

HiTec Energy

Electrofuel™ for Portable Energy

Quarterly Report – 31 December 2007

COMMERCIALISATION OF PATENTED TECHNOLOGY

Following meetings and site visits in India during December, and the re-election in that month of the incumbent Gujarat State government, the Halol project is now expected to move into formal feasibility study mode in Q1/2008 as previously envisaged. During this quarter we would also expect to finalise all joint venture agreements and documentation, given that the December visit enabled all outstanding commercial due diligence to be completed.

Questions concerning the length and manner of the feasibility, construction and commissioning processes are still to be resolved by the parties over the next few months. However, based upon its pre-feasibility studies undertaken last year and discussions with potential suppliers of equipment, HiTec is confident that the project can be brought on without any unexpected delays. It appears clear at this point that the Halol project will seek to incorporate HiTec's micro-nutrient fertiliser patent (refer previous quarterly) as well as its sulfur dioxide leach patent.

In addition to our efforts in India, conceptual designs for two new plants, one in Western Australia and one offshore, have recently been commenced. Both prospective projects have some similarity with the Halol project in India and the offshore project also has all the requisite characteristics to advance quickly like Halol. The Western Australian plant is unlikely to proceed until mining boom related pressures on labour availability and equipment costs ease somewhat, but it is being progressed now as the secondary processing of fines is for the first time linked with the export of lump and chip manganese ores from Ant Hill and Sunday Hill (refer later).

These three exercises will keep HiTec's extant resources fully extended during 2008 and, unless further funding to expand our resources is raised, no further opportunities will be actively pursued. At this point, no fund raising is contemplated, but the fact that any new and all existing manganese oxide based EMD or EMM plants could benefit economically and environmentally from adopting HiTec's leaching and fertiliser patents, means that a fund raising at some point to enable other projects to be serviced cannot be ruled out.

MANGANESE MINING LEASES

Since the last quarterly report our efforts have focused upon firming up on the mining and beneficiation approach to the ore bodies, the permitting hurdles to be jumped and the evaluation of available funding alternatives. (As stated in the previous quarterly report, the funding method to be adopted must protect HiTec's existing cash reserves which are required to fund our patent commercialisation efforts until these generate a positive cash flow for the Company.)

Our preliminary thoughts on how to mine and beneficiate the ore at Ant Hill and Sunday Hill have been reinforced by further review work, site visits and re-examination of old studies. We are now fully confident that our mining leases could yield an annual tonnage of somewhere between one and two hundred thousand tonnes per annum of manganese lump and chip ore with a grade that would be attractive in today's market and should stay saleable even if a significant market down turn is experienced. The lifespan of such an operation can only be determined by further geophysical and drilling works, which cannot be completed before next March and June respectively. However, these outstanding works will not be the cause of delays to the project.

Conversely, the second issue that has been the focus of our recent attention, that is attaining all the requisite permitting to move the two mining leases to operational status, does appear to have the longest potential timeframe and hence the potential to cause delays. Whilst our contemplated project appears to be very much towards the simplest end of the 'permitting difficulty spectrum', it is nevertheless one of a large number seeking permitting at this point. We now are very clear on our strategy, so it is up to us to lodge the required documents and stand ready to assist the various permitting authorities to efficiently process them as quickly as possible.

The analysis of the funding options available to HiTec has also progressed satisfactorily. We remain very confident that an arrangement will be achieved that will enable the mining of Ant Hill and Sunday Hill to proceed without negative impact on the company's existing cash reserves, whilst simultaneously extracting value from the leases for the benefit of shareholders.

LIQUIDITY

As at 31 December 2007, HiTec had cash and current receivables of \$0.9m and creditors and accruals of \$0.0m giving net liquid funds of \$0.9m. The Company has no outstanding debt and is well placed to fund its patent commercialisation activities. As previously stated, it is intended that the start up costs associated with bringing Ant Hill and Sunday Hill into production will be funded by other participants in this venture.



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