



HiTec Energy Limited

2007 Annual Report

Corporate Directory

Directors

N Coldham-Fussell AO
Chairman

A Scott
Managing Director

MH Titley
Non-Executive Director

DR Teplitzky
Non-Executive Director

Company Secretary

RG Ledger

Management

A Scott
Chief Executive Officer

PD Moore
General Manager Marketing

Y Sharma
General Manager Technical

Principal & Registered Office

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Auditors

BDO Kendalls Audit & Assurance
(WA) Pty Ltd
128 Hay Street
Subiaco WA 6008

Bankers

National Australia Bank Ltd
1232 Hay Street
West Perth WA 6005

Solicitors

Salter Power Pty Ltd
6 Kings Park Road
West Perth WA 6005

Share Registry

Advanced Share Registry Services
110 Stirling Highway
Nedlands WA 6008

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Stock Exchange Listing

Australian Stock
ASX Code: HTE

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Chairman's Report

Throughout the year under review, the Company continued to develop and advance a number of opportunities under which its patented sulfur dioxide leach process might be incorporated in new or existing electrolytic manganese dioxide (EMD) or electrolytic manganese metal (EMM) plants. Good progress has been made on a number of fronts, despite being frustratingly slow for all involved, and with the signing of the heads of agreement discussed below, the Board believes that HiTec is well positioned to move forward into a more operationally involved and financially secure stage of its development.

In late July HiTec signed a heads of agreement with M/s Cube Mines & Minerals Pvt. Ltd (Cube) under which the parties will seek to incorporate HiTec's patented processes in a new EMD plant to be built at Halol in the Panchmahals district of Gujarat State in India. The underlying rationale for this proposal is that Gujarat State possesses significant reserves of low to medium grade manganese dioxide ores that are unsuitable for conventional processing into electrolyte, but potentially ideal for efficient liberation of manganese ions using HiTec's patented processes.

It is also proposed that the licensee for the HiTec intellectual property will be a joint venture company, Gujarat Manganese Ltd (GML), whose main shareholder will be Cube and Gujarat Minerals Development Corporation (GMDC) a Gujarat State government enterprise. It is anticipated that HiTec will also take a minor stake in GML, on a free carry basis, but its main reward for contributing its intellectual property will come through production royalties.

Looking forward, HiTec management will have a very busy year in front of them, helping ensure the success of the initial project in Gujarat and ensuring that further projects can be locked in whether these are in Gujarat, or at other locations in India, or other locations world wide. In this regard, we believe that we already have, or can readily acquire in future, the human resources we will need to do both of these tasks well.

Our financial resources are also adequate to allow us to undertake all of the work before us over the coming year without replenishment. Furthermore, our funds should begin to be supplemented to a small extent by the Halol project in the second half of the current financial year. Accordingly, the Company has no near term fund raising plans.

The Board will continue to monitor the external environment in which the Company is seeking to build a profitable business and to seek out opportunities that enhance our chances for success. Business arrangements which could have a very positive impact have been the subject of active discussion with third parties during the past financial year and such discussions are likely to continue into the current financial year.

As always with these matters it is very difficult predict how things will work out over time. However, the Board members are unanimous in their determination to provide long overdue rewards for shareholders and will persist with discussions with this aim clearly in mind.



NORMAN FUSSELL, Chairman

Review of Operations

During the year under review, HiTec staff and contractors have been fully occupied on a variety of matters which included:

- Seeking opportunities to demonstrate our patented processes at full production scale;
- Extending the coverage of our patents both geographically and as regards content;
- Entering into arrangements that enable us to extend our technical knowledge;
- Seeking opportunities to utilise our mining leases effectively; and
- Responding to business propositions that have the potential to enhance shareholder value.

While there have been small successes during the year, the key breakthrough has only come subsequent to the end of the financial year under review with the signing of the heads of agreement discussed in the Chairman's Report.

From a Managing Director's perspective these positive results have come slowly in what has been a very frustrating year and this frustration has been accentuated by the fact that most external market factors have continued to move in our favour over the last twelve months.

At the time of writing, demand for medium to high quality manganese ores for steel making purposes has significantly exceeded supply with prices for both ores and the companies that control them reaching historically unprecedented levels. HiTec sees this supply shortfall continuing for some years as various factors combine to cause manganese ore miners to struggle to catch up with demand.

This steel related demand for manganese ores has forced non-steel end users to pay considerably more for the manganese units they need and, importantly, to seek to use lower grades of ore as their feedstock material. Where electrolytic production is involved, such as for EMD and EMM, conventional electrolyte production methods, which involve ore roasting, become increasingly less efficient and potentially more polluting as the grade of ore used drops.

Given its patented processes, HiTec is ideally placed to assist existing and new producers to generate the high purity electrolyte they require, from grades of manganese ore that are otherwise of limited use and thus not subject to the extremes of price inflation or demand.

Whilst, very much a secondary business strategy, the current demand for manganese ores of all grades is opening up opportunities for HiTec to profit from its two manganese ore mining leases located in the north of WA. Efforts are currently underway to find a basis for exploiting these leases in a way that will generate near term returns from ore exports, whilst also preserving manganese fines material for later on-shore secondary processing.

As always, the challenges are now before us and all involved are keen to see Hitec make a successful leap from successful technical innovator to successful producer over the next few years.



ALAN SCOTT (Managing Director)

Directors' Report

For the year ended 30 June 2007

DIRECTORS' INFORMATION

Names and Particulars

The names and particulars of the directors in office at the date of this report and at any time since the date of the previous report are:

N Coldham-Fussell	Company Director, 47 years experience, AO, FCPA, FAusIMM, FCIS, FAIM, FAICD	Chairman
A Scott	Company Director, 41 years experience.	MD & CEO
MH Titley	Company Director, 43 years experience.	Non-Executive Director
DR Teplitzky	Company Director, 45 years experience.	Non-Executive Director

Directors' Meetings

The board meetings that directors were eligible to attend during the year ended 30 June 2007 and the number of board meetings actually attended by each director were:

	<u>Number attended</u>	<u>Number eligible to attend</u>
N Coldham-Fussell	6	6
A Scott	6	6
MH Titley	6	6
DR Teplitzky	5	6

Norman Coldham-Fussell

Mr Fussell was appointed as a director and Chairman of the company on 16 August 1999. He has vast experience in the resources industry in general management, finance, marketing and project development. He was Chief Executive Officer and Managing Director of MIM Holdings Ltd from 1990 to 1995, Chairman of Flight Centre Limited from 1995 to 2005, and is currently a director of Namoi Cotton Co-operative Ltd. Mr Fussell holds a direct interest in 338,334 ordinary shares and a beneficial interest in 1,991,667 ordinary shares of the company.

Alan Scott

Mr Scott was appointed as Managing Director and Chief Executive Officer of the company on 20 May 2002 and was appointed non-executive Chairman of Black Range Minerals Limited on 22 August 2005. Prior to that, he was Managing Director and Chief Executive Officer of Aurora Gold Limited and spent 22 years with the Rio Tinto/CRA Group, with senior level involvement in many areas including joint venture management, financing, corporate acquisition and divestment activities, commercial negotiation and project engineering. Mr Scott qualified as an accountant and spent 13 years with Coopers & Lybrand in Australia, Canada and the United Kingdom, gaining extensive experience in the resources industry during that time. Mr Scott holds an indirect interest in 924,921 ordinary shares of the company. He also has a direct interest in 1,500,000 options over unissued ordinary shares of the company, which are exercisable at 7.6¢ on or before 24 November 2008.

Directors' Report (continued)

Marcus Hugh Titley

Mr Titley had 36 years experience in the stockbroking industry. He was State Manager of JB Were & Son, Stockbrokers, in Queensland from 1978 to 1996 before retiring from the industry. He was appointed as a non-executive director on 8 June 1998 and is also a director of several unlisted companies. Mr Titley holds a direct interest in 3,000,000 ordinary shares of the company and a beneficial interest in 7,125,000 ordinary shares of the company.

David Raymond Teplitzky

Dr Teplitzky was appointed as a non-executive director of the company on 18 March 2002. He was formerly a director of American Cyanamid Company, Managing Director of Formica Australia Limited and Lederle Pharmaceutical and Chairman of Hydrocool Pty Limited. Mr Teplitzky has been active for many years in venture capital and technology companies in Australia and South-East Asia as a consultant and director. He has been a director of Macquarie Goodman Management Limited since 1990, was Chairman in 1998/99 and became Deputy Chairman in October 2000. Dr Teplitzky has a direct interest in 1,000,000 options over unissued ordinary shares of the company, which are exercisable at 7.6¢ on or before 14 November 2007.

COMPANY SECRETARY INFORMATION

Mr Greg Ledger was appointed Company Secretary on 24 November 1995 and has held that position, as well as other accounting and managerial roles, since that date. Mr Ledger is a Chartered Accountant and a Bachelor of Commerce (UWA).

PRINCIPAL ACTIVITIES

During the year, the principal activity of the company continued to be the commercialisation of its mineral processing technologies through the development of an electrolytic manganese dioxide project or through licencing to third parties.

FINANCIAL RESULTS

The loss from ordinary activities after income tax for the year ended 30 June 2007 was \$848,673 (2006 loss: \$465,403).

DIVIDENDS

No dividend has been declared or paid by the company since the end of the previous financial year and up to the date of this report. The directors do not recommend that a dividend be paid. There was no dividend paid in the previous financial year.

REVIEW OF OPERATIONS & FUTURE DEVELOPMENTS

The company's activities during the year and the projects it is pursuing are outlined in the Review of Operations section of the Annual Report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of the company's affairs during the year.

Directors' Report (continued)

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There has not arisen in the interval between the end of financial year and the date of this report any item, transaction or event of a material or unusual nature, which is likely in the opinion of the Directors, to affect substantially the operation of the company, the result of those operations and the state of affairs of the company in the financial year subsequent to 30 June 2007.

However, on 27 July 2007 the Company signed a Heads of Agreement with M/s Cube Mines & Minerals Pvt Ltd which is likely in the opinion of the directors to have such impacts, in a positive manner, in financial years thereafter.

SHARE OPTIONS

No options were exercised during the financial year and, at the date of this report, 21,050,000 unlisted options over shares in the company remained outstanding:

- (i) 2,500,000 unlisted options issued pursuant to the Employee Option Incentive Scheme (EOIS):

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,000,000	7.6¢	14/11/2007
1,500,000	7.6¢	24/11/2008

(During the year, 1,500,000 options at an exercise price of 7.6¢ expired.)

- (ii) 18,550,000 unlisted options issued to the previous holders of contributing shares:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
9,000,000	3.4¢	31/10/2010
2,800,000	6.9¢	31/10/2010
2,250,000	10.9¢	31/10/2010
4,500,000	16.9¢	31/10/2010

DIRECTORS AND OFFICERS INSURANCE

The company has paid insurance premiums to insure the directors and officers against those liabilities for which insurance is permitted under section 199B of the Corporations Act 2001. Details of the nature of the liabilities insured against, and the amount of the premiums paid, are subject to a confidentiality clause under the contract of insurance.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

Directors' Report (continued)

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required by section 307C of the Corporations Act 2001 is included in this Annual Report at page 15.

NON-AUDIT SERVICES

The external auditor did not perform any non-audit services during the year ended 30 June 2007. In the prior year, an amount of \$4,000 (exclusive of GST) was paid in respect of non-audit services.

ENVIRONMENTAL REGULATION

The company's operations are subject to various environmental regulations under both Commonwealth and State legislation. The directors have complied with these regulations and are not aware of any breaches of the legislation during the financial year.

This report, which includes the accompanying Remuneration Report and Corporate Governance Statement, is signed in accordance with a resolution of the directors.



ALAN SCOTT
Managing Director
1 August 2007

Remuneration Report

For the year ended 30 June 2007

This report forms part of the Directors' Report and details the nature and amount of the remuneration of directors. The information contained herein has been subject to audit and is covered by the auditor's report set out on pages 13 and 14. As the directors alone are responsible for the governance of the company, there are no remuneration details for 'key management persons' or 'specified executives' included in this report.

REMUNERATION POLICY

The remuneration policy of HiTec Energy Limited was developed and approved by the board to align director and executive objectives with shareholder and business objectives. The directors believe that the remuneration policy is appropriate and effective in its ability to attract and retain those persons required to manage the company, as well as create goal congruence between directors, executives and shareholders.

All directors and executives receive a fee or salary that is inclusive of requisite and optional superannuation amounts. From time to time, directors and executives may be issued options under the EOIS, subject to approval by shareholders in general meeting. These options have a performance based element to them in that the exercise price is set at 125% of the share price at the time the options are issued to encourage option holders to strive for an improvement in the company's share price over time. The board considers this a reasonable hurdle that will encourage attainment of results that are mutually beneficial for shareholders and optionholders. The board reviews executive packages annually by reference to the company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

Executive directors and executives allocate superannuation guarantee contributions as required by law, and do not receive any other retirement benefits. From time to time, some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology and expensed.

The board policy is to remunerate directors and executives at market rates for comparable companies for time, commitment and responsibilities. Independent external advice is sought when required. Neither directors' fees nor salaries are subject to performance based hurdles, as such remuneration practices are not considered appropriate at this stage in the company's development.

REMUNERATION LINK TO COMPANY PERFORMANCE

The performance of directors and executives is measured, against criteria agreed with each employee with the objective of promoting growth of shareholder value. The market capitalisation of the company has declined by approximately 40% over the five years to the date of this report, during which time no dividends have been paid or capital returned, as the company has struggled to commercialise its technology and, in the process, has continued to make operating losses. The directors have considered this decline in market capitalisation and, while the causes were considered to be outside their control, have nevertheless held directors' remuneration constant at 2002 levels.

COMPANY OFFICER EMOLUMENTS AND EMPLOYMENT CONTRACTS

There were no options issued during the year or thereafter to any officer of the company. Other than the Managing Director, who has performance based options, no officer, whether employee or contractor, has a performance based element to his or her remuneration package. No employment contract exceeds 12 months.

Remuneration Report (continued)

DIRECTORS' EMOLUMENTS AND EMPLOYMENT CONTRACTS

Details of the nature and amount of the emoluments of each director are:

2007	Salaries & Fees \$	Superannuation \$	Options \$	Total \$
N Fussell	45,500	4,500	-	50,000
A Scott	237,441	37,559	-	275,000
MH Titley	22,936	2,064	-	25,000
DR Teplitzky	22,936	2,064	-	25,000
	328,813	46,187	-	375,000

2006	Salaries & Fees \$	Superannuation \$	Options \$	Total \$
N Fussell	45,500	4,500	-	50,000
A Scott	263,233	11,767	-	275,000
MH Titley	22,940	2,060	-	25,000
DR Teplitzky	22,940	2,060	-	25,000
	354,613	20,387	-	375,000

The remuneration structure for directors seeks to emphasise payment for results through providing reward schemes such as the EOIS. Presently, Mr Scott holds current options in the amount of 1,500,000 with expiry date of 24 November 2008. From time to time, non-executive directors have also participated in the EOIS and Dr Teplitzky currently holds 1,000,000 options exercisable at 7.6¢, which expire on 14 November 2007. All options issued under the EOIS vest immediately, have a five year term and have an exercise price equal to 125% of the average of the closing price for the five days prior to issue.

Names and positions of directors in office at any time during the financial year are detailed in the Directors' Report. There are no 'key management persons' or 'specified executives' as the directors are accountable and responsible for the strategic direction and operational management of the company. All shares held by directors, whether directly or indirectly, are as the result of private investment rather than resulting from remuneration policy.

The employment conditions of the sole executive director, Mr Alan Scott, were formalised in a letter of employment dated 20 May 2002. The company may terminate his employment, for reasons other than serious and wilful misconduct, by giving at least six months notice in writing or by the payment in lieu of notice of an amount equal to six months remuneration, each increasing by one month for every completed year of service.

Corporate Governance Statement

For the year ended 30 June 2007

This statement forms part of the Director's Report and outlines the main Corporate Governance practices that were in place throughout the period 1 July 2006 to 30 June 2007. These practices encompass the principles recommended by the ASX Corporate Governance Council.

BOARD OF DIRECTORS

The board is responsible for the overall Corporate Governance of the company including the strategic direction, establishing goals for management and monitoring the achievement of these goals. Due to the small size of the company and the board, all issues are considered by the full board. The board has established a framework for the management of the company including an overall framework of internal control, risk management and ethical standards.

COMPOSITION & FUNCTION OF THE BOARD

The directors of the company in office at the date of this statement are:

Name	Age	Position	Special Expertise
Norman Coldham-Fussell	69	Chairman	Resource Industry
Alan Scott	58	MD & CEO	Resource Industry
Marcus Hugh Titley	65	Non-Executive Director	Stockbroking
David Raymond Teplitzky	76	Non-Executive Director	Consultancy

The CEO has the responsibility for guiding management in carrying out effectively their tasks and achieving their objectives. The company has a very small number of senior executives, and there are regular formal and informal opportunities for them to interact with the non-executive directors.

The full board meets on a bi-monthly basis with a comprehensive set of board papers issued one week before the meeting for consideration and discussion. The board as a whole makes decisions on important company issues.

The board of the company comprises of a non-executive independent Chairman, two other non-executive directors, and one executive director. The board believes that this structure is effective for the current range of duties of the board to be properly discharged. In future, a different board structure may be appropriate to include directors with appropriate experience.

To ensure that ethical standards are upheld and that directors and employees are prohibited from buying and selling or otherwise dealing in securities of the company whilst in possession of price sensitive information that, in accordance with the Corporations Act 2001, has not been made public or is otherwise not generally available, the company has formulated a policy for directors, executives and employees concerning dealing in company securities. This policy is as follows:

A director or employee may only purchase, transfer, or otherwise deal in securities of the company during a thirty day period commencing three days after:

- (a) The release of the company's annual report to the ASX;
- (b) The release of the company's half yearly financial report to the ASX;

Corporate Governance Statement (continued)

- (c) The release of a quarterly report by the company to the ASX pursuant to Listing Rule 4.7B;
- (d) The annual general meeting of the company; or
- (e) The release of a company prospectus.

The policy does not authorise any dealings in securities of the company by any person whilst they may have price sensitive information in their possession, which is not generally available. Each director and employee is required to satisfy themselves that any dealings in securities of the company they undertake is not in breach of the Corporations Act 2001.

Company full year financial statements and half yearly accounts are submitted to the board for review and discussion. The external auditor attends board meetings when required to discuss any accounting and auditing issues. The signing off of the annual accounts is a matter considered by the whole board together with the Company Secretary and external auditor. As the entire board is involved, no separate audit committee has been established. The board also believes that the small size of the company and the current status of its activities do not warrant such a separate committee.

The responsibilities of the board in this area include:

- reviewing internal controls and recommending enhancements;
- monitoring compliance with Corporations Act 2001, Stock Exchange Listing Rules, matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investment Commission, Australian Stock Exchange and financial institutions;
- improving the quality of the accounting function;
- nominating the external auditor;
- reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management, and
- liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner.

In the company's current stage of development, matters of critical importance arise regularly. The CEO discusses significant issues with other board members and they jointly make decisions on the timely release of factual and balanced information concerning the company's activities.

The board as a whole considers risk management and internal control. Risk identification and risk amelioration strategies are an invaluable part of every manager's and every board member's daily decision-making process.

As the board is involved in the remuneration process, no separate remuneration committee has been established. Decisions relating to remuneration are an unalienable function of the board, led by the Chairman.

Information on remuneration, as required by the Corporations Act 2001, can be found in the Remuneration Report which forms part of this Annual Report.

Director's Declaration

The directors of the company declare that:

- 1) the financial statements and notes, as set out on pages 16 to 27 and the Remuneration Report set out on pages 8 and 9, are:
 - a) in accordance with the Corporations Act 2001;
 - b) comply with Accounting Standards and the Corporations Regulations 2001; and
 - b) give a true and fair view of the financial position of the company as at 30 June 2007 and its performance for the year ended on that date.
- 2) the Chief Executive Officer and the Company Secretary have each declared that:
 - a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c) the financial statement and notes for the financial year give a true and fair view.
- 3) in their opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- 4) the audited remuneration disclosure set out on pages 8 and 9 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the Corporations Regulations 2001

This declaration is signed in accordance with a resolution of the directors



ALAN SCOTT
Managing Director
1 August 2007



BDO Kendalls

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF HITEC ENERGY LIMITED

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for HiTec Energy Limited (the company), for the year ended 30 June 2007.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

BDO Kendalls is a national association of separate partnerships and entities.



BDO Kendalls

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

Audit Opinion

In our opinion, the financial report of HiTec Energy Limited is in accordance with:

- (a) the Corporations Act 2001, including:
- (i) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Chartered Accountants

BDO Kendalls

Glyn O'Brien
Director

Signed at Perth this 1st day of August 2007.



BDO Kendalls

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ABN 79 112 284 787

**DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS
OF HITEC ENERGY LIMITED**

As lead auditor of HiTec Energy Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls

Glyn O'Brien
Director

Signed at Perth this 1st day of August 2007.

BDO Kendalls is a national association of separate partnerships and entities.

Income Statement

For the year ended 30 June 2007

		2007	2006
	Note	\$	\$
Revenue			
Interest		106,937	44,999
Other Income			
Profit on sale of plant & equipment		-	683,947
Rent		7,700	53,075
Sundry income		29,248	10,752
		<u>143,885</u>	<u>792,773</u>
Expenditure			
Administration		274,945	326,580
Business development		128,857	195,026
Depreciation	4	10,991	53,304
Employee benefits		559,589	665,491
Exploration		45,749	27,438
Loss on sale of plant & equipment	4	1,113	26,442
Patenting		6,673	11,226
Research & development		26,500	17,033
		<u>1,054,417</u>	<u>1,322,540</u>
Loss before income tax		910,532	529,767
Income tax credit: current	9	61,859	64,364
		<u>848,673</u>	<u>465,403</u>
Loss for the year			
Basic loss per share (cents per share)	14	0.19	0.10
Diluted loss per share (cents per share)	14	0.19	0.10

This income statement should be read in conjunction with the accompanying notes.

Balance Sheet

As at 30 June 2007

	Note	2007 \$	2006 \$
Current assets			
Cash and cash equivalents	5	1,381,012	2,522,557
Receivables	6	13,222	14,500
Prepayments		25,623	15,081
		<u>1,419,857</u>	<u>2,552,138</u>
Non-current assets			
Receivables	6	40,821	38,526
Plant & equipment	4	19,657	32,880
Investment	7	-	1
		<u>60,478</u>	<u>71,407</u>
Total assets		<u>1,480,335</u>	<u>2,623,545</u>
Current liabilities			
Creditors & accruals		27,815	307,850
Provision for employee benefits		17,436	28,848
		<u>45,251</u>	<u>336,698</u>
Non-current liabilities			
Provision for employee benefits		20,959	24,049
Total liabilities		<u>66,210</u>	<u>360,747</u>
Net assets		<u>1,414,125</u>	<u>2,262,798</u>
Shareholders funds			
Contributed equity	2	31,945,649	31,945,649
Reserves	3	37,905	59,000
Accumulated losses		<u>(30,569,429)</u>	<u>(29,741,851)</u>
Net equity		<u>1,414,125</u>	<u>2,262,798</u>

This balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2007

	Share Capital	Accumulated Losses	Option Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2005	31,945,649	(29,276,448)	59,000	2,728,201
Loss attributable to members of the company	-	(465,403)	-	(465,403)
Balance at 30 June 2006	31,945,649	(29,741,851)	59,000	2,262,798
Balance at 1 July 2006	31,945,649	(29,741,851)	59,000	2,262,798
Reversal of previously booked cost for options lapsed during year	-	21,095	(21,095)	-
Loss attributable to members of the company	-	(848,673)	-	(848,673)
Balance at 30 June 2007	31,945,649	(30,569,429)	37,905	1,414,125

This statement of changes in equity should be read in conjunction with the accompanying notes.

Cash Flow Statement

For the year ended 30 June 2007

		<u>2007</u>	<u>2006</u>
	Note	\$	\$
Cash flow from operating activities			
Payments to suppliers and employees		(1,319,160)	(999,766)
Interest received		106,937	44,999
Rentals received		7,700	53,075
Research & development grants received		61,859	64,364
		<hr/>	<hr/>
	19	(1,142,664)	(837,328)
		<hr/>	<hr/>
Cash flow from investing activities			
Proceeds from sale of plant & equipment		1,119	2,756,000
Purchase of plant & equipment		-	(21,031)
		<hr/>	<hr/>
		1,119	2,734,969
		<hr/>	<hr/>
Net (decrease)/increase in cash held		(1,141,545)	1,897,641
Cash and cash equivalents at beginning of year		<hr/> 2,522,557	<hr/> 624,916
Cash and cash equivalents at end of year	5	<hr/> 1,381,012	<hr/> 2,522,557

This cash flow statement should be read in conjunction with the accompanying notes.

Notes to Financial Statements

For the year ended 30 June 2007

Note 1 Statement of significant accounting policies

These are the financial statements of HiTec Energy Limited, a listed public company incorporated and domiciled in Australia, as an individual entity. They are general purpose financial statements that have been prepared in accordance with Accounting Standards, the Corporations Act 2001, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. They comply with Australian Accounting Standards, which include AIFRS, in their entirety and thus also comply with IFRS in their entirety. The financial statements have been prepared on an accruals basis and are based on historical costs, modified by revaluations where appropriate, and for which the fair value basis of accounting has been applied. The following sub-notes set out the material accounting policies that have been adopted and consistently applied, unless otherwise stated.

a) Comparative figures

Comparative figures have been amended to conform to the current year presentation basis where changes in disclosure have occurred.

b) Exploration expenditure

The company's policy with respect to exploration expenditure is to write off all costs as incurred. Accordingly, exploration expenditure of \$45,749 has been written off during the year. The decision to write off exploration expenditure as incurred does not indicate any change in the board's view of the intrinsic value of the mining leases held by the company. Rather, the decision was taken, as it is the most prudent treatment available under current accounting standards for such expenditure.

c) Research & development expenditure

The company's policy with respect to research & development expenditure is to write off all costs as incurred. Accordingly, research & development expenditure of \$26,500 has been written off during the year. The decision to write off research & development expenditure as incurred does not indicate any change in the board's view of the intrinsic value of the research & development undertaken by the company. Rather, the decision was taken, as it is the most prudent treatment available under current accounting standards for such expenditure.

d) Patenting expenditure

The company's policy with respect to patenting expenditure is to write off all costs as incurred. Accordingly, patenting expenditure of \$6,673 has been written off during the year. The decision to write off patenting expenditure as incurred does not indicate any change in the board's view of the intrinsic value of the patents held by the company. Rather, the decision was taken, as it is the most prudent treatment available under current accounting standards for such expenditure.

e) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash flows to be made for those benefits. The balance of the provision is adjusted annually to reflect the change in liability between reporting dates.

Notes to Financial Statements (continued)

For the year ended 30 June 2007

f) Income taxation

The income tax expense is the tax payable on the current period's taxable income based on the tax rate.

Deferred tax balances are not recognised where it is not probable that they will be utilised (deferred tax assets, including unused tax losses) or reverse (deferred tax liabilities) in the foreseeable future.

Research and development tax concessions received are included as current tax credits in the year of receipt rather than as revenue, to comply with accounting standards.

g) Plant & equipment

Plant & equipment is measured on the cost basis, less where applicable, accumulated depreciation and impairment loss. The depreciable amount of all fixed assets is depreciated over their useful lives, commencing from the time the asset is held ready for use. The carrying amount is reviewed annually by directors to ensure it is not in excess of the recoverable amount. The recoverable amount is assessed on the basis of the expected net cash flows, which will be received from the assets' employment and subsequent disposal. Any expected net cash flows are discounted to their present values in determining recoverable amounts. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

h) Depreciation

Fixed assets are depreciated on a reducing balance basis over their useful lives commencing from the time that the assets are held ready for use. Office furnishings and mechanical equipment are depreciated at 20% per annum. Electronic equipment is depreciated at 40% per annum.

i) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they occur.

j) Revenue

All revenue items are included in the Income Statement on an accruals basis.

k) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Cash flows are presented in the cash flow statement on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows.

l) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held with banks.

Notes to Financial Statements (continued)

For the year ended 30 June 2007

m) Financial instruments

Receivables, creditors and accruals are initially measured at cost then subsequently adjusted to the recoverable amount, in the case of receivables, or the payable amount, in the case of creditors and accruals, where the recoverable amount or payable amount are deemed to be lower or higher respectively than cost. Any realised or unrealised gain or loss arising as a result of restating a financial instrument is included in the Income Statement in the period in which it arises. The company has had no other dealings in financial instruments that would require additional accounting policy disclosure.

n) New accounting standards and implications

No new Australian Accounting Standard, which has been issued but is not yet effective for 30 June 2007 reporting periods, has been early adopted or is expected to have any significant effect on a future reporting period.

Note 2 Contributed equity

At the beginning and end of the financial years ending 30 June 2006 and 30 June 2007 the company had contributed equity of \$31,945,649 raised from the issue of 447,739,284 fully paid shares. Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of the shares held. At shareholders meetings, each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands.

Note 3 Reserves

During the year, the portion of the option reserve that related to options lapsing during the year was reversed. The value of these options was \$21,095.

Note 4 Plant & equipment

	2007	2006
	\$	\$
Office furniture & equipment - at cost	180,429	190,572
Accumulated depreciation	(160,772)	(157,692)
	<u>19,657</u>	<u>32,880</u>

During the year, an item of plant and equipment was sold for \$1,119, realising a loss on sale of \$1,113.

Movements in plant and equipment during the year:

	\$	
Written down value at 1 July	32,880	2,163,648
Additions	-	21,031
Disposals	(2,232)	(2,098,495)
Depreciation expense	(10,991)	(53,304)
Written down value at 30 June	<u>19,657</u>	<u>32,880</u>

Notes to Financial Statements (continued)

For the year ended 30 June 2007

Note 5	Cash and cash equivalents	2007	2006
		\$	\$
	Cash at bank and in hand	91,107	119,903
	Short term deposits	1,290,905	2,402,654
		1,381,012	2,522,557

The above balance agrees to cash equivalents per the cash flow statement.
Note 17 provides details in respect of interest rates being earned.

Note 6	Receivables	2007	2006
		\$	\$
	Current: Other receivables	13,222	14,500
	Non-current: Performance bonds	40,821	38,526
		54,043	53,026

Note 7	Investment	2007	2006
		\$	\$
	Investment in controlled entity at cost	-	1

The company's wholly owned subsidiary, SRDC NL, was liquidated during the year. It was not consolidated in these financial statements on the basis of its immateriality.

Note 8	Auditor's remuneration	2007	2006
		\$	\$
	Remuneration of the auditor for:		
	Auditing - y/e 30 June 2007	16,790	-
	- y/e 30 June 2006	4,735	16,295
	- y/e 30 June 2005	-	13,550
	Other services	-	4,000
		21,525	33,845

Auditor 2007: BDO Kendalls (formerly Horwath); 2005/06: Grant Thornton

Note 9 **Income tax**

A prima facie income tax benefit of \$254,602 (2006: \$158,930), calculated at 30% of the operating loss for the year has not been brought to account in either year. As disclosed in note 1(f), the current income tax credit in each financial year results from treating research and development tax concessions actually received in cash, as current tax credits, despite the fact that the company did not pay any income tax during the period under review.

At 30 June 2007, the company had estimated carry forward tax losses of \$14,961,207 (2006: \$14,112,534 as returned) available to offset against future taxable income. The benefits of these losses will only be obtained if the company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the losses to be realised. The company continues to comply with the conditions of deductibility imposed by tax legislation and no changes in tax legislation adversely affect the company in realising the benefit from deductions for the losses.

Notes to Financial Statements (continued)

For the year ended 30 June 2007

Note 10 Key management personnel compensation

For this company, the remuneration related disclosures required by AASB124 are identical to those required by the Corporations Act 2001, as there are no key management personnel other than the directors. The company has taken advantage of the relief provided by *Corporations Regulation* 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report.

Details of the nature and amount of the emoluments of each of the directors as required by the Corporations Act 2001 are disclosed in the Remuneration Report which is located on pages 8 and 9 of this Annual Report.

Note 11 Share based payments

During the year there have been no share based payments under the company's employee share scheme nor any exercise or forfeiture of previously issued options. However, 1,500,000 options previously issued to employees at an exercise price of 7.6¢ expired. At 30 June 2007, there were 2,500,000 options outstanding and exercisable under the employee share scheme each having an exercise price of 7.6¢ (2006: 4,000,000 at 7.6¢). The weighted average remaining contractual life of these outstanding and exercisable options is 12 months (2005: 26 months). Where an option holder ceases to be employed before the option held expires, or is exercised, the company may choose to extinguish the option at the date employment ceased. All future option issues under the scheme require approval by shareholders.

The fair value, or calculated impact, at 30 June 2005 of the abovementioned outstanding options, was derived using Black-Scholes methodology from their exercise price of 7.6¢, their average remaining contractual life of 38 months, the company share price average in the week prior to issue of 6.1¢ and estimates for expected share price volatility plus risk free rate of 38% and 5% respectively.

Note 12 Related parties

No director has entered into a material contract with the company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end. There were no management or consulting fees paid during the year to any director related entities. The directors are the only related parties.

Note 13 Contingent liabilities

Legislative developments and judicial decisions regarding Native Title may have an impact on the exploration and production activities of Australian mining companies generally. A claim may exist over the area covered by the Company's mining leases, and it is not possible at this stage to quantify the effect (if any), which these developments may have on the operations of the Company.

Notes to Financial Statements (continued)

For the year ended 30 June 2007

Note 14 Earnings per share

	2007 \$	2006 \$
Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share	447,739,284	447,739,284
Weighted average number of options outstanding	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating diluted loss per share	<u>447,739,284</u>	<u>447,739,284</u>

Options outstanding have been classified as potential ordinary shares, and thus included in the determination of diluted earnings per share, only where their exercise price is lower than the year-end share price. 'Earnings' used in calculating basic and diluted loss per share is the loss for the year of \$845,423 (2006: \$ 465,403).

Note 15 Segment reporting

The company operates in one business segment, namely the commercialisation of mineral processing technologies wherever those technologies may have application. Whilst the company's principal and registered office and its mining leases are maintained in Australia, its business focus is worldwide, with a representative office maintained in China and patent assets currently held in Australia, China, United States, South Africa and India.

Note 16 Lease commitments

The company has obligations to perform exploration expenditure work on mining tenements in accordance with the Department of Industry and Resources expenditure requirements. A Bank Guarantee facility for \$10,000 exists in respect of mining lease obligations.

Project	Tenement	Renewal Date	Area (Km ²)	Annual Expenditure commitment	Interest
Ant Hill	ML 46/238	05/11/07	8.0	\$80,100	100%
Sunday Hill	ML 46/237	05/11/07	7.3	\$73,000	100%
Port Hedland	G 45/265	05/06/08	0.5	-	100%

An office rental lease exists, which expires on 28 February 2009, but has an option exists to renew for an additional 3 years. Monthly rent is payable in advance. A Bank Guarantee facility for \$29,068, backed by a term deposit of equal amount exists in respect of the tenancy obligation. Annual commitments under the lease amount to \$36,650 (2006: \$31,117) for rent and \$7,500 (2006: \$6,000) for parking. The terms of the lease include an annual rental adjustment to the greater of defined market value or the rent for the preceding year increased by 5%, with parking rental to be the greater of defined market value or the rental paid in the preceding year. Minimum amounts payable under the lease within 12 months are \$44,150 (2006: \$37,117), between 12 months and 5 years \$29,433 (2006: \$61,862) and greater than 5 years \$nil (2006: \$nil).

Notes to Financial Statements (continued)

For the year ended 30 June 2007

Note 17 Financial risks

The net fair values of financial assets and financial liabilities approximate their carrying values, as disclosed in the balance sheet. The maximum exposure to credit risk at balance date is the carrying amount of financial assets (i.e., cash and receivables) as disclosed in balance sheet and notes to the financial statements. The company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on classes of financial assets and financial liabilities is as follows:

	Floating interest rate	Fixed interest rate maturing within 1 year	Non-interest bearing	Total
	\$	\$	\$	\$
2007				
Financial assets & liabilities				
Cash and cash equivalents	89,496	1,290,905	611	1,381,012
Receivables - current	-	-	13,222	13,222
- non-current	11,753	29,068	-	40,821
Creditors & accruals	-	-	(27,815)	(27,815)
	101,249	1,319,973	(13,982)	1,407,240
Weighted average interest rate	3.51%	5.90%		
2006				
Financial assets & liabilities				
Cash and cash equivalents	118,929	2,402,654	974	2,522,557
Receivables - current	-	-	14,500	14,500
- non-current	11,090	27,436	-	38,526
Creditors & accruals	-	-	(307,850)	(307,850)
	130,019	2,430,090	(292,376)	2,267,733
Weighted average interest rate	3.31%	5.27%		

Note 18 Effect of changes in accounting policy

No initial application of an issued and effective Australian Accounting Standard has had any significant effect on the current period or any prior period. Furthermore, no new Australian Accounting Standard, which has been issued but is not yet effective, is expected to have any significant effect on a future reporting period.

Note 19 Matters subsequent to the end of the financial year

There has not arisen in the interval between the end of financial year and the date of this report any item, transaction or event of a material or unusual nature, which is likely in the opinion of the Directors, to affect substantially the operation of the company, the result of those operations and the state of affairs of the company in the financial year subsequent to 30 June 2007.

However, on 27 July 2007 the Company signed a Heads of Agreement with M/s Cube Mines & Minerals Pvt Ltd which is likely in the opinion of the directors to have such impacts, in a positive manner, in financial years thereafter.

Notes to Financial Statements (continued)

For the year ended 30 June 2007

Note 19	Reconciliation of net cash used in operating activities with loss after income tax	2007	2006
		\$	\$
	Loss after income tax	848,673	465,403
	<u>Items classified as investing/financing activities</u>		
	Net (loss) gain on disposal of assets	(1,114)	657,505
	<u>Non-cash items</u>		
	Depreciation	(10,991)	(53,304)
	<u>Changes in assets and liabilities</u>		
	Increase/(decrease) in receivables and prepayments	11,559	45,727
	(Increase)/decrease in creditors and accruals	280,035	(237,214)
	(Increase)/decrease in provisions	14,502	(40,789)
	Net cash used in operations	1,142,664	837,328

Additional Information

Additional information as at 13 July 2007, required by the Listing Rules of the Australian Stock Exchange Limited:

1. DISTRIBUTION OF SHAREHOLDERS

		No of Shareholders
1	- 1,000	100
1,001	- 5,000	372
5,001	- 10,000	464
10,001	- 100,000	1,986
100,001	over	808
		<hr/> 3,730

2. MARKETABLE PARCEL

A marketable parcel is a holding with a value of at least \$500 at the prevailing share price as at 13 July 2007. There are at this date 1,804 shareholders with holdings less than a marketable parcel.

3. VOTING RIGHTS

On a show of hands every shareholder of ordinary shares present or by proxy shall have one vote and upon a poll each share shall have one vote.

4. TOP TWENTY SHAREHOLDERS

Shareholders as of 13 July 2007	Holding	Percent
Perpetual Custodians Limited	14,202,932	3.172
Mr Warren Thomas Brown & Mrs Roslyn Una Brown A/c	9,200,000	2.055
Marcus Hugh Titley & Janet Mary Titley	7,125,000	1.591
Mr Kenneth Buck	6,224,000	1.390
Pabu Pty Ltd <The Jade Unit A/c>	5,130,934	1.146
ANZ Nominees Limited <Cash Income A/c>	5,109,936	1.141
National Nominees Limited	4,717,509	1.054
Mr Peter Fabian Hellings & Mrs Jacqueline Kim Gun Hellings <Box Super Fund A/c>	4,300,000	0.960
Waros Pty Ltd ,Warren Brown Super Fund A/c>	4,261,172	0.952
Van de Velde Consulting Group Pty Ltd <Van de Velde Super Fund A/c>	4,111,361	0.918
David Rivett Pty Limited <Super Fund A/c>	3,980,196	0.889
Kuyan Pty Ltd	3,125,000	0.698
Mr Marcus Hugh Titley	3,000,000	0.670
Perpetual Trustees Consolidated Limited <Van de Velde A/c>	2,847,000	0.636
Mr Kenneth George Parnell & Mrs Lynette Ann Parnell	2,845,000	0.635
Kizogo Pty Limited	2,805,827	0.627
Dr Allan Paul Andersen <The Andersen Family A/c>	2,549,234	0.569
Presentation Congregation	2,500,000	0.558
Mr John Anthony Dowson & Mrs Ellen Dowson <J & E Dowson Super Fund A/c>	2,455,923	0.549
Mr Thomas Francis O'Brien <T F O'Brien Family A/c>	2,375,000	0.530

The Percentage of the total holding held by the twenty largest holders of ordinary shares was 20.741% (2006: 18.879%)

In challenge we find opportunity.....

As the world turns more and more to truly sustainable production technologies, which are both economically sound and low impact on the environment, patented processes such as those developed by HiTec are becoming increasingly relevant and increasingly in demand.

HiTec's sulfur dioxide leach process provides economic advantage as it can efficiently unlock the manganese contained in low grade manganese dioxide ores that is otherwise uneconomic to extract. This attribute of our process is particularly of relevance in times such as these where higher grade manganese ores are in short supply and, when available at all, are priced at historically high levels that can be untenable for a secondary processor.

The manganese extraction process that we employ is hydrometallurgical, as compared with the conventional pyrometallurgical process mainly employed today and it is this aspect of our process that provides very strong environmental advantages including:

- a reduction in energy consumed to less than half;
- the total elimination of carbon dioxide emissions; and
- the ability to eliminate virtually all particulate and metal ion emissions from the process.

When implemented in conjunction with world class environmental practices in all other areas of operations, the result can be a process plant that can responsibly coexist in its local community.

While debate in our communities will continue to rage as to the relative merits of one environmental priority over another, no logically inclined person can argue with the merits of approaches that seek to efficiently utilise the available resources of a country or region. The reality is that resources such as low grade manganese oxide ores will be used. The challenge is to see them used in a way that creates strong economic value today; without adversely impacting on the environment and thereby creating liabilities for future generations to shoulder.

It is with this objective clearly in mind that we see an opportunity for HiTec to prosper and to do so whilst providing real value to its project partners and to the communities in which they work.

www.hitec-energy.com.au