



FINANCIAL STATEMENTS

Three Months Ended June 30 2004

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SEREBRA LEARNING CORPORATION

Schedule A

Consolidated Balance Sheets (Unaudited)

As at June 30, 2004, with comparatives as at March 31, 2004.

	June 30, 2004	March 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 130,895	\$ 299,988
Short-term investments	427,869	530,516
Accounts receivable	140,354	144,485
Deferred royalties	80,656	72,752
Prepaid expenses	54,650	39,894
	<u>834,424</u>	<u>1,087,635</u>
Property and equipment (note 6)	101,223	115,219
Other assets (note 7)	3,384	5,414
	<u>\$ 939,031</u>	<u>\$ 1,208,268</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 647,380	\$ 681,962
Deferred revenue	474,950	450,405
Current portion of obligations under capital leases	13,629	19,073
	<u>1,135,959</u>	<u>1,151,440</u>
Obligations under capital leases	13,617	15,274
Deferred revenue	-	11,713
Shareholders' deficiency		
Share capital	8,205,749	8,142,549
Contributed surplus	146,494	136,436
Deficit	<u>(8,562,788)</u>	<u>(8,249,144)</u>
	<u>(210,545)</u>	<u>29,841</u>
	<u>\$ 939,031</u>	<u>\$ 1,208,268</u>

The interim financial statements should be read in conjunction with the March 31, 2004 consolidated financial statements.

SEREBRA LEARNING CORPORATION

Schedule A

Consolidated Statements of Operations and Deficit (Unaudited)

For the three months ended June 30, 2004 and 2003

	2004	2003
Revenue	\$ 318,539	\$ 729,910
Direct cost of revenue	124,814	238,199
	<u>193,725</u>	<u>491,711</u>
Selling and marketing costs:		
Salaries, wages and commissions	95,816	111,279
Selling expenses	13,374	7,027
	<u>109,190</u>	<u>118,306</u>
Research and development:		
Salaries and wages	128,342	130,148
Direct costs	40,656	19,784
	<u>168,998</u>	<u>149,932</u>
General administrative and other expenses:		
Salaries and wages	92,072	171,381
Office and other	118,514	97,278
Amortization	18,595	103,800
	<u>229,181</u>	<u>372,459</u>
Net earnings (loss)	(313,644)	(148,986)
Deficit, beginning of period	(8,112,708)	(7,578,757)
Stock-based compensation expense (Note 4)	(136,436)	-
Deficit, end of period	<u>\$ (8,562,788)</u>	<u>\$ (7,727,743)</u>
Loss per share (basic) (Note 3)	<u>\$ -</u>	<u>\$ (0.006)</u>

The interim financial statements should be read in conjunction with the March 31, 2004 consolidated financial statements.

SEREBRA LEARNING CORPORATION
Consolidated Statements of Cash Flows (Unaudited)
For the three months ended June 30, 2004 and 2003

Schedule A

	2004	2003
Cash provided by (used in):		
Operations:		
Loss for the period	\$ (313,644)	\$ (148,986)
Items not affecting cash:		
Amortization	18,595	103,800
Stock-based compensation expense (Note 4)	10,058	-
Changes in non-cash working capital relating to operations:		
Accounts receivable	4,131	85,543
Prepaid expenses	(14,756)	(2,383)
Deferred royalties	(7,904)	20,339
Accounts payable and accrued liabilities	(34,582)	(111,662)
Deferred revenue	12,832	(48,626)
	(325,270)	(101,975)
Financing:		
Repayment of obligations under capital leases	(7,101)	(4,971)
Issue of common shares, net of issuance costs	63,200	272,444
	56,099	267,473
Investments:		
Acquisition of other assets	-	-
Purchase of property and equipment	(2,569)	(1,593)
Short-term investments	102,647	-
	100,078	(1,593)
Increase (decrease) in cash during the period	(169,093)	163,905
Cash and cash equivalents, beginning of period	299,988	66,368
Cash and cash equivalents, end of period	\$ 130,895	\$ 230,273

The interim financial statements should be read in conjunction with the March 31, 2004 consolidated financial statements.

1. Consolidated financial statement presentation:

These interim unaudited condensed and consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 51-905F. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. However, the Company believes that the disclosures are adequate to ensure that the information presented is not misleading. The accompanying interim financial statements should be read in conjunction with the March 31, 2004 annual audited consolidated financial statements and related notes. In the opinion of the management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position, results of operations and cash flows at the dates and for the periods presented have been included. The results of operations for the periods presented are not necessarily indicative of the results expected for the full financial year or for any future period.

2. Nature of business and going concern:

The Company is a full-service supplier in the e-learning sector to resellers and affiliates operating globally. These consolidated financial statements have been prepared on the going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of operations. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future.

The Company has incurred recurring losses from operations, used cash flows in operating activities and has a deficit of \$8,562,788 at June 30, 2004. In addition, the Company has a working capital deficiency at June 30, 2004 of \$301,535 and a shareholders' deficiency of \$210,545.

Management is continuing efforts to attract additional equity investors and implement cost control measures to maintain adequate levels of working capital. There can be no assurance provided with respect to the successful outcome to these actions. If the Company is unable to obtain additional financing on reasonable terms, the Company may be required to curtail or reduce operations to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. Significant accounting policy:

These interim financial statements follow the same accounting principles and methods of their applications as the annual financial statements of the Company except as described below and in note 4.

The Company has a stock-based compensation plan for executives and other key employees. The Company recognizes stock-based compensation expense in accordance with Canadian Institute of Chartered Accountants' Handbook Section 3870, "Stock-Based Compensation and Other Stock Based Payments". When stock or stock options are issued to non-employees, compensation expense is recognized based on the fair value of the stock or stock options issued. Beginning April 1, 2004, the Company changed its accounting policy related to employee stock options, and began to recognize compensation expense for stock or stock option grants to employees, based on the fair value of the stock or stock options.

4. Stock-based compensation plans:

If compensation cost for the Company's employee stock options issued on or after April 1, 2002 had been determined based on the fair value method at the applicable grant dates, the Company's pro forma net loss would have increased by \$93,375 to \$242,361 and loss per common share would have increased to \$.009 for the period ended June 30, 2004. The weighted average fair value of options granted during the period was \$0.13. The fair value of options was determined using the Black-Scholes valuation model assuming an average option life of 5 years, no dividends, average volatility of 406% and a risk-free interest rate of 4.40%.

5. Property and equipment:

Property and equipment comprises the following:

	June 30, 2004	March 31, 2004
Cost:		
Computer hardware	\$ 1,004,349	\$ 1,002,581
Furniture and equipment	33,723	32,920
Leasehold improvements	15,286	15,286
Computer software	201,006	201,006
	<u>1,254,364</u>	<u>1,251,793</u>
Accumulated amortization:		
Computer hardware	950,156	939,282
Furniture and equipment	3,950	2,237
Leasehold improvements	1,185	420
Computer software	197,850	194,635
	<u>1,153,141</u>	<u>1,136,574</u>
	<u>\$ 101,223</u>	<u>\$ 115,219</u>

6. Other assets:

Other Assets comprises the following:

	June 30, 2004	March 31, 2004
General systems software - initial acquisition costs	\$ 1	\$ 1
Acquired courseware	1,436,226	1,436,226
	<u>1,436,227</u>	<u>1,436,227</u>
Accumulated amortization	(1,432,843)	(1,430,813)
	<u>\$ 3,384</u>	<u>\$ 5,414</u>

7. Share capital:

(a) Authorized:

Unlimited common shares without par value

Unlimited senior preferred shares without par value (none issued)

Unlimited junior preferred shares without par value (none issued)

7. Share capital (continued):

(b) Common shares issued and outstanding:

	Shares	Amount
Balance, March 31, 2004	40,043,444	\$ 8,142,549
Issued on exercise of share purchase warrants	275,000	60,000
Issued on exercise of share purchase options	20,000	3,200
Balance, June 30, 2004	40,338,444	\$ 8,205,749

(c) Share purchase options:

The Corporation has reserved 4,781,978 common shares under its Stock Option Plan (2001). The plan provides for the granting of options to directors, employees and consultants. The Board of Directors determine the terms of the awards, including the exercise price, the term and vesting provisions, provided no stock options will have a term exceeding five years.

	Number of shares	Weighted average exercise price
Outstanding, March 31, 2004	2,583,448	\$ 0.15
Granted	680,000	0.19
Exercised	(20,000)	0.16
Forfeited	(300,000)	0.19
Expired	(154,443)	0.17
Outstanding, June 30, 2004	2,789,005	\$ 0.15

The outstanding options at June 30, 2004 will expire between August 5, 2004 and May 26, 2009.

(d) Share purchase warrants:

	Number of warrants	Exercise price per share
Outstanding, March 31, 2004	14,208,333	\$0.15 - \$0.30
Exercised	(275,000)	0.15 - 0.30
Outstanding, June 30, 2004	13,933,333	\$0.15 - \$0.30

The share purchase warrants outstanding at June 30, 2004 will expire between September 5, 2004 and October 5, 2005.

7. Share capital (continued):

(e) During the year ended March 31, 2001, the Company entered into an agreement to convert all the outstanding preferred shares into common shares. At June 30, 2004 and March 31, 2004, \$62,546 in accrued dividends had not yet been converted into common shares pursuant to this agreement and is included in accounts payable and accrued liabilities. These amounts are convertible into common shares at the market price on the date of conversion.

8. Related party transactions:

The Company had no transactions with related parties during the period ended June 30, 2004.

9. Comparative figures:

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