



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF THE SECURITIES ACT
R.S.O. 1990, c.S.5, AS AMENDED**

- and -

**IN THE MATTER OF
PETER GEORGE LEE**

**STATEMENT OF ALLEGATIONS OF
STAFF OF THE ONTARIO SECURITIES COMMISSION**

Staff of the Ontario Securities Commission (“Staff”) make the following allegations:

I. The Respondent

1. Peter George Lee (“Lee”), a Chartered Accountant since 1985, was the Chief Financial Officer (“CFO”) of HIP Interactive Corporation (“HIP”) from September 2001 until May 2005. HIP was a reporting issuer from December 1999 until July 2005, when an interim receiver was appointed over its assets and affairs.

II. The Accounting Irregularity and Concealment by Lee

2. In July 2004, Lee became aware that an accounting software program error had resulted in an overstated inventory balance in HIP’s General Ledger (“G/L”) of approximately \$1.3 million. This entry became known to those aware of it as “Virtual Inventory”.

3. Lee did not instruct anyone to correct the G/L balance as at June 30, 2004. Lee was aware that the financial statements prepared for the first quarter, ending June 30, 2004, reflected the \$1.3 million overstatement in inventory.
4. During July 2004, the program error resulted in an additional accumulation of \$700,000 of Virtual Inventory. The Virtual Inventory stated on HIP's G/L was now approximately \$2 million. At Lee's instructions, the additional \$700,000 of Virtual Inventory was written-off in July 2004.
5. At no time did Lee advise HIP's CEO and President, the Board of Directors, the Audit Committee or the auditors of the remaining \$1.3 million overstatement in inventory, despite receiving questions from the Board of Directors with respect to the increasing inventory balance. In the course of conducting the audit of HIP's financial statements, HIP's auditors had set materiality for the relevant time at \$125,000.
6. By September 30, 2004, the end of the second quarter, the G/L balance was still incorrect as a result of the continuing inventory overstatement of \$1.3 million. Lee was aware that the financial statements for the quarter-ended September 30, 2004 reflected the inventory overstatement.
7. Acting on Lee's instructions, a HIP IT specialist wrote off the accumulated \$1.3 million in Virtual Inventory in each of the months from October to December 2004.
8. By writing off the inventory in October, November and December Lee hoped to conceal the inventory overstatement over three quarters.

i. The False Certificate of Interim Filings During Transition Period - Q1

9. Although Lee knew that inventory was overstated by \$1.3 million at the end of Q1 (June 30, 2004), he approved the first quarter financial statements and signed the Certificate of Interim Filings, dated August 2004 and filed with the Commission, wherein he certified that ". . . the interim filings do not contain any untrue statement of a material fact . . ." and that ". . . the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer . . .".
10. Lee knew that these statements were untrue as a result of the \$1.3 million inventory error. Lee, therefore, made a statement in the Certificates of Interim Filing which he knew to be false and allowed the false interim financial statements to be filed with the Commission.

ii. The False Certificate of Interim Filings During Transition Period - Q2

11. Lee approved the second quarter financial statements (September 30, 2004) and signed the Certificate of Interim Filings, dated November 15, 2004 and filed with the Commission, wherein he again certified that ". . . the interim filings do not contain any untrue statement of a material fact. . ." and that ". . . the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer. . .".

12. Lee knew that these statements were untrue as a result of the \$1.3 million inventory error. Lee, therefore, made a statement in the Certificates of Interim Filing which he knew to be false and allowed the false interim financial statements to be filed with the Commission.

iii. The Management Representation Letter to HIP's Auditors

13. For the quarter ended September 30, 2004 Lee signed the Management Representation letter to HIP's auditors. In this letter, Lee represented that the interim financial statements were fairly stated knowing that they were not because of the inventory overstatement.
14. Lee also made a series of further representations which, given the issue with respect to the \$1.3 million inventory error, were untrue, including the representation that "...there are no significant and unusual transactions that have occurred..." and "...there are no significant deficiencies, including material weaknesses, in the design or operation of internal controls which could adversely affect the company's ability to record, process, summarize and report financial data."

III. Lee's Breach of Section 122(1)(b) and Conduct Contrary to the Public Interest

15. By engaging in the conduct described above, Lee has breached Ontario securities law by contravening s. 122(1)(b) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended, and has acted contrary to the public interest.

16. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

Dated this 2nd day of July 2008