

## Quarterly Report – 30 June 2008

### MESA MINING JOINT VENTURE

In the three months since signing a Farmin and Joint Venture Agreement and a Sales Agency Heads of Agreement with Auvex Resources Limited (Auvex), under which an export oriented manganese lump ore production joint venture was to be formed to exploit the Ant Hill and Sunday Hill manganese mining leases, excellent progress has been achieved. In addition to acquiring a new project name, namely the Mesa Mining Joint Venture, progress includes:

- Approvals under which the joint venture can mine and ship up to 60,000 tonnes of ore are expected in early August.
- Applications seeking approval for mining at the target rate of 200,000 tonnes per annum are in preparation and expected to be submitted in late Q3/2008.
- Geological mapping of initial production areas has begun with drilling scheduled to commence in late Q3/2008.
- Metallurgical analysis of old stockpiles and ores cleaned up from old pits has commenced.
- A site camp has been acquired which will be operational very soon after interim approvals are granted.
- A depot has been established at Nullagine that will have importance during both the start up and operational phases.
- Mining and crushing equipment has begun to be marshalled at the Nullagine depot pending transfer to site.
- Key staff members have begun to be recruited.

By any reckoning, these achievements display a determination on the part of the joint venture partners to move quickly into production, thereby securing a cash flow base from which questions such as the sustainable production level, the average ore grade, the ore beneficiation potential and the mine life can be progressively answered.

HiTec, as the joint sales manager, has opened up technical level discussions with a number of interested manganese alloy producers, which have confirmed the suitability of the likely ore grade for ferromanganese alloy production. These discussions will continue over the current quarter with a view to determining where the Mesa Mining JV ore will have the best value-in-use and hence the best chance of a long term mutually rewarding supply contract.

## **PRICING FOR MANGANESE ORE**

Ore prices continued to strengthen during the quarter driven by ore shortages in general, but particularly by shortages of ores of sufficient grade to produce the higher grade ferromanganese alloys increasingly desired by the steelmakers. In many instances, these alloys are being made from lower grade ores via an inefficient 'double-smelting' process due to the lack of higher grade ores. High grade ores from the likes of Australia for delivery in Q3/2008 are reputedly achieving prices around the US\$16 per percent manganese (FOB).

At the moment Asian alloy makers are increasingly caught between high ore prices on the one hand and governmental restrictions on steel price increases on the other. This is particularly the case in China where, despite booming steel demand, steel price increases have been kept to perhaps two-thirds of those seen elsewhere. The response of the alloy makers has been to reduce production to their minimum contractual obligations, thus endeavouring to survive until the steelmakers begin to compensate them, by way of higher alloy prices, for the increased input costs which they have incurred for ore, wages, energy, transport and environmental costs.

However, this situation is quickly changing, as dormant alloy furnaces are untenable in an economy that is simultaneously endeavouring to increase steel production and to change the production mix towards those steels that require higher manganese levels. The signs of much higher manganese alloy prices in the near future are very evident and this will help support continued good ore prices over the next couple of years, despite the inevitable additional production that will come into the market. HiTec believes that the Mesa Mining lump ore product will experience strong demand over the coming years due to its very high value-in-use in ferromanganese alloy production.

## **COMMERCIALISATION OF PATENTED TECHNOLOGY**

During the quarter just ended all of HiTec's resources were applied to the establishment of the Mesa Mining JV and the marketing of the planned ore production. As such there has been no effort applied to move forward on any patent commercialization front. However, we are now in a very good position to return our focus in the third and fourth quarters of 2008 to the various patent commercialization opportunities we have at hand.

In a contextual sense, nothing has changed during the quarter that would diminish our chances of success. The markets for the products that could use our technology have continued to strengthen, as has the economic and environmental rationale for producing them in ways that improve resource utilization and environmental performance, whilst at the same time reducing costs.

## LIQUIDITY

As at 30 June 2008, HiTec had cash and current receivables of \$1.4m and creditors and accruals of \$0.0m giving net liquid funds of \$1.4m. The Company has no debt.

As regards the start up costs associated with bringing the Ant Hill and Sunday Hill mining leases into production, and to a position of sustainable positive cash flow from the project, we are confident that these will be more than covered by the financial commitments made by Auvex to acquire its 50% interest in this project and income from the initial ore shipments.



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