

TRI-VISION INTERNATIONAL LTD.

September 9, 2004

TSX: TVL **\$1.38**

Recommendation: UNDER REVIEW

12-Month Target: UNDER REVIEW (was \$1.40)

Bob Leshchyshen, MBA, CFA

(416) 644-8124 bleshchyshen@northernsi.com

Tri-Vision Announces FCC Requirement for an Open V-Chip for all Digital TV Devices

Event:

- TVL announced that the FCC now acknowledges the open V-chip requirement for all digital TV devices.

Highlights:

- Electronics manufacturers must be in compliance with the new FCC rules by March 15, 2006 for all digital TVs measuring at least 13 inches diagonally or 7.8 inches high for the 16:9 aspect ratio.
- TVL estimates that FCC requirement will apply to the over 35 million TV sold in the US annually.
- The Consumer Electronics Association forecasts annual digital TV sales of 5.9 million units in 2004, 9.8 million in 2005, 16.2 million in 2006 and 23.9 million in 2007.
- TVL has concluded licensing agreements with 18 TV manufacturers selling products in Canada and the US.
- The FCC ruling will also cover all: computer monitors capable of over-the-air (OTA) TV reception; OTA digital to analog set top boxes; cable and satellite set top boxes; digital video recorders; VCRs; media PCs and PC-based tuner cards.

52-week High-Low	\$1.48-\$0.52
Shares outstanding*	53.8 million
Market capitalization	\$74.2 million
Total debt	\$1.2 million
Cash	\$5.6 million
Fiscal year end	March 31
Major shareholders	Board & Management: 32.8%

(millions, except EPS)	2001A	2002A	2003A	2004E
Revenue	\$7.2	\$10.1	\$14.4	\$11.3
EBITDA	\$0.6	\$0.7	\$2.7	\$3.1
EBITDA margin	8.0%	7.0%	17.1%	27.4%
EBITDA per share	\$0.01	\$0.01	\$0.04	\$0.06
P/EBITDA	n/a	n/a	34.5x	23.0x
Net income	(\$0.5)	(\$1.9)	\$0.4	\$1.2
EPS	(\$0.01)	(\$0.04)	\$0.01	\$0.02
P/E	n/a	n/a	138x	69x



Source: Bloomberg

Investment Conclusion:

In view of this significant announcement made by TVL on September 8, 2004, for which TVL has been waiting for over one year, **we have put our TVL rating under review and are revising our forecast and target price. Our previous target price was \$1.40.**

Company Description

Founded in 1986, and headquartered in Toronto, TVL is a leader in V-chip technology. TVL is a full service manufacturer and distributor of consumer, commercial and industrial electronic products used in the cable television industry.

Recent announcement

On September 8, 2004, TVL announced that the Federal Communications Commission (FCC) issued a Report and Order entitled "The Second Periodic Review of the Commission's Rules and Policies Affecting the Conversion to Digital Television". This FCC Report and Order standardizes the way program information is delivered, requiring broadcasters who include content advisory data to provide it in the Program System Information Protocol (PSIP), which accompanies every digital television program. The PSIP must contain any available content advisories (ratings) for broadcast programming and digital TV (DTV) receivers must be designed to be able to respond to changes in the content advisory system. TVL's "Open V-chip" allows ratings to be changed as per FCC requirements.

Electronics manufacturers must be in compliance with the new FCC rules by March 15, 2006 for all digital TVs measuring at least 13 inches diagonally or 7.8 inches high for the 16:9 aspect ratio. The FCC ruling will also cover: all computer monitors capable of over-the-air (OTA) TV reception; OTA digital to analog set top boxes (STBs); cable and satellite STBs; digital video recorders; VCRs; media PCs and PC-based tuner cards. Essentially, every electronic device that is capable of receiving a digital television signal is included in the FCC Report and Order.

TVL estimates that it could receive royalties of between US\$1.00 and \$2.00 per digital TV device sold over the next 12 years until its patent expires in 2016. The Consumer Electronics Association forecasts annual digital TV sales of 5.9 million units in 2004, 9.8 million in 2005, 16.2 million in 2006 and 23.9 million in 2007.

In addition, approximately 45 million computers are sold in the US annually and TV video cards are becoming a standard feature for many of these computers, which will enable DTV reception. This means that under FCC rules these computers will require a V-chip and TVL could then receive royalties from the manufacturers of these monitors.

Approximately 280 million analog TVs are in working condition in the US. The FCC is planning to phase out analog TV programming over 2006 and 2007. On August 8, 2002 the FCC mandated that all TV models with a screen size greater than 13 inches and receivers such as VCRs and DTV recorders be able to receive DTV signals no later than July 1, 2007. These analog TVs will require OTA digital to analog set top boxes (to be able to receive the digital signals that will become the standard sometime in 2007). Each of the OTA digital to analog STBs will be required to have a V-chip.

Recommendation and Valuation

We believe that TVL is an opportunity for investors interested in benefiting from the expected strong growth in the digital TV industry, by investing in a technology company with a strong research and development group and developing pipeline of products and technologies. With its patent protection, TVL should benefit from the trend of consumers to upgrade to digital televisions, which offer consumers a clearer picture and better sound quality than today's analog TV sets. The best digital TV sets are high-definition TVs, which are about 5 times sharper than analog TVs, with surround sound capability.

In view of this significant announcement made by FCC for which TVL has been waiting for over one year, **we have put our TVL rating under review and are revising our forecast and target price. Our target price was previously \$1.40.**

We shall be meeting with management over the next week to determine the revenue impact on TVL's results that the above announcement will have over the next few years. After which we shall prepare and publish our revised forecast and target price.

Investment Opinion Definition

STRONG BUY:	NSI expects the share price to appreciate 30% or more over the next 12 months.
BUY:	NSI expects the share price to appreciate 10% to 30% over the next 12 months.
HOLD:	NSI expects the share price to appreciate 10% or less over the next 12 months.
SELL:	NSI expects the share price to have a negative rate of return over the next 12 months.
SPECULATIVE BUY:	NSI expects the share price to appreciate substantially over the next 12 months, but with a high level of inherent risk.

Note: Percentages are approximate and ratings are at the analyst's discretion.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst in this report.

Dissemination of Research

Northern Securities Inc. endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients via email. Additional distribution may be done by sales personnel via fax or regular mail. Please contact your investment advisor or institutional salesperson for more information regarding Northern Securities' research.

Material Disclosures

The analyst responsible for preparing this research report received compensation that is based upon various factors, including total revenues of Northern Securities Inc., a portion of which are or have been generated by investment banking activities.