanged;
- (x) in the event of a bonus issue to the holders of Shares, the number of Shares over which each Option is exercisable shall be increased by the number of Shares which the Holder would have received if the Option had been exercised before the record date for the bonus issue. The bonus issue must be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in the bonus issue and rank equally in all respects with other shares of that class at the date of issue of the bonus shares;
- (xi) other than as set out in (ix) above, the Options do not confer any of the rights set out in ASX Listing Rule 6.22.