



Phosphate Australia Limited

ABN 51 129 158 550

**Interim Financial Report
31 December 2010**

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PHOSPHATE AUSTRALIA LIMITED

INTERIM FINANCIAL REPORT

DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2010.

DIRECTORS

The names of the Company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr James (Jim) Richards – Non Executive Chairman

Mr Andrew James – Managing Director

Ms Lisa Wells – Executive Director – Technical (Resigned 8 October 2010)

Mr Grant Mooney – Non Executive Director

OPERATING RESULTS

The loss from ordinary activities of the Company for the half-year ended 31 December 2010 after income tax was \$495,461 (2009: \$542,197).

REVIEW OF OPERATIONS

Phosphate Australia Limited (POZ) is pleased to present its half yearly Review of Operations for the six months to the end of December 2010.

The Company's major focus remains the Highland Plains phosphate project. The JORC inferred resource at Highland Plains is 56 million tonnes at 16% P₂O₅. The Western Mine Target Zone ("WMTZ"), a subset of the global resource for the project, is a JORC inferred resource of 14 million tonnes at 20% P₂O₅. The WMTZ is the area selected to support a potential mining operation early in the development due to a combination of relatively thick and shallow mineralisation.

Scoping metallurgical studies on Highland Plains rock phosphate have been completed and a report containing all of the metallurgical work performed on the project to date received. Based on work to date it is possible to beneficiate the rock phosphate to a high grade product of 35% P₂O₅ with a recovery at around 52% for the coarser material only (greater than 5 microns) or to a grade of around 32% at a recovery of approximately 75% by incorporating the fine and coarse material.

These metallurgical studies are highly encouraging and there are numerous avenues of investigation to improve product quality and phosphate recovery. These options will be investigated during the next phase of metallurgical studies which will involve larger samples of differing input grades from different locations within the deposit.

The indications of ample ground water supplies, supported by the initial ground water investigation, along with the slurry pipeline scoping report, give the opportunity for the Company to develop the lowest cost rock phosphate operation in Australia. This potential is underpinned by the proximity of the project to the coast (approximately 240 km) and the shallowness of the mineralisation leading to potentially very low mining costs.

Capital requirements for a slurry pipeline at around A\$240 million have lead the Company together with Gresham Advisory Partners Limited ("Gresham") to search for a strategic partner to assist with the development of the project. As part of this process, beneficiated rock phosphate samples have been dispatched overseas. Samples have been sent to potential project partners for independent quality testing. There can be no assurance that a binding proposal will emerge from this search process.

The Company has finalised and exchanged a Confidentiality Agreement with an infrastructure consortium. The aim of this data exchange is to develop an integrated logistics scoping study for the project.

PHOSPHATE AUSTRALIA LIMITED INTERIM FINANCIAL REPORT

During the year, a second iron ore mapping and sampling program was completed on the Highland Plains tenement EL25068 in the Northern Territory. 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. Importantly, numerous other iron ore targets also exist to the north on other permit applications held by POZ on Aboriginal Freehold Land.

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.

In order to diversify its project opportunities and to make the best use of the geological skills within the Company, POZ has commenced acquiring by tenement application other exploration projects. These will allow the Company to maintain exploration during the northern wet season (nominally from December to March but longer in the 2010/11 season) when activity at Highland Plains becomes more difficult.

The most advanced of these projects is the Iroquois manganese project located in Western Australia. Previous base metal exploration on the tenement included a drill hole intercept of 6 m at 34% Mn from 34 m. The Company flew an electromagnetic survey on the project in December 2010 and is currently interpreting the data. Subject to the required permitting being in place, the Company hopes to be drilling on this project in the second quarter of 2011.

The Company will continue to examine new projects, providing they are able to be acquired at very low cost through ground applications. However, the Company's main focus remains on advancing and developing the high quality Highland Plains phosphate project in the Northern Territory and to this end, the process of finding a strategic partner is ongoing.

DIVIDENDS

No dividends have been paid or declared since the start of the financial period and the Directors do not recommend the payment of a dividend in respect of the financial half-year.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from the lead auditor of Phosphate Australia Limited, Grant Thornton Audit Pty Ltd, which is included on page 5.

Signed in accordance with a resolution of the Directors



JAMES RICHARDS
Chairman



ANDREW JAMES
Managing Director

Dated: 14 March 2011

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**Auditor's Independence Declaration
To The Directors of Phosphate Australia Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Phosphate Australia Limited for the half-year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



J W Vibert
Director - Audit & Assurance

Perth, 14 March 2011

PHOSPHATE AUSTRALIA LIMITED
INTERIM FINANCIAL REPORT

STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	NOTE	31 December 2010 \$	31 December 2009 \$
Other revenues from ordinary activities	5	150,113	142,839
Total Revenue		150,113	142,839
Exploration not capitalised		31,067	-
Employee benefits expense		165,637	227,475
Depreciation expense		124,368	110,237
Rental expenses		83,848	90,818
Administration expenses		231,951	240,631
Share based payments		8,703	15,875
Total Expenses		645,574	685,036
Loss for the period before income tax expense		495,461	542,197
Income tax expense		-	-
Loss for the period after related income tax expense		495,461	542,197
Other Comprehensive Income:		-	-
Total Comprehensive Income for the period		495,461	542,197
Basic loss per share (cents per share)		(0.455)	(0.517)

The accompanying notes form part of the financial statements.

PHOSPHATE AUSTRALIA LIMITED
INTERIM FINANCIAL REPORT

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	NOTE	31 December 2010 \$	30 June 2010 \$
ASSETS			
Current Assets			
Cash and cash equivalents		4,517,187	5,823,062
Trade and other receivables		125,491	403,378
Prepayments		49,000	61,608
Other current assets		157,772	155,840
Total Current Assets		4,849,450	6,443,888
Non-Current Assets			
Property, plant and equipment		950,130	1,045,377
Exploration, evaluation and development expenditure	6	5,914,355	4,962,376
Total Non-Current assets		6,864,485	6,007,753
TOTAL ASSETS		11,713,935	12,451,641
LIABILITIES			
Current liabilities			
Trade and other payables		187,612	397,434
Provisions		31,719	72,845
TOTAL LIABILITIES		219,331	470,279
NET ASSETS		11,494,604	11,981,362
EQUITY			
Issued Capital	7	13,328,696	13,328,696
Share Option Reserve		355,660	346,957
Accumulated losses		(2,189,752)	(1,694,291)
TOTAL EQUITY		11,494,604	11,981,362

The accompanying notes form part of the financial statements.

PHOSPHATE AUSTRALIA LIMITED
INTERIM FINANCIAL REPORT

STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	NOTE	31 December 2010 \$	31 December 2009 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(556,388)	(604,009)
Income tax refund		338,005	-
Interest received		80,205	161,850
		<u>(138,178)</u>	<u>(442,159)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(32,032)	(203,020)
Payments for exploration, evaluation and development expenditure		(1,135,665)	(1,095,182)
		<u>(1,667,697)</u>	<u>(1,298,202)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital raising		-	3,834,338
Share issue expenses		-	(197,646)
		<u>-</u>	<u>3,636,692</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS HELD		(1,305,875)	1,896,331
Cash and cash equivalents at the beginning of the period		5,823,062	5,057,270
Cash and cash equivalents at the end of the period		<u>4,517,187</u>	<u>6,953,601</u>

The accompanying notes form part of the financial statements.

PHOSPHATE AUSTRALIA LIMITED
INTERIM FINANCIAL REPORT

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2010

	Ordinary Shares	Share Option Reserve	Accumulated Loss	Total
	\$	\$	\$	\$
Balance at 1 July 2010	13,328,696	346,957	(1,694,291)	11,981,362
Loss for the period	-	-	(495,461)	(495,461)
Other comprehensive income	-	-	-	-
Total comprehensive loss for half year	-	-	(495,461)	(495,461)
Shares based payments	-	8,703	-	8,703
Balance as at 31 December 2010	13,328,696	355,660	(2,189,752)	11,494,604

	Ordinary Shares	Share Option Reserve	Accumulated Loss	Total
	\$	\$	\$	\$
Balance at 1 July 2009	9,692,004	26,976	(690,373)	9,028,607
Loss for the period	-	-	(542,197)	(542,197)
Other comprehensive income	-	-	-	-
Total comprehensive loss for half year	-	-	(542,197)	(542,197)
Share issue at \$0.27 on 21 Aug 09	3,834,338	-	-	3,834,338
Share issue costs	(197,646)	-	-	(197,646)
Share based payments	-	15,874	-	15,874
Balance as at 31 December 2009	13,328,696	42,850	(1,232,570)	12,138,976

The accompanying notes form part of the financial statements.

PHOSPHATE AUSTRALIA LIMITED
INTERIM FINANCIAL REPORT
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

1. CORPORATE INFORMATION

The financial report of Phosphate Australia Limited (the company) for the half-year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 14 March 2011.

Phosphate Australia Limited is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Securities Exchange (ASX Code: POZ).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial report is intended to provide users with an update on the latest financial statements of Phosphate Australian Limited. As such it does not include all of the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Phosphate Australia Limited as at 30 June 2010, the interim financial statements have been prepared using the same accounting policies as disclosed at 30 June 2010.

It is also recommended that the half-year financial report be considered together with any public announcements made by Phosphate Australia Limited during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(a) Basis of Preparation

The half-year consolidated financial report is a general purpose financial report, which has been prepared in accordance with the requirement of the Corporations Act 2001, and AASB 134 "Interim Financial Reporting". The half-year financial report has been prepared on a historical cost basis, except where stated.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) New or revised Standards and Interpretations that are first effective in the current reporting period

The Company has adopted the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current period.

Impact of new and revised Standards and amendments thereof and Interpretations effective for the current period that are relevant to the Company include:

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9

In December 2009, the AASB issued AASB 9 Financial Instruments which addresses the classification and measurements of financial assets and is likely to affect the Company's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Company is yet to assess its full impact. However, initial indications are that it will have no impacts on the Company's financial statements. The Company has yet to decide when to adopt AASB 9.

PHOSPHATE AUSTRALIA LIMITED
INTERIM FINANCIAL REPORT
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

Amendments to AASB 5, 8, 101, 107, 117, 118, 136 and 139 as a consequence of AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

AASB 2009-5 Introduces amendments to Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular terms, or eliminating unintended consequences. Other changes are more substantial, such as the current/non-current classification of convertible instruments, the classification of expenditures on unrecognized assets in the statements of cash flows and the classification of leases of land and buildings.

The adoption of these amendments, have not resulted in any material changes to the Company's accounting policies and have no effect on the amounts reported for the current or prior periods.

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

Amends a number of pronouncements as a result of the IASB's 2008-2010 cycle of annual improvements to provide clarification of certain matters.

The key clarifications include:

- The measurement of non-controlling interests in a business combination;
- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised AASB 3 Business Combinations (2008); and
- Transition requirements for amendments arising as a result of AASB 127 Consolidated and Separate Financial Statements.

The adoption of these amendments, have not resulted in any material changes to the Company's accounting policies and have no effect on the amounts reported for the current or prior periods.

3. FINANCIAL RISK MANAGEMENT

Other aspects of the Group's financial risk management objectives and policies are consistent with that disclosed in the annual financial report as at and for the year ended 30 June 2010.

4. SEGMENT INFORMATION

The Company operates in the natural resources exploration industries in the Northern Territory of Australia and Western Australia. The Company is predominantly involved in phosphate exploration within its project areas and shall also explore for iron and uranium within these same areas.

5. REVENUE FROM ORDINARY ACTIVITIES

	31 December 2010 \$	31 December 2009 \$
Other income		
Interest received from financial institutions	150,113	142,371
Other income	-	468
Total revenues	150,113	142,839

PHOSPHATE AUSTRALIA LIMITED
INTERIM FINANCIAL REPORT
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

6. EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	31 December 2010	30 June 2010
	\$	\$
Opening balance Exploration, evaluation and development	4,962,376	3,128,232
Exploration, evaluation and development capitalised during period	952,630	1,834,144
Less impairment	(651)	-
	5,914,355	4,962,376
Closing balance Exploration, evaluation and development	5,914,355	4,962,376

7. ISSUED CAPITAL

Issued and paid up capital	13,328,696	14,036,212
Opening Balance	13,328,696	10,201,875
Add movements:		
Share placement at 27 cents – 21/8/2009	-	3,834,338
Less Share issue expenses	-	(707,517)
Closing balance	13,328,696	13,328,696

8. COMMITMENTS AND CONTINGENCIES

In June 1992 the High Court of Australia held in the Mabo case that the common law of Australia recognises a form of native title. The full impact that the Mabo decision may have on tenements held by the Company is not yet known. The Company is aware of native title claims that have been lodged with the National Native Title Tribunal ("the Tribunal") over several areas in the Northern Territory in which the Company holds interests. The native title claims have been accepted by the Tribunal for determination under section 63(1) of the Native Title Act 1993 (Commonwealth).

Exploration Expenditure Commitments

The Company has minimum statutory commitments as conditions of tenure of certain mining tenements. Whilst these obligations may vary, a reasonable estimate of the minimum commitments if it is to retain all of its present interests in mining and exploration properties is \$625,000.

9. RELATED PARTY TRANSACTIONS WITH DIRECTOR RELATED ENTITIES

During the 6 months ended 31 December 2010, the company incurred booking costs of \$15,375 (2009: \$24,000) from an entity related to Grant Mooney. As at the 31 December 2010 an amount of \$6,000 (2009: \$6,000) was owing to this entity.

Arrangements with other related parties continue to be in place. For details of these arrangements, refer to the 30 June 2010 annual financial report.

10. EVENTS AFTER THE BALANCE SHEET DATE

No matters or circumstances have arisen since the end of the half year which have significantly affected or may significantly affect the operations or the state of affairs of the consolidated entity in the future financial years.

PHOSPHATE AUSTRALIA LIMITED INTERIM FINANCIAL REPORT

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Phosphate Australia Limited, we declare that:

- (a) the financial statements and notes of the entity are in accordance with the *Corporations Act 2001*, including:
 - i. give a true and fair view of the Company's financial position as at the 31 December 2010 and of its performance for the half-year ended; and
 - ii. comply with Australian Accounting Standards (AASB 134 *Interim Financial Reporting*);
- (b) In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



JAMES RICHARDS
Chairman



ANDREW JAMES
Managing Director

Perth, 14 March 2011

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Independent Auditor's Review Report To the Members of Phosphate Australia Limited

We have reviewed the accompanying half-year financial report of Phosphate Australia Limited ("Company"), which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Phosphate Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Phosphate Australia Limited is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the Company's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



J W Vibert
Director - Audit & Assurance

Perth, 14 March 2011