

Stream Communications Network & Media Inc.
(formerly Stream Communications Network, Inc.)

Consolidated Financial Statements

(unaudited)

For the six months ended June 30, 2005

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended June 30, 2005

Stream Communications Network & Media Inc.
Consolidated Balance Sheets
(unaudited)
(in Canadian dollars)

| | June 30, 2005 | December 31, 2004 |
|--|---------------|-------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 168,820 | \$ 640,308 |
| Accounts receivable - net (note 2) | 321,712 | 267,020 |
| Inventory | 14,312 | 6,781 |
| Prepaid expenses and advances | 61,837 | 56,552 |
| | 566,681 | 970,661 |
| Property, plant and equipment (note 3) | 10,049,162 | 10,243,982 |
| Intangibles - (note 4) | 2,286,773 | 2,916,444 |
| | \$ 12,902,616 | \$ 14,131,087 |
| LIABILITIES | | |
| Current Liabilities | | |
| Trade accounts payable and accrued liabilities | \$ 1,633,416 | \$ 2,062,001 |
| Accounts payable pertaining to financing costs | 687,308 | 1,002,709 |
| Loan payable (note 5) | 650,000 | 650,000 |
| Current portion of long-term debt (note 6) | 130,874 | 101,530 |
| | 3,101,598 | 3,816,240 |
| Long-term Liabilities | | |
| Due to related party (note 7) | 4,425,388 | 4,236,302 |
| Long-term debt (note 6) | 744,671 | 814,707 |
| | 8,271,657 | 8,867,249 |
| Non-controlling interest | 718,946 | 710,445 |
| | 8,990,603 | 9,577,694 |
| SHAREHOLDERS' EQUITY | | |
| Capital stock | | |
| Authorized | | |
| 150,000,000 common shares of no par value | | |
| Issued and fully paid (note 8) | 37,603,585 | 36,005,421 |
| Contributed surplus | 3,723,260 | 2,167,551 |
| Warrants (note 8e) | 2,025,447 | 2,025,447 |
| Private placement subscriptions (note 8c) | 1,313,078 | - |
| Cumulative translation account | (38,495) | 944,701 |
| Deficit | (40,714,862) | (36,589,727) |
| | 3,912,013 | 4,553,393 |
| | \$ 12,902,616 | \$ 14,131,087 |

"Iwona Kozak"

President

"Casey Forward"

Chief Financial Officer

Stream Communications Network & Media Inc.
Consolidated Statements of Operations and Deficit
For the six months ended June 30
(unaudited)
(in Canadian dollars)

| | For the three months ended June 30, 2005 | For the three months ended June 30, 2004 | For the six months ended June 30, 2005 | For the six months ended June 30, 2004 |
|--|--|--|--|--|
| Revenues | \$ 1,445,359 | \$ 1,078,645 | \$ 2,883,031 | \$ 1,940,455 |
| Expenses | | | | |
| Administration and services | 408,547 | 430,725 | 717,009 | 588,171 |
| Investor relations | 660,594 | 19,165 | 1,300,535 | 20,116 |
| Occupancy costs | 127,791 | 83,418 | 250,413 | 153,340 |
| Professional fees | 23,791 | 8,296 | 107,850 | 99,361 |
| Programming | 256,704 | 198,146 | 509,384 | 371,581 |
| Sales and marketing | 9,405 | 3,607 | 71,304 | 41,357 |
| Stock-based compensation (note 8d) | 207,982 | 2,304,052 | 1,555,709 | 2,304,052 |
| Travel and automotive | 71,471 | 51,010 | 129,118 | 97,775 |
| Wages for ongoing operations | 505,558 | 245,885 | 995,247 | 595,225 |
| | 2,271,843 | 3,344,304 | 5,636,569 | 4,270,978 |
| Loss before undernoted items | (826,484) | (2,265,659) | (2,753,538) | (2,330,523) |
| Amortization of property, plant and equipment | 239,517 | 180,705 | 465,188 | 335,492 |
| Amortization of intangibles | 233,913 | 56,104 | 480,420 | 110,903 |
| | 473,430 | 236,809 | 945,608 | 446,395 |
| Loss before other items | (1,299,914) | (2,502,468) | (3,699,146) | (2,776,918) |
| Other items | | | | |
| Financing expenses | 203,975 | 194,863 | 365,761 | 208,631 |
| Foreign exchange loss | 15,277 | - | 50,034 | - |
| Interest income | (5,644) | (20,775) | (10,370) | (27,782) |
| | 213,608 | 174,088 | 405,425 | 180,849 |
| Loss before non-controlling interest | (1,513,522) | (2,676,556) | (4,104,571) | (2,957,767) |
| Non-controlling interest | (3,680) | (16,450) | (20,564) | (18,715) |
| Net loss for the period | (1,517,202) | (2,693,006) | (4,125,135) | (2,976,482) |
| Deficit, beginning of period | (39,197,660) | (30,308,488) | (36,589,727) | (30,025,012) |
| Deficit, end of period | \$ (40,714,862) | \$ (33,001,494) | \$ (40,714,862) | \$ (33,001,494) |
| Loss per share, basic and diluted | | | | |
| Loss per share | \$ (0.04) | \$ (0.09) | \$ (0.11) | \$ (0.10) |
| Weighted average number of shares | | | | |
| Basic and diluted | 38,268,002 | 29,738,582 | 38,268,002 | 29,738,582 |

Stream Communications Network & Media Inc.
Consolidated Statements of Cash Flows
For the six months ended June 30
(unaudited)
(in Canadian dollars)

| | For the three months ended June 30, 2005 | For the three months ended June 30, 2004 | For the six months ended June 30, 2005 | For the six months ended June 30, 2004 |
|---|--|--|--|--|
| Operating Activities | | | | |
| Net loss for the period | \$ (1,517,202) | \$ (2,693,006) | \$ (4,125,135) | \$ (2,976,482) |
| Items not involving cash | | | | |
| Amortization | 473,430 | 236,809 | 945,608 | 446,395 |
| Stock-based compensation | 207,982 | 2,304,052 | 1,555,709 | 2,304,052 |
| Issuance of shares for debt | 1,067,881 | 487,557 | 1,487,754 | 487,557 |
| Non-controlling interest | 54,029 | 16,450 | 70,226 | 18,715 |
| Change in non-cash working capital | 286,120 | 351,862 | (65,838) | 280,237 |
| Accounts receivable | 105,047 | (24,333) | (76,710) | (62,827) |
| Inventory | 8,146 | (4,593) | (8,120) | (5,323) |
| Prepaid expenses and advances | 2,422 | (94,819) | (12,478) | (94,206) |
| Accounts payable and accrued liabilities | (520,121) | (2,149,089) | (620,859) | (2,369,106) |
| Net cash used by operating activities | (118,386) | (1,920,972) | (784,005) | (2,251,225) |
| Financing Activities | | | | |
| Loans from related parties | - | 2,026,792 | - | 3,177,392 |
| Issuance of shares for cash | 110,410 | - | 110,410 | - |
| Share subscriptions pursuant to private placement | 484,775 | - | 1,313,078 | - |
| Long-term debt | 69,256 | (22,214) | 38,912 | (35,871) |
| Net cash provided by financing activities | 664,441 | 2,004,578 | 1,462,400 | 3,141,521 |
| Investing Activities | | | | |
| Purchase of property, plant and equipment | (622,817) | (294,294) | (1,263,432) | (953,285) |
| Net cash used in investing activities | (622,817) | (294,294) | (1,263,432) | (953,285) |
| Foreign exchange effect on cash | 60,602 | 72,838 | 113,549 | 164,152 |
| Change in cash and cash equivalents | (16,160) | (137,850) | (471,488) | 101,163 |
| Cash and cash equivalents at beginning of period | 184,980 | 446,371 | 640,308 | 207,358 |
| Cash and cash equivalents at end of period | \$ 168,820 | \$ 308,521 | \$ 168,820 | \$ 308,521 |

1. NATURE OF OPERATIONS & SIGNIFICANT ACCOUNTING POLICIES

Stream Communications Network & Media Inc. ("Stream" or the "Company") mainly provides cable television services. Its business lines also include high-speed internet access. All of its operations are located in Poland. The company was incorporated on March 28, 1979 by registration of its Memorandum and Articles under the Company Act of British Columbia, Canada. On August 17, 2004 the Company changed its name from Stream Communications Network, Inc. to Stream Communications Network & Media Inc. These interim consolidated financial statements should be read in conjunction with the audited December 31, 2004 annual financial statements.

These interim financial statements follow the same accounting policies and methods of their application as in the December 31, 2004 annual financial statements. These interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements in that they do not include all note disclosures.

These consolidated financial statements include the accounts of the Company and the following subsidiaries. All intercompany transactions and balances have been eliminated.

| | Country of Incorporation | Percentage ownership June 30, 2005 | Percentage ownership December 31, 2004 |
|---|-----------------------------|--|---|
| Stream Communications Sp. z o.o. ("Stream") | Poland | 100.0% | 100.0% |
| Gimsat Sp. z o.o. ("Gimsat") | Poland | 100.0% | 100.0% |
| IEWS S.A. | Poland | 100.0% | 100.0% |
| Streamline Media Sp. z o.o. ("Streamline") | Poland | 100.0% | 100.0% |
| Bielsat.com Sp. z o.o. ("Bielsat") | Poland | 51.0% | 51.0% |
| ASK Stream Sp. z o.o. | Poland | 60.0% | 60.0% |
| Vega Sp. z o.o. | Poland | 99.0% | 98.0% |

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and expenses for the periods reported. Actual results could differ from those estimates.

The exchange rate of the Polish zloty to the Canadian dollar at December 31, 2004 was 2.4898 as compared to 2.7267 at June 30, 2005. The Company follows the current rate method translating balance sheet items at the current rate. Accordingly balances at December 31, 2004 in Polish zloty are reduced by 9% in terms of Canadian dollars at June 30, 2005.

2. ACCOUNTS RECEIVABLE

| | June 30, 2005 | December 31, 2004 |
|---------------------------------|---------------|----------------------|
| Accounts receivable | \$ 501,589 | \$ 464,012 |
| Allowance for doubtful accounts | (179,877) | (196,992) |
| Accounts receivable - net | \$ 321,712 | \$ 267,020 |

3. PROPERTY, PLANT AND EQUIPMENT

| June 30, 2005 | Cost | Accumulated amortization | Net book value |
|------------------------------------|---------------|-----------------------------|----------------|
| Automobiles | \$ 416,333 | \$ 146,277 | \$ 270,056 |
| Buildings, offices | 287,980 | 100,119 | 187,861 |
| Cable television network equipment | 13,268,407 | 3,761,576 | 9,506,831 |
| Furniture and fixtures | 433,682 | 411,033 | 22,649 |
| Computer software | 76,397 | 72,548 | 3,849 |
| Plant construction-in-progress | 57,916 | - | 57,916 |
| | \$ 14,540,715 | \$ 4,491,553 | \$ 10,049,162 |
| December 31, 2004 | | | |
| Automobiles | \$ 444,227 | \$ 188,622 | \$ 255,605 |
| Buildings, offices | 298,630 | 96,835 | 201,795 |
| Cable television network equipment | 13,454,046 | 3,711,930 | 9,742,116 |
| Furniture and fixtures | 412,360 | 377,992 | 34,368 |
| Computer software | 82,288 | 74,116 | 8,172 |
| Plant construction-in-progress | 1,926 | - | 1,926 |
| | \$ 14,693,477 | \$ 4,449,495 | \$ 10,243,982 |

4. INTANGIBLE ASSETS

| June 30, 2005 | Cost | Accumulated amortization | Impairment | Net book value |
|-------------------|--------------|-----------------------------|--------------|----------------|
| Subscriber base | 6,099,271 | 1,876,875 | 1,935,623 | 2,286,773 |
| | \$ 6,099,271 | \$ 1,876,875 | \$ 1,935,623 | \$ 2,286,773 |
| December 31, 2004 | Cost | Accumulated amortization | Impairment | Net book value |
| Subscriber base | 6,585,678 | 1,549,440 | 2,119,794 | 2,916,444 |
| | \$ 6,585,678 | \$ 1,549,440 | \$ 2,119,794 | \$ 2,916,444 |

5. LOAN PAYABLE

Loan from Quest Capital Corp. in the amount of \$650,000 repayable on or before August 31, 2005. Originally this loan was due on June 30, 2005, interest bearing at 12% per annum, compounded monthly, payable monthly on the last day of each month. An extension was granted to retire this loan on or before August 31, 2005 with the interest increased to 18% for the months of July and August of 2005. In consideration of the loan, the Company granted a security interest in favour of the lender over all of the Company's present and after-acquired personal property preceded by bank loans and due to related party amount. The lender received a non-refundable bonus payment of 275,000 free-trading common shares of the Company. The loan was jointly and personally guaranteed by two directors/officers and one former director ("Guarantors") of the Company. In addition, one of the Guarantors pledged and granted the lender 3,000,000 shares in the capital of the Company. The Company has issued replacement shares to that Guarantor. When the loan is repaid 3,000,000 shares will be returned to treasury.

6. LONG-TERM DEBT

| | June 30, 2005 | December 31, 2004 |
|----------------------------------|---------------|----------------------|
| Loan balances, current portion | \$ 130,874 | \$ 101,530 |
| Loan balances, long term portion | 744,671 | 814,707 |
| Total | \$ 875,545 | \$ 916,237 |

Bank loans are secured by the fixed assets of the Company repayable monthly at a rate of \$5,376 per month. Interest is charged WIBOR plus 5% approximately 9.85% per annum.

7. DUE TO RELATED PARTY

The amount due to related party, a former director, bears interest at 5%, compounded annually. The lender agreed in writing that the loan will not be repaid before June 30, 2006. The total amount due (including accrued interest) is \$3,601,683 USD (equivalent to \$4,425,388 CAD) of which \$2,000,000 USD was secured by various cable TV networks, with the remaining debt being unsecured. The Company accrued \$198,962 interest in USD (equivalent to \$244,465 CAD) up to June 30, 2005.

8. CAPITAL STOCK

(a) Authorized

150,000,000 common shares of no par value

(b) Issued

| | Number of Shares | Price | Share Capital |
|--|---------------------|---------|---------------|
| Balance - December 31, 2002 | 29,003,149 | - | \$ 31,229,685 |
| Warrants exercised | 702,526 | \$ 1.80 | 1,264,542 |
| Fair value of warrants expired | - | - | 228,323 |
| Fair value of warrants exercised | - | - | 486,905 |
| Balance - December 31, 2003 | 29,705,675 | | 33,209,455 |
| Shares issued for business development | 500,000 | 0.98 | 487,557 |
| Shares issued for loan security | 3,000,000 | - | - |
| Financial expenses | 1,275,000 | 0.49 | 629,809 |
| Issued for services | 78,125 | 0.78 | 60,855 |
| Issued for services | 275,000 | 0.49 | 135,841 |
| TV programming and content development | 3,000,000 | 0.49 | 1,481,904 |
| Balance - December 31, 2004 | 37,833,800 | | 36,005,421 |

Stream Communications Network & Media Inc.
Notes to Consolidated Financial statements
(unaudited)
June 30, 2005
(in Canadian dollars)

8. CAPITAL STOCK (continued)

| | | | |
|---------------------------------|------------|------|---------------|
| Settlement of debts | 2,067,258 | 0.63 | 1,299,804 |
| Private placement | 107,500 | 0.73 | 78,690 |
| Acquisition of cable TV network | 260,000 | 0.72 | 187,950 |
| Stock options | 40,000 | 0.79 | 31,720 |
| Balance - June 30, 2005 | 40,308,558 | | \$ 37,603,585 |

(c) Private placement

The Company has received subscriptions to a private placement. Originally the private placement was proposed at a price of \$0.75 USD per unit comprised of one common share and a non-transferable share purchase warrant, with two warrants entitling the holder to purchase an additional common share of the Company at a purchase price of \$1.00 USD per common share for a period of two years. The placement has been repriced at \$0.60 USD per unit with the warrant shares at \$0.80 USD per share, but is still subject to a repricing clause to be settled no later than August 31, 2005. See subsequent events note 11.

(d) Options

In the Annual General Meeting held on June 29, 2005, the shareholders approved the amendment to the stock option plan whereby the directors are authorized to issue stock options from time to time to employees, officers, consultants and directors of the Company up to 7,992,212 common shares of the Company at the time of such issue, at a minimum price allowed under the applicable securities laws.

Common share purchase options are issued to directors, officers, employees and non-employees of the company with exercise prices which approximate market values at the time the option is granted.

Summary of directors' and employees' stock options, warrants and convertible securities outstanding:

| | Shares | Weighted average exercise price \$ |
|---|-------------|---------------------------------------|
| Balance of options at December 31, 2003 | 4,370,000 | \$ 1.88 |
| Cancelled | (4,370,000) | |
| Granted | 2,490,000 | \$ 0.60 USD |
| Balance of options at December 31, 2004 | 2,490,000 | |
| Granted | 1,770,000 | \$ 0.60 USD |
| Granted | 100,000 | \$ 0.65 USD |
| Exercised | (40,000) | \$ 0.65 USD |
| Cancelled | (300,000) | |
| Balance of options at June 30, 2005 | 4,020,000 | \$ 0.60 USD |

The following table summarizes information about fixed stock options outstanding at June 30, 2005:

| Range of exercise prices (USD\$) | Options Outstanding | | Weighted average exercise price (USD\$) | Options Exercisable | |
|----------------------------------|---|---|--|--|--|
| | Number outstanding at June 30, 2005 | Weighted average remaining contractual life (years) | | Number exercisable at June 30, 2005 | Weighted average exercise price (USD\$) |
| \$ 0.60 | 4,020,000 | 4.2 | \$ 0.60 | 4,020,000 | 4.2 |

Stock-based compensation expense

Pursuant to the granting the options in the current period, stock-based compensation expenses had been determined using a Black-Scholes option pricing model assuming no dividends were paid, a weighted average volatility of 56.6% over an expected life of five years and a weighted average annual risk free rate of 3.93%.

Based on the above assumptions the average fair value for each option is \$0.83193; accordingly \$1,555,709 of stock-based compensation has been recorded in the statement of operations.

8. CAPITAL STOCK (continued)

(e) Warrants

The changes in warrants were as follows:

| | Number of warrants | Number of common shares permitted to be purchased | Weighted average price per share | Expiry date | Fair value of Warrants |
|------------------------------------|-----------------------|--|--|-------------|---------------------------|
| Outstanding December 31, 2004: | 3,126,579 | 2,976,579 | \$ 1.84 | 28-Dec-05 | \$ 2,025,447 |
| Expired | - | - | - | | - |
| Exercised | - | - | - | | - |
| Total Balance June 30, 2005 | 3,126,579 | 2,976,579 | \$ 1.84 | | \$ 2,025,447 |
| Outstanding June 30, 2005: | | | | | |
| | 300,000 | 150,000 | \$ 1.80 | 28-Dec-05 | \$ 103,962 |
| | 2,701,579 | 2,701,579 | 1.80 | 28-Dec-05 | 1,872,405 |
| | 125,000 | 125,000 | 2.25 USD | 28-Dec-05 | 49,080 |
| Total Balance June 30, 2005 | 3,126,579 | 2,976,579 | | | \$ 2,025,447 |

9. FINANCIAL INSTRUMENTS

(a) Fair Value

Financial instruments consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, the fair value of which are considered to approximate their carrying value due to their short-term maturities or ability of prompt liquidation.

(b) Credit Risk

The Company is exposed to credit risk only with respect to uncertainties as the timing and amount of collectibility of accounts receivable. The Company mitigates credit risk through standard credit and reference checks.

(c) Currency Risk

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company had the following financial assets and liabilities in foreign currencies:

| | June 30, 2005 | | December 31, 2004 | |
|---------------------------------------|---------------|-----------|-------------------|---------|
| | Polish zlotys | \$USD | Polish zlotys | \$USD |
| Exchange rates to the Canadian dollar | 2.7267 | 0.8303 | 2.4898 | 0.8142 |
| Cash | 424,776 | 94.26 | 871,011 | - |
| Accounts receivable | 806,280 | - | 630,975 | - |
| Accounts payable | 4,070,304 | 507,313 | 3,781,290 | 507,313 |
| Due to related parties | - | 3,603,718 | - | - |
| Long term debt | 2,030,496 | - | 2,028,457 | - |

10. CONTINGENCY

The company has received invoices from a creditor for amounts due for work performed in regards to an IPO on the Warsaw exchange in 2003. The amount claimed is US\$3,145,885 of which \$NIL has been accrued at June 30, 2005 (December 31, 2004 - \$NIL). The Company is of the opinion that these amounts are due if the IPO on the Warsaw Exchange is completed.

11. SUBSEQUENT EVENTS

The Company has been raising funds pursuant to a private placement, subject to repricing until August 31, 2005. A price was set at \$0.60 USD per share with a one-half warrant to purchase additional shares at \$0.80 USD wherein some 2,052,600 shares have been issued. Additional shares may have to be issued.

12. OFFICERS AND DIRECTORS

Iwona Kozak - President and Director
Adam Wojcik - Chief Operating Officer and Director
Casey Forward - Chief Financial Officer and Director
Michael Young - Corporate Secretary and Director
Robert Wussler- Director, Chairman
Robert Wooldridge - Director, Chairman of the Audit Committee