

**TOTALLY HIP TECHNOLOGIES INC.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2005  
(Unaudited)

**TOTALLY HIP TECHNOLOGIES INC.**

June 30, 2005

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.



**TOTALLY HIP TECHNOLOGIES INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**  
for the three and nine months ended June 30, 2005 and 2004  
(Unaudited – Prepared by Management)

	Three months ended June 30,		Nine months ended June 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues				
Sales	\$ 70,725	\$ 86,527	\$ 205,164	\$ 220,226
Less: cost of goods sold	<u>(3,505)</u>	<u>1,201</u>	<u>( 13,380)</u>	<u>(15,841)</u>
	<u>67,220</u>	<u>85,326</u>	<u>191,784</u>	<u>204,385</u>
Administrative Expenses				
Amortization	3,179	3,496	9,537	8,857
Filing fees and transfer agent	1,985	4,577	10,121	13,134
Interest and bank charges	188	173	3,052	392
Marketing, travel and promotion	9,612	163,160	16,810	168,633
Office and miscellaneous	31,150	12,787	64,594	38,008
Professional fees	44,648	65,871	61,916	128,623
Research and development salaries – Note 3	45,000	45,000	135,000	135,000
Rent	10,705	8,701	32,114	26,567
Salaries and consulting fees – Note 3	77,198	16,560	151,017	68,168
Telephone and internet	<u>1,065</u>	<u>6,990</u>	<u>4,533</u>	<u>11,551</u>
	<u>224,730</u>	<u>327,285</u>	<u>488,694</u>	<u>598,933</u>
Loss from operations before other items	<u>(157,510)</u>	<u>(241,959)</u>	<u>(296,910)</u>	<u>(394,548)</u>
Other items				
Miscellaneous income	-	1	221	1
Foreign exchange (loss) gain	<u>1,081</u>	<u>(12,636)</u>	<u>2,307</u>	<u>(24,453)</u>
Net loss for the period	<u>\$ (156,429)</u>	<u>\$ (254,594)</u>	<u>\$ (294,382)</u>	<u>\$ (419,000)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.09)</u>
Weighted average number of shares outstanding	<u>12,860,399</u>	<u>11,150,508</u>	<u>12,860,399</u>	<u>4,835,398</u>

SEE ACCOMPANYING NOTES

**TOTALLY HIP TECHNOLOGIES INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF DEFICIT**  
for the nine months ended June 30, 2005 and 2004  
(Unaudited – Prepared by Management)

	<u>2005</u>	<u>2004</u>
Deficit, beginning of the period	\$ (8,148,391)	\$ (7,636,377)
Net loss for the period	<u>(294,382)</u>	<u>(419,000)</u>
Deficit, end of period	<u>\$ (8,442,773)</u>	<u>\$ (8,055,377)</u>

SEE ACCOMPANYING NOTES

**TOTALLY HIP TECHNOLOGIES INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the three months and nine months ended June 30, 2005 and 2004  
(Unaudited – Prepared by Management)

	Three months ended June 30,		Nine months ended June 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Operating Activities</b>				
Net loss for the period	\$ (156,429)	\$ (254,594)	\$ (294,382)	\$ (419,000)
Items not involving cash:				
Amortization	<u>3,179</u>	<u>3,496</u>	<u>9,537</u>	<u>8,857</u>
	(153,250)	(251,098)	(284,845)	(410,143)
Changes in non-cash working capital items related to operations:				
Amounts receivable	23,387	(23,403)	348	( 32,369)
Prepaid expenses and deposits	(2,566)	( 3,284)	( 3,650)	( 1,984)
Accounts payable and accrued liabilities	<u>41,131</u>	<u>(134,930)</u>	<u>93,381</u>	<u>( 74,657)</u>
Cash used in operating activities	<u>(91,298)</u>	<u>(412,715)</u>	<u>(194,766)</u>	<u>(518,793)</u>
<b>Financing Activities</b>				
Issuance of shares for cash	-	586,275	-	586,275
Common shares subscribed	-	(185,000)	-	(85,000)
Loans payable	118,735	-	206,864	-
Decrease in capital lease obligations	<u>-</u>	<u>( 869)</u>	<u>-</u>	<u>(1,907)</u>
Cash provided by financing activities	<u>118,735</u>	<u>400,406</u>	<u>206,864</u>	<u>499,368</u>
<b>Investing Activity</b>				
Acquisition of capital asset	<u>-</u>	<u>-</u>	<u>( 929)</u>	<u>-</u>
Cash used by investing activity	<u>-</u>	<u>-</u>	<u>( 929)</u>	<u>-</u>
Increase (Decrease) in cash during the period	27,437	(12,309)	11,169	(19,425)
Cash (bank indebtedness), beginning of the period	<u>(724)</u>	<u>14,817</u>	<u>15,544</u>	<u>21,933</u>
Cash (bank indebtedness), end of the period	<u>\$ 26,713</u>	<u>\$ 2,508</u>	<u>\$ 26,713</u>	<u>\$ 2,508</u>
<b>Supplemental disclosure of cash flow information:</b>				
Cash paid for:				
Income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES

**TOTALLY HIP TECHNOLOGIES INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
for the nine months ended June 30, 2005  
(Unaudited – Prepared by Management)

Note 1 Interim Reporting

While the information presented in the accompanying interim nine-month consolidated financial statements is unaudited, the interim consolidated statements have been reviewed by the Company's Audit Committee, and includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim period presented. It is suggested that these interim financial statements be read in conjunction with the Company's September 30, 2004 annual consolidated financial statements. These consolidated financial statements follow the same accounting policies and methods as the Company's September 30, 2004, annual financial statements.

Note 2 Share Capital

Authorized:

100,000,000 common shares without par value  
100,000 preferred shares without par value

Common shares issued:

		<u>Number</u>	<u>Amount</u>
Balance, September 30, 2002		6,441,874	\$ 6,388,678
Issued for cash:			
Pursuant to a private placement	– at \$0.1725	579,710	100,000
Less: share issue costs		-	(12,094)
Issued for debt settlement agreements	– at \$0.25	<u>140,000</u>	<u>35,000</u>
Balance, September 30, 2003		7,161,584	6,511,584
Consolidation of shares 4 for 1		(5,371,190)	-
Escrow shares returned to treasury		(129,998)	(127,400)
Issued for cash:			
Pursuant to a private placement	– at \$0.10	1,200,000	120,000
Pursuant to a private placement	– at \$0.05	10,000,000	500,000
Less: share issue costs		<u>-</u>	<u>(55,159)</u>
Balance, September 30, 2004 and June 30, 2005		<u>12,860,399</u>	<u>\$ 6,949,025</u>

Note 2 Share Capital – Cont'd

Commitments:

Share Purchase Options

Share purchase options have been granted to directors, officers and employees of the Company. The options were granted with an exercise price equal to the market price of the Company's shares on the date of the grants and fully vest when granted.

A summary of the share purchase options is as follows:

	Nine months ended June 30,			
	2005		2004	
	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Options outstanding and exercisable at the beginning of period	37,489	\$8.00	37,489	\$8.00
Granted				
Expired/cancelled	( 23,000)	\$9.04	-	
Options outstanding and exercisable at the end of period	<u>14,489</u>	<u>\$6.32</u>	<u>37,489</u>	<u>\$8.00</u>

As at June 30, 2005, 14,489 share purchase options were outstanding as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
2,700	\$11.20	November 20, 2005
<u>11,789</u>	\$5.20	December 27, 2005
<u>14,489</u>		

Note 3 Related Party Transactions

The Company incurred the following transactions with a director, officers of the company and a company controlled by a director of the company:

Totally Hip Technologies Inc.  
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Note 3 Related Party Transactions – Cont'd

	Nine months ended June 30,	
	<u>2005</u>	<u>2004</u>
Research and development salaries	\$ 135,000	\$ 135,000
Salaries and consulting fees	<u>40,500</u>	<u>30,000</u>
	\$ <u>175,500</u>	\$ <u>165,000</u>

These transactions were measured by the exchange amount, which is the amount agreed upon by the transacting parties

At June 30, 2005 accounts receivable included \$Nil (2004: \$26,705) due from a company with a common director.

At June 30, 2005, accounts payable and accrued liabilities included \$93,162 (2004: \$45,969) due to current and former directors and officers of the Company and a company with a common director in respect to unpaid wages, fees and expenses incurred on behalf of the Company.

Amounts due to shareholders are unsecured, non-interest bearing and have no specific terms of repayment.

Note 4 Segmented Information

The Company's sales revenues are allocated to geographic segments as follows:

	Nine months ended June 30, <u>2005</u> %
USA	71.37
Canada	17.88
Europe	7.40
Australia, New Zealand	1.71
Asia, Africa, South America,	<u>1.64</u>
	<u>100.00</u>

Note 5 Comparative Figures

Certain comparative figures for the prior year have been reclassified to conform with the financial statement presentation adopted in the current year.