Management's Discussion and Analysis of Financial Condition and Results of Operations for the Year Ended October 31, 2008

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) is dated as of December 17, 2008 and should be read in conjunction with Coastal Contacts Inc.'s (the "Company", "our", "we", "us" or "Coastal Contacts") audited consolidated financial statements and notes thereto for the year ended October 31, 2008. We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") and use Canadian dollars as our reporting currency.

Forward-looking statements

All statements made in this management's discussion and analysis, other than statements of historical fact, are forward-looking statements. The words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", "goal", "target", "should," "likely," "potential," "continue," "project," "forecast," "prospects," and similar expressions typically are used to identify forward-looking statements. Examples of such forward looking statements within this document include statements relating to: our perception of the contact lens industry or market and anticipated trends in that market in any of the countries in which we do business; our anticipated ability to procure products, or the terms under which we may procure our products; our anticipated business operations, inventory levels, ability to handle specific order and call volumes, ability to fill and timely ship orders, ability to achieve greater marketing efficiency or similar statements; our relationships with suppliers; our anticipated results of operations, including but not limited to anticipated sales, revenues, earnings, tax benefits or similar matters; sufficiency of cash flows; and our perceptions regarding volatility in and impact of foreign currency exchange rates.

Forward-looking statements are based on the then-current expectations, beliefs, assumptions, estimates and forecasts about our business and the industry and markets in which we operate. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions which are difficult to predict. Assumptions underlying our expectations regarding forward-looking statements or information contained in this MD&A include, among others: that we will maintain our position in the markets we operate in and expand into other markets in a favourable manner; that we will have sufficient capital to continue making investments in advertising and personnel to support our business and new product lines, including our prescription eyeglass business; that we will be able to generate and maintain sufficient cash flows to support our operations; that we will be successful in defending against the appeal by the College of Opticians in British Columbia; that we will be able to establish and/or maintain necessary relationships with suppliers; and that we will retain key personnel. The foregoing list of assumptions is not exhaustive.

Persons reading this MD&A are cautioned that forward-looking statements or information are only predictions, and that our actual future results or performance may be materially different due to a number of factors. These factors include, but are not limited to: changes in the market; potential downturns in economic conditions; consumer credit risk; our ability to implement our business strategies; competition; limited suppliers; inventory risk; disruption in our distribution facilities; mergers and acquisitions; foreign currency exchange rate fluctuations; regulatory requirements; demand for contact lenses and related vision care products; competition and dependence on the internet and other risks detailed in our filings with the Canadian securities regulatory authorities. Reference should be made to the section entitled "Risk Factors" contained in our most recently filed

Annual Information Form dated January 2, 2008, for a detailed description of the risks and uncertainties relating to our business. These risks, as well as others, could cause actual results and events to vary significantly. Accordingly, readers should not place undue reliance on forward-looking statements and information, which are qualified in their entirety by this cautionary statement. These forward-looking statements are made as of the date of this MD&A and we expressly disclaim any intent or obligation to update these forward-looking statements, unless we specifically state otherwise.

Overview

Coastal Contacts is a leading worldwide direct to consumer retailer of vision care products, with customers in North America, Europe and the Asia Pacific region. Coastal has created a leading multinational optical business designed to provide significant savings to consumers and enhanced service levels when compared with traditional sources of vision care products, such as retail optical stores or directly from eye care practitioners.

In eight short years, our business has grown to 1.2 million orders shipped in our 2008 fiscal year and 312,000 orders shipped in the fourth quarter of 2008. While initially we focused on the North American market, in recent years we have successfully executed on our strategy of global market diversification, achieving the largest market share of any direct to consumer contact lens retailer in many global markets. We are focused on achieving consistent and sustainable growth through the continued development of our core business. Our growth initiatives include the expansion into new markets through existing distribution hubs, the expansion of market share within existing markets and the introduction of new products.

Recent market data estimates the global market for contact lenses at $4.8 billion in 2006. North America accounted for approximately 41% of global sales, Asia accounted for approximately 29% and Europe accounted for approximately 30%. The global market for contact lenses continues to grow at approximately 9% per annum, with higher growth rates occurring internationally outside of the United States. The slower growth in the United States is due primarily to the high penetration of contact lens wearers among its adult population. As a result, less mature international markets are growing faster on average than the United States market and we believe this trend presents an opportunity. To date we have focused on expanding our geographic footprint into important markets around the world for contact lenses. Coastal plans to continue its efforts to grow both organically and through timely strategic acquisitions.

In addition, our database of vision corrected customers around the world represents a significant opportunity. To date we have been successful in offering additional vision care products to our customers such as eyeglasses, contact lens solutions and sunglasses.

Selected Annual Information

Years ended October 31 ($000's except share and per common share information)	2008	2007	2006
Sales	118,759	102,174	81,014
Gross profit	32,516	27,677	20,305
Earnings (loss) before taxes	(9)	2,588	(385)
Income tax expense – current	908	901	580
Income tax expense (recovery) – future	(131)	62	371
Net earnings (loss)	(786)	1,625	(1,336)
Adjusted EBITDA [1]	3,495	4,230	304
Total assets	56,255	66,082	68,076
Total long-term financial obligations	-	-	-
Dividends	-	-	-
Weighted average number of common shares – basic	64,559,267	72,948,602	68,018,799
Weighted average number of common shares – fully diluted	64,559,267	73,074,756	68,018,799
Basic earnings (loss) per share	(0.01)	0.02	(0.02)
Fully diluted earnings (loss) per share	(0.01)	0.02	(0.02)

[1] Adjusted EBITDA is a non-GAAP measure that does not have a standardized meaning prescribed by Canadian GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. Refer to *Supplemental Non-GAAP Measures*.

Quarterly Financial Information
(in $000's, except per common share amounts)

Quarter ended	Oct. 31, 2008	July 31, 2008	Apr. 30, 2008	Jan. 31, 2008	Oct. 31, 2007	July 31, 2007	Apr. 30, 2007	Jan. 31, 2007
Sales	32,027	32,725	28,632	25,375	26,657	27,310	24,602	23,605
Net Income (loss)	397	211	(692)	(701)	257	374	313	681
Weighted average # of shares - basic	58,451	63,430	65,092	71,275	72,015	72,454	72,974	74,339
Weighted average # of shares - diluted	58,605	63,535	65,353	71,275	72,194	73,031	73,457	74,869
Basic earnings (loss) per share	0.01	0.00	(0.01)	(0.01)	0.00	0.01	0.00	0.01
Diluted earnings (loss) per share	0.01	0.00	(0.01)	(0.01)	0.00	0.01	0.00	0.01

Results of operations and comparison of the quarters and years ended October 31, 2008 and October 31, 2007

Revenues increased by $5.3 million or 20% to $32.0 million in the three months ended October 31, 2008 as compared to $26.7 million during the same period in 2007. Our revenues grew 10% due to an increase in shipped orders*, 6% as a result of favourable foreign currency exchange rates, and 4% due to an increase in our average revenue per order, exclusive of foreign exchange. Our revenues increased in all of our major markets as a result of continued growth in marketing investments, the prescription eyeglasses business we launched in fiscal 2008, and our customers' continued adoption of the direct to consumer sales model. More specifically, our revenues from sales to customers resident in the US grew by 21%, Sweden by 18%, and Norway by 15% in the fourth quarter of 2008 relative to the same period last year.

Revenues increased by 16% in the 2008 fiscal year to $118.8 million compared to $102.2 million in our 2007 fiscal year. Our revenue grew 12% due to an increase in shipped orders, decreased by 1% as a result of foreign currency exchange rates, and increased by 5% as a result of increased revenue per order, exclusive of foreign exchange. Similar to our quarterly revenue growth, our annual revenues increased in all of our major markets as a result of continued growth in marketing investments, the introduction of our new prescription eyeglasses business, and our customers' continued adoption of the direct to consumer sales model.

During the three month ended October 31, 2008, gross margins increased to 28.3% as compared to 27.1% for the same period in 2007. During the year ended October 31, 2008, gross margins improved to 27.4% as compared to 27.1% in the year ended October 31, 2007. These improvements resulted from increases in retail prices and reduced product costs and shipping rates. These improvements were partially offset by increases in employment costs relating to our investments in expanding our product lines, such as prescription eyeglasses. We generally experience higher gross margins in more mature markets where we achieve a significant leadership position.

Selling, general and administrative ("SG&A") expenses increased to $7.4 million, or 23.1% of sales in the fourth fiscal quarter of 2008, as compared with $5.6 million or 21.0% of sales in the fourth quarter of the 2007 fiscal year. SG&A expenses increased to $28.9 million or 24.3 % of sales in the year ended October 31, 2008, from $23.5 million or 23.0% of sales in 2007. During the periods identified we executed on additional planned investments in advertising and personnel to support our growing global businesses and our new product lines.

Much of our investments are made with the goal of establishing a dominant leadership position in many of the markets in which we participate. Our experience has been that we can achieve higher retail pricing power and greater advertising efficiencies, which are measured by advertising costs as a proportion of total revenues, in markets which have largely adopted our model for buying contact lenses, have high internet use penetration and in which we hold clear market share leadership. In addition to size and market position, our reorder rate*, which is in excess of 70% in some of these markets and is approximately 65 to 70%, for our Company globally, further enhances that efficiency. Our goal is to replicate our success in these markets into other markets, by offering similar levels of service, and by investing in similar brand-building marketing techniques.

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* Orders shipped, reorders and reorder rate is a non-GAAP measures that does not have a standardized meaning prescribed by Canadian GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. Refer to *Supplemental Non-GAAP Measures*.

In the quarter ended October 31, 2008, we recognized foreign currency exchange losses on the translation of our monetary assets of $0.4 million, compared to losses of $0.6 million in the same period of the previous year. In the year ended October 31, 2008, we recognized foreign currency exchange losses on the translation of our monetary assets of $0.1 million, compared to negligible gains in the same period of the previous year. We do not hold any financial instruments for the purposes of hedging exposure to foreign currency fluctuations.

In the second half of the 2008 calendar year, disruption of global financial markets resulted in increased volatility in foreign exchange rates, with particular strength in the US Dollar (USD) against other currencies. We operate internationally and our operating results are subject to fluctuations in foreign currency exchange rates to the extent that transactions are made in currencies other than the functional currencies of our operating entities.

While most of our product purchases and operating costs are denominated in US Dollars (USD) or Swedish Krona (SEK), a significant portion of our exposure to those currencies is naturally hedged by revenues in those currencies. However, a material portion of our revenues are generated in other currencies, such as the Canadian Dollar (CAD), Norwegian Kroner and the currency of the European Union (Euro). Fluctuations in the USD or the SEK relative to other currencies can have a significant impact on profit margins derived from other countries. Conversely, we may benefit from a weakness in SEK and CAD to the extent that we incur costs in those currencies to generate revenues in other stronger currencies.

Amortization for the quarter ended October 31, 2008 increased by $0.1 million from the same quarter of the previous year to $0.6 million. Amortization increased to $2.6 million in the year ended October 31, 2008 from $2.0 million in 2007. These increases are due to additions to leasehold improvements and capital expenditures on eyeglass manufacturing equipment. We expect to make further capital expenditures to support the growth of our prescription eyeglasses business.

During the second fiscal quarter of 2008, we incurred certain restructuring charges associated with the consolidation of our Dutch and Asian operations totaling $0.8 million. This one time charge was comprised of severance costs and other costs such as inventory and other asset revaluations and general and administrative costs related to the restructuring. The efficiencies we achieved on overhead costs were redirected to these efforts elsewhere in our business.

Net interest income decreased to $0.1 million during the quarter ended October 31, 2008 from $0.2 million during the quarter ended October 31, 2007 and to $0.5 million in the year ended October 31, 2008 from $ 0.8 million in the same period of 2007 largely as a result of reduced cash balances and decreased interest rates.

Our tax expense, as a percentage of income in the countries in which we generate taxable income, remained constant in the fourth fiscal quarter and throughout the year of 2008 compared to the same periods of 2007. Our European operations generate taxable income, while in Canada we have incurred losses that can be applied against current and future taxable earnings to reduce our tax liability on those earnings. As we are uncertain of realizing the future benefit of those losses, we have taken a valuation allowance against these future tax assets. Consequently, our consolidated tax expense, as a percentage of income before income taxes, will vary from quarter to quarter, sometimes significantly, in line with the mix of net earnings within each taxable jurisdiction.

Liquidity and Capital Resources

At October 31, 2008 we had cash and cash equivalents of $15.2 million as compared to cash and cash equivalents of $23.4 million and $3.9 million in short-term investments, totaling $27.3 million at October 31, 2007.

Cash inflows from operations during the fourth fiscal quarter of 2008 were $1.8 million, $1.2 million of which was from net earnings excluding non-cash items, and $0.6 million of which was from reduction in total working capital. This compares to cash inflows from operations of $5.7 million in the same period last year, of which $1.0 million was inflows from net income excluding non-cash items, offset by cash outflows of $4.7 million that was from a decrease in our non-cash working capital primarily due to collections of accounts receivable, lower prepaid expenses and higher accounts payable and accrued liabilities.

Cash inflows from operations for the year ended October 31, 2008 was $4.5 million, $2 million of which was from net loss excluding non-cash items, and $2.5 million of which was from a reduction in working capital. For the same period in 2007, we had cash inflows from operations of $9.4 million, of which $3.6 million was from net income excluding non-cash items and $5.8 million of which was from reductions in working capital. The decrease in our non-cash working capital is primarily due to lower inventory levels and an increase in accounts payable and accrued liabilities. Cash flows from changes in non-cash working capital can fluctuate from quarter to quarter in the ordinary course of business with the timing of receipts and payments from customers and suppliers.

We used $0.5 million for investing activities in the fourth quarter of 2008 primarily relating to the acquisition of eyeglass production equipment and leasehold improvements. We generated $2.2 million from investing activities in the year ended October 31, 2008 as maturities of our short term investments of $4.0 million exceeded $1.8 million we invested in leasehold improvements, production equipment purchases and software development.

Our financing activities during the fourth quarter and year ended October 31, 2008 consisted primarily of purchases of our shares. Over the past two fiscal years, we have purchased and cancelled a total of 16,922,444 shares of our common share capital. On October 18, 2006, we initiated a Normal Course Issuer Bid, or NCIB, under which we purchased and cancelled 3,818,600 shares at an average price of $1.05 by the time the NCIB ended on October 17, 2007. Similarly, we purchased and cancelled an additional 1,266,500 shares at an average price of $1.11 out of the total of 4,607,285 maximum eligible for purchase under another NCIB initiated on October 24, 2007 and terminated on October 23, 2008. Shares were purchased under the NCIBs at the market price for the common shares at the time of the acquisition and were subsequently cancelled. We have been actively purchasing our common shares for cancellation throughout the year and may purchase more shares for cancellation in the future.

Additionally we completed two share buybacks during our 2008 fiscal year. On February 25, 2008 we acquired and cancelled 6,837,344 of our common shares through a modified “Dutch auction” issuer bid, for total consideration of $8.5 million, and on August 1, 2008, we purchased and subsequently cancelled 5,000,000 common shares for a total of $5,000,000.

We believe that available cash, together with cash flow from operating activities will be sufficient to support our operations beyond the end of fiscal 2009.

We are actively expanding our product offerings, purchasing our common shares for cancellation and seeking strategic acquisitions. While our wholly-owned foreign subsidiaries hold a majority of our cash balances they generate our cash flows from earnings. We may incur additional costs transferring funds from these subsidiaries to our parent company. We may seek additional sources of funds for accelerated growth, common share purchases, acquisitions of companies or assets or other activities, and there can be no assurance that such funds will be available on satisfactory terms, or at all. Failure to obtain such financing could delay or prevent our planned growth, which could adversely affect our business, financial condition and results of operations.

Critical Accounting Estimates

The Company prepares its consolidated financial statements in accordance with Canadian GAAP. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates are based upon historical experience and other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an on-going basis and form the basis for making decisions regarding the carrying value of assets and liabilities and the reported amount of revenues and expenses. Actual results may differ from these estimates under different assumptions.

We have identified the following as critical accounting estimates, which are defined as those that are reflective of significant judgments and uncertainties, are the most pervasive and important to the presentation of our financial condition and results of operations and could potentially result in materially different results under different assumptions and conditions.

Revenue Recognition

Revenue from product sales is recognized when a completed product has been shipped to the customer. At this point, the amount of sales revenue is determinable, no significant vendor obligations remain and the collection of the revenue is reasonably assured. A provision is made for product returns and doubtful accounts receivables.

Deferred revenue includes revenue collected in advance of the product being shipped to the customer.

Accounting for Long-lived Assets

The ability to realize long-lived assets which are primarily comprised of customer lists and website creation costs are evaluated periodically as events or circumstances indicate a possible inability to recover their carrying amount. Such evaluation is based on assessment of reorder rates and various analyses, including undiscounted cash flow and profitability projections that incorporate, as applicable, the impact on the existing business. The analyses necessarily involve significant management judgment. Any impairment loss, if indicated, is measured as the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset.

Accounting for Goodwill and Intangible Assets with Indefinite Lives

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill is not amortized and we perform an annual impairment test of our recorded goodwill. In addition, we test our other indefinite-lived intangible assets for impairment. These impairment tests can be significantly altered by estimates of future performance, long-term discount rates used or market price valuation multiples. The analyses necessarily involve significant management judgment. These estimates will likely change over time. Goodwill and intangible assets with indefinite lives totaled $15.7 million and $14.9 million at October 31, 2008 and October 31, 2007, respectively.

Allowance for Doubtful Accounts

We offer credit to most of our customers. These customers do not have to pay for the order until the goods are received – generally estimated to be less than 15 days. The majority of the individual receivable balances are small amounts of less than $150 and there are a large number of records. Given the composition of the receivable portfolio, using a specific balance approach for the bulk of the receivables is not feasible. Consequently, management estimates an allowance for doubtful accounts based on the aging of the receivable portfolio. The analyses necessarily involve significant judgment. These analyses can be significantly altered by estimates of the probability of future collection or changes in payment patterns of customers. The allowance for doubtful accounts was $0.8 million at October 31, 2008 and $0.6 million at October 31, 2007.

Share-based Compensation

The fair value of each share purchase option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. The amount of share-based compensation associated with any share purchase options that are granted will be estimated and expensed, based on the vesting schedule, using assumptions involving the estimated dividend yield, expected volatility, the risk-free interest rate and the expected lives of the share purchase options.

Income taxes

We account for income taxes using the liability method of accounting. Under the liability method, future income tax assets and liabilities are determined based on differences between the carrying amounts of balance sheet items and their corresponding tax values. The determination of the income tax provision requires management to interpret regulatory requirements and to make certain judgements. While income tax filings are subject to audits and assessments, management believes that adequate provision has been made for all income tax obligations. However, changes in the interpretations or judgements may result in an increase or decrease in our income tax provision in the future. The amount of any such increase or decrease cannot be reasonably estimated.

Change in Accounting Policies

Effective November 1, 2007, the Company adopted the new accounting standards related to financial instruments and comprehensive income that were issued by the Canadian Institute of Chartered Accountants. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

Financial instruments

All financial assets and liabilities are recorded on the balance sheet. Initial recognition of financial assets and liabilities is at fair value. The Company applied the new accounting standards and their implementation did not have a significant impact on the Company's results of operations or financial position. Subsequent measurement of the financial assets and liabilities is determined as follows:

Cash is measured at fair value, with changes in fair value recorded in net income. The carrying amount approximates fair value.

Accounts receivable, classified as loans and receivables, and accounts payable, classified as other financial liabilities, are measured at fair value at inception, which, due to their short-term nature, approximates their amortized cost.

Promissory notes receivable, classified as loans and receivables, are measured at amortized cost, which approximates face value, with interest earned recorded in net income.

Advances to officers classified as loans and receivables, are measured at amortized cost, which approximates face value, with interest earned recorded in net income.

Comprehensive income

Comprehensive income includes net earnings and other comprehensive income. Other comprehensive income refers to changes in net assets from certain transactions and events, other than transactions with shareholders. These changes are recorded directly as a separate component of shareholders' equity and excluded from net earnings. The Company's other comprehensive income includes the foreign currency translation adjustment for its foreign subsidiaries that do not use the Canadian dollar as their measurement currency. Cumulative foreign currency translation adjustment balances of prior years have been reclassified as accumulated other comprehensive income. The Company applied the new accounting standards beginning in November 2007 and their implementation did not have a significant impact on the Company's results of operations or financial position.

Common Shares

As at December 17, 2008, the Company had 58,318,643 common shares and 3,176,271 options outstanding. Of these securities, 807,428 common shares are subject to voluntary pooling agreements and 1,107,369 options have not yet vested as of December 17, 2008.

Related Party Transactions

As at October 31, 2008, there were seven promissory notes receivable from officers ranging in value from $0.01 million to $0.1 million and totaling $0.32 million. Accumulated interest on these notes totals $0.04 million. The notes are payable on demand and bear interest at a rate of 5% per annum.

During the year, we received net re-payments from officers in the amount of $0.05 million (2007 – advanced $0.07 million). The debtors are personally liable for the amounts owed.

Contractual Obligations

We are committed to minimum annual payments, primarily related to lease costs on our premises, as follows:

	$000's
2009	1,131
2010	734
2011	187
2012 and thereafter	-
	2,052

Operating costs on leases have been excluded. We have no obligations for annual payments related to long-term debt or capital lease obligations.

Contingencies

Under the terms of the agreement to acquire the shares of Asianzakka PTE. Ltd., we may have been required to make a contingent payment of $0.7 million on January 31, 2008 and $0.4 million on July 31, 2008. These payments were contingent on Asianzakka meeting specified revenue and net income margin targets. These targets were not met. Consequently, the amounts did not become payable.

On September 6, 2007, we received a petition filed by the College of Opticians of British Columbia (the "Opticians") in the Supreme Court of British Columbia. The Opticians sought an order to us from selling contact lenses to members of the public in British Columbia. On April 25th, 2008, the Supreme Court of British Columbia denied the petition filed by the Opticians.

In May 2008 we received a notice of appeal filed by the Opticians with the British Columbia Court of Appeal seeking to overturn the ruling by the Supreme Court of British Columbia. We believe the original petition and the subsequent appeal is without merit and intend to vigorously defend against the appeal.

In the ordinary course of our business, inquiries are made periodically by regulatory authorities and assertions are made. We review these and respond to them in due course. To date, no reservation or provision has been made in the financial statements in connection with these matters.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as defined by applicable securities regulations in Canada at October 31, 2008 that have, or are reasonably likely to have, a current or future material effect on our results of operations or financial condition.

Critical Suppliers

We currently purchase significant amounts of inventory from a limited number of major suppliers. We believe that alternative suppliers are available should those suppliers refuse or be unable to provide us with products.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

As of October 31, 2008, an evaluation of the design and effectiveness of the Company's disclosure controls and procedures as defined in National Instrument 52-109 was carried out. Based on that evaluation, the CEO and CFO concluded that the design and operation of those disclosure controls and procedures were effective.

Internal Contols over Financial Reporting

Management is responsible for certifying the design of the Company's internal control over financial reporting as required by National Instrument 52-109.

Our internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the CEO and CFO, carried out an evaluation of the design of our internal controls over financial reporting as at October 31, 2008. Management believes the design to be sufficient for the nature and size of the Company's business, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

During the fourth quarter of 2008, management did not make changes to its system of internal controls that materially affect internal controls over financial reporting.

Supplemental Non-GAAP Measures

We report our results in accordance with Canadian GAAP, however, we present Adjusted EBITDA and the number of orders shipped and the reorder rate in our filings because we believe our investors use these figures to make investment decisions about us.

Adjusted EBITDA is a non-GAAP measure that does not have any standardized meaning prescribed by Canadian GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. Adjusted EBITDA should be considered in addition to, and not as a substitute for, net income, cash flows and other measures of financial performance and liquidity reported in accordance with Canadian GAAP.

Adjusted EBITDA is a measure we believe is useful in assessing performance and highlighting trends on an overall basis. Adjusted EBITDA differs from the most comparable GAAP measure, net income, primarily because it does not include interest, income taxes, amortization, restructuring cost and share-based compensation expense.

The following table provides a reconciliation of net earnings to Adjusted EBITDA:

($000's)	**2008**	**2007**	**2006**
Net earnings (loss)	(786)	1,625	(1,336)
Depreciation and amortization	2,580	2,032	1,311
Interest income, net	(547)	(833)	(890)
Income tax expense – current	908	901	580
Income tax expense (recovery) – future	(131)	62	371
Share-based compensation	627	443	268
Restructuring cost*	844	_	_
Adjusted EBITDA	3,495	4,230	304

*Adjusted EBITDA excludes non-operational, non recurring restructuring costs

Additional Information

Additional information relating to the Company, including our most recently filed annual information form dated January 2, 2008, can be found on SEDAR at www.sedar.com.