

HiTec Energy

Electrofuel™ for Portable Energy

Quarterly Report – 31 March 2007

COMMERCIALISATION OF PATENTED TECHNOLOGY

Our efforts continue to be directed towards securing multiple technology licensing arrangements that will demonstrate the potential of the company's patents at full production scale. Further good progress has been made during the quarter under review and discussions are continuing with all potential licensees currently identified by HiTec. As we have previously stated, achieving the right result may take some time, but we remain convinced that taking the time to secure the right arrangements will provide the best outcome for shareholders.

MANGANESE MINING LEASES

As a result of work undertaken in 2006 by HiTec's consulting geologist, HiTec recently reported an initial JORC compliant inferred resource for its Sunday Hill mining lease of 4.7 million tonnes at an average grade of 18.4% manganese.

Subsequently, during the March quarter, HiTec commissioned a Sub-Audio Magnetics (SAM) geophysical survey to confirm and complement the gravity geophysical survey already in hand, with a view to firming up on manganese mineralisation targets for a drilling programme to be undertaken later in 2007. This drilling programme is expected to result in a significant upgrade to the initial JORC resource posted for Sunday Hill. (The existing gravity survey indicates five drilling targets over part of the Sunday Hill lease and the SAM survey will cover this area plus other prospective areas.)

Previous studies of the geologically contiguous Ant Hill mining lease, where HiTec has a JORC compliant indicated resource of 1.4 million tonnes at an average grade of 23.4% within a 2.3 hectare area of the 25 hectare Ant Hill mesa, indicate that ore could selectively mined and sold as feedstock for a manganese alloy plant. The ore resource at Ant Hill was calculated over the previously mined South Pit area, representing approximately 8% by area of the prospective lease area, and was calculated in support of a 2001 feasibility study for secondary processing that only required limited tonnages of ore. HiTec's expectation is that the 92% of the Ant Hill mesa that is outside of the old South Pit area would hold significant additional quantities of like ore.

The work now being undertaken at Sunday Hill complements the work done in earlier years at Ant Hill and puts HiTec in an excellent position to extract value from these mining leases in what is expected to be a period of high demand for manganese ores. In this regard, a number of possibilities are being pursued that would achieve this objective, whilst preserving access to 'fines ore' as feedstock for a future secondary processing plant in WA.

PROPOSED DISTRIBUTION AGREEMENT WITH ULTRALIFE BATTERIES INC (UBI)

The company intends to sign a distribution agreement with UBI, a Newark New York based lithium chemistry battery maker with battery plants in the United States of America, the United Kingdom and the People's Republic of China. Under the agreement, HiTec will seek to assist UBI to increase its general market penetration for its specialty lithium chemistry batteries. UBI's main focus to date has been in the military sector where it has been extremely successful, but its specialty batteries have obvious application in other market sectors, such as resources and commercial electronics, and UBI now wishes to fully exploit this potential.

UBI approached HiTec as it has the technical and marketing skills required to convince product developers to incorporate UBI batteries into their new electronic device designs. HiTec has agreed to take on this role as it is very complementary to the Company's main patent technology commercialisation efforts in that the lithium chemistry battery industry is fast becoming a second significant user of high purity EMD after the alkaline battery industry. The distribution role can be serviced from HiTec's existing resources, without impeding our patent commercialisation efforts and it is expected to prove profitable in the short term.

EMD is used in lithium-manganese primary (i.e. disposable) batteries, as lithiated manganese dioxide cathode material, providing high-end users of portable electronic devices with added power and greater dependability at a very cost effective price. Lithium-ion secondary (i.e. rechargeable) batteries, also with lithiated manganese dioxide cathodes derived from EMD as an alternative to cobalt, offer similar advantages when utilised in electric or hybrid vehicles plus have other characteristics that make them a very strong contender to be the battery of choice in the transport industry over the next decade and beyond.

LIQUIDITY

As at 31 March 2007, HiTec had cash and current receivables of \$1.6m and creditors and accruals of \$0.0m giving net liquid funds of \$1.6m. The Company has no outstanding debt and is well placed to fund its current and planned activities.



Alan Scott (MD/CEO)

*Note: The **Joint Ore Reserves Committee (JORC) Code** is a Code of practice which sets minimum standards for public reporting in Australia and New Zealand of Exploration Results, Mineral Resources and Ore Reserves.*

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