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Hip Interactive Corp.
240 Superior Boulevard
Mississauga, ON L5T 2L2
www.hipinteractive.com

Peter Lee
Chief Financial Officer
plee@hipinteractive.com

Tel: 905 362 3760 ex.333
Fax: 905 362 2361

September 4, 2003



VIA REGULAR MAIL

Office of International Corporate Finance
Division of Corporate Finance, Mail Stop 3-2
Securities and Exchange Commission
#450 – 5th Street Northwest
Washington D.C. 20549
USA

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THOMSON
FINANCIAL

SUPPL

Dear Sir or Madam:

Re: Hip Interactive Corp. SEC File Number 82-34720

Hip Interactive Corp. (“Hip”), a “Foreign Private Issuer” as that term is defined in the *Securities and Exchange Act (1934)* (the “Act”), is a corporation incorporated under the *Business Corporations Act* (Ontario) and a reporting issuer in Canada in the Provinces of Ontario, Manitoba and Quebec. The common shares of Hip are listed and posted for trading on The Toronto Stock Exchange under the trading symbol “HP”.

Hip has claimed the exemption under Rule 12-g3-2, Reg. 240.12-g3-2 of the Act. Pursuant to Reg. 240.12g3-2(b)(1)(iii), attached please find the documents as listed in Schedule A to this letter.

Please do not hesitate to contact the undersigned should you have any questions regarding this submission.

Yours very truly,

Peter Lee
Chief Financial Officer

Encl.

cc: Kyler Wells, Aird & Berlis LLP, (via email, w/o attachments)

VIDEO GAMES

ACCESSORIES

PC GAMES

ARCADES

MOVIES

Montréal
400 rue Isabey
Ville St-Laurent, QC H4T 1V3
Bus: 514 956 5454
Fax: 514 956 1435

Montréal
614 Place Trans-Canada
Longueuil, QC J4G 1P1
Bus: 514 990 3171
Fax: 450 677 0663

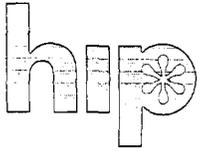
Toronto
240 Superior Boulevard
Mississauga, ON L5T 2L2
Bus: 905 362 3760
Fax: 905 362 1995

Toronto
7275 West Credit Ave., Unit B
Mississauga, ON L5N 5M9
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Fax: 905 363 1107

Stratford
603 Romeo Street South
Stratford, ON N5A 6S5
Bus: 519 272 0234
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Vancouver
4620 Viking Way, Ste.135
Richmond, BC V6V 2L5
Bus: 604 248 0966
Fax: 604 248 0974





SCHEDULE A
List of Attached Documents

	Document (Attached)	Requirement	Timing
1.	TSX Form 1: Change in Outstanding and Reserved Securities regarding August 2003 dated: September 2, 2003	TSX Manual Part VI, Sec. 610.	To be filed with TSX within 10 days after the end of each month in which any change to the number of outstanding or reserved listed securities has occurred.
2.	Confirmation of Mailing of First Quarter Interim report dated: August 27, 2003 date of filing: September 2, 2003	This document serves to confirm that certain materials were sent to shareholders on a certain date.	n/a
3.	Report to shareholder: Interim Financials for First Quarter of Fiscal 2003 date of filing: September 2, 2003	Required to be filed on SEDAR and sent to shareholders pursuant to OSA secs. 77(1) & 79 and OSC Rule 51-501, part 4, 4.1 & 4.3.	To be filed on SEDAR and sent to shareholders concurrently with the filing of interim financial statements (within 60 days of end of 1 st , 2 nd and 3 rd quarters).
4.	Press Release: Publishing Division Named Principal North American Vendor for Strategy First PC Games date of filing: September 2, 2003	Material Information required to be filed on SEDAR pursuant to TSX Manual sec. 408.	To be filed on SEDAR forthwith upon the information becoming known to management, or in the case of information previously known, forthwith upon it becoming apparent that the information is material.

FORM: 1 | Company Name: **HIP INTERACTIVE CORP.** Stock Symbol: **HP**

CHANGE IN OUTSTANDING AND RESERVED SECURITIES

ISSUED AND OUTSTANDING SHARE SUMMARY		# of Shares	Balance
	Issued and Outstanding – Opening Balance*		59,217,844
ADD:	Stock Options Exercised	189,832	
	Share Purchase Plan	n/a	
	Dividend Reinvestment Plan	n/a	
	Exercise Warrants	19,000	
	Private Placement	nil	
	Conversion	nil	
	Other Issuance: from Treasury	nil	
SUBTRACT:	Issuer Bid Purchase	nil	
	Redemption	nil	
	Other Cancellation (provide description)	nil	
	Closing Issued and Outstanding Share Balance*		59,426,676

NOTE: If any of the Company's securities of a listed class are held by the Company itself or by any subsidiary of the Company (which securities are herein referred to as "internally-held securities"), such internally held securities must not be counted as "issued and outstanding."

Internally-held securities may result from the Company not canceling shares acquired pursuant to an issuer bid or as a consequence of a subsidiary of the Company retaining or obtaining shares of the Company through a merger, amalgamation, arrangement or reorganization involving the Company.

RESERVED FOR SHARE COMPENSATION ARRANGEMENTS		
A.	Share Purchase Plans and / or Agreement(s)	# of Shares Balance
	NAME OF PROGRAM: N/A	
	Opening Reserve for Share Purchase Plan / Agreement	
	Additional Shares Listed Pursuant to the Plan (ADD)	
	Shares Issued from Treasury (SUBTRACT)	
	Closing Reserve for Share Purchase Plan	

B.	Dividend Reinvestment Plan (DRIP) — for shareholders	# of Shares Balance
	NAME OF PROGRAM: N/A	
	Opening Reserve for Dividend Reinvestment Plan	
	Additional Shares Listed Pursuant to the Plan (ADD)	
	Shares Issued (SUBTRACT)	
	Closing Reserve for Dividend Reinvestment Plan	

C.

RESERVED FOR SHARE COMPENSATION ARRANGEMENTS				
Stock Option Plan and / or Agreement				
NAME OF PROGRAM: HIP INTERACTIVE STOCK OPTION PLAN				
Stock Options Outstanding — Opening Balance				5,469,752
Options Granted: (ADD)				
Date of Grant	Name of Optionee	Expiry Date	Exercise Price	# of Options Granted
August 8, 2003	Joseph Wright	August 8, 2008	\$1.94	25,000
August 8, 2003	Richard Grogan	August 8, 2008	\$1.94	25,000
August 8, 2003	Thomas Fenton	August 8, 2008	\$1.94	25,000
August 8, 2003	Mark Rider	August 8, 2008	\$1.94	25,000
August 8, 2003	Peter Cooper	August 8, 2008	\$1.94	25,000
August 8, 2003	Christopher Gilbert	August 8, 2008	\$1.94	25,000
August 8, 2003	Joseph Khoury	August 8, 2008	\$1.94	25,000
SUBTOTAL				175,000

Options Exercised: (SUBTRACT)				
Shares issued on exercise must also be subtracted in the table entitled "Shares Reserved" below				
Date of Exercise	Name of Optionee	Date of Grant	Exercise Price	Number
August 6, 2003	Michael Haines	April 19/01	\$0.73	50,000
August 6, 2003	Rubin Osten	Dec. 19/99	\$1.00	50,000
August 14, 2003	Farrell Macdonald	May 1/02	\$0.55	10,000
August 19, 2003	Nikki Davidson	Aug. 13/02	\$0.60	332
August 21, 2003	Steve Rosen	June 11/01	\$1.07	20,000
August 22, 2003	Mike Simon	Nov. 27/00	\$1.27	2,500
August 25, 2003	Peter Lee	Sept. 13/01	\$0.89	5,000
August 26, 2003	Thomas Fenton	Dec. 19/99	\$1.00	25,000
August 26, 2003	Gino Modafferi	Sept. 24/01	\$0.73	2,000
August 27, 2003	Thomas Fenton	Dec. 19/99	\$1.00	25,000
SUBTOTAL				189,832

Share Appreciation Rights or Market Growth Feature ("SAR") in tandem with Stock Options.

Date of Exercise / Canc.	Name of Optionee	Date of Grant	# Options Canc.	# Shares Issued* (based on SAR Value)
SUBTOTAL				nil

*Shares may, or may not be issued however "Shares Reserved" (for Stock Option Plan) may require a deduction in accordance with TSE acceptance of the Plan. Please ensure all applicable changes are noted.

Options Cancelled/Terminated: (SUBTRACT)					
If an option is cancelled prior to its natural expiry date, for reasons other than termination of employment or natural expiry, the entry should be noted with a * and an explanation provided below.					
Date of Canc/Term	Name of Optionee	Date of Grant	Expiry Date	Exercise Price	Number
August 8, 2003	Ron Schenker	Dec. 19/99	Dec. 19/04	\$1.00	7,800
August 8, 2003	Ron Schenker	Dec. 13/01	Dec. 13/06	\$0.79	500
SUBTOTAL					8,300
Stock Option Outstanding — Closing Balance					5,446,620

D.

RESERVED FOR SHARE COMPENSATION ARRANGEMENTS		
Shares Reserved (for Stock Option Plan)		
NAME OF PROGRAM:	# of Shares	Balance
HIP INTERACTIVE STOCK OPTION PLAN		
Opening Share Reserve Balance at beginning of period		6,708,477
Additional shares Listed Pursuant to the Plan (ADD)	0	
Stock Options Exercised (SUBTRACT)	189,832	
Stock Appreciation Rights (SUBTRACT)	0	
Closing Share Reserve Balance at end of period		6,518,645

All information reported in this Form is for the month of August 2003.

Filed on behalf of the Company by: (please enter name and direct phone or email)	
NAME	JENNIFER LEE
PHONE / EMAIL	905-362-3760 ex.277 jlee@hipinteractive.com
DATE	September 2, 2003



August 27, 2003

VIA ELECTRONIC TRANSMISSION

Dear Sir or Madam:

RE: HIP Interactive Corp

We are pleased to confirm that copies of the Interim Financial Statements for the first quarter, 3 months ended June 30, 2003, and the Management Discussion and Analysis for quarter ended June 30, 2003, were mailed to those shareholders on the supplemental mailing list August 26, 2003.

Yours Truly,

EQUITY TRANSFER SERVICES INC.

A handwritten signature in black ink, appearing to read "L. Winchester".

Per: Lori Winchester
 Officer, Client Services

SUITE 420
120 Adelaide Street West
TORONTO, ONTARIO
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info@equitytransfer.com

FOR IMMEDIATE RELEASE

SEPTEMBER 2, 2003

HIP INTERACTIVE CORP.'S PUBLISHING DIVISION NAMED PRINCIPAL NORTH AMERICAN VENDOR FOR STRATEGY FIRST PC GAMES

Hip Interactive Corp. (TSX: HP), Canada's leading provider of electronic entertainment, including video games, PC games, accessories and movies, announced today the signing of an agreement with Strategy First naming Hip's Publishing Division as the principal North American vendor for approximately twenty PC titles over the next thirteen months. Nine titles will be released before Christmas 2003, including the much-anticipated sequel to *Etherlords*, a stand-alone add-on for the popular *Jagged Alliance* series, and a new title in the award-winning *Disciples* series.

Last September, Strategy First was awarded 9th place on the 2002 *Deloitte & Touche Canadian Technology Fast 50 Program*. The list ranks the 50 fastest growing technology companies in Canada. Rankings are based on the percentage of growth in fiscal year revenues from 1997-2001. With offices located in Montreal, Quebec and London, England, Strategy First is currently one of the top five publishers of PC games in North America.

"We are very pleased to be working with Strategy First, as they are a quality provider of the strategy and tactical type games having won several awards for their products," said Arindra Singh, President & Chief Executive Officer of Hip. "As always, we have carefully selected Strategy First as a partner, as we believe they produce the type of quality games that will provide the fastest return on our investment."

"With Hip Interactive's dedication to being a top distributor, I know we have found a perfect partner," said Don McPatridge, President of Strategy First. "Our line-up for 2003-2004 is superb, and with this new partnership we'll be able to work together towards even further success."

About Strategy First

Strategy First Inc. (www.strategyfirst.com) is a leading developer and worldwide publisher of entertainment software for the PC. Founded in 1990, the company has grown rapidly, publishing major games in the industry and simultaneously developing its own in-house titles such as *O.R.B.*, *Disciples II*, and *Nexagon: Deathmatch*. After winning numerous awards for games such as *Disciples: Sacred Lands*, *Europa Universalis*, *Kohan: Immortal Sovereigns* and *Steel Beasts*, Strategy First continues to push the gaming envelope with its own groundbreaking titles, while maintaining its reputation as a unique alternative for independent developers seeking to market their games to a worldwide audience.

About Hip Interactive

Hip Interactive (www.hipinteractive.com) is a leading North American provider of electronic entertainment products, including PC and video games, movies, video arcade games, and proprietary games, branded as *Hip Games™*, and accessories, branded as *Hip Gear™*. The Company distributes all first party products, including Sony, Microsoft and Nintendo hardware, software and accessories, as well as third party licensed video game software. Hip uses its distribution business to leverage into higher margin, higher growth areas of the electronic entertainment industry, such as licensing, publishing and the distribution of proprietary games and accessories. Hip Interactive trades on The Toronto Stock Exchange under the trading symbol "HP" and has 59,426,676 common shares issued and outstanding.

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For more information on Hip Interactive Corp.

Please contact Jennifer Lee at Hip Interactive Corp.

PHONE: (905) 362-3760 ext. 277; FAX: (905) 362-2361; EMAIL: jlee@hipinteractive.com

For more information on Strategy First Inc.

Please contact Kelly Ekins at Strategy First Inc.

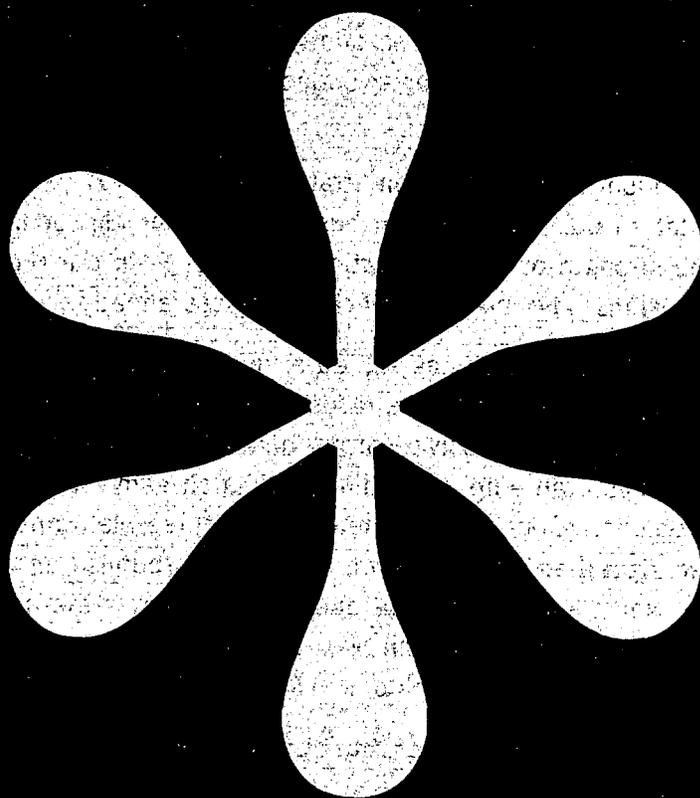
PHONE: (514) 844-3040 ext. 233; FAX (514) 844-4337; EMAIL: kekins@strategyfirst.com

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Get hip to Q1

HIP INTERACTIVE CORP. FIRST QUARTER REPORT 2003





Letter to Shareholders

Dear Fellow Shareholder,

It is my pleasure to report to you on Hip Interactive Corp.'s first quarter results for fiscal 2004. For the three-month period ended June 30, 2003, Hip generated sales of \$80.8 million, an increase of 49% over the same three-month period last year. During the quarter, the Company became the exclusive supplier of third party accessories for Zellers for the next three years. As is common practice in the industry, we agreed to take back inventory of Zellers' former supplier and consequently have recorded a charge to income of approximately \$0.7 million, which we expect to recover within the first 12 months of the contract. After this charge, Hip produced net earnings of \$1.5 million, versus \$1.3 million for the same quarter last year, resulting in earnings per share for the quarter of \$0.03, which on a larger base of shares outstanding, was flat to the same quarter last year. We are pleased with these results, given the fact that the quarter ended June 30 is the weakest quarter of the year for our industry.

As we noted in our annual report, our main strategy over the next year is to focus our efforts and capital on our higher margin businesses, being Hip Gear™ and Hip Games™, on the strength of our distribution business. Both our Hip Gear™ and Hip Games™ divisions have made significant progress already.

Our Hip Games™ Publishing division has signed a number of new publishing and exclusive distribution agreements. We have recently signed an agreement with ARUSH Entertainment to be the exclusive North American distributor for the video game *Playboy: The Mansion*, an empire building simulation game with intriguing social interactions, which is expected to be released on three platforms during the fall of 2004. We also signed an agreement with L.S.P. to co-publish and exclusively distribute 14 titles in North America that are due for release over the next twelve months. It should be noted that all published titles require first party approval, which is normally obtained as each development milestone is reached.

In addition, after only nine months of distributing Riverdeep titles, branded as Broderbund and The Learning Company, Hip Games™ has extended that agreement to five years. We currently have over 70 active Broderbund SKUs and 80 active TLC SKUs. Finally, Hip Games™ signed a five-year exclusive licensing agreement to publish the PC version of Namco's successful *Dead to Rights™* game, which sold over 1 million units in its console versions. The PC version is expected to launch in the fall of this year.

Our Hip Gear™ division has also made a lot of progress adding several new retailers in the U.S., such as Blockbuster, and in Canada, being named the exclusive supplier of third party accessories for Zellers.

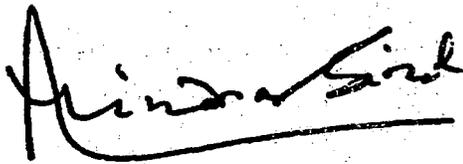
Over the past year we have increased our operations and investment in the higher margin Publishing and Hip Gear™ Divisions. Specifically in the Publishing Division, up-front payments for future inventory or royalties are standard practice in the industry. While these payments increase the risk exposure for Hip, they also increase our reward with higher margins. We minimize our risk exposure by carefully considering each publishing and licensing deal and entering only those where there is a low break-even point and therefore reasonable assurance that we will recover our investment and make a reasonable return relative to the risk undertaken.

Currently, we have very limited visibility for this fiscal year because approximately 65% of our sales are done in the last six months of our fiscal year. We also note some softness in the market, but in spite of that and because of the diversity of our operations, we expect to deliver double-digit growth in net earnings for fiscal 2004.

As always, our goals are to create value for our customers, suppliers and shareholders. We strive every day to provide excellence in service and value for all our business partners and continue to view our relationships with them as foremost in our ability to meet the expectations of our shareholders.

All of us at Hip thank all of you for your continued support in these efforts.

On behalf of the Board,

A handwritten signature in black ink, appearing to read "Arindra Singh", with a long horizontal flourish underneath.

Arindra Singh, President & Chief Executive Officer
Hip Interactive Corp.

August 11, 2003

Management's Discussion & Analysis

This Management Discussion and Analysis ("MD&A") for the three months ended June 30, 2003 compared with the three months ended June 30, 2002 provides readers with an overview of the Company's operations and a more detailed explanation of its financial statements. The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and the notes thereto of the Company for the years ended March 31, 2003 and March 31, 2002. The objective is to present readers with a view of the Company through the eyes of management by interpreting the material trends and uncertainties that affected the operating results, liquidity and financial position of the Company in the last fiscal year, or those that may affect future results. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. All monetary amounts, unless otherwise indicated, are expressed in Canadian dollars.

The discussion and analysis and other sections of this report contain forward-looking statements. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause results to differ materially from those contemplated by these forward-looking statements. The Company considers the assumptions on which these forward-looking statements are based to be reasonable at the time the statements were prepared, but cautions the reader that they could cause actual results to differ materially from those anticipated. As the Company continues to grow its operations in the higher margin Publishing and Hip Gear™ Divisions, it is increasing its investment in working capital related to these two businesses, especially in the Publishing Division, where up-front cash payments for future inventory or future royalty payments are commonplace in the industry. Although the Company mitigates this risk by only entering into contracts where management believes that there is reasonable assurance that the amounts will be recovered with the initial shipment of product to retailers, this business does have a higher risk and reward profile than the Company's distribution business. Other risks and uncertainties are discussed in detail in the Company's Annual Report to shareholders for the year ended March 31, 2003.

OVERVIEW

Hip Interactive Corp. ("Hip" or the "Company") is one of North America's leading providers of electronic entertainment products. The Company sells video game and PC game products and movies to retailers across North America and is comprised of the following seven business units: (1) Video Games (hardware, software and first party accessories), (2) PC Games (software and logistics services), (3) Movies (VHS and DVD movies), (4) Publishing (software), (5) Hip Gear™ (accessories), (6) Logistics Services (included with PC Games heretofore), and (7) Hip Coin (operator and distributor of coin operated games).

Consistent with Hip's strategy over the last couple of years, the Company remains committed to meeting and exceeding the expectations of its customers, suppliers

and shareholders with the following strategies: (1) to grow its higher margin businesses, Hip Gear™ accessories and Publishing and (2) to grow its Movies business in the Toronto and Vancouver markets.

Financial Overview

Highlights of the consolidated results for the three months ended June 30, 2003 compared to the three months ended June 30, 2002 were:

- Sales increased by \$26.7 million or 49.4%, compared to last year
- Net earnings were \$1.5 million or \$0.03 per basic and diluted share compared to earnings of \$1.3 million or \$0.03 per basic and diluted share last year

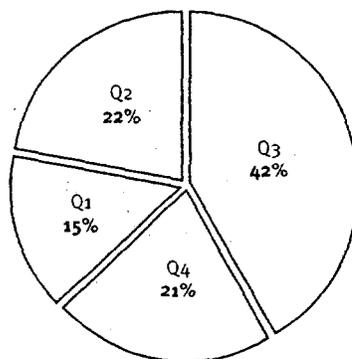
The results of operations for the three months ended June 30, 2003 are summarized as follows:

3 months ended June 30 (in \$ millions)	2003		2002	
Sales	\$	80.8	\$	54.1
Gross profit	\$	9.2	\$	7.5
Selling, general and administrative expenses		6.3		4.7
Interest expense		0.2		0.3
Amortization of property and equipment		0.4		0.4
Income taxes		0.8		0.8
Net earnings for the year	\$	1.5	\$	1.3
Net earnings per share				
Basic	\$	0.03	\$	0.03
Diluted	\$	0.03	\$	0.03

Seasonality

The Company's business consists mainly of the sales of electronic entertainment products to retailers. Retail activity in the electronic entertainment industry is traditionally at its highest levels during Hip's third fiscal quarter (the three month period from October 1 to December 31 – the retail holiday season). The seasonality of the Company's business is summarized in the chart below.

FISCAL 2003
SALES DISTRIBUTION
BY QUARTER



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RESULTS OF OPERATIONS

Sales for the three months ended June 30, 2003 were \$80.8 million compared to \$54.1 million for the same period last year, an increase of \$26.7 million or 49.4%. The breakdown of sales by product category is set out below:

3 months ended June 30 (Sales in \$ millions)	2003	2002
Video Games	\$ 44.9	\$ 31.9
PC Games	8.2	12.7
Movies	16.5	3.0
Publishing	6.1	2.7
Hip Gear	3.5	1.8
Hip Coin	1.6	2.0
Total	\$ 80.8	\$ 54.1

Gross margin for the first quarter of fiscal 2004 was 11.3% compared to 13.8% for the same quarter last year. The details of gross margin by product line are set out below:

3 months ended June 30 (% of sales)	2003	2002
Video Games	8.2%	10.3%
PC Games	14.2	16.4
Movies	8.1	8.0
Publishing	29.9	18.9
Hip Gear	17.2	31.4
Hip Coin	35.9	38.0
	11.3%	13.8%

Video Games

Sales

Video Games hardware and software sales for the quarter increased by \$13.0 million or 40.8% compared to the same three months last year. This increase was due primarily to increased sales of video game hardware. Over 133,000 hardware units were sold during the three months ended June 30, 2003 compared to approximately 46,000 units for the same period last year. Offsetting this increase was a decline in sales of value game software (software on-hand marked down by suppliers or purchased opportunistically at reduced prices) due to a lack of availability of value product this year compared to last year.

Video Games sales for the three months ended June 30, 2003 compared to the same quarter last year are shown below:

3 months ended June 30 (Sales in \$ millions)	2003	2002
Frontline software	\$ 17.9	\$ 17.8
Valueware	2.0	4.8
Hardware	24.0	7.1
1st Party accessories	1.0	2.1
Video Game Sales	\$ 44.9	\$ 31.8

Gross margin

Video Games margins for the quarter ended June 30, 2003 were 8.2%, compared to 10.3% last year. The decrease in gross margins was primarily due to an increase in the sales mix of lower margin video game hardware. Hardware sales accounted for 53.5% of Video Games sales for the quarter ended June 30, 2003 compared to 22.3% of sales last year.

PC Games

Sales

PC Games sales for the first quarter of fiscal 2004 decreased \$4.5 million or 35.4%, as fewer PC game titles were released compared to the same period last year, and fewer value priced titles were available in the marketplace. In addition, during the first fiscal quarter of fiscal 2003, approximately \$2.0 million of Riverdeep products, branded as The Learning Company and Broderbund, were sold through the Company's PC Games business unit. The Company signed a licensed publishing agreement with Riverdeep in July 2002. Consequently, subsequent to June 2002, sales of Riverdeep products are included in the Company's Publishing Division's results.

Gross margin

PC Games margins for the quarter were 14.2% compared to 16.5% for the same period last year. This decline was primarily due to: (1) during the three months ended June 30, 2003, there was a higher mix of lower margin sales to national accounts, and (2) lower sales of higher margin valueware titles this year compared to last year as valueware titles were not as readily available.

Movies

Sales

Sales for the Movies business increased by \$13.5 million to \$16.5 million for the first quarter of fiscal 2004, principally as a result of the acquisition of Tévíca Inc. on August 30, 2002 and increased sales in the Toronto and Vancouver branch offices.

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Gross margin

Gross margin for the Movies business was 8.1% for the quarter ended June 30, 2003 compared to 8.0% for the same quarter last year.

Publishing

Sales

Compared to the first quarter of fiscal 2003, Publishing sales for the quarter increased by \$3.4 million to \$6.1 million for the first three months of fiscal 2004, as the Company continued to focus on this strategic business.

The results for the first fiscal quarter are summarized as follows:

3 months ended June 30 (in \$ millions)	2003	2002
Sales		
Exclusive Distribution	\$ 3.7	\$ 2.7
Licensed Publishing	2.4	-
	\$ 6.1	\$ 2.7

Gross margin

Publishing margins for the first quarter this year increased to 29.9% from 18.4% for the same period last year. Margins were positively impacted by the Company's licensed publishing arrangement signed in July 2002, with Riverdeep plc for products branded as The Learning Company and Broderbund. Margins for these products, sold under an exclusive arrangement in Canada, are significantly higher than the margins for the Company's other product lines.

Gross margins for the exclusive distribution and licensed publishing businesses are shown below:

3 months ended June 30 (% of sales)	2003	2002
Exclusive Distribution	18.7%	18.4%
Licensed Publishing	47.8	-
	29.9%	18.4%

Hip Gear™

Sales

Hip Gear™ sales include sales of proprietary Hip Gear™ accessories and bundled game software. Sales for the first quarter of fiscal 2004 compared to the same period for fiscal 2003 are summarized as follows:

3 months ended June 30 (Sales in \$ millions)	2003	2002
Hip Gear accessories	\$ 2.4	\$ 0.8
Bundled software	1.1	1.0
	\$ 3.5	\$ 1.8

Sales of Hip Gear™ accessories increased by \$1.6 million, or 200%, for the first quarter of fiscal 2004 to \$2.4 million, compared to \$0.8 million in sales for the same period last year. During the quarter, the Company became the exclusive supplier of third party accessories for Zellers and placed a number of SKUs at Blockbuster stores in the United States, as the Company continued its focus on growing this higher margin business.

Gross margin

Hip Gear™ margins for the three months ended June 30, 2003 were 17.2% compared to 31.4% for the same three months last year. The decline was due to: (1) during the three months ended June 30, 2003, the Company sold approximately \$1.1 million of a special accessory/game bundle for a publisher at a 15% margin, and (2) during the same period last year, the Company sold approximately \$0.6 million of product in a special bundling program to a national retailer at a 47% margin and \$0.4 million of closeout merchandise at a 35% margin. Margins for core product Hip Gear™ accessories are generally in the 20% to 25% range after marketing and development program rebates.

Hip Coin

Sales

Hip Coin sales decreased by \$0.4 million to \$1.6 million for the first three months in fiscal 2004 compared to \$2.0 million for the same period last year, which was largely a result of decreased distribution sales of video arcade game equipment and a decline in revenue for the Company's arcade route operations, resulting from decreased traffic at the tourist venues where the Company's equipment is placed.

Gross margin

Hip Coin margins are consistent with those achieved in the prior year. Margins for the Company's arcade coin route operations business tend to be approximately 50%, compared to 10-15% for distribution sales of this business unit.

Operating Expenses

For the three months ended June 30, 2003, operating expenses were \$6.3 million or 7.7% of sales compared to \$4.7 million or 8.7% of sales for the same period in fiscal 2003. The increase was primarily due to:

- 1) during the three months ended June 30, 2003, the Company became the exclusive supplier of third party accessories for Zellers for the next three years. In accordance with the agreement, and as is the common practice in the industry, the Company took back inventory which was supplied by Zellers' former supplier, to free up shelf space for the sell-in of the Hip Gear™ accessory product line. As a result, during the quarter, the Company charged to selling, general and administrative expense \$0.7 million relating to the cost of obtaining the Zellers business;

- 2) increased expenses of approximately \$0.2 million relating to the Company's U.S. sales force hired during the past fiscal year to build the Hip Gear™ accessory and Publishing businesses in the U.S. market; and
- 3) expenses in the Movies business unit have increased by approximately \$0.8 million, due to the acquisition of Tévica in August 2002, and the expansion of branch offices in Vancouver and Toronto.

Interest Expense and Amortization of Capital Assets

Interest expense was \$0.2 million for the first quarter of fiscal 2004 compared to \$0.3 million for the same quarter last year. Average borrowings for the three months ending June 30, 2003 were approximately \$6.5 million compared to \$9.5 million for the first quarter last year. The average borrowing rate for the first quarter of fiscal 2004 was approximately 4.75%, flat to the average rate for the same period last fiscal year.

Amortization of capital assets was \$0.4 million for the three months ended June 30, 2003, which represented no change compared to the same quarter last year.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash on hand of approximately \$5.3 million as at June 30, 2003, compared to \$3.3 million as of March 31, 2003. During the quarter ended June 30, 2003, the Company generated \$2.6 million in cash from operations, compared to \$7.5 million used in operating activities for the same quarter last year. The Company used cash to purchase capital assets of \$1.2 million, including ERP implementation costs for the Movies business, new hardware servers to improve the efficiency of the ERP system and an automated picking system for the Toronto warehouse.

Balance Sheet

As at June 30, 2003, the Company had assets of \$110.0 million compared to \$110.4 million as at March 31, 2003. Shareholders' equity was \$48.9 million at June 30, 2003 compared to \$46.5 million as at March 31, 2003.

The accounts receivable balance as at June 30, 2003 was \$34.6 million (44 days outstanding) compared to \$41.6 million (46 days outstanding) as at March 31, 2003. At June 30, 2003, approximately 87% (March 31, 2003 – 89%) of the Company's customer balances were aged less than 60 days from the invoice date.

As at June 30, 2003, total inventory was \$28.2 million (with inventory turning at 11.4 times) compared to \$27.9 million as at March 31, 2003 (turning 11.5 times). On a monthly basis, management reviews all inventory, focusing on inventory on-hand and in-the-field that is over six months old. As at June 30, 2003, the Company had provided \$1.9 million for slow moving inventory on-hand and in-the-field. Although the Company has no legal obligation generally to accept returns of product from

it does approve some returns or offer markdown credits to customers from time-to-time to ensure that retail inventory continues to be current.

Prepaid expenses and other assets at June 30, 2003 were \$8.4 million compared to \$4.9 million as at March 31, 2003. During the quarter, the Company extended its licensed publishing agreement with Riverdeep for an additional two years to September 30, 2007 and paid an additional \$2.5 million of prepaid royalties. In addition, the Company entered into other publishing agreements whereby it has been required to pay \$1.2 million representing prepayments for future purchases of software titles.

As the Company continues to grow its higher margin businesses in the Publishing and Hip Gear™ Divisions, it is increasing its investment in working capital related to these two businesses, especially in the Publishing division, where up-front cash payments for future inventory or future royalty payments are commonplace in the industry.

Prepayments and commitments for exclusive distribution, co-publishing and licensed publishing agreements are summarized as follows:

in \$ millions	Prepayments as of		Commitments as of	
	June 30, 2003	March 31, 2003	June 30, 2003	March 31, 2003
Exclusive Distribution	\$ 1.3	\$ 0.8	\$ 5.0	\$ -
Co-Publishing and Licensed Publishing	6.2	3.1	3.0	5.3
	7.5	3.9	8.0	5.3
Less: Current portion included in Prepaid expenses and other assets	3.3	1.6	-	-
Other assets	\$ 4.2	\$ 2.3	\$ 8.0	\$ 5.3

Accounts payable as at June 30, 2003 was \$58.6 million (68 days outstanding) compared to \$59.9 million (68 days outstanding) as at March 31, 2003. At June 30, 2003, approximately 74% (March 31, 2003 - 75%) of supplier balances were aged less than 60 days from invoice date.

Consolidated Balance Sheet

in \$ thousands (unaudited)	June 30, 2003	March 31, 2003
ASSETS		
Current assets		
Cash	\$ 5,321	\$ 3,300
Accounts receivable	34,578	41,614
Inventory	28,226	27,936
Prepays and other assets	4,200	2,560
Future income taxes	691	680
Current portion of notes receivable	362	362
	<u>73,378</u>	<u>76,452</u>
Other assets	4,200	2,300
Notes receivable	615	615
Property and equipment	8,661	7,884
Future income taxes	434	430
Goodwill	22,685	22,685
	<u>\$ 109,973</u>	<u>\$ 110,366</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 58,630	\$ 59,887
Income taxes payable	1,145	2,379
Current portion of capital lease obligations	921	1,017
Current liabilities of discontinued operations	80	101
	<u>60,776</u>	<u>63,384</u>
Capital lease obligations	-	202
Future income taxes	326	280
	<u>61,102</u>	<u>63,866</u>
SHAREHOLDERS' EQUITY		
Capital stock	44,695	39,508
Other equity	1,753	6,031
Contributed surplus	3,362	3,362
Deficit	(939)	(2,401)
	<u>48,871</u>	<u>46,500</u>
	<u>\$ 109,973</u>	<u>\$ 110,366</u>

Consolidated Statement of Operations

3 months ended June 30

in \$ thousands (unaudited)	2003	2002
Sales	\$ 80,782	\$ 54,077
Cost of sales	71,623	46,615
Gross profit	9,159	7,462
Expenses		
Selling, general and administrative expenses	6,260	4,696
Interest expense	214	263
Amortization of property and equipment	449	410
Earnings before income taxes	2,236	2,093
Income tax provision	774	837
Net earnings for the period	\$ 1,462	\$ 1,256

Earnings Per Share

Weighted average number of common shares		
Basic	53,077	50,010
Diluted	58,495	50,010
Earnings per share		
Basic	\$ 0.03	\$ 0.03
Diluted	\$ 0.03	\$ 0.03

Consolidated Statement of Deficit

3 months ended June 30

in \$ thousands (unaudited)	2003	2002
Deficit - beginning of period	\$ 2,401	\$ 13,418
Net earnings for the period	(1,462)	(1,256)
Deficit - end of period	\$ 939	\$ 12,162

Consolidated Statement of Cash Flows

3 months ended June 30

in \$ thousands (unaudited)	2003	2002
CASH PROVIDED BY (USED IN)		
Operating activities		
Net earnings for the period	\$ 1,462	\$ 1,256
Items not affecting cash:		
Amortization of property and equipment	449	410
Future income taxes	31	821
	<u>1,942</u>	<u>2,487</u>
Changes in non-cash working capital balances:		
Accounts receivable	7,035	(2,860)
Inventory	(290)	2,925
Prepaid expenses and other assets	(3,540)	(742)
Accounts payable and accrued liabilities	(1,254)	(8,845)
Income taxes payable	(1,234)	59
Operating activities of discontinued operations	(21)	(562)
	<u>696</u>	<u>(10,025)</u>
	<u>2,638</u>	<u>(7,538)</u>
Financing activities		
Capital lease obligations	(298)	(420)
Common shares for cash, net of share issuance costs	909	-
Increase in bank indebtedness	-	8,015
	<u>611</u>	<u>7,595</u>
Investing activities		
Purchase of capital assets	(1,228)	(694)
	<u>(1,228)</u>	<u>(694)</u>
Increase (decrease) in cash	2,021	(637)
Cash - Beginning of period	3,300	637
Cash - End of period	\$ 5,321	\$ -

Notes to Consolidated Financial Statements

For the 3 months ended June 30, 2003 – in \$ thousands (unaudited)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The notes presented in these interim consolidated financial statements include only significant events and transactions and are not fully inclusive of all matters normally disclosed in Hip Interactive Corp.'s (the "Company") annual audited financial statements. As a result, these interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended March 31, 2003. These interim consolidated financial statements follow the same accounting policies, other than as set out in Note 2 to these interim consolidated financial statements, and methods of this application as set out in the Company's consolidated financial statements for the year ended March 31, 2003. Business is typically weaker in the first two quarters of the Company's fiscal year. Consequently, due to the seasonality of the business, the results of operations for the three months ended June 30, 2003 are not necessarily indicative of annual results. Certain comparative figures have been reclassified to conform to the current presentation.

NOTE 2: DEFERRED SHARE UNIT PLAN

Certain employees and directors receive a portion of their compensation as deferred share units ("DSUs") under the Company's Deferred Share Unit Plan, approved by the Board of Directors on June 10, 2003. These units entitle the holder to a cash payment at the end of their employment with the Company based on the market price of the shares at the time that the DSUs are granted as adjusted for the change in market value of the Company's shares to the time that they are converted to cash and paid to the employee at the end of their employment. The DSUs vest over a three-year period and any units that have not vested at the end of the employee's employment are forfeited and cancelled. Deferred share units are charged to selling, general and administrative expense as they vest. On June 10, 2003, 298,000 DSUs were granted.

NOTE 3: SHARE-BASED COMPENSATION

As required, for options granted after April 1, 2002, disclosure of the impact on earnings and earnings per share, as if the fair value based method of accounting for the share-based compensation had been applied, is shown in the chart below. Such impact, using a weighted average fair value of \$0.62 per option for the 50,000 options granted for the three months ended June 30, 2003, would approximate the following pro forma amounts:

3 months ended June 30

in \$ thousands except per share amounts (unaudited)	2003	2002
Net earnings for the period as reported	\$ 1,462	\$ 1,256
Pro forma current period compensation cost – net of tax	169	48
Pro forma net earnings for the period	\$ 1,293	\$ 1,208
Basic earnings per share as reported	\$ 0.03	\$ 0.03
Pro forma basic earnings per share	\$ 0.02	\$ 0.02
Diluted earnings per share as reported	\$ 0.03	\$ 0.03
Pro forma diluted earnings per share	\$ 0.02	\$ 0.02

The significant assumptions made in the calculation of the weighted average fair value of the options are as follows:

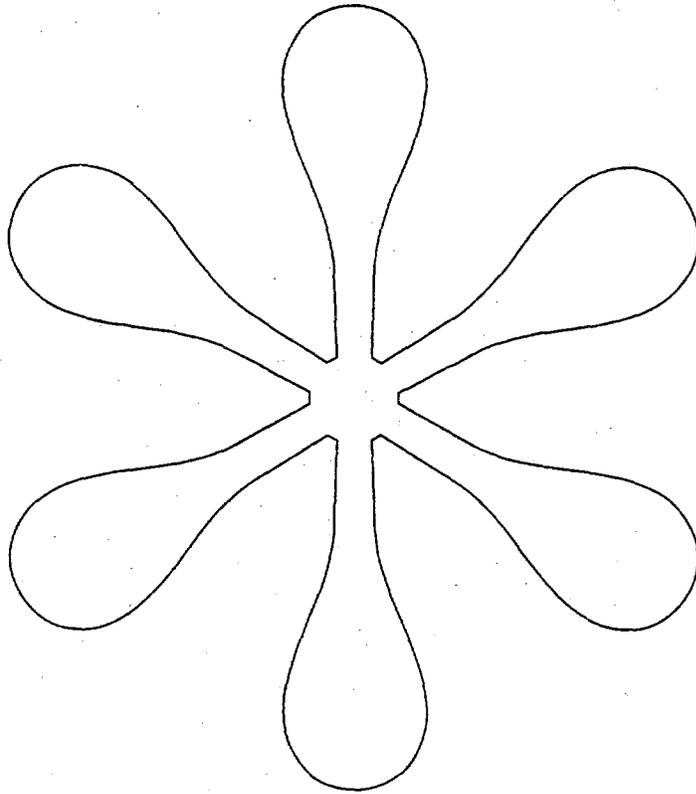
Risk-free interest rate	2.8%
Expected life	2 years
Expected volatility	72%
Expected dividend yield	0

NOTE 4: CAPITAL STOCK

in \$ thousands except per share amounts (unaudited)	Number of common shares	
Balance as at March 31, 2003	51,565,816	\$ 39,508
Issued on conversion of series A preference shares	4,152,929	4,278
Warrants exercised	422,473	378
Options exercised	617,500	531
	56,758,718	\$ 44,695

NOTE 5: COMMITMENTS

- (a) During the quarter, the Company advanced \$40 to Putting Edge, a company owned 50% by a director of Hip. The Company has a commitment to advance an additional \$480 to Putting Edge.
- (b) On July 2, 2003 the Company signed an exclusive distribution agreement for a video game expected to be released during the third quarter of fiscal 2005. In accordance with the agreement the Company has committed to advance a total of US\$3,200 over the next 18 months. The Company has committed to advance an additional \$3,600 (March 31, 2003 – \$5,250) under other publishing agreements.



Business Segment Operating Results

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NOTE 6: SEGMENTED INFORMATION

The Company operates in six business segments being: Video Games, PC Games, Movies, Publishing, Hip Gear™ and Hip Coin. In fiscal 2003, the Company changed its reportable operating segments and, accordingly, the comparative balances have been restated to conform to the new operating segments. Operating results for these business segments are as follows:

in \$ millions	3 months ended June 30, 2003							
	Video Games	PC Games	Movies	Publishing	Hip Gear	Hip Coin	Other	Total
Sales	44,948	8,152	16,502	6,052	3,546	1,582	-	80,782
Gross profit	3,680	1,155	1,337	1,810	609	568	-	9,159
Selling, general & administrative expenses	2,026	769	1,066	280	1,098	583	438	6,260
Interest expense	-	-	-	-	-	-	214	214
Amortization of property & equipment	130	35	17	-	-	240	27	449
Earnings before income taxes	1,524	351	254	1,530	(489)	(255)	(679)	2,236
Income taxes	-	-	-	-	-	-	774	774
Net earnings for the period	1,524	351	254	1,530	(489)	(255)	(1,453)	1,462
Assets	46,553	12,615	16,603	7,533	4,307	9,931	12,431	109,973
Capital expenditures	844	14	28	-	-	342	-	1,228
Goodwill	17,437	1,279	589	-	-	3,380	-	22,685

Major Suppliers

Approximately 38% (2002 - 18%) of the Company's purchases for the three-month period ended June 30, 2003, relate to products manufactured and published by one company.

3 months ended June 30, 2002

Video Games	PC Games	Movies	Publishing	Hip Gear	Hip Coin	Other	Total
31,842	12,640	3,022	2,719	1,819	2,035	-	54,077
3,293	2,070	241	513	572	773	-	7,462
1,904	817	260	102	166	615	832	4,696
-	-	-	-	-	-	263	263
146	30	-	-	-	207	27	410
1,243	1,223	(19)	411	406	(49)	(1,122)	2,093
-	-	-	-	-	-	837	837
1,243	1,223	(19)	411	406	(49)	(1,959)	1,256
38,121	15,087	1,210	-	1,523	8,050	9,914	73,905
39	-	-	-	-	656	-	695
13,159	1,279	-	-	-	3,380	-	17,818

Corporate Information

Directors and Officers

Joseph H. Wright, *Chairman, Director*

Peter J. Cooper, *Director*

Thomas A. Fenton, *Director*

Christopher Gilbert, *Director*

Richard B. Grogan, *Director*

Mark Rider, *Director*

Arindra Singh, *Director,
President & Chief Executive Officer*

Peter Lee, *Chief Financial Officer*

Michael Vasmani,
Chief Information Officer

Oliver Bock, *Vice-President*

Gabrielle Chevalier, *Vice-President*

Ronald Grimard, *Vice-President*

Jack Lamba, *Vice-President*

Stan Samole, *Vice-President*

Sanjay Singh, *Vice-President*

Peter Young, *Vice-President*

Legal Counsel

Aird & Berlis LLP

Auditors

PricewaterhouseCoopers LLP

Transfer Agent

Equity Transfer Services Inc.

Stock Exchange Listing

The Toronto Stock Exchange (TSX)

Stock Symbol: HP

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