

HiTec Energy

Electrofuel™ for Portable Energy

Quarterly Report – 31 March 2008

MANGANESE ORE EXPORT OPERATION FOR ANT & SUNDAY HILL

HiTec has today concluded a Farmin and Joint Venture Agreement and a Sales Agency Heads of Agreement with Auvex Metals Limited (**Auvex**) under which an export oriented manganese lump ore production joint venture will be formed to exploit the manganese ore resources of the Company's mining leases.

The parties believe that these leases can sustain a substantial annual production tonnage of a '40% plus' grade manganese lump ore, with high iron content, that is viewed as very desirable by Indian and Chinese manganese alloy producers. The joint venture will also pursue opportunities for beneficiation of the lower grade ores and secondary processing within Western Australia of the ore fines resulting from the export of lump ore.

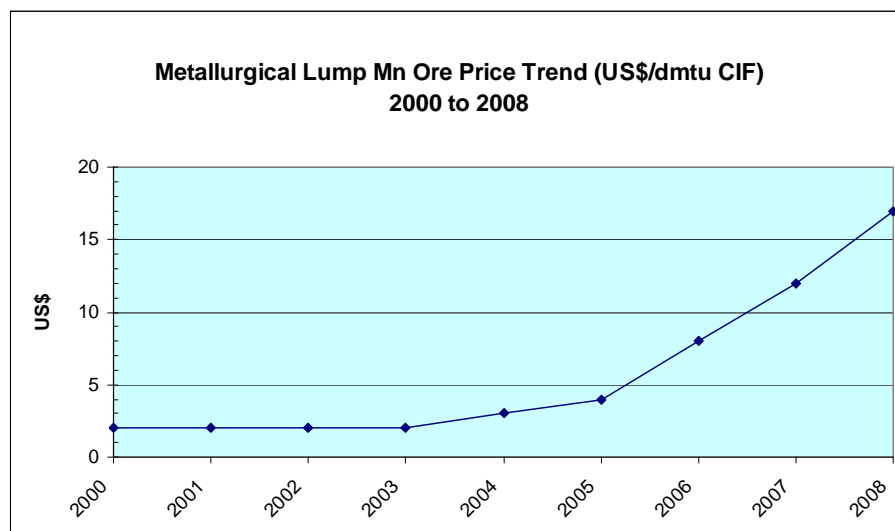
Under the arrangements agreed today, Auvex will pay to HiTec within 30 days a fee of \$1m in consideration for HiTec's prior expenditures at Ant Hill and Sunday Hill and has undertaken to pay the first \$7.25m of farmin or joint venture costs to earn its 50% interest. Auvex will be the manager of the production joint venture and HiTec the manager of the joint sales arrangements; roles that draw appropriately on the respective competencies of the two organisations.

Auvex is an unlisted public company and has been formed to hold interests in a number of manganese ore export opportunities. We believe that Auvex has the requisite experience and expertise in both mining and processing to ensure the success of the export manganese lump ore production joint venture. Their extensive experience in crushing services, beneficiation plants, project management and facility operations are ideally suited to the tasks at hand. HiTec is also confident that Auvex has the requisite private investor support to ensure that it can meet its obligations under the production joint venture.

We have already achieved a close working relationship with Auvex on a number of exercises that will be vital to an early generation of cash flow from these leases, and are confident that this close working relationship will strengthen even further as the mine planning and development process progresses. From the work completed to date we have a very clear idea of the milestones that we need to pass and the time it may take us to achieve them. Once the two parties have had a chance to review this programme of works in some greater detail, and discuss it with key third parties, a detailed task timeline will be provided for shareholder guidance.

PRICING FOR MANGANESE ORE

During the quarter, prices for all manganese products continued to increase. In particular, the price for metallurgical manganese lump ore, which is in acute shortage, continues to set records as depicted in the following graph:



(NB: The prices depicted in this graph show the trend over the last eight years rather than individual contract settlements. The trend line also smooths out some peaks and troughs over the last three years which, with the benefit of hindsight, were clearly the result of contract settlements that did not reflect the actual supply demand position at the time they were made.)

HiTec is strongly of the view that the underlying growth in steel production, to meet increasing per capita usage in the developing world, will continue to support prices for medium grade high iron manganese lump ores, such as those targeted from our mining venture based upon the Ant Hill and Sunday Hill mining leases, at levels that will ensure the success of the venture. (In the present market, a HiTec ore would incur a discount of 15-20% from the 2008 Quarter 1 price shown.)

PRICING FOR MANGANESE ELECTROLYTIC PRODUCTS

The prices of high purity manganese electrolytic products, such as alkaline battery grade EMD, lithium-ion battery grade EMD and electrolytic manganese metal, have also seen significant increases due to inherent strong demand for these products. Simultaneously, the very strong steel industry demand for all manganese ores, including the high grade fines required by the electrolytic product manufacturers, has reduced supply of feedstock to the electrolytic product producers and tended to cause severe price inflation where feedstock remains available.

Such price increases for alkaline grade EMD augur well for both the Halol project in India, which is based on low grade ore fines, and for the development of a HiTec project at Port Hedland based upon the fines generated by the export lump ore joint venture with Auvex.

COMMERCIALISATION OF PATENTED TECHNOLOGY

The Halol EMD project has made little progress over the last quarter and, whilst we are increasingly frustrated with this situation, we understand the reasons for the delays and remain convinced that the project will proceed in due course. In the meantime, the market context for a new technology based manganese electrolytic project continues to improve on both economic and environmental fronts, thus underwriting Halol's potential for superior returns during the critical early years of its operation.

Given the good progress made in relation to the development of our mining leases as a source of lump manganese ore, and the unsaleable low grade manganese fines ore that will result from the lump ore export operation, HiTec is refocusing resources during the second quarter of 2008 on the advancement of a Western Australian based secondary processing project that would also demonstrate the value of our patents at full production scale.

Such efforts to advance a second project should be seen as a logical extension of the work begun at Halol, and in parallel with ongoing work there, rather than as supplanting that project.

There is strong potential for the near term development of a secondary processing plant sited on our Boodarie general lease at Port Hedland due to the interplay of a number of positive factors including:

- The work that we have done for the Halol project has shown that a plant can be built at half the size we were previously contemplating with resultant significant savings in capital costs.
- The market for alkaline grade EMD has recovered and it is likely that demand will substantially exceed supply over the next five years for a variety of reasons.
- Our EMD project now produces a valuable micronutrient fertiliser product as a bi-product creating a second revenue stream and avoiding the costs associated with tailings deposition.
- The market for agricultural grade manganese sulphate has now recovered, thus making a staged EMD plant development very plausible, by reducing the initial capital requirement to approximately \$20m and thus the level of equity and debt raisings required. (It is not inconceivable that an entire EMD plant could eventually be built out of the cash flows from a HiTec leach circuit producing manganese sulphate as an interim or long term co-product.)
- Low cost, low grade fines from the joint venture mining operations at Ant and Sunday Hills, and potentially other sites, will be available to sustain a long term secondary processing operation at Boodarie.

HiTec's ability to fund a secondary processing facility at Boodarie has been greatly enhanced by the improvements seen in the market for manganese electrolytic products and by the huge demand in the market for fertiliser products.

LIQUIDITY

As at 31 March 2008, HiTec had cash and current receivables of \$0.7m and creditors and accruals of \$0.0m giving net liquid funds of \$0.7m. The Company has no debt.

Since the end of the quarter under review, the farm-in and joint venture deal signed with Auvex has provided a further \$1.0m of cash and receivables that has secured the company's ability to fund all its planned patent commercialisation activities.

Regarding the start up costs associated with bringing the Ant Hill and Sunday Hill mining leases into production, 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.



Alan Scott (MD/CEO)

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