

QUARTERLY REPORT

Period Ending 31 December 2010

Highlights:

- Discussions with fertiliser industry participants continuing
- Iroquois manganese project airborne electromagnetic survey data being processed to delineate high-quality drill targets
- Historic drill hole on the Earraheedy Basin manganese project includes 2 m at 66% pyrolusite (manganese-bearing mineral) equivalent to approximately 41% Mn

Figure 1: Highland Plains Location with Rock Phosphate Export Options



1.0 Strategic Partner Process – Highland Plains Phosphate Project (NT)

Phosphate Australia Limited (POZ) together with Gresham Advisory Partners Limited (“Gresham”) continued discussions with a number of international participants in the fertiliser industry. The aim is to secure a strategic partner to assist with the development of the Highland Plains phosphate project. The Company’s strategic partner process is ongoing and there can be no assurance that a binding proposal will emerge.

Highland Plains has a JORC compliant Inferred Resource of 56 Mt at 16% P₂O₅. The project is 100% owned by POZ and the Company is currently targeting the production and sale of up to 3 million tonnes per annum of beneficiated rock phosphate from Highland Plains, to be transported by slurry pipeline to a barging facility in the Gulf of Carpentaria for export.

Managing Director Andrew James recently returned from a trip to China which involved meeting with potential project partners.

As part of this process, beneficiated rock phosphate samples have been dispatched overseas. Samples have been sent to a potential project partner for independent quality testing. Feedback on the quality of the phosphate concentrates has been positive.

Results of independent laboratory testing on the suitability of the phosphate samples for conversion to phosphoric acid are awaited. Once available, this data will be sent to a number of parties with which the company has exchanged confidentiality agreements.

The Company is in discussion with a number of groups interested in the development of the transport systems (slurry pipeline and barging facility). The aim is to culminate these discussions with Memorandums of Understanding to set out scopes of work and financing opportunities for the project.

Representatives of Phosphate Australia will be attending the Beneficiation of Phosphates VI conference in March which will be held in Kunming, China. This will be a useful opportunity to continue discussions with internationally established fertiliser participants in the Asian market.

2.0 Phosphate Market Update

Di-Ammonium Phosphate (“DAP”) fertiliser prices have risen strongly in the last 6 months with the FOB price North Africa increasing from approximately US\$450/t in July to US\$590/t in late January. Supported by this price increase, rock phosphate prices to India have increased to around US\$165/t CFR for 32.5% P₂O₅ (FMB Group - Weekly Phosphates Report).

3.0 NT Iron Ore Project Sampling and Mapping Program

Results of the Iron Ore sampling and mapping program on the Company’s 100% owned Nicholson Iron Project in the NT, further to the initial helicopter-supported program, were released to the ASX on 10 August 2010.

The aim of this program was to identify and site potential drill targets. New areas of iron mineralisation were discovered and sampled on this trip. This sampling program was conducted on granted permit EL25068. Importantly, numerous other iron ore targets also exist to the north on other permit applications held by POZ on Aboriginal Freehold Land (refer to section 4.0) and the overall size potential of this iron project is large.

The discovery of outcropping, high-grade (>60% Fe) iron mineralisation, in only the second small mapping program, highlights the potential of the project area which contains 1400 km² of prospective geology.

The Company's tenements have areas of known iron occurrences and are prospective for Clinton style oolitic iron mineralisation. Geological mapping by the NTGS has identified outcrop and sub-crop of iron-bearing formations on the Company's tenements that lie within the South Nicholson Group.

Further on-ground mapping and sampling for the iron ore project is planned for 2011.

4.0 Northern Land Council Negotiations

The permits north of the Highland Plains permit EL25068 lie on Aboriginal Land Rights (Northern Territory) Act (1976) freehold land. This area is prospective not only for iron but also phosphate outliers, uranium and base metals. Traditional Owners of this land, through the Northern Land Council ("NLC"), have control of the access and exploration of this area generally known as the Nicholson Land Trust.

Phosphate Australia is currently negotiating with the NLC to access this large under-explored area. Phosphate Australia has presented the NLC with its proposed terms for access. The NLC, while considering its response to the proposal, is organising for an anthropological survey to be carried out on behalf of the Company. This survey is required as part of an access agreement.

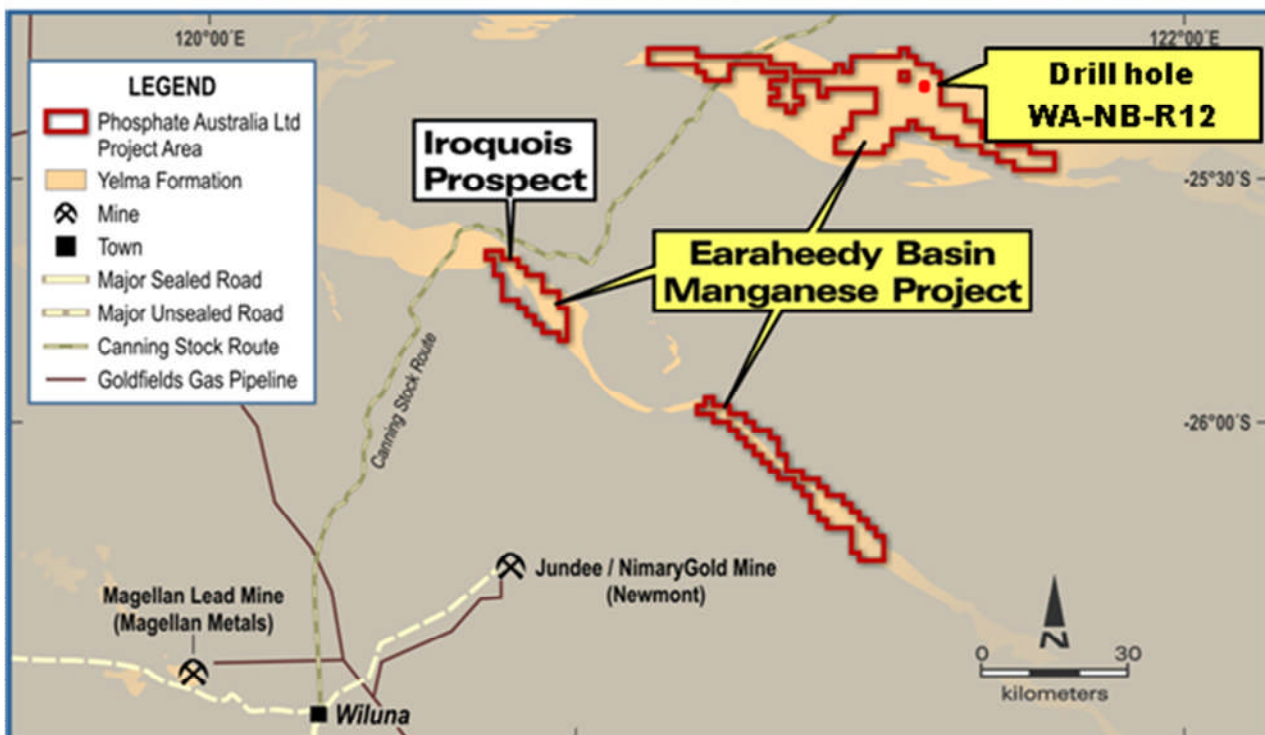
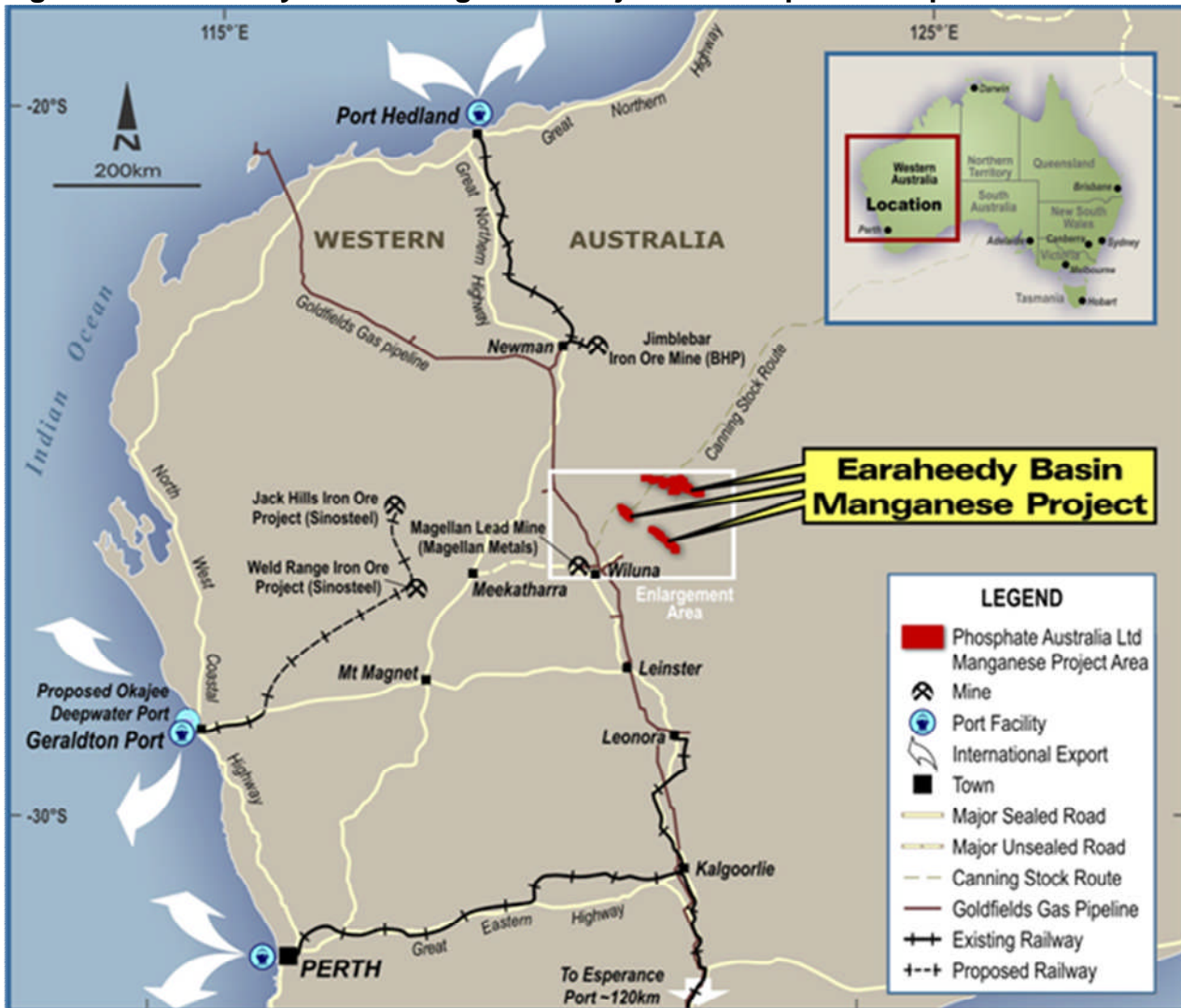
The Company is working towards gaining access to these permits in 2011.

5.0 Earraheedy Basin Manganese Project

Further to the release of 7 December 2010, the Company is awaiting the final processed data from the airborne electromagnetic survey flown in November 2010 over the Iroquois manganese prospect located in the Earraheedy Basin (Figure 2).

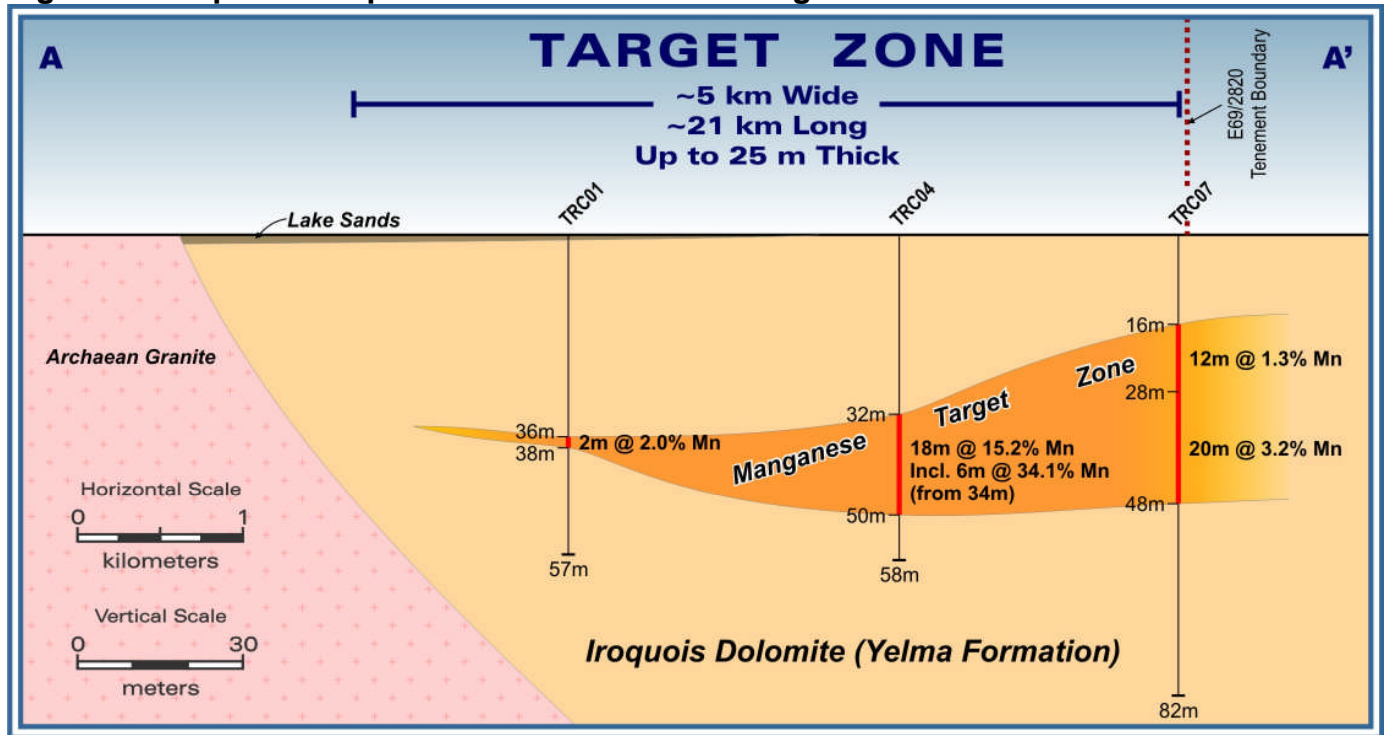
The Iroquois prospect has been acquired through a WA Department of Mines tenement application by Phosphate Australia and consists of one tenement (E69/2820) which covers 136km² and has no outstanding private royalty commitments. The Iroquois prospect is a part of Phosphate Australia's larger Earraheedy manganese project which consists of a total of three tenement applications (973km²) specifically targeting the Yelma Formation of the Earraheedy Basin.

Figure 2: Earaheedy Basin Manganese Project and Iroquois Prospect



The best intersection from this drilling was in the Iroquois prospect (now held by Phosphate Australia) and was **6m @ 34.1% Mn and 4.2% Pb from 34m in drill hole TRC4** (Figure 3).

Figure 3: Iroquois Prospect: Cross Section and Target Zone

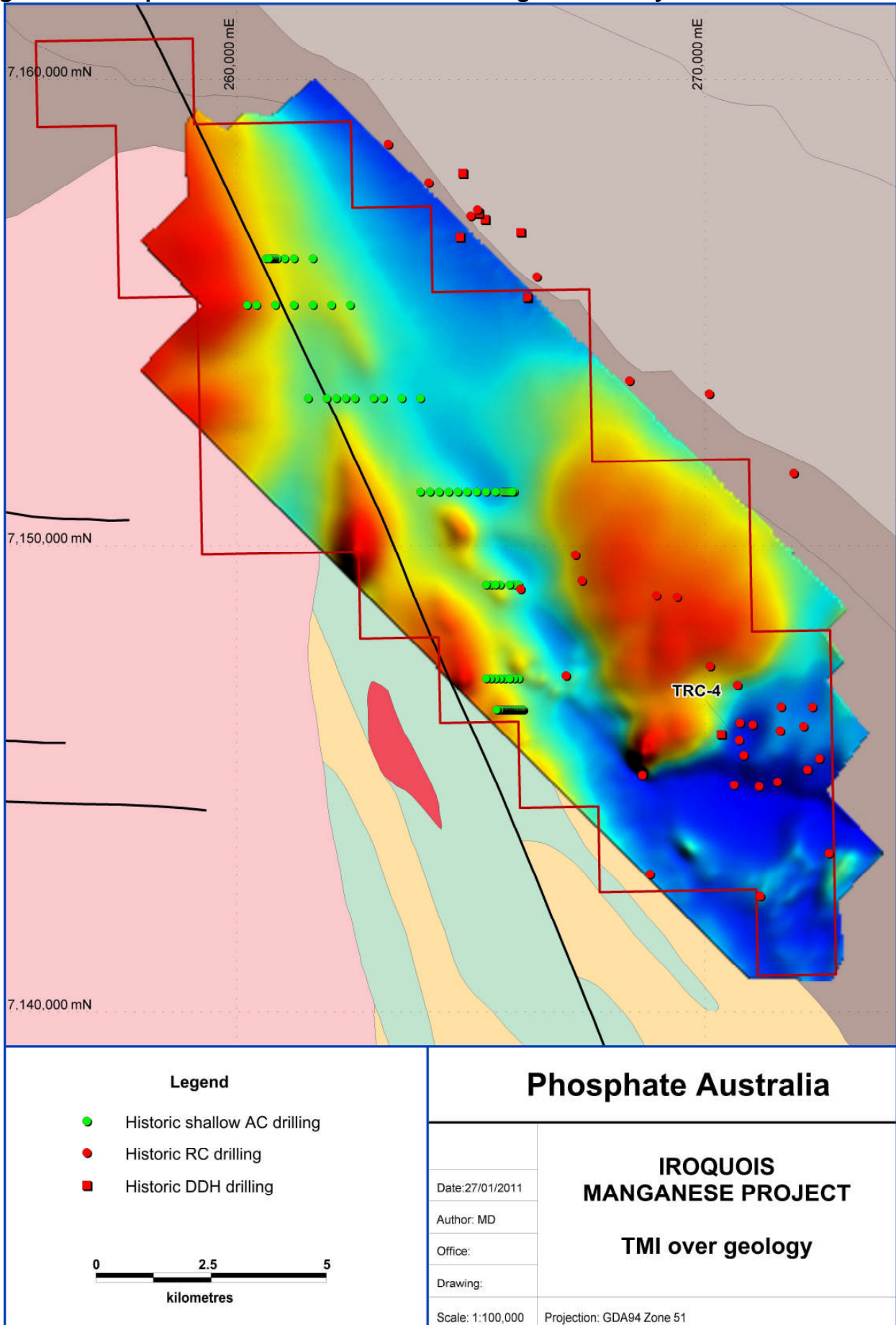


Further research has shown historic drilling performed by Western Mining Corporation from the area now covered by the Company's exploration tenement E69/2876 includes an intersection from drill hole WA-NB-R12 with a 2 m interval that was analysed for mineralogy using X-ray diffraction. Results from this analysis indicate that the 2 m intersection consisted of 66% pyrolusite (a manganese ore mineral - MnO₂). This is equivalent to 41% Mn.

Aeromagnetic data received as an early product from the electromagnetic survey is already helping the Company understand the potential geological controls on the distribution of manganese-bearing rocks (Figure 4).

The processed electromagnetic data is expected by mid February and the Company is aiming for a phase 1 drilling campaign on the project early in 2011.

Figure 4: Phosphate Australia E69/2820 Aero-magnetic Survey



6.0 Summary and Outlook

Solid progress has been made in acquiring a project partner for the Company's phosphate Project and international interest is encouraging.

The Company also has an outstanding manganese project which it intends to drill in early 2011 and which has some exciting historic grades. With the style of manganese mineralisation (bedded/Kalahari style) and its shallow depth, there is real potential for a major discovery.

POZ is primarily focused on the Highland Plains phosphate project but has an interest in new project areas and applications. Since the September Quarterly Report the Company has applied for more tenements in the Earraheedy Basin for manganese exploration and in the Gascoyne, Cue and Marble Bar regions.

ANDREW JAMES
Managing Director

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Jim Richards, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Richards is a Director of POZ. Mr Richards has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Richards consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

The information in this report that related to metallurgical testwork is based on information compiled by Mr Fred Kock and overseen by Mr Brian Putland who is a member of the Australian Institute of Mining and Metallurgy. Mr Putland is the Managing Director of Orway Mineral Consultants.

Phosphate Australia at a Glance

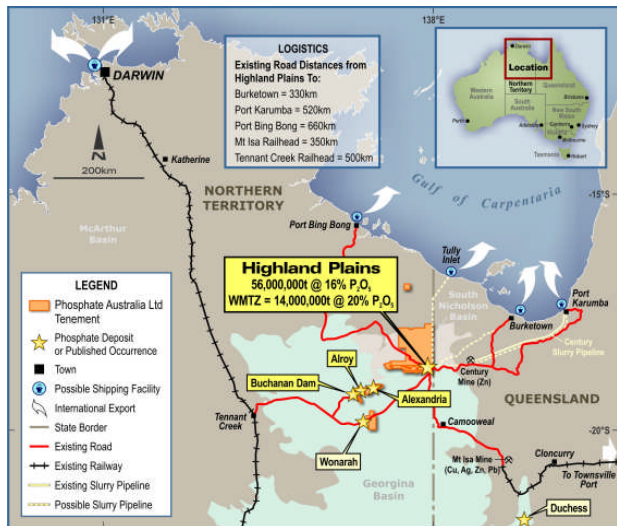
ASX Code: **POZ**

Phosphate Australia Limited is a rock phosphate development company targeting the production and sale of up to 3,000,000 tonnes per annum of premium grade beneficiated rock phosphate with low contaminants.

Highland Plains is the lead project with a JORC compliant Inferred Resource of 56 Mt at 16% P₂O₅. The permit is 100% controlled by POZ. The Western Mine Target Zone has been targeted for a potential start-up operation at Highland Plains. This is the shallowest part of the deposit, with outcropping mineralisation and comprises a JORC compliant Inferred Resource of 14 Mt at 20% P₂O₅ as a subset of the global Inferred Resource.

The company also controls three other known phosphate occurrences in the Northern Territory at Alexandria, Alroy and Buchanan Dam. Buchanan Dam has a historical intersection of 6.1 m at 25% P₂O₅ from 12.2 m.

Currently un-granted permit applications controlled by the company to the north of Highland Plains are prospective for iron and uranium with access subject to the negotiation of an agreement with the Traditional Owners.



Capital Structure Snapshot 27 January 2010

Ordinary Shares on Issue:	108.9 million
Top 20 Shareholders:	60.5 million (56%)
Unquoted Options on Issue:	25.4 million
Share Price:	A\$0.12
Undiluted Market Cap:	A\$13 million
Number of Shareholders:	1112
Cash Balance:	\$4.7 million

Board of Directors

Chairman:	Jim Richards
Managing Director:	Andrew James
Director/Company Secretary:	Grant Mooney

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