

Interim Consolidated Financial Statements

**Coastal Contacts Inc.**

Unaudited

For the three months ended January 31, 2008

**Coastal Contacts Inc.****CONSOLIDATED BALANCE SHEETS**

(\$000's)

	January 31, 2008	October 31, 2007
	(unaudited)	
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents <i>[note 8]</i>	27,334	23,367
Short-term investments <i>[note 8]</i>	—	3,976
Accounts receivable <i>[note 8]</i>	6,866	6,649
Inventory	10,200	8,531
Prepaid expenses	1,404	1,270
Due from related parties	347	348
	46,151	44,141
Property, equipment and leasehold improvements	2,901	2,700
Intangible assets	12,285	11,712
Goodwill	7,986	7,529
	69,323	66,082
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities <i>[note 8]</i>	16,763	13,881
Income taxes payable	337	711
Deferred revenue	48	23
Current portion of lease inducement	68	68
	17,216	14,683
Long-term lease inducement	138	158
Future income tax liability	3,964	3,661
	21,318	18,502
<b>Shareholders' equity</b>		
Share capital <i>[note 4]</i>		
Authorized:		
Unlimited common shares without par value		
Unlimited Class A preferred shares without par value		
Issued and outstanding:		
71,214,912 common shares [2007 – 71,426,512]	50,707	50,857
Shares held in Treasury		
139,700 common shares [2007 – 78,500]	(160)	(89)
Contributed surplus <i>[note 5]</i>	1,128	973
Accumulated other comprehensive income (loss) <i>[note 6]</i>	(2,810)	(4,091)
Retained earnings (deficit)	(860)	(70)
	48,005	47,580
	69,323	66,082

Contingencies *[note 11]*Subsequent events *[notes 4 and 12]**See accompanying notes to the unaudited interim consolidated financial statements*

**Coastal Contacts Inc.****CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE INCOME**

(Unaudited) (\$000's, except share and per share amounts)

<b>Three months ended January 31</b>	<b>2008</b>	<b>2007</b>
Sales	25,375	23,605
Cost of sales	19,012	17,305
<b>Gross profit</b>	<b>6,363</b>	<b>6,300</b>
Selling, general and administration expenses	6,684	5,802
Share-based compensation	155	106
Amortization on property, equipment and leasehold improvements	229	160
Amortization on intangible assets	371	344
Foreign exchange gain	(245)	(685)
Interest income, net	(232)	(239)
Income (loss) before income taxes	(599)	812
Income tax expense - current	112	160
Income tax recovery - future	(10)	(29)
<b>Net income (loss)</b>	<b>(701)</b>	<b>681</b>
<b>Other comprehensive income, net of tax</b>		
Unrealized foreign exchange gains on translation of financial statements of self-sustaining foreign operations	1,281	1,047
<b>Comprehensive income</b>	<b>580</b>	<b>1,728</b>
Basic earnings (loss) per share	(0.01)	0.01
Diluted earnings (loss) per share	(0.01)	0.01
Weighted average number of common shares outstanding – basic <i>[note 7]</i>	71,275,469	74,338,984
Weighted average number of common shares outstanding – diluted <i>[note 7]</i>	71,275,469	74,869,028

*See accompanying notes to the unaudited interim consolidated financial statements*

**Coastal Contacts Inc.**

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS  
(DEFICIT)**

(Unaudited) (\$000's)

<b>For the three months ended January 31</b>	<b>2008</b>	<b>2007</b>
Retained earnings (deficit), beginning of period	(70)	(416)
Net income (loss)	(701)	681
Premium on purchase of common shares for cancellation	(89)	(101)
Retained earnings (deficit), end of period	(860)	164

*See accompanying notes to the unaudited interim consolidated financial statements*

**Coastal Contacts Inc.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited) (\$000's)

<b>Three months ended January 31</b>	<b>2008</b>	<b>2007</b>
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	(701)	681
Non-cash items:		
Amortization	600	504
Amortization of deferred lease inducement	(20)	(12)
Accrued interest	(6)	(11)
Stock-based compensation	155	106
Future income taxes expense recovery	(10)	(29)
Unrealized foreign exchange gain	(234)	(669)
Changes in non-cash working capital:		
Accounts receivable	72	416
Inventory	(1,407)	(650)
Prepaid expenses	(91)	(402)
Accounts payable and accrued liabilities	2,436	1,091
Income taxes payable	(378)	190
Deferred revenue	23	92
<b>Cash provided by operating activities</b>	<b>439</b>	<b>1,307</b>
<b>INVESTING ACTIVITIES</b>		
Maturity of short-term investments	3,976	—
Repayments from related parties	5	15
Business acquisition, net of cash acquired	—	(14)
Acquisition of property, equipment and leasehold improvements	(328)	(169)
Acquisition of intangible assets	(278)	(483)
<b>Cash provided by (used in) investing activities</b>	<b>3,375</b>	<b>(651)</b>
<b>FINANCING ACTIVITIES</b>		
Purchase of common shares for cancellation	(310)	(1,555)
<b>Cash used in financing activities</b>	<b>(310)</b>	<b>(1,555)</b>
Effect of exchange rate changes on cash and cash equivalents	463	(16)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>3,967</b>	<b>(915)</b>
Cash and cash equivalents, beginning of period	23,367	24,273
<b>Cash and cash equivalents, end of period</b>	<b>27,334</b>	<b>23,358</b>
Income taxes paid in cash	673	27

*See accompanying notes to the unaudited interim consolidated financial statements*

**Coastal Contacts Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2008

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**1. BASIS OF PRESENTATION**

Coastal Contacts Inc. (the “Company”) is a global retailer of contact lenses and related vision care products sold through internet sites created and operated by the Company. The Company has operations in North America, Europe and Asia.

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements, and accordingly, do not include all disclosures required for annual financial statements. These unaudited interim consolidated financial statements reflect the same accounting principles and methods of application as those disclosed in the notes to the Company’s audited consolidated financial statements for the year ended October 31, 2007, with the exception of the application of the accounting policies described in Note 2. These unaudited interim consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended October 31, 2007.

The preparation of these unaudited interim consolidated financial statements and the accompanying notes requires management to make estimates and assumptions that affect the amounts reported. In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments necessary to state fairly the results for the periods presented. Actual results could vary from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

**2. CHANGE IN ACCOUNTING POLICIES**

Effective November 1, 2007, the Company has adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”). These standards have been adopted on a prospective basis with no restatement of prior period financial statements.

**(a) Capital disclosures**

CICA Handbook section 1535, “*Capital Disclosures*” requires the Company to disclose information about the Company’s objectives, policies and processes for managing its capital, quantitative data about what the Company regards as capital and whether the Company has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The additional disclosures are presented in note 9.

**(b) Financial instruments – Disclosure and Presentation**

CICA Handbook sections 3862, “*Financial Instruments – Disclosures*” and 3863, “*Financial Instruments – Presentation*” require the disclosure of information with regards to the significance of financial instruments for the Company’s financial position and performance, the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how the Company manages those risks. These standards replace CICA Handbook section 3861 “*Financial Instruments*”. The additional disclosures required as a result of adopting these standards are included in note 8.

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**3. FUTURE ACCOUNTING POLICIES**

**(a) Inventories**

In March 2007, the CICA approved Handbook Section 3031, “*Inventories*” which replaces the existing Handbook Section 3030, “*Inventories*”. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories. The Company is currently assessing the impact of this new accounting standard on its consolidated financial statements.

**(b) Goodwill and Intangible Assets**

In October 2007, the CICA approved Handbook Section 3064, “*Goodwill and Intangible Assets*” which replaces the existing Handbook Sections 3062, “*Goodwill and Other Intangible Assets*” and 3450 “*Research and Development Costs*”. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008, with earlier application encouraged. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

**4. SHARE CAPITAL**

**Issued and outstanding common shares**

	<u>2008</u>		<u>2007</u>	
	<u>Number of Common Shares</u>		<u>Number of Common Shares</u>	
	<u>#</u>	<u>\$000's</u>	<u>#</u>	<u>\$000's</u>
Balance, October 31	71,426,512	50,857	74,681,712	53,515
Issued on exercise of options	—	—	550,000	69
Purchased and cancelled	(211,600)	(150)	(3,805,200)	(2,727)
Balance, end of period including shares held in treasury	71,214,912	50,707	71,426,512	50,857
Shares purchased not cancelled	(139,700)	(160)	(78,500)	(89)
Balance, end of period	71,075,212	50,547	71,348,012	50,768

On October 16, 2006, the Toronto Stock Exchange accepted the Company’s notice of intention to make a Normal Course Issuer Bid for its common shares through the facilities of the exchange. Effective October 18, 2006, the Company was able to commence making purchases and cancellations of up to a maximum of 4,933,641 common shares, at the market price for the common shares at the time of acquisition. The bid was terminated on October 17, 2007, and the Company purchased a total of 3,818,600 shares, all of which have been cancelled. 3,805,200 shares were purchased at an average price per share of \$1.05 and were cancelled during the year ended October 31, 2007. The remainder were cancelled in November 2007. The excess of the purchase price over the average stated capital of the shares has been charged to retained earnings.

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**4. SHARE CAPITAL (continued)**

On October 24, 2007, the Toronto Stock Exchange accepted the Company's notice of intention to make a Normal Course Issuer Bid for its common shares through the facilities of the exchange. Effective October 26, 2007, the Company was able to commence making purchases and cancellations of up to a maximum of 4,607,285 common shares, at the market price for the common shares at the time of acquisition. As at January 31, 2008, a total of 337,900 shares had been purchased, of which 139,700 had not yet been cancelled. These shares were cancelled in February 2008. 198,200 shares were purchased at an average price per share of \$1.13 and were cancelled during the quarter ended January 31, 2008. The excess of the purchase price over the average stated capital of the shares has been charged to retained earnings.

As at January 31, 2008, 1,620,879 (October 31, 2007 – 1,620,879) shares were subject to voluntary pooling restrictions.

**Share purchase options**

The shareholders of the Company have adopted a share option plan (the "Option Plan") for its directors, officers, employees and service providers. The Option Plan provides that options to purchase common shares may be granted to eligible persons on terms determined within the limitations set out in the Option Plan. The maximum number of common shares to be reserved for issuance anytime under the Option Plan and any other employee incentive plan is 10% of the issued and outstanding common shares. The exercise price for an option granted under the Option Plan may not be less than that permitted by applicable regulatory authorities. Options granted may be subject to vesting requirements. Non-assignable options will be granted for a period which may not exceed five years from the date of the grant and will generally expire within 90 days upon the participant ceasing to be a director, officer, employee or service provider of the Company. The Option Plan is administered by the Company's Compensation and Corporate Governance Committee. The Option Plan is subject to the rules and policies of the Toronto Stock Exchange.

The following table contains information with respect to Company share options:

	<b>Amount</b>	<b>Exercise price</b>
Share purchase options outstanding, October 31, 2007	2,208,439	\$0.87 - \$1.37
Granted	360,000	\$1.05 – \$1.11
Forfeited	(31,167)	\$0.87 - \$1.37
<b>Share purchase options outstanding, January 31, 2008</b>	<b>2,537,272</b>	<b>\$0.87 – \$1.37</b>

**Coastal Contacts Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**4. SHARE CAPITAL (continued)**

The following table summarizes information about Company share purchase options outstanding as at January 31, 2008:

Range of exercise price \$	Share purchase options Outstanding			Share purchase options Exercisable	
	Number of common shares issuable	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of common shares issuable	Weighted average exercise price \$
\$0.87 - \$0.99	1,032,500	4.15	0.92	258,573	0.93
\$1.00	355,772	1.29	1.00	355,772	1.00
\$1.09 - \$1.37	1,149,000	4.54	1.11	127,528	1.16
	2,537,272	3.93	1.02	741,873	1.00

The fair value of the share purchase option grants are estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2008	2007
Dividend yield	0%	0%
Expected volatility	61%	67%
Risk free interest rate	4.2%	4.5%
Expected lives	3.0 years	3.0 years

**5. CONTRIBUTED SURPLUS**

	\$000's
Balance - October 31, 2007	973
Share-based compensation	155
Balance - January 31, 2008	1,128

**Coastal Contacts Inc.**

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**6. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

	\$000's
Balance - October 31, 2007	(4,091)
Unrealized foreign exchange gains on translation of financial statements of self-sustaining foreign operations	1,281
Balance - January 31, 2008	(2,810)

**7. EARNINGS PER SHARE**

<b>Three months ended January 31</b>	<b>2008</b>	<b>2007</b>
Weighted average number of common shares outstanding - basic	71,275,469	74,338,984
Dilutive share options and warrants	—	530,044
Weighted average number of common shares outstanding - diluted	71,275,469	74,869,028

**8. FINANCIAL INSTRUMENTS**

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, market risk, and liquidity risk. The following analysis provides a measurement of risks as at the balance sheet date of January 31, 2008. The board of directors reviews with management the principal risks affecting the Company and the systems that have been put in place to manage these risks.

**Credit risk**

The Company's principal financial assets are cash and cash equivalents, accounts receivable and promissory notes receivable, which represent the Company's exposure to credit risk in relation to financial assets.

The Company's credit risk is primarily attributable to its trade receivables and promissory notes receivable. The amounts disclosed in the balance sheet are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. To mitigate the risk of bad debts, the Company either internally or through third parties actively collects outstanding balances and has certain policies and procedures in place to limit issuances of credit where the risk of loss is determined to be high.

**Coastal Contacts Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**8. FINANCIAL INSTRUMENTS (continued)**

The credit risk on cash and cash equivalents is limited because the counterparties are banks and corporations with high credit-ratings assigned by international credit-rating agencies. The Company does not have financial assets that are invested in asset backed commercial paper.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<b>January 31, 2008 \$000's</b>	<b>October 31, 2007 \$000's</b>
Cash	8,868	11,099
Held to maturity guaranteed investment certificates, bankers acceptances and commercial paper	18,094	11,916
Other cash investments	372	352
Cash and cash equivalents	27,334	23,367
Short-term investments, held to maturity, including bankers acceptances and commercial paper	—	3,976
Accounts receivable	6,866	6,649
Promissory notes receivable, as included in due from related parties	346	342
	<b>35,546</b>	<b>34,334</b>

The investments mature 1- 290 days from the date of investment with an average interest rate of 4.2% (2007 – 4.5%).

The ageing of accounts receivable at the reporting date was:

	<b>January 31, 2008 \$000's</b>	<b>October 31, 2007 \$000's</b>
Current trade receivables	5,853	5,514
Value added taxes receivable	557	604
Aged between 60 – 119 days	152	197
Aged greater than 120 days	304	334
	<b>6,866</b>	<b>6,649</b>

Reconciliation of allowance for bad debts:

	<b>\$000's</b>
Balance, November 1, 2006	607
Increase in period	12
Balance, October 31, 2007	619
Increase in period	154
Balance, January 31, 2008	<b>773</b>

**Coastal Contacts Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**8. FINANCIAL INSTRUMENTS (continued)****Market risk**

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates will affect the Company's income or the value of the financial instruments held.

**Foreign currency exchange risk**

The Company operates internationally, and the Company's results in its respective functional currencies are subject to fluctuations as a result of exchange variations to the extent that transactions are made in currencies other than functional currencies. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

The Company is exposed to the following currency risk at January 31, 2008:

	US\$	SEK	NOK	EURO
Cash and cash equivalents	1,003	3,475	437	1,434
Accounts receivable	491	2,540	1,073	1,315
Accounts payable and accrued liabilities	(5,077)	(8,319)	(297)	(1,095)
	(3,583)	(2,304)	1,213	1,654

**Foreign currency exchange risk sensitivity analysis**

The Company is mainly exposed to fluctuations in the U.S. Dollar ("US\$"), the Swedish Krona ("SEK"), the Norwegian Kroner ("NOK") the European Union Euro ("EURO"). The following table details the Company's sensitivity analysis to a 10% strengthening in the U.S. Dollar, the Swedish Krona, the Norwegian Kroner and the European Union Euro on net earnings and comprehensive income against the Canadian dollar. The sensitivity analysis includes foreign currency denominated monetary items and adjusts their translation at period end for a 10% change in the foreign currency rates. For a 10% weakening of the U.S. Dollar, the Swedish Krona, the Norwegian Kroner and the European Union Euro against the Canadian dollar, there would be an equal and opposite impact on net earnings and comprehensive income.

	US\$	SEK	NOK	EURO
Net earnings	(516)	29	518	253
Comprehensive income	—	1,433	—	642

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**8. FINANCIAL INSTRUMENTS (continued)**

**Interest rate risk**

The Company's policy is to invest cash and cash equivalents at floating rates of interest, in order to maintain liquidity, while achieving a satisfactory return for the Company. Fluctuations in interest rates impact on the value of cash equivalents. The Company's exposure to interest rate risk is limited, as the Company does not have any interest bearing financial liabilities.

**Liquidity risk**

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet requirements. The Company does not have long-term financial liabilities. The Company has the following financial liabilities at the reporting date, all of which are due within sixty days:

	<b>January 31, 2008 \$000's</b>	<b>October 31, 2007 \$000's</b>
Accounts payable - trade	12,706	10,902
Accrued liabilities	3,957	2,657
Value added tax payable	100	322
	<hr/> 16,763	<hr/> 13,881

**Fair values**

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, promissory notes receivable and accounts payable. The carrying value of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities approximates their fair value due to the immediate or short term maturity of these financial instruments. The fair value of the promissory notes receivable are not reasonably determinable due to the related party nature of the amounts and the absence of a secondary market for such instruments.

**Coastal Contacts Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**9. MANAGEMENT OF CAPITAL**

The Company's objective is to maintain a sufficient capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company considers the items included in the consolidated shareholders' equity, cash and cash equivalents as capital.

In order to maintain or adjust its capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids or other issuer bids, issue dividends, issue new debt or issue new shares. The Company does not use financial ratios to manage capital, and neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirements.

**10. SEGMENTED INFORMATION**

The Company operates in one business segment, the sale of contact lenses and related vision care products. The Company ships product from North America and Europe to customers in North America, Europe and Asia.

Geographical information is based on the location of the customers in which the Company sells contact lenses and related vision care products. Intercompany revenues have been excluded from the revenues in the country of shipment.

	United States \$000's	Sweden \$000's	Norway \$000's	Other \$000's	Total \$000's
<b>Revenue</b>					
<b>3 months ended January 31, 2008</b>	<b>3,928</b>	<b>6,020</b>	<b>4,152</b>	<b>11,275</b>	<b>25,375</b>
3 months ended January 31, 2007	5,053	6,057	3,476	9,019	23,605
<b>Property, equipment and leasehold improvements</b>					
<b>As at January 31, 2008</b>	<b>—</b>	<b>1,583</b>	<b>—</b>	<b>1,318</b>	<b>2,901</b>
As at October 31, 2007	—	1,466	—	1,234	2,700
<b>Intangible assets</b>					
<b>As at January 31, 2008</b>	<b>—</b>	<b>4,788</b>	<b>—</b>	<b>7,497</b>	<b>12,285</b>
As at October 31, 2007	—	4,506	—	7,206	11,712
<b>Goodwill</b>					
<b>As at January 31, 2008</b>	<b>—</b>	<b>5,765</b>	<b>—</b>	<b>2,221</b>	<b>7,986</b>
As at October 31, 2007	—	5,475	—	2,054	7,529

Included in "Other" are revenues to non-related customers in the Company's home domicile of \$2.6 million for the three months ended January 31, 2008 (2007 - \$1.3 million). Property, equipment and leasehold improvements located in the Company's home domicile were \$1.1 million at January 31, 2008 (2007 - \$1.1 million), and intangible assets were \$1.7 million at January 31, 2008 (2007 - \$1.8 million).

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**11. CONTINGENCIES**

- (a) Under the terms of the agreement to acquire the shares of Asianzakka PTE. Ltd., the Company would have been required to make contingent payments of 0.8 million Singapore Dollars (\$0.5 million) on January 31, 2008 and may be required to make 0.4 million Singapore Dollars (\$0.3 million) on July 31, 2008. The payments are contingent on Asianzakka meeting specified revenue and net income margin targets. The targets for the contingent payment at January 31, 2008 have not been achieved. A liability for the contingent payment due on July 31, 2008 has not been accrued in the financial statements as the amount of the liability, if any, cannot be determined at this time.
- (b) On September 6, 2007, the Company received a petition filed by the College of Opticians of British Columbia (the "Opticians") in the Supreme Court of British Columbia. The Opticians seek an order to restrict Coastal Contacts Inc. from selling contact lenses to members of the public in British Columbia. Management of the Company believes the petition is without merit, and intends to vigorously defend against these actions.

**12. SUBSEQUENT EVENTS**

- (a) On February 25, 2008, the Company completed the purchase of 6,837,344 common shares pursuant to an Issuer Bid. The shares were repurchased at \$1.25 per share, for a total cost of \$8,546,680 and associated expenses.
- (b) In March 2008, the Company commenced a restructuring of a part of its global operations. Under the restructuring plans, the Company expects it will incur severance and other costs of approximately \$0.8 million, none of which have been accrued at January 31, 2008.

**13. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current period's presentation.