

HiTec Energy Limited

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QUARTERLY REPORT FOR THE PERIOD ENDED 31ST DECEMBER 2008

OVERVIEW

During the quarter under review, the global resources industry witnessed the worst trade and price collapse for commodities for many decades. Although it is a generalisation to say that prices halved overnight and trading of most commodities shrank to only those transactions that were pre-committed, the specifics for the majority of minerals and secondary products will not be far removed from this dire situation.

For example, high grade manganese ores (defined as containing >44% Mn) which around the middle of the quarter reached spot prices of US\$21 per percent manganese, and contract prices only a few dollars less, were selling by the end of the quarter at less than US\$8 per percent Mn; if they were selling at all. During the course of January, trade volumes have begun to recover, but prices remain suppressed. It is expected that contract price settlements by the major players for Q1/2009 delivery, which have yet to find their way into the public domain, will give a good indication of 2009 pricing levels.

Despite this difficult context, HiTec continued to make good progress in its dual quests to generate income streams from both manganese ore sale into the ferromanganese alloy sector and from its patented technology for production of high purity manganese sulfate and manganese electrolytic products from low grade manganese ores and wastes. This report outlines the progress made and the impacts to date on shareholder value as reflected in the company's improved share price.

MESA MINING JOINT VENTURE

EXPLORATION

The company's exploration results achieved during the quarter under review cannot be described as other than outstanding. The preliminary results, which are disclosed in detail in the media release dated 16 January 2009, have enabled the Company, and its joint venture partner Auvex Resources Limited (Auvex), to lift planning targets for ore grade, annual production and mine life from those originally defined for the Mesa Mining Joint Venture. A final report on the 2008 exploration programme is due in the first week of February.

Practically speaking, the exploration efforts on the Ant Hill and Sunday Hill mining leases have really only just begun and regular updates on drilling results together with resource recalculations can now be expected. In this regard, work in the current quarter is fully focussed upon recalculating the Ant Hill mining resource to take in the results of work undertaken in Q4/2008. This will be followed by 2009 work programmes at both Ant Hill and Sunday Hill to further extend the resource base and provide data for production planning purposes.



*Typical crystal specimens of manganese oxide mineral from Sunday Hill outcrop.
(Sample SHK00005 shown, which assayed: 59.60%Mn; 1.17%Fe; 0.59%Si; and 0.04%P)*

MINING & PRODUCTION

During the quarter the joint venture produced the first trial shipment of 30,000 tonnes at an anticipated average grade of 43%Mn, 13%Fe, 1.8%Si and 0.06%P. This material is presently stockpiled at the mine site awaiting trucking to the port. Subsequent to the quarter's end, production activities have recommenced on site after a short break over the festive season with a target of laying down a second trial shipment of 30,000 tonnes by the end of February 2009.

In addition to the first trial shipment tonnage, some 20,000 tonnes of lump ore grading between 35.4%Mn and 40.3%Mn were also stockpiled for later treatment through the beneficiation plant when established. It is expected that this material will convert to a high grade manganese ore at a high recovery rate. Mineralogical work completed to date suggests a two pass operation: the first to take out a 50%+ cut; the second a 44%+ cut. An operationally proven plant design has been recommended which, based upon this mineralogical work, should achieve these objectives.

The trial mining, site cleanup and lump ore processing activities undertaken during the quarter to 31 December 2008 have also produced some 10,000 tonnes of manganese ore fines averaging approximately 30%, which are being reserved for secondary processing at Port Hedland. (Refer later comments on technology commercialisation.)

All things considered, the trial mining, exploration and mineralogy assessment programmes performed throughout Q4/2008 have provided Auvex and HiTec with all the knowledge and experience required to now move forward with confidence into full production.

APPROVAL PROCESS

Applications seeking full mining approvals for mining both at Ant Hill and Sunday Hill were submitted to the relevant authorities in December 2008. While it is impossible to predict the time it will take to gain all the approvals required, we remain confident that these will be received within the period anticipated in our project development schedule, and that full-scale mining will commence in Q3/2009.

MARKETING

Discussions during the quarter with potential offtakers for the first two shipments have progressed slowly, but positively, with a sale conclusion now anticipated for early next month. The lengthy time taken to reach this point is a direct reflection of the difficult state of the ore sales market during the quarter, the fact that this is the first sale of Ant Hill ores and the fact that those ores will only be ideally suited to a minority of smelters for whom the relatively high Fe content is not an undesirable characteristic. Equally though, the fact that smelters across Asia have made serious offers that are now under negotiation, demonstrates that the Ant Hill ore will find long term buyers for whom it will be a very desirable regular feedstock.

AUVEX FINANCIAL COMMITMENT

Up to the end of the December, Auvex had spent \$4.8m and had committed a further \$1.9m 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. Auvex will then continue to fund 100% of the joint venture production costs until it has met its full \$8.25m spending commitment. Thereafter the joint venture production costs will be split 50:50 by the participants.

PRICING CONTEXT FOR MANGANESE ORES

As stated in the overview, it is expected that contract price settlements by the major players for Q1/2009 deliveries of high grade manganese ores will give a good indication of pricing levels that might apply to Mesa Mining high grade ores during the latter half of 2009. Based upon recent sales data seen in the market and the apparent supply/demand situation for high grade manganese ore, one could reasonably draw the conclusion that these contract settlements will be agreed between US\$9-10 (per percent manganese on a CIF basis).

However, the major players will have a far better grasp of where the supply/demand balance is; now that the Chinese steel mills are starting to move back into production and the long term general shortage of high grade manganese ores again becomes a key factor in negotiations. Accordingly it would not be a surprise to see evidence of settlements slightly higher than the US\$10 mark or at least pricing mechanisms agreed that will see price rises later in the year at above this level. The ongoing consolidation of ore sellers and the perceived willingness of major players to limit production would also tend to support this conclusion.

On the other hand, the ongoing consolidation of buyers (either by takeover or cooperation) and the emerging fear of negative growth in world steel production should tend to cap prices around the US\$10 level for the next twelve months at least. Perversely, lower prices for a sustained period would also benefit the major manganese ore producers if this served to force marginal producers out of the market or into their hands.

In this context, and given that we now are forecasting an average grade of 44%⁺, it is expected that future Mesa Mining manganese ore production will find good long term homes with smelters who appreciate its high Fe, low Si, Manganite style mineralisation; at prices that will generate significant future value for HiTec shareholders.

COMMERCIALISATION OF PATENTED TECHNOLOGY

Over the last quarter considerable progress has been made in completing, to a high standard of precision and detail, an internal feasibility study for a 20,000 tonne granulated manganese sulfate (GMS) plant based at the Boodarie Industrial Estate at Port Hedland. Some key elements of the plant design have now been put out to potential suppliers for review and costing, pending a decision to pass the files over to a professional engineering consultant for review and sign off. Our corporate intention is that immediately funds become available from export ore sales, then such external expertise will be engaged.

This plant will incorporate HiTec's sulfur dioxide leach technology to suppress thionate and dithionate generation in the leach and thus overcome the problems that these complex compounds have caused historically in the crystallization phase of the GMS production process. (NB: The uncontrolled presence of thionates and dithionates in the leachate has precluded the use of sulfur dioxide leaching in the past in the continuous production of GMS.)

The plant would produce 20,000 tonnes per annum of GMS, which would be packed in one tonne bulk bags and exported in standard containers. Importantly, the use of the HiTec patented leach process will also allow the production of a tailings material that can be fully converted to a valuable micronutrient fertilizer (MNF) product thus avoiding the need for any unsightly tailings empondments at the plant site or the trucking of wastes offsite. The current in-house plant design envisages the production of 27,000 tonnes of MNF per annum as a co-product which would, in the main, also be exported in one tonne bulk bags within standard containers. (It is believed that Port Hedland would be able to support outbound container traffic of this volume and regularity with a direct link to Singapore. Such a container link could also handle any inbound operational supplies purchased from offshore, rather than purchased locally or trucked in from Fremantle.)

Given the continued high demand for fertiliser product, and the fact that the manganese ore fines required as the main feedstock are already being generated by the Mesa Mining Joint Venture as a bi-product of the export lump ore production operation at Ant Hill, this on-shore secondary processing project is shaping up as a very attractive one for HiTec.

Based upon the internal study work completed to date the GMS plant is expected to cost A\$20m (@±.15% order of accuracy and exclusive of the MNF sub-plant) and take some 18 months from project commitment to production. The cost of the MNF sub plant to produce a granulated product as built and owned by HiTec is yet to be estimated to the above order of accuracy, but would be expected to be less than \$5m. As an alternative to building and owning the MNF sub-plant, the Company has the option of allowing a third party to build and operate it, to produce either a suspension concentrate or a dried and granulated product. Under such an arrangement, the third party would pay HiTec for the tailings as delivered to the sub-plant.

Our longer term strategy, having established a second income stream for HiTec from secondary processing as described above, would then be to move quickly to expand the secondary processing activities at Boodarie to encompass the production of electrolytic manganese dioxide (EMD) at 12,500 tonnes per annum together with a further 25,000 tonnes of MNF as a co-product.

On the technology licensing front, the quantum and substance of enquiries continues to increase; a fact that clearly reflects the improved pricing for EMD, GMS and MNF of late and the prospects for even higher pricing to come. Six projects located in four countries are now under consideration and we are working to sort the wheat from the chaff. We would expect to see at least one of the projects under review be realised over the same time period that we are indicating for our own Port Hedland project. Importantly, we would see such an off-shore project as being complementary to our own on-shore project, rather than being in competition with it, with HiTec participating in the international marketing of the production as well as supplying process technology.

PRICING CONTEXT FOR HIGH PURITY EMD

The economic downturn will undoubtedly have some negative impact on the pricing of high purity EMD despite the significant supply shortages that exist. Just how much negative impact exists, and how long it will persist for is difficult to discern at the present time due to the predominance of annual contractual pricing for sales during the second half of the quarter. HiTec's view is that any negative impact will be limited in both quantum and time, with prices set to move much higher unless new supply, based on sound economic and environmental principles, is introduced. Demand quite simply exceeds supply and this situation is unlikely to be redressed in the near term.

TENEMENT ACQUISITION

During the quarter HiTec pursued the acquisition of an exploration tenement comprising 66 blocks and located approximately 50km due north of its Ant Hill manganese mining lease and 60km due west of the Woodie Woodie manganese mine. Shortly after the quarter end, the Company successfully lodged an application over this area, which has priority, and would expect to be granted an exploration licence at the end of the normal approval processes upon the expiry of the application notice period.

LIQUIDITY

As at 31 December 2008, HiTec had cash and current receivables of \$1.0m and creditors and accruals of \$0.0m giving net liquid funds of \$1.0m. The Company has no debt.

We remain confident that the start up costs associated with bringing the Ant Hill and Sunday Hill mining leases into full production, and then to a position of sustainable positive cash flow, will be more than covered by the financial commitments made by Auvex to acquire its 50% interest in this project.



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