HiTec Energy

Electrofuel™ for Portable Energy

Quarterly Report – 30 September 2008

MESA MINING JOINT VENTURE (MMJV)

HIGHLIGHTS

The excellent progress noted in the June quarterly report has continued with many key milestones necessary for sustained ore production and sale now achieved, including:

- Exploration RC drilling commenced with 58 holes for 1,632m completed.
- Geological mapping of Ant Hill South completed, resulting in significantly enlarged area of manganese mineralisation.
- 182 outcrop samples assays received from laboratory, indicate average grade 42.6% Mn, and includes contiguous, continuous chip sample results of 17m @ 47.28% Mn.
- New mining commenced successfully, with all operational mining, processing, support equipment on site.
- All requisite personnel engaged, trained, housed on site, working on regular rosters.
- ROM stockpiles and pit rubble from earlier mining reprocessed by crushing and screening to produce direct shipping ore.
- Remaining material (approx. 15,000 t at 33% Mn, 20% Fe) set aside for future beneficiation.
- Applications to approve production of 215,000tpa well advanced, for lodgement in December 2008.
- Approvals obtained for trial shipments of up to 60,000.

By any reckoning, these achievements display a determination on the part of the MMJV participants, Auvex Resources Limited (Auvex) and HiTec, to move quickly into production, thereby securing a cash flow base from which present unknowns such as the sustainable production level, the sustainable average ore grade, the ore beneficiation potential and the potential mine life can be progressively discovered.

EXPLORATION

Geological mapping of initial production areas has been largely completed. Laboratory analysis of 182 one metre continuous chip outcrop samples, taken from the southern area of lodes at Ant Hill, indicated an average grade of 42.6%Mn and 14.0%Fe. Better continuous intercepts are given in Table 1, including 17m @ 47.28%Mn.

Exploration RC drilling commenced on 14 October and 58 holes for 1,632 metres have been completed, with 376 samples already despatched to laboratory for XRF analysis. Figure 1 shows historic drill hole locations. Current 2008 completed and planned RC drill holes are also shown. Visual inspections of current drill cuttings indicate a massive manganese lode attaining 22m vertical thickness has been intercepted to 34m downhole depth. Maximum hole depth to date is 48m drilled.

As a general observation in this area, it is now clear that the old pits at Ant Hill were in the main sited on or near to faulted zones, where the manganese was easier to extract, and that ore grades appear to improve as you move away from these areas into main ore zones.

Detailed mapping of the southern portion of Ant Hill has indicated more widespread occurrence of manganese mineralization, with the dominant mineral comprising microcrystalline to amorphous manganite, although occurrences of radiating crystals of pyrolusite and minor powdery black psilomelane also occur. Surface sampling and drilling to date indicates that, when all planned drilling is complete and assays are received, a significantly enlarged potential for a mineral resource is likely to be defined.

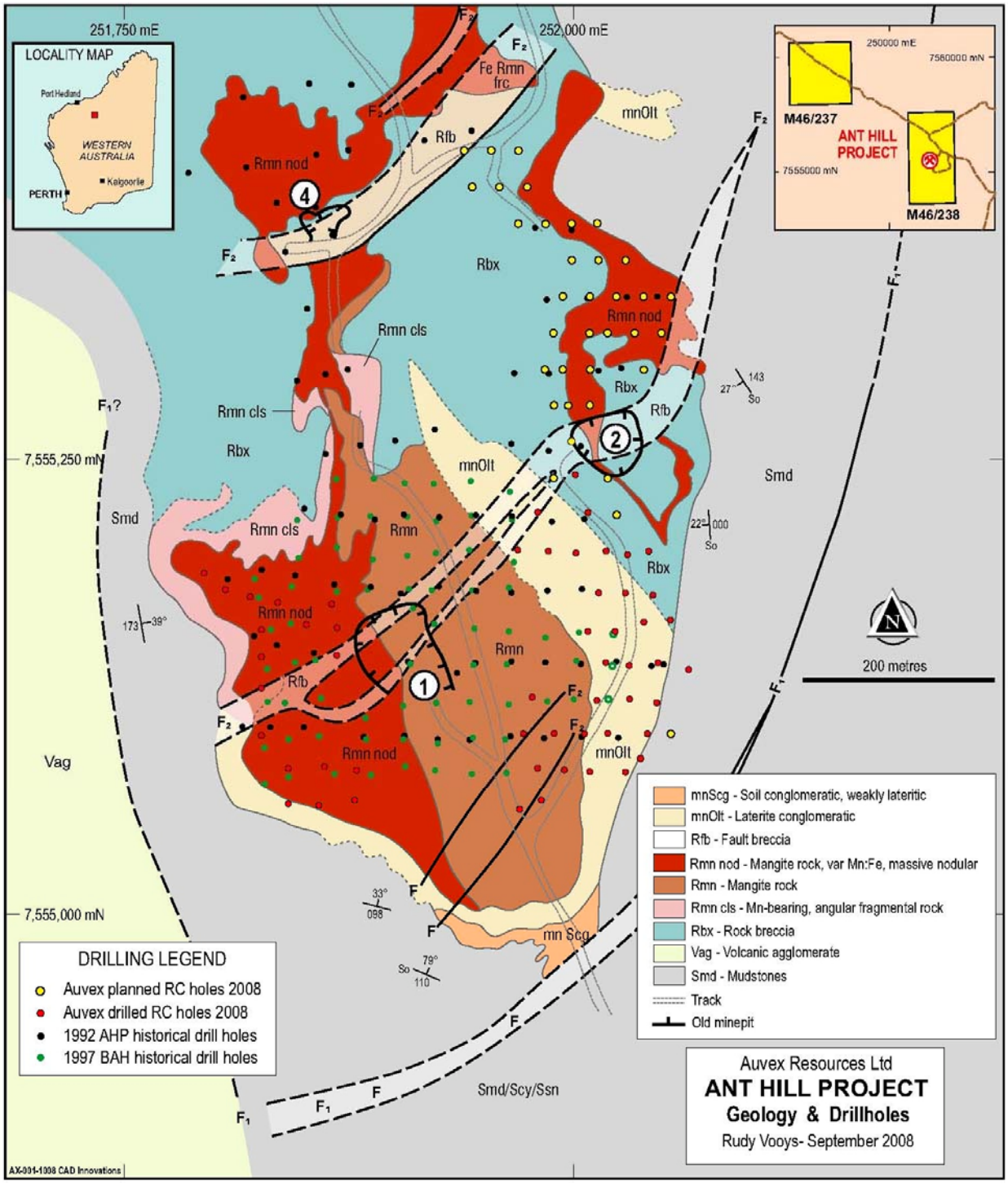
TABLE 1 – Significant Continuous Surface Chip Sampling Results

(Co-ordinates: UTM 51K, GDA-94)

Northing	Easting (From-To)	Interval (m)	Mn %	Fe %	SiO2 %	Ore Type
7555100	251823-030	7	44.47	11.53	3.08	Manganite nodular
7555100	251832-040	8	44.23	12.37	2.06	Manganite nodular
7555150	251818-825	7	42.44	14.73	1.40	Manganite nodular
7555150	251832-840	8	45.46	13.08	0.78	Manganite nodular
7555200	251830-837	7	44.80	7.38	8.77	Manganite nodular
7555200	251849-866	17	47.28	10.90	2.86	Manganite nodular
7555200	251871-881	10	44.97	13.51	1.53	Manganite nodular
7555300	252018-051	33	42.74	13.29	4.12	Manganite nodular
Pit 1 N-face	Samples 0080-0087	8	39.55	16.75	3.73	Manganite brecciated, fractured

The information in this Quarterly Report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Rudy Vooys, a Member of The Australasian Institute of Mining and Metallurgy. Mr. Vooys is a Director of Ravex Pty Ltd which provides Exploration Management services to the Mesa Mining Joint Venture. He 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. Vooys consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

FIGURE 1 - ANT HILL SOUTH - GEOLOGY AND DRILL HOLE LOCATIONS



MINING & PRODUCTION

All mining, processing and support equipment required to achieve the trial shipments is on site and fully operational. Additionally, all personnel required to achieve these trial shipments have been engaged, trained, housed and are operating on regular rosters.

Applications seeking approval for mining at the presently targetted shipping rate of 215,000 tonnes per annum are well advanced and expected to be submitted to the relevant authorities in December 2008.

All old stockpiles and mined materials cleaned up from around previously mined areas have been reprocessed yielding a handy tonnage of direct shipping ore. The remaining ore, which amounts to approximately 15,000 tonnes at an average grade of 33%Mn and 20%Fe appears suitable for beneficiation via heavy media and has been set aside for that purpose.

Mining of fresh ore has commenced adjacent to the old South Pit at Ant Hill with a good tonnage being extracted reasonably efficiently using a 30 tonne excavator without any drilling or blasting. (NB: The manganese ore adjacent to the South Pit occurs as a massive lode, but tends to highly fractured rock where narrow, irregular faults and shears transect the lode. These areas with structural deformation will require a minimum of 'drill and blast'.) Production drilling of a wider area behind and to the west of the old South Pit is has commenced with the first production blast imminent.

As regards beneficiation, work to date suggests that the crushing regime adopted is providing good upgrade of the run of mine ore, plus providing a middlings fraction that should lend it self readily to further upgrade via heavy media separation. Whilst the beneficiated MMJV ore will remain high in Fe, due to the close association of much of the iron with manganese in the mineral structure at Ant Hill, we are increasingly confident that our targetted ore grade will be bettered, both in terms of manganese and iron content, as the effects of beneficiation and the introduction of high manganese, low iron ores from Sunday Hill and some unmined areas of Ant Hill, are progressively felt.

At the ore grade and Mn:Fe ratio likely to be achieved when full scale operations are in place, the MMJV ore will be an ideal feed for the production of premium grades of ferromanganese alloys.

Photo: Ore yard at Ant Hill showing reprocessed and sampled ore piles ready for trucking to Port

MARKETING

The key tasks necessary to execute a successful sale of the two trial shipments are all well advanced including:

- Approvals obtained under which the joint venture can mine and ship up to 60,000 tonnes of ore in two trial shipments in the near term.

- Discussions with potential trucking contractors are advanced and work has commenced on a temporary ore lay down area on HiTec's Boodarie general purpose lease at Port Hedland.

- Enquiries have commenced for a suitable ship charter as the trial shipments will be sold on a CFR (cost & freight) basis incorporating pre-shipment advances to fund all the MMJV's 'ex-mine' costs.

- Arrangements are in place with the Port Hedland Port Authority to accommodate the shipment of both trial tonnages plus the planned annual tonnage moving forward. In this regard, the PHPA Board has made an in principle capacity allocation of 200,000tpa and discussions on HiTec entering into the Facility Agreement for the proposed new Utah Point common-user berth and loader, as a full Foundation Member representing the MMJV, have commenced.

- Pricing and contract terms negotiations for the first shipment are underway with closure expected before the first trial shipment is trucked to Port Hedland.

HiTec, as the sales agent for the MMJV participants, has opened up 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 MMJV ore will have the best value-in-use and hence the best chance of a long term mutually rewarding supply contract. Fortunately for the MMJV partners there are numerous Asian smelters who, as they wish to use the ore as a primary feed rather than as a 'blender', are therefore in a good position to recognise its high value-in-use.

Buyer interest in the trial shipments and the longer term production potential remains strong despite the fears of a global steel production downturn driven by major economies slipping into recession, as exacerbated by letter of credit issues arising out of the world banking crisis. HiTec remains confident that the offtakers with whom it is in discussion are looking past the current uncertainties and can provide letters of credit, drawn on first tier banks, to finance the purchase of the trial shipments.

AUVEX FINANCIAL COMMITMENT

Up to the end of the September, Auvex had spent or committed $4.0m of the $8.25m it has agreed to spend to attain its allocated 50% share of the joint venture. Should the first trial shipment occur before Auvex has spent the full $8.25m, then the joint venture will crystallize immediately before that shipment, with the partners each taking 50% of the net sales proceeds, leaving Auvex to fund 100% of the joint venture production costs from the initiation of the joint venture until it has meet its full 8.25m commitment. Thereafter the joint venture production costs will be split 50:50 by the participants.

PRICING CONTEXT FOR MANGANESE ORES

After a sustained period of strong increase in manganese ore prices, the Chinese central government has legislated to reduce manganese alloy exports, thus forcing many producers to accept the lower prices on offer by Chinese steel mills (which they had been resisting) and hardening the alloy producers' resolve to resist further ore price increases for fear of exacerbating the squeeze on their profit margins. This action belies the claims of excess manganese ore stocks and plummeting steel demand as if these were true the last action you would take is to restrict the export of manganese alloys.

HiTec believes that this action should be seen as part of a larger game being played that has far wider objectives which include placating the demands of the larger steel mills, reducing input costs for all inputs to steel production and perhaps ultimately gaining controlling over the supply sources for all these requisite inputs.

In this context, we can expect tough pricing negotiations for our ore over the next few months and years even if the more extreme world recession scenarios being bandied about at the moment prove wrong. We remain convinced that the very worst case scenario for the portentous Chinese steel production trend over the next few years is a low growth one; but one with a continuing shift of steel production from electric furnace to blast furnace and a continuing shift of steel product output from ‘longs’ to ‘flats’. Production at this level will be driven by domestic demand and financed where necessary by Chinese central government dictum, thus underwriting demand for high grade ferromanganese alloys and in turn the ores with the potential to make them.

China is the world’s major producer of manganese alloys, but other countries also are seeking to ensure supply to their steel mills by increasing their domestic production in part in response to Chinese alloy export restrictions. Furthermore, neither China nor the majority of these other Asian steelmaking countries has an excess of suitable manganese ores for high grade ferromanganese alloy production with any overstocking being restricted to medium to low grade ores bought recently when better grades were unattainable. In this context, the huge potential of Ant Hill and Sunday Hill as a quality supply source has not been lost on any of the potential offtakers as they have stood on the top of the mesas and inspected the deposits and the processed ore stockpiles.

Whilst the negotiation of appropriate pricing for the MMJV ore in these circumstances will not be easy, HiTec believes that it will be achievable. The potential buyers must secure dependable long term supplies of suitable ores to underwrite projected manganese alloy demand from the steelmakers and they have limited alternative sources from which to attain them. Unlike iron ore, coal or nickel, where actual surpluses may exist in Asia at the moment, manganese ores suitable for high grade ferromanganese alloy production are not in surplus anywhere and such manganese alloys are essential in the production of basic steel, let alone in the production of many specialty steels in which the Chinese in particular aspire to become leading producers.

The high grade manganese ore price is the subject of great debate at the moment debate between buyers and sellers with the argument vacillating between the extremes of a further increase (as demanded by the Brazilians), no increase (as offered by the Australians) and a price cut (as demanded by the Chinese buyers). At this point in time market intelligence varies from reports that several Chinese mills have afforded the Brazilian ore producers with increases to all are holding out for price decreases. Only time will reveal the outcome, but our view remains that shortages of suitable manganese ores are real and supply must be secured if steel production is not to be impeded.

COMMERCIALISATION OF PATENTED TECHNOLOGY

Since writing the last quarterly the reality has been that the majority of our efforts have been focused upon the successful initiation of ore shipments by the MMJV, rather than on advancing our secondary processing ambitions. In practice, the need to lock in our first sustainable income stream is of fundamental importance to HiTec's future fortunes and therefore the work required to support the efforts of the joint venture production manager Auvex, and to undertake our own duties as the sales agent for the joint venture ore production, has had to take precedence.

Accordingly, very little has been done during the quarter to advance the commercialization opportunities that we have at hand for our patents, other than further technical finessing of the granulated manganese sulphate project we are currently planning for our Boodarie general purpose lease at Port Hedland, which will utilize the low grade manganese ore fines that will be a by-product of the MMJV ore export operations. And, to a lesser extent, the initiation of discussions with potential electrical power suppliers to that project, plus to the higher power demanding future project extensions involving high purity electrolytic manganese dioxide production in combination with micronutrient fertilizer production.

Whilst this is not an altogether satisfactory situation, the Board is in agreement that until a sustainable income stream from ore sales is secured, HiTec will refrain from adding the resources necessary to advance the planned secondary processing projects at a pace that is more in tune with the excellent current market prospects for the targetted manganese added-value products.

The successful sale of the first of the two planned trial shipments of ore will see a dramatic change in the balance of activities within HiTec with our emphasis switching strongly towards our own Port Hedland secondary processing plans and the best of the third party technology licencing opportunities. As regards the latter, we continue to have multiple opportunities for licencing to consider in India, South East Asia and the Americas and it is far from clear at this point which will be the projects that will warrant the investment of resources by HiTec sufficient to assist them to achieve early fruition. However, what is clear is that, short of a global recession that puts construction of new battery plants on hold, our chances of success in commercializing our patents has never been higher.

PRICING CONTEXT FOR HIGH PURITY EMD

Tightening has continued in the alkaline grade electrolytic manganese dioxide (EMD) market with prices for imports into the USA for August 2008 averaging US$2,116 FOB basis. This represents an increase over prices a quarter and a year earlier of 46% and 83 % respectively. Since the imposition of antidumping measures by the USA against China and Australia, and the closing of Delta Newcastle, imported EMD into the USA has been almost exclusively from Delta RSA and Tosoh Japan.

USA imports for the year to date are running at a monthly average of approximately 2,000 tonnes, which is a little down on what we would expect. However, EMD imports will need to run at double that rate in the four month run up to Xmas if US battery makers are to achieve hit their normal battery production targets. In this situation we could well see continued price increases, or even battery line closures in the USA, unless the Chinese recommence EMD exports. In practice, questions concerning the availability of high purity EMD at any price are fast replacing questions about the level of future pricing.

Interestingly, it would appear that battery makers are finally realizing that high purity EMD supply for their planned new alkaline Li-ion/Mn battery plants cannot be sourced from existing suppliers even if significantly higher dollars are tendered as an incentive to increase production. Generally speaking, the existing suppliers are beset with their own supply and environmental problems and economically weakened by years of battery maker resistance to product pricing that would allow them reasonable margins.

What is becoming increasingly clear to all market participants, is that new supply of high purity EMD will not be forthcoming in the quantities needed without a change in technology that will allow low grade manganese ores to be used as the feedstock for EMD production, rather than high grade, and the environmental problems of the existing production methods to be avoided. In this developing context we see every opportunity to successfully commercialize HiTec's patents and are presently responding to enquiries from a number of parties around the world who have suitable low grade manganese ores and wish to participate in an expanding EMD market.

LIQUIDITY

As at 30 September 2008, HiTec had cash and current receivables of $1.2m and creditors and accruals of $0.0m giving net liquid funds of $1.2m. 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, 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 from income received by the joint venture participants from the two trial ore shipments anticipated early in 2009.

Alan Scott (MD/CEO)

HiTec Energy Limited (ABN 38 009 113 160)
(HiTec Energy Limited is alternatively referred to in this document as "HiTec" or "the Company")

Level 1
30 Richardson Street
West Perth WA 6005

Telephone: +61 (08) 9321 6033
Facsimile: +61 (08) 9321 6001
www.hitec-energy.com.au