

TOTALLY HIP TECHNOLOGIES INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004
(Unaudited)

TOTALLY HIP TECHNOLOGIES INC.

December 31, 2004

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.
CONSOLIDATED BALANCE SHEETS

	(Unaudited) December 31, <u>2004</u>	(Audited) September 30, <u>2004</u>
<u>ASSETS</u>		
Current		
Cash	\$ 12,748	\$ 15,544
Amounts receivable	70,735	38,700
Inventory	3,500	3,500
Prepaid expenses and deposits	<u>12,520</u>	<u>12,436</u>
	99,503	70,180
Capital assets	24,161	26,411
Software technology and intellectual property rights	<u>6</u>	<u>6</u>
	<u>\$ 123,670</u>	<u>\$ 96,597</u>
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities – Note 3	\$ 420,353	\$ 375,588
Loans payable	108,094	59,221
Due to shareholders	<u>33,754</u>	<u>33,754</u>
	<u>562,201</u>	<u>468,563</u>
<u>SHAREHOLDERS' DEFICIENCY</u>		
Share capital – Note 2	6,949,025	6,949,025
Contributed surplus	827,400	827,400
Deficit	<u>(8,214,956)</u>	<u>(8,148,391)</u>
	<u>(438,531)</u>	<u>(371,966)</u>
	<u>\$ 123,670</u>	<u>\$ 96,597</u>
Interim Reporting – Note 1		

APPROVED BY THE DIRECTORS:

<i>“David Dicaire”</i>	Director	<i>“James Boyce”</i>	Director
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SEE ACCOMPANYING NOTES

TOTALLY HIP TECHNOLOGIES INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
for the three months ended December 31, 2004 and 2003
(Unaudited – Prepared by Management)

	<u>2004</u>	<u>2003</u>
Revenues		
Sales	\$ 48,711	\$ 51,542
Less: cost of goods sold	<u>(5,689)</u>	<u>(8,943)</u>
	<u>43,022</u>	<u>42,599</u>
Administrative Expenses		
Amortization	3,179	1,865
Filing fees and transfer agent	436	1,142
Interest and bank charges	172	88
Marketing, travel and promotion	1,332	2,000
Office and miscellaneous	9,746	14,444
Professional fees	12,518	2,000
Research and development salaries – Note 3	45,000	45,000
Rent	10,705	8,632
Salaries and consulting fees – Note 3	24,508	27,450
Telephone and internet	<u>1,921</u>	<u>1,956</u>
	<u>109,517</u>	<u>104,577</u>
Loss from operations before other items	<u>(66,495)</u>	<u>(61,978)</u>
Other items		
Foreign exchange (loss) gain	<u>(70)</u>	<u>(4,596)</u>
Net loss for the year	<u>\$ (66,565)</u>	<u>\$ (66,574)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
Weighted average number of shares outstanding	<u>12,860,399</u>	<u>1,790,396</u>

SEE ACCOMPANYING NOTES

TOTALLY HIP TECHNOLOGIES INC.
INTERIM CONSOLIDATED STATEMENTS OF DEFICIT
for the three months ended December 31, 2004 and 2003
(Unaudited – Prepared by Management)

	<u>2004</u>	<u>2003</u>
Deficit, beginning of the period	\$ (8,148,391)	\$ (7,636,377)
Net loss for the period	<u>(66,565)</u>	<u>(66,574)</u>
Deficit, end of period	<u>\$ (8,214,956)</u>	<u>\$ (7,702,951)</u>

SEE ACCOMPANYING NOTES

TOTALLY HIP TECHNOLOGIES INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended December 31, 2004 and 2003
(Unaudited – Prepared by Management)

	<u>2004</u>	<u>2003</u>
Operating Activities		
Net loss for the period	\$ (66,565)	\$ (66,574)
Items not involving cash:		
Amortization	<u>3,179</u>	<u>1,865</u>
	(63,386)	(64,709)
 Changes in non-cash working capital items related to operations:		
Amounts receivable	(32,035)	6,400
Prepaid expenses and deposits	(84)	1,300
Accounts payable and accrued liabilities	<u>44,765</u>	<u>7,859</u>
Cash used in operating activities	<u>(50,740)</u>	<u>(49,150)</u>
 Financing Activities		
Common shares subscribed	-	60,000
Loans payable	48,873	-
Decrease in capital lease obligations	<u>-</u>	<u>(623)</u>
Cash provided by financing activities	<u>48,873</u>	<u>59,377</u>
 Investing Activity		
Acquisition of capital asset	<u>(929)</u>	<u>-</u>
Cash provided by investing activity	<u>(929)</u>	<u>-</u>
Increase (Decrease) in cash during the period	(2,796)	10,227
Cash, beginning of the period	<u>15,544</u>	<u>21,933</u>
Cash, end of the period	<u><u>\$ 12,748</u></u>	<u><u>\$ 32,160</u></u>
 Supplemental disclosure of cash flow information:		
Cash paid for:		
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Interest	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES

TOTALLY HIP TECHNOLOGIES INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended December 31, 2004
(Unaudited – Prepared by Management)

Note 1 Interim Reporting

While the information presented in the accompanying interim three 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 December 31, 2004		<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:

	Three months ended December 31,		Three months ended December 31,	
	2004		2003	
	<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 and end of period	<u>37,489</u>	<u>\$8.00</u>	<u>37,489</u>	<u>\$8.00</u>

As at December 31, 2004, 37,489 share purchase options were outstanding as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
18,750	\$5.20	February 1, 2005
4,250	\$26.00	May 12, 2005
2,700	\$11.20	November 20, 2005
<u>11,789</u>	<u>\$5.20</u>	<u>December 27, 2005</u>
<u>37,489</u>		

Subsequent to December 31, 2004, 18,750 share purchase options expired unexercised.

Note 2 Share Capital – (cont'd)

Share Purchase Warrants:

At December 31, 2004, 11,200,000 share purchase warrants were outstanding entitling the holders thereof the right to purchase one common share for each warrant held as follows:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,200,000	\$0.10	April 13, 2005
<u>10,000,000</u>	\$0.05	April 15, 2005
<u><u>11,200,000</u></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:

	Three months ended December 31,	
	<u>2004</u>	<u>2003</u>
Research and development salaries	\$ 45,000	\$ 45,000
Salaries and consulting fees	<u>13,500</u>	<u>18,000</u>
	\$ <u>58,500</u>	\$ <u>63,000</u>

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

At December 31, 2004 accounts receivable included \$Nil (2003: \$26,705) due from a company with a common director.

Note 4 Related Party Transactions – (cont'd)

At December 31, 2004, accounts payable and accrued liabilities included \$77,196 (2003: \$29,662) due to current and former directors and officers of the Company and a company with a common director in respect to unpaid wages 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 5 Segmented Information

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

	Three months ended December 31, <u>2004</u>
USA	54.20%
Europe	31.74%
Canada	4.33%
Australia, New Zealand	3.48%
Asia	<u>6.25%</u>
	<u>100.00%</u>

Note 6 Comparative Figures

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