

RESEARCH UPDATE



MidNet, Inc.
OTCBB : MIDX

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May 4, 2005

Close as of: May 4, 2005
DJIA: 10,384.64
S&P 500: 1,175.65
NASDAQ Composite: 1,962.23
Russell 2000: 595.22

SPECULATIVE Buy

Stock Price:	\$0.70	Market Cap.:	\$ 11.0 M	TTM P/E	N/A
52 Week Price Range:	\$0.35 – 3.65	Shares Outstanding:	15.7 M	Current Ratio	6.71
Industry/Sector:	Telecom. Svcs	Float (est):	1.5 M	Fiscal Year	Dec.
3-mo. Avg. Vol. (est.)	19,700				

Significant Progress in Partnerships / Contracts; Markets Opening Up

We are maintaining our Speculative Buy recommendation for MidNet, Inc. While the shares have dropped significantly since our initial report ($\approx 54\%$), it is not far from what we often see with newly traded companies that hunt for a sustainable trading range. Also, with the stock at more manageable levels, we can feel more confident that there is appreciation potential in the coming quarters. Furthermore, there has been a significant decline in the industry averages over the past few months. The AMEX Networking Index has depreciated over 19% since December (through 3/1/05) and the GSTI Multimedia Networking Index is off nearly 17% over the same timeframe. In other words, we see no material, company-specific events that have caused the stock's decline.

Overall, the period since our initial report (8/2/04) has gone pretty much as expected. We didn't anticipate much revenue generation at this stage, but we hoped that the Company would begin signing core anchor accounts - larger studios that have a variety of relationships with several smaller post-production specialists - and gaining much needed recognition versus established, yet outdated, forms of data transfer. We are happy to report that MidNet has done just that. Deals such as these are vital to the Company's success going forward. The Company has made significant progress in terms of partnerships and marketing but still has to keep moving forward to increase its level of recognition among potential users of The Middle Network™, and investors at large. We also feel it is important for the Company to expand its product offering, which MidNet has done as well.

MidNet's recent strides may provide a catalyst to move the stock higher if the Company can increase user adoption levels. MidNet has privately linked locations in Los Angeles, Houston, Denver, Vancouver, Calgary, Edmonton and Toronto. Each city was selected based on the access it provides to businesses in the entertainment and energy sectors, two of MidNet's primary target markets. With the infrastructure now in place to get going (key, carrier-neutral connectivity loops created with major

telcos), we will look for further signs that the Company is able to successfully penetrate the market for private digital connectivity to transfer and distribute valuable intellectual properties, and the ability to monetize such market penetration, as reasons to upgrade the stock. In addition, industry valuations may increase as the market rebounds.

HIGHLIGHTS

- In August of last year, the Company announced its first client - the Vancouver location of Technicolor Creative Services Canada (TCS Canada) (formerly Command Post & Transfer Corporation) - to provide private digital network services for the secure transport of data between TCS Canada's Vancouver facility and a Vancouver motion picture production complex.
- Not long after TCS, MidNet announced it had signed an agreement with Rainmaker Limited Partnership (Rainmaker) to provide private digital network services for the secure data transport between Rainmaker and its customers in Vancouver and Los Angeles.
- Last October, in addition to penetrating the entertainment industry, the Company activated its private, high-speed digital communications link between Houston and Calgary, two of North America's largest energy markets. This expansion to MidNet's network was designed primarily for customers in the oil and gas sector, and should provide a secure communications pathway for the rapid transport of large digital data files, such as massive, three-dimensional and seismic data files.
- As a follow-up to getting the infrastructure in place for the energy sector, MidNet announced last November an agreement to provide private digital network services to Calgary-based Kelman Technologies Inc. (KTI), a company that provides the oil and gas industry with a comprehensive suite of advanced seismic processing and on-line data archiving and management services.
- In February, the Company announced that Lightning Media (formally Lightning Dubbs) will use MidNet's network services for the secure transport of media data. With facilities throughout the entertainment mecca of the Los Angeles area, Lightning Media provides full service video duplication, including High Definition, DVD authoring and replication, editorial capabilities, and asset management to clients such as Warner Brothers, Disney, Princess Cruises and MTV.
- Also last month, MidNet announced that it will provide a series of network-enabling services for a forthcoming line of telecommunications devices being marketed by World Accessibility Marketplace Inc. (World Accessibility). Management values the revenue potential from this agreement at CDN\$1.2 million. We feel this is an important step in the Company's development because, while still connectivity, the deal shows the breadth and portability of The Middle Network, and thus we view it as essentially another product line. MidNet's services

will allow World Accessibility's devices, which include video phones and video-conferencing, to operate over The Middle Network. All accessible devices marketed by World Accessibility will be registered by MidNet, thereby providing for secure transmission of video-based communications by restricting access via security features specifically built into The Middle Network.

World Accessibility is the first application service provider (ASP) to utilize The Middle Network, which will be used to enhance the delivery of World Accessibility's unified broadband application services, which include a suite of software tools designed to provide the company's diverse customer base with accessible, enhanced communication services. The Company recently implemented an online platform designed to facilitate the registration of multimedia communications devices (videophones, VoIP phones, and PCs equipped with microphones, speakers and webcams) for use on The Middle Network. Management sees this as a significant step toward revenue generation on this contract.

- As a natural outgrowth of the World Accessibility deal, the Company announced earlier this month that it has begun the rollout of a videophone network on its Middle Network. The videophones on this network will be interoperable with traditional telephones and Voice-over IP (VoIP) phones. Videophone usage pricing is expected to be comparable to voice-only services. Videophone services and equipment will be available through third-party manufacturers and ASPs.
- To further the security and privacy of The Middle Network, MidNet announced that it will be utilizing California-based Uniloc USA Inc.'s device authentication system, NetAnchor™., Uniloc's patented "Digital DNA" fingerprinting technology in NetAnchor uniquely identifies specific devices, which will allow MidNet to authenticate all communications devices being used on The Middle Network. For MidNet clients, the system will allow application service providers ASPs who conduct business over The Middle Network to secure all data transmissions by limiting content access to specific communications devices and, most importantly to the studios, will facilitate critical copyright control and anti-piracy measures.

CONCLUSION

Now that the infrastructure is in place and The Middle Network is available to new and potential clients, investors should pay close attention to:

- Adoption rates;
- Usage rates – since MidNet gets paid per gigabyte of data transferred, this is the monetization aspect;
- The Company's ability to penetrate new markets; and

- The scope of new products and alliances that can be added to the MidNet business model, such as the rollout of the videophone network on The Middle Network via World Accessibility.

Technology leadership is often not enough to establish a winning product or brand; the Company must successfully market its technology and create a strong brand image in order to compete in its market, which it appears to be doing. Management has indicated that its lead generation and potential sales pipeline within the entertainment and oil & gas industries have been greatly enhanced in the last couple of months. MidNet seems to be making strides to adoption in a traditionally long sales-cycle environment. Also, it takes three months to get a client up and running, so as we mentioned previously, we would not expect any significant revenue generation as of this point. We will watch for signs that MidNet users are in fact utilizing the network on a continuous basis, the ability to sign up more companies, and/or the penetration of new markets, such as healthcare, insurance and government, as reasons to upgrade the stock.

The Company continues to operate lean, but now that the network is wired in seven cities, its monthly burn rate has risen to more than \$100,000, vs. the \$50k at the time of our initial report, but is still in line the Company's forecasts. Because of this, the Company will have to generate revenue or raise additional capital soon to remain operational. Given the aforementioned revenue generating opportunities, however, the Company has embarked on raising capital to meet all its working capital requirements.

Though the effectiveness of a current registration statement could put some moderate selling pressure on the stock, for now, at these price levels (52-wk low), we continue to recommend the purchase of the stock as an opportunity to invest at lower levels for those investors that can commit risk capital and have a longer-term time horizon.

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Supplemental Disclosure: Tilo Kunz, president and CEO of MidNet, currently serves as the Chairman of World Accessibility. Mr. Kunz serves in such capacity for World Accessibility without any form or arrangement for compensation of any nature, presently or in the future, and owns no form of equity in World Accessibility, either directly or indirectly. However, Tilo Kunz's father, Eric Kunz, indirectly owns 50% of the total outstanding equity in World Accessibility. Mr. Tilo Kunz devotes nominal time to the business of World Accessibility.

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