



**Coastal Contacts Inc.**

**ANNUAL INFORMATION FORM**

For the year ended October 31, 2009

Dated January 29, 2010

## TABLE OF CONTENTS

<b>INTRODUCTION</b> .....	<b>1</b>
<b>CORPORATE STRUCTURE</b> .....	<b>4</b>
GENERAL.....	4
<b>GENERAL DEVELOPMENT OF THE BUSINESS</b> .....	<b>4</b>
THREE YEAR HISTORY .....	4
PURCHASES OF OUR COMMON SHARES .....	4
<b>THE BUSINESS</b> .....	<b>5</b>
OVERVIEW.....	5
PRODUCTS AND SERVICES .....	6
SALES AND MARKETING.....	7
PERSONNEL .....	8
COMPETITIVE CONDITIONS.....	8
INTANGIBLE & INTELLECTUAL PROPERTY.....	9
SEASONALITY.....	10
ECONOMIC DEPENDENCE.....	10
<b>RISK FACTORS</b> .....	<b>11</b>
RISKS RELATED TO OUR COMPANY.....	11
LITIGATION.....	18
RISKS RELATED TO THE INTERNET .....	21
<b>DIVIDENDS</b> .....	<b>22</b>
<b>CAPITAL STRUCTURE</b> .....	<b>23</b>
COMMON SHARES.....	23
PREFERRED SHARES .....	23
<b>MARKET FOR SECURITIES</b> .....	<b>23</b>
TRADING PRICE AND VOLUME.....	23
<b>POOLED SECURITIES</b> .....	<b>24</b>
<b>DIRECTORS AND EXECUTIVE OFFICERS</b> .....	<b>24</b>
AUDIT COMMITTEE.....	25
COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE .....	27
CONFLICTS OF INTEREST .....	27
CORPORATE CEASE TRADE ORDERS OR BANKRUPTCIES .....	27
<b>LEGAL PROCEEDINGS</b> .....	<b>28</b>
<b>REGISTRAR AND TRANSFER AGENT</b> .....	<b>28</b>
<b>INTEREST OF MANAGEMENT IN MATERIAL TRANSACTIONS</b> .....	<b>28</b>
<b>MATERIAL CONTRACTS</b> .....	<b>28</b>
<b>INTERESTS OF EXPERTS</b> .....	<b>28</b>
<b>ADDITIONAL INFORMATION</b> .....	<b>29</b>
<b>APPENDIX A – AUDIT COMMITTEE CHARTER</b> .....	<b>A-1</b>

## INTRODUCTION

All dollar amounts in this annual information form (the "Annual Information Form") are in Canadian dollars, except where otherwise indicated. The reporting currency of Coastal Contacts Inc. is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the date prevailing on the transaction date. Foreign currency translation gains or losses are recorded in income in the period in which they occur. Some figures and percentages may not total exactly due to rounding.

We have four material, wholly owned, foreign operating subsidiaries. Four of these subsidiaries are classified as self-sustaining foreign operations and their financial statements are translated into Canadian dollars using the current method as follows: (i) assets and liabilities are translated at the rate of exchange in effect at the balance sheet date; (ii) revenue and expense items are translated at the average rate of exchange in effect for the period in which such items are recognized; and (iii) exchange gains or losses arising from translation are deferred in a separate component of shareholders' equity. One of our foreign operating subsidiaries is classified as an integrated foreign subsidiary and its financial statements are translated using the temporal method as follows: (i) monetary items are translated into the reporting currency at the exchange rate in effect at the balance sheet date; (ii) non-monetary items are translated at the historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rate in effect at the balance sheet date; (iii) revenue and expense items are translated in a manner that produces substantially the same reporting currency amounts that would have resulted had the underlying transactions been translated on the dates they occurred; and (iv) depreciation and amortization of assets translated at historical exchange rates are translated at the same exchange rates as the assets to which they relate.

Certain information contained in this Annual Information Form concerning the industry in which we operate has been obtained from publicly available information from third party sources. We have not verified the accuracy or completeness of any information contained in such publicly available information. In addition, we have not determined if there has been any omission by any such third party to disclose any facts, information or events which may have occurred prior to or subsequent to the date as of which any such information became publicly available or which may affect the significance or accuracy of any information contained in any such information and summarized herein.

All statements made in this Annual Information Form, 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 ship orders in a timely manner, ability to achieve greater marketing efficiency; 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; growth of the retail internet vision care industry; future governmental, legislative and legal developments; outcome and effects of litigation; 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 Annual Information Form 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

eyeglasses business; that we will be able to generate and maintain sufficient cash flows to support our operations; that the outcome of the appeal by the College of Opticians in British Columbia will not significantly impact our business; 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 Annual Information Form 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; limited availability of inventory; inventory risk; disruption in our distribution facilities; mergers and acquisitions; foreign currency exchange rate fluctuations; regulatory requirements; demand for contact lenses, eyeglasses and related vision care products; competition; the risk that we will not be successful in defending against litigation; and dependence on the internet and other factors referred to in this Annual Information Form under "Risk Factors." 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 Annual Information Form and we expressly disclaim any intent or obligation to update these forward-looking statements, unless we specifically state otherwise and except as required by applicable law. For a complete discussion of the assumptions, risks and uncertainties related to our business, you are encouraged to review our filings with Canadian securities regulatory authorities filed on SEDAR at <http://www.sedar.com>.

The following tables set forth, for each period indicated, information concerning the exchange rates between Swedish krona, Euro, United States dollar, Japanese yen, Norwegian krone and Canadian dollar based on the Bank of Canada nominal noon exchange rates. The tables below illustrate the portion or multiples of each currency it would take to buy one Canadian dollar.

<b>Fiscal Year Ended October 31,</b>	<b>Swedish Krona per CDN\$</b>			
	<b>Average<sup>(1)</sup></b>	<b>Low</b>	<b>High</b>	<b>Period End</b>
2009	6.6765	6.3492	7.1250	6.5445
2008	6.1584	5.7637	6.8729	6.4103
2007	6.2281	5.8275	6.6979	6.6979

<b>Fiscal Year Ended October 31,</b>	<b>Euro per CDN\$</b>			
	<b>Average<sup>(1)</sup></b>	<b>Low</b>	<b>High</b>	<b>Period End</b>
2009	0.6273	0.5775	0.6679	0.6291
2008	0.6523	0.6156	0.7436	0.6483
2007	0.6768	0.6399	0.7277	0.7277

<b>Fiscal Year Ended October 31,</b>	<b>US\$ per CDN\$</b>			
	<b>Average<sup>(1)</sup></b>	<b>Low</b>	<b>High</b>	<b>Period End</b>
2009	0.8551	0.7698	0.9748	0.9243
2008	0.9733	0.7759	1.0852	0.8302
2007	0.9088	0.8435	1.0585	1.0585

<b>Fiscal Year Ended October 31,</b>	<b>Japanese Yen per CDN\$</b>			
	<b>Average<sup>(1)</sup></b>	<b>Low</b>	<b>High</b>	<b>Period End</b>
2009	80.61	68.92	90.09	84.03
2008	103.15	72.15	123.89	80.84
2007	107.86	98.23	121.36	121.36

<b>Fiscal Year Ended October 31,</b>	<b>Norwegian Krone per CDN\$</b>			
	<b>Average<sup>(1)</sup></b>	<b>Low</b>	<b>High</b>	<b>Period End</b>
2009	5.5547	5.1230	5.9172	5.2910
2008	5.2445	4.8996	5.7870	5.5340
2007	5.4518	5.2083	5.7571	5.6754

<sup>(1)</sup> The average of the daily nominal noon exchange rates during the year.

## CORPORATE STRUCTURE

### **General**

The full corporate name of our Company is Coastal Contacts Inc. Our head office is located at Suite 320, 2985 Virtual Way, Vancouver, British Columbia, V5M 4X7 and our registered and records office is located at Suite 1000, 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

We were incorporated under the *Canada Business Corporations Act* on December 14, 2000. On December 23, 2003, we subdivided our issued and outstanding capital on the basis of two new common shares for every one issued and outstanding common share. On March 4, 2005, our articles were amended to provide for staggered three-year terms for our directors.

As of the date hereof, we had four material, wholly-owned operating subsidiaries: Lenslogistics AB which is organized under the laws of Sweden, Asianzakka Pte Ltd. ("Asianzakka"), which is organized under the laws of Singapore and Lensway BV and Condis BV, both of which are organized under the laws of the Netherlands. The Company determined that Eye-2 BV was no longer a material subsidiary. For the remainder of this document, the consolidated operations of our Company and its subsidiaries will be referred to collectively as "we", "our", "us", the "Company", "Coastal" or "Coastal Contacts", unless otherwise specifically noted.

### GENERAL DEVELOPMENT OF THE BUSINESS

We are one of the largest online retailers of vision care products in the world. Since our inception in 2000, our business has steadily grown, and for the fiscal year ended October 31, 2009, we shipped approximately 1.4 million orders, representing \$140 million in revenue. Our strategy is to continue to expand our product lines and our geographic reach. We have the largest market share of any direct-to-consumer contact lens retailer in many global markets in which we operate.

### **Three Year History**

In May 2007, we listed our common shares on the Toronto Stock Exchange (the "TSX") and concurrently, in accordance with relevant TSX policy, delisted from the TSX Venture Exchange.

In February, 2008 we launched a direct-to-consumer eyeglasses business targeting North America and Scandinavia, in an effort to further capitalize on the Company's database of more than 2 million vision corrected customers. We also built two leading edge eyeglasses manufacturing labs in our two main distribution hubs, in order to provide high levels of customer service, manage quality assurance and seek to become a low cost manufacturer.

A positive response to our product from our existing and new customers has resulted in further efforts to expand the eyeglasses business with more products into more markets.

In November 2009, concurrent with our strategy of international expansion, we listed our common shares on the Nasdaq OMX Nordic Exchange (the "OMX"). Our common shares continue to be traded on the TSX. We expect that this secondary listing will give us access to a larger pool of potential investors.

As a result of our strategy to expand our operations internationally, sales outside of the United States accounted for approximately 86% of our revenue by the end of the 2009 fiscal year. Market research indicates that the global market for contact lenses is growing at more than 6% per year. Coastal is targeting markets enjoying high growth rates and those where the Company can obtain premium market positions.

### **Purchases of Our Common Shares**

Over the past three fiscal years, we have purchased and cancelled a total of 18,339,368 of our common shares. On October 18, 2006, we initiated a Normal Course Issuer Bid (NCIB), under which we purchased and cancelled

3,818,600 shares at an average price of \$1.05 by the expiry of the NCIB on October 17, 2007. We purchased and cancelled an additional 1,266,500 shares at an average price of \$1.11 under another NCIB which expired on October 23, 2008. Most recently we purchased and cancelled an additional 1,416,924 shares at an average price of \$0.83 under another NCIB which expired on December 18, 2009. Shares were purchased under these NCIBs through the facilities of the TSX and were subsequently cancelled. On December 30, 2009 we renewed a NCIB with the TSX for maximum eligible purchases of 3,797,468. As of the date of this filing, there have been no purchases under this NCIB.

In addition to the NCIBs, we purchased 6,837,344 common shares for \$1.25 per share on February 25, 2008 pursuant to a "Dutch Auction" Issuer Bid and 5,000,000 of our common shares for \$1.00 per share on August 1, 2008, pursuant to an issuer bid which commenced on June 19, 2008. All of these purchased shares were subsequently cancelled.

## THE BUSINESS

### **Overview**

We are a direct-to-consumer retailer of vision care products and services. We sell contact lenses, eyeglasses and related products primarily through our internet websites, however customers may also place orders over the telephone. We have operations and distribution centres in North America and Europe. We sell contact lenses manufactured by multinational companies such as Johnson and Johnson Inc., CIBA Vision Corporation (a division of Novartis Inc.), Bausch & Lomb Inc. and Coopervision Inc. We sell eyeglasses, which are assembled in our own laboratories, composed of frames and lenses purchased from a variety of different suppliers. The frames we use in our eyeglasses include both branded frames and our own private label frames such as Ltede™, Kam Dillon™ and Joseph Marc™. We also sell a variety of vision related products such as sunglasses and contact lens solutions including our own Healthy Eyes brand multipurpose contact lens solution for soft contact lenses.

The global market for soft contact lenses was estimated to be approximately US\$5 billion in 2008 with worldwide growth rates estimated at 6%. The largest market for contact lenses continues to be the United States, while other markets are experiencing higher growth rates as they mature. The market for prescription eyeglasses is estimated at more than \$37 billion in the markets where Coastal currently competes.

We believe that there are significant opportunities for incremental expansion to our existing operations in the online vision care industry. We have been actively expanding our operations internationally and believe our differentiated multi-market strategy will provide unique opportunities for growth and profitability going forward. In 2006, we acquired a leading online distributor of contact lenses and optical products in the Netherlands and we acquired one of the largest online distributors of contact lenses in Asia. We intend to continue to selectively evaluate and pursue attractive acquisitions and expansions that further our business strategy and increase our market share and provide access to new geographical markets. We believe that our listing on the OMX, which was completed in November 2009, will facilitate our expansion efforts into Europe and give us access to a larger pool of potential investors.

We believe that continued organic expansion and profitability is made possible when our customers return to us to replenish their supplies of vision care products. Re-orders provide a significant value derived from each customer and enable us to focus more of our marketing spending on acquiring new customers. To date, we have reinvested a portion of the cash flows created by re-orders into marketing and other business initiatives aimed at acquiring new customers. As an established industry participant, we have a re-order business which reduces the average acquisition cost per customer and, we believe, provides us with an advantage over other companies that are considering entering into the online market for vision care products, whose acquisition costs per customer could be considerably higher.

For fiscal year 2010, we intend to continue to leverage our growing database of vision corrected customers around the world by expanding our offering of contact lenses and additional vision care products, such as eyeglasses, contact lens solutions and sunglasses. We intend to continue expanding our offering of vision care products and to expand our geographic markets during the year.

### ***Products and Services***

Our large volume business, combined with our cost effective operations, is designed to enable us to offer replacement contact lenses, eyeglasses and related vision care products to customers at reduced prices, delivered quickly, with an emphasis on customer service.

We offer substantially all of the soft contact lenses produced by the leading contact lens manufacturers, including Johnson & Johnson Inc., CIBA Vision Corporation, Bausch & Lomb Inc. and Coopervision Inc.

In February, 2008 we launched our online eyeglasses business in order to expand our product offering to the more than 2 million vision corrected customers in our database. Customers match eyeglass frames with one of our high quality lens packages which we assemble in our own laboratories. Our research shows that the eyeglasses market shares many of the same characteristics of the contact lens industry in that it is highly fragmented and traditional channels include eye care practitioners (ECPs) and retail optical stores. Traditional channels are generally inefficient, expensive and offer inconsistent service levels. In comparison, Coastal uses its purchasing power to offer significant savings and improved service levels.

Eyeglasses marketing is divided between targeting existing Coastal customers and acquiring new customers. The Company is expecting to continue its expansion of eyeglasses business to ultimately include most of the markets in which it operates. Our objective is to rapidly become the global leader in the online eyeglasses market.

In addition to contact lenses and eyeglasses, we also offer vision care accessories like sunglasses and contact lens solution. We offer our products at prices generally unavailable to consumers who purchase from traditional channels, such as from their ECP or through optical retailers. Our products are offered for sale by telephone, e-mail and through our proprietary websites, which include [www.coastalcontacts.com](http://www.coastalcontacts.com), [www.lensway.com](http://www.lensway.com), [www.lensway.se](http://www.lensway.se), [www.clearlycontacts.ca](http://www.clearlycontacts.ca), [www.mylenses.nl](http://www.mylenses.nl) and [www.contactsan.com](http://www.contactsan.com).

The underlying theme through each phase of the development of our websites was, and continues to be, customer satisfaction with an emphasis on ease of use, quick order processing and customer follow-up. Our websites are arranged to make locating products easy for the consumer. Contact lenses can be sorted by manufacturer name or contact lens type. Eyeglasses can be sorted by brand or frame style or type. A specific search can also be performed by the customer filling in the details of his or her purchase. Individual websites are also custom developed to meet the requirements of specific geographic markets. Recently we have improved our websites to include more detailed photographs of products, a robust zoom tool to enable a close-up image of a product and our "virtual mirror" that allows our customers to "try on" a pair of eyeglasses by overlaying the image of a frame over a photograph of an individual. The "virtual mirror" includes a method of scaling the photograph to enable the user to better understand the relative size of frame to face. Feedback from our customers suggests that the "virtual mirror" is an extremely effective and useful tool in selecting eyeglasses that fit correctly.

For customers that do not wish to order online, we maintain toll-free numbers that allow customers to phone in their orders from all of our major market areas to our primary call centres located in Vancouver, British Columbia and Stockholm, Sweden. Customer orders are processed for shipping and then shipped from the distribution centres, or in some cases, directly from a supplier. In addition, customers receive update e-mails throughout the ordering, logistics and payment processes to ensure that they are informed and up-to-date on the status of their orders. Our customer service representatives are trained to provide efficient and accurate order entry, provide real-time product availability information to customers, estimate delivery dates for customers' orders and answer other customer service inquiries.

Our databases store client information and predict when a customer will need to order new lenses. A list of re-order candidates is tabulated regularly and clients are e-mailed reminder notices. The customer can re-order simply by clicking a link in the e-mail and following the procedures as prompted. The re-order process makes shopping for contact lenses even simpler, as customers do not need to re-enter their prescription or address information if there is no change. Our procedures for prescription verification, if required, shipping and payment are then followed.

We conduct all of our product fulfillment operations from our distribution facilities in Vancouver, British Columbia, Canada and Stockholm, Sweden. See "Risk Factors".

Our operations utilize customized enterprise resource planning software, proprietary database management systems for managing inventory, order tracking, generation of invoices, packing slips and shipping labels. For products which we do not carry in inventory, we apply a "just-in-time" strategy, which allows us to stock fewer products while maintaining a high degree of customer service. We use a network of contact lens and eyeglass component suppliers in Canada, the United States, Asia and Europe and continue to expand our supply network and receive volume discounts from these suppliers.

In North America, we utilize the services and tracking capabilities of major package delivery services to ship our orders. We are able to track shipments and notify our customers of delivery dates if requested. Our European operations use several national postal services to distribute orders by first class mail from our facility in Stockholm, Sweden. Our Asian orders are processed through our distribution centre in North America. Our research and development activities are predominantly performed in-house, although certain research and development tasks have been outsourced to third parties.

### ***Sales and Marketing***

We utilize a marketing strategy that is designed to attract visitors to our websites at costs that are in line with our overall expansion strategy. Our sales messaging, introduced through various marketing channels, consistently emphasizes value and brand. We also search for new ways in which to advertise our products. After identifying an attractive potential new advertisement or advertising medium, we generally prefer to test marketing opportunities. We value programs that offer some measurability of results over more generic programs where the performance of the program is difficult to segregate from the effects of existing marketing programs. The timeliness of reporting results from a marketing program is also very important to us in order that we may continually monitor our advertising as a means of identifying and reacting to trends and patterns in the marketplace.

Our marketing caters primarily to individuals between the ages of 14 and 49 and we set up various programs aimed at reaching demographic niches within this overall target market.

The principal components of our selling and marketing program are as follows:

- *Direct Internet.* We use the resources of the internet, in particular search engines, as a means of marketing in an effort to derive new and repeat traffic.
- *Internet Affiliate Programs.* We work with other internet-based companies to cross-market our offerings to our customers. These companies are compensated either on a cost-per-click or cost-per-acquisition basis.
- *Customer Loyalty and Awareness Programs.* We use e-mail, direct-mail and telemarketing to increase customer awareness within our existing customer base. We have implemented an ongoing internal marketing initiative designed to inform customers of re-order dates, changes in product offerings and/or special offers which we manage daily.

- *Multimedia.* We use various media including print ads, radio and television to supplement our selling and marketing program and to reinforce brand awareness.
- *Direct-Mailing.* We use direct-mail to advertise our products to specifically targeted groups. Mailing lists are obtained through private sources to target our advertisements specifically to contact lens wearers. In addition, we also use direct-mail to market to our existing customer base.
- *Cooperative Mailings.* We participate in cooperative mail programs sponsored by leading cooperative mail companies. These programs allow us to target consumers in specific zip codes according to age, income and other important demographics.

### **Personnel**

As at October 31, 2009, we employed 260 people, of whom 141 employees were located in Canada and 119 were located in Europe. We also engage consultants and contract workers on an as-needed basis. Our ability to attract and retain highly skilled technical and management personnel and a multi-lingual customer support staff is one of the key factors in our business. If our vision care product sales increase, additional staffing requirements will need to be met to remain competitive. From 2008 to 2009, our employee personnel increased from 191 to 260.

Our employee base must contain a variety of skills necessary for an internet-based business operating in a global market. Such skills include the ability to conduct business in several languages, the ability to adapt to local markets, and the expertise to develop our websites to increase "user-friendliness" while meeting the needs of our customers. Currently, our employee base allows us to converse in many different languages. In addition, employees are involved in website development in order to adapt our websites according to customers' needs. Beginning in 2008, we also employ skilled technicians to perform edging and assembly at our eyeglasses laboratories. Certain employees have formal training while most receive on the job training to develop their skills.

### **Competitive Conditions**

Market data indicates that total global contact lens sales in 2008 were approximately US\$5 billion. The global market for contact lens solutions and lens care products are estimated to be more than US\$1.6 billion per annum. The market for prescription eyeglasses is estimated at more than \$37 billion in the markets where Coastal currently competes. We believe that consumers are looking for alternative methods to purchase both contact lenses and eyeglasses at prices that are more reasonable than their traditional alternatives through local ECPs or opticians. We further believe that the growth in popularity of disposable contact lenses, which require consumers to purchase replacement lenses more frequently, has contributed to the growth of the online marketing channels such as the internet. The internet retailing industry continues to grow as many retail customers have migrated towards the convenience and service offered by home shopping. Some of the factors driving this growth include the increasing number and decreasing cost of personal computers in homes and offices, technological innovations providing easier, faster and cheaper access to the internet, the proliferation of content and services being provided on the internet and the increasing adoption and use of the internet by businesses and consumers as a medium for conducting business.

The retail sale of eyeglasses and contact lenses is a highly competitive and fragmented industry. As with many alternative channel retailers, we face competition from two primary groups: the traditional retail sales channel and other competitors in the alternative retail sales channel. Traditional channel retailers include ECPs, national, regional and local optical and drugstore chains, discount drugstores, supermarkets, combination food and drugstores, discount general merchandise stores, mass market retailers and independent and local merchants. These competitors have significant financial resources and have established marketing relationships with leading suppliers. Traditionally, contact lenses and eyeglasses were sold to customers almost exclusively by ECPs in connection with providing them with an eye examination. Competition for customers and the revenue related to providing them with contact lenses significantly increased as optical chains and large discount retailers began providing optical services. Competition has further intensified with the entry of online marketers such as our

Company. We believe that while the traditional retail sales channel will continue to account for the majority of industry sales for years to come, alternative channels will likely continue to encroach on this market.

Competition from traditional retailers of vision care products is primarily from ECPs, who prescribe and sell contact lenses and eyeglasses. ECPs typically generate a significant portion of annual sales from the sale of eyeglasses and contact lenses, both from initial and replenishment orders, and therefore view alternative channel retailers, such as our Company, as a competitive threat. Since contact lens consumers generally know the brand and the lens characteristics they require, competition for replenishment orders is limited to factors other than lens quality or fit. We believe that the primary differentiating features of a retailer of optical products are related to price and convenience for the consumer. However, the nature of the profession of ECPs has led to a non-price-oriented competitive environment in which few attempt to use discount prices to attract customers.

We believe that many of our competitors, including most ECPs, national optical chains and mass merchandisers, have direct supply arrangements with contact lens manufacturers, which in some cases afford such competitors with better pricing terms, access to supply and other sales and marketing programs. In addition, some of our competitors are significantly larger in overall revenues and have significantly greater resources than us. We believe that the principal basis of competition in the industry includes product availability, customer service, customer awareness and price. See "Risk Factors".

The online vision care product market is evolving both for existing and new entrants to the marketplace. The traditional retailers of vision care products have often resisted moving into the online market, choosing instead to maintain the retail model which helps to maintain high prices and force consumers into their retail locations. This creates the opportunity to up sell, increases their margins and avoids the possibility of attrition of their existing customer base. We believe that our internet based business offers an advantage over traditional optical retailers. We believe that our product offerings include greater selection, better prices, faster service and user friendly websites.

### ***Intangible & Intellectual Property***

Our customer databases are important assets to our business. The value of our databases is predicated on a business model which assumes that the majority of our marketing expenditures are utilized attracting customers for the first time and that a significant proportion of those customers will return with a lower incremental marketing cost. These repeat customers represent the majority of our earnings. Our databases allow us to send e-mail reminders and marketing information directly to our customers addressing re-orders, promotions and important information regarding our products. Therefore, we take precautions to ensure the security and integrity of our customer databases. See "Risk Factors".

We have a proprietary interest in our brand names. The names "Coastal Contacts", "Lenslogistics", "Lensway" and "Mylenses" are generally protected by trademark legislation. Our competitive position could be affected if our name was misappropriated and our reputation in any way compromised. There can be no assurance that the steps we have taken to protect our proprietary rights will be adequate to deter misappropriation of our websites or names by others. Any misappropriation of our names or websites could have a material adverse effect on our business, revenue, operating results and financial condition. We have obtained the rights to various internet addresses. We cannot practically acquire rights to all addresses similar to such addresses. If third parties obtain rights to use similar addresses, these third parties may confuse our customers and cause our customers to inadvertently place orders with these third parties, which could result in lost sales and could damage our brand. As with telephone numbers, we do not have and cannot acquire any property rights in internet addresses. As a result, we may be unable to retain the use of our internet addresses. The loss of the ability to use our internet addresses would have a material adverse effect on our financial condition and results of operations. See "Risk Factors".

We do not possess any patent or copyright registrations in Canada, the United States, Europe, Asia or any other jurisdiction. However, we do have certain trademark registrations in Canada, the United States, Australia and the European Union.

***Seasonality***

Seasonality impacts our revenue distribution throughout the year. Consistent with the fashion and beauty industries, our sales are generally stronger during the spring, summer and fall months. Our industry generally experiences lower sales during the holiday season as customers choose to divert discretionary funds towards holiday purchases. As such, our focus is to seize the opportunities that exist during the spring, summer and fall months to improve our sales and earnings. See "Risk Factors".

***Economic Dependence***

We have three suppliers who historically account for the majority of our contact lens inventory purchases. We have several suppliers that supply us with the components required in our assembly of glasses. We believe that the loss of any one supplier would not pose any long term difficulties as other suppliers are readily available, however in the event that several of these suppliers can no longer supply us with contact lenses, we may not be able to secure other adequate sources of supply at all or on favourable terms. Such occurrences could adversely affect our business by increasing costs or, in the event adequate replacement supply cannot be secured, reducing net sales. See "Risk Factors".

## RISK FACTORS

In 2008, the world's industrial nations entered into a severe economic and liquidity crisis. While some regions have shown signs of recovery, many regions remain in a recessionary economic state with uncertainty in terms of the timing of any resolution to these issues. This crisis is having a broad impact on the world's economy, with unspecified results, and heightens the risks we outline in this and our other securities filings. Due to the speed, size, scope, volatility and severity of the crisis, we are unable to accurately predict the impact it will have on our Company.

For example, throughout fiscal 2008 and 2009 we experienced significant volatility in foreign exchange rates. This could continue in the future and could materially change our revenues, margins and input costs in certain markets. The economic crisis could significantly impact our suppliers, including their access to product and financing. Additionally, many of our customers are in countries heavily exposed to the credit crisis, such as the United States. Our customers worldwide may have difficulty affording our products or paying their outstanding accounts to us. As a result of these risks, we have carefully monitored and adjusted the regions in which we offer credit to help limit our exposure to bad debt.

An investment in our securities involves a significant degree of risk. Before deciding to invest in our common shares, you should carefully consider the risks described herein, together with other information included in or incorporated by reference into this Annual Information Form. If any of the following risks actually occur, our business, financial condition and/or operating results could be materially adversely affected. This could cause the trading price of our common shares to decline, and you could lose all or part of your investment in our Company. The following discussion highlights some of the risks and uncertainties facing us.

### ***Risks Related to Our Company***

#### *Limited Operating History and Rapid Growth*

We were formed under the federal laws of Canada in 2000 and therefore have a limited operating history. We may experience significant fluctuations in our operating results and rate of growth. Our limited operating history, our evolving business model and the unpredictability of demand in our industry make it difficult for us to accurately forecast the level or source of our revenues and our rate of growth. We believe that because of these factors, historical trends and quarter-to-quarter comparisons of our operating results are not necessarily meaningful and should not be relied upon as an indicator of our future performance. In the past, our operating results have sometimes been, and it is likely that in some future quarter or quarters they will be, below the expectations of investors and securities analysts. In that event, the price of our common shares may fall substantially and investors may lose all or a part of their investment.

Our revenue growth and profitability depend on the continued growth of demand for the products we offer. Demand for many of our products and, therefore, our business, is affected by changes in consumer preferences, general economic and business conditions and world events. For example, threatened or actual terrorist attacks or armed hostilities (or the resulting security concerns) or natural disasters could create economic and consumer uncertainty and delays in and increased costs of product shipments to and from us, which may decrease demand. A softening of demand, for whatever reason, may result in decreased revenue or growth. Revenue growth may not be sustainable and our Company-wide and by-segment percentage growth rates may decrease in the future.

In 2008 we entered the eyeglasses business. While our results over the past two years appear promising we may not be able to build a successful and sustainable business in this market. Our success is dependent on new suppliers, our assembly and distribution processes as well as new marketing processes. There is no assurance that we will be able to acquire customers at acceptable costs. Our long term customer retention, seasonal buying patterns, inventory obsolescence and product return rates are unknown. We may invest in technology and processes that are not ultimately suitable for the business and we may not be able to recruit the specialized employees required in this business. Since relationships with suppliers in this business are relatively new, it is

possible that we could experience inconsistencies in terms of quality, access to inventory and delivery times. Additionally, we may face more asserted competition as prescription eyeglasses sales represent a much greater proportion of our competitors' revenues and profits than do contact lenses. This competition may be in the form of increased advertising, lower retail pricing, legal challenges, regulatory challenges and lobbying, supplier lock-ups or other unforeseen strategies.

Our revenues, predictions and operating results have varied significantly in the past and may vary significantly from quarter-to-quarter due to a number of factors, including:

- our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers' demands;
- the frequency and size of customer orders and the quantity and mix of products our customers purchase;
- changes in consumer acceptance and usage of the internet, online services and e-commerce;
- changes in fashion and customer preferences as it relate to our eyeglasses selection;
- the prices we charge for our products and for shipping those products, or changes in our pricing policies or the pricing policies of our competitors;
- the extent to which we offer free shipping or other promotional discounts to customers;
- the extent to which the current economic conditions restrict spending on our products;
- our ability to procure inventory at reasonable prices, if at all, manage inventory and fulfill orders;
- technical difficulties, system downtime or interruptions;
- our actual or expected return on marketing spending;
- timing and costs of upgrades and developments in our systems and infrastructure;
- timing and costs of marketing and other investments;
- disruptions in service by shipping carriers;
- our ability to estimate customer debt default rates;
- the introduction by our competitors of websites, products or services;
- changes in tax rates, regulations, estimates, assessments or rulings;
- the extent of marketing or other reimbursements available from third parties;
- an increase in the price of fuel, which is used in the transportation of packages, or an increase in the prices of other energy products, primarily natural gas and electricity, which are used by our operating facilities and our suppliers operating facilities;
- the effects of strategic alliances, potential acquisitions and other business combinations, and our ability to successfully and timely integrate them into our business;

- changes in government regulation or the effects of certain licensing and regulatory bodies' lobbying or legal action surrounding the sale of contact lenses and eyeglasses;
- actual or expected foreign exchange rates; and
- current economic conditions and world events.

In addition, our operating expenses are largely based on anticipated revenue trends, and a high percentage of our expenses are fixed in the short-term. As a result, a delay in generating or recognizing revenue for any reason could result in substantially adverse operating results.

We have grown very rapidly and we need to manage changing and expanding operations. Much of our past growth has come from the acquisition of other companies. Our past growth has placed, and it is expected that our anticipated future operations and expansion will continue to place a significant strain on our managerial, operational, financial and other resources. Some of the administrative and operational challenges we have faced in the past as a result of our expansion include the management of an expanded number of product offerings, the assimilation of financial reporting systems, technology and other systems of acquired companies, increased pressure on senior management and increased demand on our systems and internal controls. Our ability to manage our operations and expansion effectively depends on the continued development and implementation of plans, systems and controls that meet our operational, financial and management needs. If we are unable to develop or implement these plans, systems or controls or otherwise manage our operations and growth effectively, we will be unable to increase or maintain gross margins or achieve sustained profitability, and our business could be harmed.

Additionally, our market is subject to rapid changes in technology and the business environment. We may adjust our strategies in response to these changes by changing, divesting or discontinuing organically developed or acquired systems, operations or businesses that may no longer be consistent with the business environment or our strategies. Such changes could have a material impact on our operating results.

#### *Limited Trading History*

Due in part to the relatively recent listing of our common shares on a public market, our limited operating history and low trading volumes, the market price for our shares is likely to be volatile and may be significantly affected by such factors as quarter-to-quarter variations in our results of operations or predictions, announcements, changes in general market conditions for contact lenses and vision products, adverse publicity regarding us or our industry in general, regulatory actions, changes in financial estimates by securities analysts and other factors.

#### *Dilution*

We have the authority to issue an unlimited number of common shares and preferred shares. We may undertake additional offerings or issuances of securities in the future. The increase in the number of common shares outstanding and the possibility of sales or issuances of such common shares may have a negative impact on the price of shares already outstanding. In addition, in the event of an issuance of additional common shares, the voting power of our existing shareholders would be diluted.

#### *Limited History of Profits*

We have had a net loss in two of the last four annual audited reporting periods, and there is no assurance that we will not generate losses in the future or that profitability will be sustained. As a result, our share price may decline and investors may lose all or a part of their investment in our common shares.

### *Risks Related to Supply*

Product cost is our largest expense. Certain major contact lens manufacturers have refused to sell their products to direct marketers, including the Company, and have sought to prohibit others from doing so. As a result, it is our current practice to purchase a portion of our products from distributors that may be subject to re-sale restrictions from manufacturers. We may not be able to obtain sufficient quantities of contact lenses at competitive prices in the future to meet existing or anticipated demand, and any such inability could have a material adverse effect on our business, financial condition and results of operations.

The branded eyeglass frames market is dominated by a very small number of manufacturers that license various brands. Certain of these suppliers and their distributors have previously refused to sell product to direct marketers, including the Company and have sought to prohibit others from doing so. Others have their own direct-to-consumer channels which compete with us. We sell our own private label frames to mitigate risks associated with potential disruption in supply of frames.

We have three suppliers who historically account for the majority of our contact lens inventory purchases. We have several suppliers that supply us with the components required in our assembly of glasses. We believe that the loss of any one supplier would not pose any long term difficulties as other suppliers are readily available, however in the event that several of these suppliers can no longer supply us with contact lenses, we may not be able to secure other adequate sources of supply at all or on favourable terms. Such occurrences could adversely affect our business by increasing costs or, in the event adequate replacement supply cannot be secured, reducing net sales.

We are reliant on our suppliers to control the quality of both contact lenses and eyeglasses components. Our reputation for delivering product of high quality to our customers quickly and efficiently is dependent on their ability to control product quality and identify defects. Significant failures of product quality on the part of our suppliers could affect our reputation and impact our revenues from existing customers and our ability to grow our customer base.

### *Inventory Risks*

We have significant inventory risk. We must maintain sufficient inventory levels to operate our business successfully and meet our customers' expectations that we will have the products they order in stock. However, we must also guard against the risk of accumulating excess inventory. We are exposed to inventory risks as a result of rapid changes in product cycles, changes in consumer tastes, changes in wholesale pricing and foreign exchange rates, impairments of the general consumer economic environment, uncertainty of success of product launches, manufacturer backorders and other vendor-related problems. In order to be successful, we must accurately predict these trends and events, which we may be unable to do successfully, and avoid over-stocking or under-stocking products. In addition, demand for products can change significantly between the time product inventory is ordered and the time it is available for sale. Since introducing eyeglasses, changes in fashion and customer preferences have become a more important risk factor relating to inventory. As we introduce new products, it is particularly difficult to forecast product demand accurately. Excess inventory could lead to inventory obsolescence, and insufficient inventory could harm our customer relationships and profits and require us to make split shipments for backordered items or pay for expedited delivery from the manufacturer if it has insufficient inventory.

### *Consumer Credit Risk*

We offer most of our customers the option of paying for their orders after they have been delivered, which exposes us to credit default risk. If a material number of customers fail to honour such debts in rates in excess of our estimated default rates, our business, financial condition and results of operation could be materially and adversely affected. This risk may have been exacerbated by the recent economic crisis. As consumers are impacted by the current economic downturn, we may experience higher credit default costs in the future.

### *Loss of Customer Database*

Although our customer database is replicated, and these back-ups are stored off-site, the customer database is still potentially at risk from fire, flood, earthquake, computer systems failure and theft. In the event of a partial or total loss of our customer database, we would not be able to readily market our products, or to remind customers to re-order lenses, which may decrease sales. Additional costs may also be incurred in restoring our database, also decreasing our profitability.

### *Acquisitions Risk*

Our future growth strategy depends in part on our ability to acquire complementary or strategic businesses or assets. Any such acquisition could result in dilution, operating difficulties, difficulties in integrating acquired businesses and other harmful consequences.

We may acquire, and have in the past acquired, complementary or strategic businesses, technologies, services and products as part of our strategy to increase our net sales and customer base. The process of integrating these acquisitions into our business and operations, and the integration of any future acquired business, technology, service or product, may result in unforeseen operating difficulties and expenditures. The integration of our acquisitions, and the integration of any future acquisition, also requires significant management resources that would otherwise be available for operation, ongoing development and expansion of our business. To the extent that we miscalculate our ability to integrate and properly manage acquired businesses, or we depend on the continued service of acquired personnel who choose to leave, we may have difficulty in achieving our operating and strategic objectives. In addition, we may not realize the anticipated benefits of any acquisition.

We continue to actively seek acquisition opportunities. We may be unable to identify suitable acquisition opportunities or to negotiate and complete acquisitions on favorable terms, or at all. In addition, any future acquisitions may require substantial capital resources and we may need to obtain additional capital or financing from time to time to fund these activities. This could result in potentially dilutive issuances of our securities or the incurrence of debt, contingent liabilities or amortization expenses related to goodwill and other intangible assets, any of which could harm our business, financial condition and results of operation. Sufficient capital or financing for our acquisition activities may not be available to us on satisfactory terms, or at all.

### *Disruption in Distribution and Assembly Facilities*

We conduct all of our fulfillment operations from our distribution facilities in Vancouver, British Columbia, Canada and Stockholm, Sweden. Any significant disruption of these centres' operations will adversely affect our ability to make timely delivery of our products. A natural disaster or other catastrophic event, such as an earthquake, fire, flood, severe storm, break-in, server failure, power failure or systems failure, terrorist attack or other comparable event at these facilities could cause interruptions or delays in our business and loss of inventory and could render us unable to process or fulfill customer orders in a timely manner, or at all. Further, although we maintain off-site secured data storage, our insurance may not adequately compensate us for losses that may occur. In the event that a significant part of any of these facilities was destroyed or our operations were interrupted for any extended period of time, our business, financial condition and operating results would be harmed.

We assemble custom made eyeglasses on our premises using sophisticated equipment. Our business depends on the safe and continued operation of this equipment in order to assemble these eyeglasses for our customers. Increases in the demand for our eyeglasses would result in a need for additional equipment to sustain the rate of assembly required to ship product to customers in an acceptable time frame. In the event that such equipment is unavailable and we are unable to secure trained operators of this equipment, our business may be harmed in the future.

Additionally, in order to capitalize on the international marketplace for contact lenses, we may require additional overseas distribution facilities to offset the prohibitive shipping costs that are currently offered to customers in these markets.

#### *Operation of Distribution Centres*

If we are unable to optimize management of our distribution centres, we may be unable to meet customer expectations. Because it is difficult to predict sales volume, we may be unable to manage our facilities in an optimal way, which may result in excess or insufficient inventory, warehousing, fulfillment or distribution capacity. In addition, failure to effectively control product damage and shrinkage through effective security measures and inventory management practices could adversely impact our operating margins. Our margins and revenues may also be affected if we are unable to obtain products from manufacturers and wholesalers on timely and favourable terms. In addition, if we need to increase our distribution capacity sooner than anticipated, that expansion would require additional financing that may not be available to us on favourable terms when required, or at all.

We are dependent on a limited number of fulfillment and distribution partners. If we are unable to expeditiously and cost-effectively obtain shipments of products from our vendors and deliver merchandise to our customers, our business and results of operations may be harmed. We cannot control all of the various factors that might affect our timely and cost-effective procurement of products from our vendors and delivery of products to our customers. We also rely on a limited number of third party carriers for shipments of products to and from our distribution facilities and to customers. We are therefore subject to the risks, including increased fuel costs, security concerns, labour disputes, union organizing activity, and inclement weather, associated with our carriers' ability to provide product fulfillment and delivery services to meet our distribution and shipping needs. Failure to procure and deliver merchandise, either to us or to our customers in a timely and accurate manner, will harm our reputation, our business and our results of operations. In addition, any increase in fulfillment costs and expenses could adversely affect our business and operating results. Our operating results could also be materially adversely affected if the governments of the United States, Sweden, Norway, Denmark, Finland, Japan, the United Kingdom and the Netherlands or the various other countries in which we sell our products implement or enforce stricter importation controls.

#### *Brand, Product and Service Awareness*

If our marketing efforts are not effective at attracting and retaining customers at an acceptable cost, we will be unable to achieve sustained profitability, and if we do not establish our brand and increase awareness of our products and services, we may not build a critical mass of customers. Promoting and positioning our brand depends largely on the success of our marketing efforts and our ability to provide consistent, high quality customer experiences. To promote our brand and our products and services, we have incurred and expect to continue to incur substantial expense in our marketing efforts to attract and retain customers. Our brand campaign may be less successful than we anticipate, and our other promotional activities may not be effective at building our brand awareness and customer base to the extent necessary to generate sufficient revenue to become profitable. Search engine advertisements and other online marketing initiatives comprise a substantial part of our marketing efforts, and our success depends, in part, on our ability to manage costs associated with these initiatives or find other channels to acquire and retain customers cost-effectively. The demand for and cost of online advertising has been increasing and may continue to increase. An inability to acquire and retain customers at a reasonable cost could make our market uneconomical and would increase our operating costs and prevent us from being profitable. Furthermore, as our marketing efforts increase and our brand awareness increases, the risks relating to the misappropriation of our brands and trademarks also increase. Should a competitor or other entity be successful in misappropriating our brands or trademarks, this could have a material adverse effect on our business, financial condition and results of operations.

### *Dependence on Key Executives*

We are dependent to a large degree on the services of our senior management team. The loss of any of our key executives could have a material adverse effect on us. Our ability to manage our anticipated growth will depend on our ability to identify, hire and retain highly skilled management and technical personnel. Competition for such personnel is significant. As a result, there can be no assurance that we will be successful in attracting and retaining such personnel. Failure to attract such personnel could have a material adverse effect on our business, financial condition and results of operations.

### *Control by Directors and Officers*

As at October 31, 2009, our directors and senior officers owned an aggregate of 16,080,008 common shares (on a non-diluted basis) representing approximately 22% of the aggregate voting power of our Company, which would allow such shareholders, in the event that they acted together, to limit the actions taken by other shareholders of the Company, including the election of directors. Such concentration of ownership could also have the effect of delaying, deterring or preventing a change in control of the Company that might otherwise be beneficial to our shareholders and may also discourage acquisition bids for our Company and limit the amount certain investors may be willing to pay for our common shares. There can be no guarantee that the concentration of ownership of common shares by our directors and senior officers will not increase in the future.

### *Third Party Reliance for Shipping and Payment Processing*

We rely heavily on third party mail and courier delivery organizations to deliver our products to customers both domestically and internationally and receive a significant portion of our payments from customers using credit cards or other electronic payment methods. Increases in shipping, postal or payment processing rates could have a material adverse effect on our operating results as we may not be able to effectively pass such increases on to our customers. In addition, strikes or other service interruptions by service providers could adversely affect our ability to market, deliver and collect on our sales on a timely basis.

### *Foreign Exchange Fluctuations*

A significant majority of our sales and costs are denominated in currencies other than the Canadian dollar. In addition, we have a self sustaining foreign operation in Europe with its own functional currency. Our operating results are significantly subject to foreign currency exchange rate fluctuations between these currencies and the currencies in which we sell, purchase or hold assets. In particular, a weakening of the Canadian dollar relative to the US dollar and a strengthening of the Canadian dollar relative to other world currencies could have a material adverse impact on our operating results.

### *Tax Complexity*

We market and sell products and operate our business in a number of tax jurisdictions worldwide. Each jurisdiction has its own sales tax, value added tax and income tax regimes. These rules are complex and generally different in each jurisdiction. The complexity of our multinational corporate structure could subject us to unforeseen income and commodity tax exposure. In addition, some jurisdictions have sought to impose sales tax collection obligations on out-of-jurisdiction direct marketing companies such as ours. A successful assertion by one or more jurisdictions that we must, or should have, collected more sales tax than we currently collect or that we are subject to additional income tax could materially and adversely affect our operating results and could require us to increase the price of our products to our customers, which could adversely affect our business, financial condition and results of operations.

### *Product Liability Exposure*

We sell optical products to the general public, including private label products. Consequently, we incur, relative to other industries, a higher risk of exposure to product liability and personal injury claims. While we maintain product liability insurance, such coverage may be inadequate to cover any liabilities we incur. Claims brought against us could result in diverted management time, significant adverse publicity and could be costly to defend or settle. Such costs not covered by or in excess of the available insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

### *No Property Rights in Internet Addresses*

We have obtained the rights to various internet addresses. We cannot practically acquire rights to all addresses similar to our current addresses. If third parties obtain rights to use similar addresses, these third parties may confuse our customers and cause our customers to inadvertently place orders with these third parties, which could result in lost sales and could damage our brands. As with telephone numbers, we do not have and cannot acquire any property rights in internet addresses. As a result, we may be unable to retain the use of our internet addresses. The loss of the ability to use our internet addresses would have a material adverse effect on our business, financial condition and results of operations.

### *Litigation*

The Company is currently subject to litigation and may be involved in disputes with other parties in the future, which may result in litigation. If we are unable to resolve these disputes favourably, it may have a material adverse impact on the Company's financial condition, cash flow and results of operations. See "Legal Proceedings".

### *Dependence on Telephone, Internet and Management Information Systems*

Our success depends, in part, on the ability to provide prompt, accurate and complete service to customers on a competitive basis, and the ability to purchase and promote products, manage inventory, ship products, manage sales and marketing activities and maintain efficient operations through telephone and proprietary management information systems. A significant disruption in telephone, internet or management information systems could harm relations with customers and the ability to manage our operations. From time to time, we have experienced temporary interruptions in telephone and internet service as a result of technical problems experienced by our long-distance carriers and internet providers. Similar interruptions may occur in the future and such interruptions may harm our business. Furthermore, extended or repeated reliance on our back-up computer systems may harm our business.

### *International Regulatory Environment*

*Failure to Meet International Regulatory Requirements.* The sale and distribution of contact lenses and other optical products is subject to various governmental laws and regulations. We sell to consumers in various states, provinces, cantons and countries, and our sales may therefore be subject to the laws of various states, provinces, cantons or countries. The laws and regulations governing the distribution and sale of contact lenses vary from jurisdiction to jurisdiction but are generally classifiable into the following categories: (i) laws that require contact lenses and/or optical products to be sold only with a prescription; (ii) laws that require contact lenses and/or optical products to be sold only in transactions that occur with the ECP in personal attendance or operating in a supervisory role; (iii) laws that require those selling contact lenses and/or optical products to be licensed as ECPs; (iv) laws that do not specifically address contact lenses and/or optical products or that are ambiguous; and (v) laws which we believe place no restrictions on the distribution and sale of replacement contact lenses and/or optical products.

A number of jurisdictions comprising a large portion of our sales have laws and regulations that require that contact lenses only be sold to a consumer pursuant to a valid prescription. Satisfying such prescription

requirement, in some jurisdictions, places on the seller an obligation to verify such customer's prescription information with the customer's ECP, while in other jurisdictions, a written prescription is required to be obtained before providing the contact lenses to the consumer. Where required, and in particular in the United States, it is our current general operating practice to obtain the customer's prescription or, if possible, verify such prescription with the customer's ECP. If the customer is unable to provide us with a copy of his or her prescription, we request that the customer provide us with the exact prescription specification and we then contact the ECP directly to attempt to verify the customer's prescription. Where required, we communicate to the ECP the information received from the customer and inform the ECP that unless the ECP advises that such information is expired or is incorrect, we will proceed to complete the sale and ship the contact lenses. Although we and certain of our employees/consultants are licensed or registered to sell contact lenses in certain jurisdictions, neither we nor any of our employees/consultants are licensed or registered in each jurisdiction in which we conduct our business. The laws in a number of jurisdictions require a person licensed under applicable law to sell contact lenses to be in personal attendance at the place of sale. Any action or proceeding commenced against us based on lack of compliance with applicable laws or regulations of any state, province, canton, or country could result in significant fines to us, our being prohibited from making sales in a particular jurisdiction and/or our being required to comply with such laws or other penalties. Additionally, other jurisdictions could rely on such judgments in pursuing their own similar judgments. Such required compliance could result in increased operating costs to us, the loss of a substantial portion of our customers for whom we are unable to obtain or verify prescription information, the inability to sell to customers in a particular jurisdiction and other penalties and civil fines. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations. We can provide no assurance that any state, province, canton or country will not enact or impose laws or regulations that prohibit direct-to-consumer marketing of contact lenses or prescription eyeglasses or otherwise impair our ability to sell our products.

The nature of our business requires that we import contact lenses and eyeglasses into various jurisdictions, particularly to a number of countries in the European Union and Japan. Certain of these countries also have legislation and regulations which govern the importing of contact lenses. While we work to be in compliance with such legislation and regulations, should such legislation or regulations change or should certain of our suppliers not comply with such legislation or regulations, any restriction imposed on either us or our suppliers in connection with the importing of products could have a material adverse effect on our business, financial condition and results of operations. Additionally, our business, financial condition and results of operations could be materially adversely affected by lobbying action by licensing and regulatory bodies who wish to restrict the sale of our products.

*The Fairness to Contact Lens Consumers Act (the "FCLCA") may Have an Adverse Effect.* The FCLCA, which establishes a national uniform standard in the United States with regard to releasing and verifying contact lens prescriptions, requires all ECPs to give patients a copy of their prescription after they have been fitted for contact lenses, whether patients request it or not. It also requires all ECPs to respond to direct marketers' requests to verify consumer prescriptions and provides that their failure to respond within eight business hours shall result in the prescription being presumed valid. We believe that since the enactment of the FCLCA, many orders have been cancelled unnecessarily by ECPs who prefer to record sales of contact lenses at their own store. ECPs may, among other things, solicit our customers during the verification delay period, respond that prescriptions are expired or invalid but then sell contact lenses without further examination or refuse to release prescriptions automatically to all contact lens wearers. If ECPs fail to comply with the FCLCA, and if the new rules are not vigorously enforced, the new prescription verification requirements could have an adverse impact on our net sales. Furthermore, we are unable to monitor and ensure that our competitors follow the requirements of the FCLCA, or, if they do follow the requirements of the FCLCA, that they follow them to the same extent that we do. Failure to follow the provisions of the FCLCA will give our competitors an advantage over us to the extent that such non-compliance is un-detected by reducing the compliance costs associated with the FCLCA of these competitors.

*Failure to Meet United States and Canadian Federal Regulatory Requirements.* Contact lenses are regulated as medical devices in the United States by the Federal Food and Drug Administration ("FDA") and in Canada by Health Canada. Under the *Federal Food, Drug, and Cosmetic Act* (the "FDC Act") in the United States, medical devices

must meet a number of regulatory requirements, including the requirement that they be cleared or approved by the FDA, be manufactured in accordance with good manufacturing practice regulations, be labeled in compliance with federal law, and be listed with the FDA. The *Food and Drugs Act* (the "FD Act") in Canada has similar requirements. We attempt to ensure that the contact lenses we buy comply with federal laws. However, we are not the manufacturer and cannot ensure that the lenses we sell do comply with the FDC Act or the FD Act. The distribution of medical devices that do not comply with the FDC Act or the FD Act is unlawful, and subjects the distributor and the devices themselves to regulatory action. The possible sanctions include warning letters, injunctions, civil penalties, criminal prosecution and seizure of infringing contact lenses. Similar sanctions may be enacted by government regulatory authorities in other markets where we conduct business.

*The FDA Could Consider Certain of the Contact Lenses to be Misbranded.* The FDA also regulates the labeling of medical devices. The contact lenses that we sell are prescription devices, and therefore contain the following statement required by FDA regulations: "Caution: Federal law restricts this device to sale by or on the order of a \_\_\_\_\_ (physician or other licensed practitioner)". However, because of the difficulty we have encountered in obtaining the cooperation of ECPs, we sometimes sell lenses based solely on the prescription information provided by the customer without a written prescription or other order by the customer's ECP. Although the FDA has not objected to the sale of contact lenses without a written prescription or other order directly from the customer's ECP, it is possible that the FDA will consider contact lenses that are sold in such a fashion to be misbranded. The sale of misbranded devices is unlawful under the FDC Act, and can result in warning letters, seizure, injunctions, civil penalties or prosecution.

*Changes in the Legal Environment.* Given the extensive regulation which governs our business, any changes in this regulatory regime could have a material adverse effect on our business, financial condition and results of operations. We seek to ensure that we remain in broad compliance with all legislation and regulations which impact our business, but there can be no assurance that we will timely respond to all such changes or that such responses will satisfy new requirements.

#### *Reduction in Demand for Optical Products*

We encounter competition from alternative technologies, such as surgical refractive procedures, including new refractive laser procedures such as PRK, or photorefractive keratotomy, and LASIK, or laser in situ keratomileusis. If surgical refractive procedures become increasingly accepted as an effective and safe technique for permanent vision correction, they could substantially reduce the demand for our products. Accordingly, these procedures, or other alternative technologies that may be developed in the future, may cause a substantial decline in the number of contact lens and eyeglass wearers and harm our business.

#### *Competition from Traditional and Online Retailers*

We compete in an emerging market that is highly competitive, and it is our expectation that competition will increase in the future. We compete with a variety of companies, many of which have significantly greater financial, technical and marketing resources. These competitors include: (i) various online and mail-order stores that sell contact lenses; and (ii) existing drugstores and optical chains. Most of these drugstores and optical chains, which include multinational, national, regional and local drugstore chains, discount drugstores, supermarkets, combination food and drugstores, discount general merchandise stores, mass market retailers, independent drugstores and local merchants, have existed for a longer period, have greater financial resources, have established marketing relationships with leading suppliers and have secured greater presence in the distribution channels. Some of these companies may also commence or expand their presence on the internet. We believe primarily that the principal factors that would draw an end-user to an online application include brand selection and availability, convenience, price, accessibility, customer service, quality of search tools, quality of content and reliability and speed of fulfillment of products ordered. We will in the future have no control over how successful our competitors are in addressing these factors. In addition, our online competitors can duplicate many of the services and content offered on our websites.

### *Seasonality*

Seasonality effects may impact our revenue distribution throughout the year. Consistent with the fashion and beauty industries, sales are generally much stronger during the spring, summer and fall months. Generally, sales are lower during the holiday season as customers choose to divert discretionary funds toward holiday purchases. There can be no assurance that we will be able to effectively manage the seasonal fluctuations in our revenues and a failure to do so could have a material adverse effect on our business, financial condition and results of operations.

### ***Risks Related to the Internet***

#### *Continued Growth in Use of the Internet*

The internet is rapidly evolving. A decrease in the growth of internet usage could harm our business. The following factors may inhibit growth in internet usage, limit visits to our internet addresses or limit orders placed through our websites: (i) inadequate internet infrastructure; (ii) security and privacy concerns; (iii) inconsistent quality of service; and (iv) unavailability of low cost, high-speed service.

Our success is dependent, in part, upon the ability of internet infrastructure to support increased use. The performance and reliability of the internet may decline as the number of users increase or the bandwidth requirements of users increase. The internet has experienced a variety of outages due to damage to portions of its infrastructure. If outages or delays occur frequently in the future, internet usage, including usage of our websites, could grow slowly or decline. Even if the necessary infrastructure or technologies are developed, we may have to spend considerable amounts of time and money to adapt and develop solutions accordingly.

#### *Online Security Breaches*

Secured transmission of confidential information over the internet is essential to maintaining customer confidence. Substantial or ongoing security breaches of our systems or other related internet-based systems could significantly harm our business. Any penetration of our network security or other misappropriation of our users' personal information could subject us to liability. We may be liable for claims based on unauthorized purchases with credit card information, impersonation or other similar fraud claims. Claims could also be based on other misuses of personal information, such as for unauthorized marketing purposes. These claims could result in litigation and financial liability. Security breaches could also damage our reputation and expose us to a risk of loss or litigation and possibly liability. We rely on licensed encryption and authentication technology to effect secured transmissions of confidential information, including credit card numbers. It is possible that advances in computer capabilities, new discoveries or other developments could result in the compromise or breach of the technology used by us to protect our customers' transaction data.

We may incur substantial expenses to protect against and remedy security breaches and their consequences. Our insurance policies may not be adequate to reimburse us for losses caused by security breaches. We cannot guarantee that our security measures will prevent security breaches.

#### *Website Complications*

The satisfactory performance, reliability and availability of our websites, transaction processing systems and network infrastructure are critical to our reputation and our ability to attract and retain customers and to maintain adequate customer service levels. Our network and communications systems are vulnerable to system interruption and damage, which could harm our operations and reputation, which could have a materially adverse effect on our business, financial condition and results of operations.

Our ability to receive and fulfill orders successfully is critical to our success and largely depends upon the efficient and uninterrupted operation of our computer and communications hardware and software systems. We

experience periodic system interruptions that impair the performance of our transaction systems or make our websites inaccessible to customers. These systems interruptions may prevent us from efficiently accepting and fulfilling orders, timely sending out promotional e-mails and other customer communications, introducing new products and features on our websites, timely responding to customers, or providing services to third parties. Frequent or persistent interruptions in our services could cause current or potential customers to believe that our systems are unreliable, which could cause them to avoid our websites, drive them to our competitors, and harm our reputation. To minimize future system interruptions, we need to continue to add software and hardware and improve our systems and network infrastructure to accommodate increases in website traffic and sales volume. We may be unable to timely and effectively upgrade and expand our systems and integrate additional functionality into our existing systems in a cost effective manner. Any of the aforementioned circumstances could harm our business, revenues and operating results.

Our systems and operations, and those of our suppliers and internet service providers, are vulnerable to damage or interruption from fire, flood, earthquakes, power loss, server failure, telecommunications and internet service failure, acts of war or terrorism, computer viruses and denial-of-service attacks, physical or electronic break-ins, sabotage, and similar events. Any of these events could lead to system interruptions, service delays and loss of critical data for us, our suppliers or our internet service providers, and could prevent us from accepting and fulfilling customer orders. Any significant interruption in the availability or functionality of our websites or our customer processing, distribution or communications systems, for any reason, could seriously harm our business, financial condition and operating results.

#### *Response to Emerging Technologies*

As the internet and online commerce industry evolve, we must license leading technology useful in our business, enhance our existing services and develop new services and technologies that address the increasingly sophisticated and varied needs of our perspective customers and respond to technological advances and emerging industry standards and practices on a cost effective and timely basis. We may not be able to successfully implement new technologies or adapt our websites, proprietary technology and transaction processing systems to customer requirements for emerging industry standards. If we are unable to do so, it could have a material adverse effect on our business, financial condition and results of operations.

#### *Government Regulation of Internet and Data Transmission*

Laws and regulations directly applicable to communications or commerce over the internet are becoming more prevalent. Rapid growth and development of the market for online commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business online and, in particular, companies that fill prescriptions for disposable contact lenses and optical products. Adoption or modification of laws or regulations relating to online business could materially adversely affect our business, financial condition and results of operations.

#### *Potential Liability for Website Content*

Due to the fact that we post product information and other content on our websites, we face potential liability for negligence, copyright, patent or trademark infringement, defamation, indecency and other claims based on the nature and content of the materials presented. In the past, such claims have been brought and in some cases resulted in a successful suit against the internet content distributors. In addition, we could be exposed to liability with respect to unauthorized duplication of content or unauthorized use of another party's proprietary technology. Although we maintain general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability that is not covered by insurance or that is in excess of insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

## DIVIDENDS

No dividends have been paid by us on any of our common shares since the date of our incorporation. Although we have no current intention to pay dividends on our common shares, any decision to pay dividends will be dependent upon our financial requirements to finance future growth, our financial condition, results of operations, legal requirements and other factors which our board of directors may consider appropriate in the circumstances. See "Risk Factors".

## CAPITAL STRUCTURE

The following is a general description of the rights, privileges, restrictions and conditions attaching to each class of our shares.

### ***Common Shares***

We are authorized to issue an unlimited number of common shares. As at October 31, 2009, 56,901,719 common shares were issued and outstanding as fully paid and non-assessable.

As at October 31, 2009, 4,403,306 options to purchase common shares were outstanding. Each option entitles the holder thereof to purchase one common share.

The holders of common shares are entitled to receive notice of and to attend any meeting of our shareholders and are entitled to one vote for each common share held. Subject to the prior rights and privileges attaching to any other class of our shares, the holders of common shares are entitled to receive any dividend declared by us and, subject to the prior rights and privileges attaching to any other class of our shares, are entitled to receive our remaining property and assets upon dissolution.

### ***Preferred Shares***

We are authorized to issue an unlimited number of preferred shares. The preferred shares may be issued in series, each series to consist of such number of shares and to possess such rights as our board of directors may by resolution fix from time to time before the issue thereof. As at the date hereof, no preferred shares have been issued.

## MARKET FOR SECURITIES

### ***Trading Price and Volume***

Our shares are listed for trading on the TSX under the trading symbol "COA". As at October 31, 2009, we had 56,901,719 common shares issued and outstanding. The following table provides the monthly trading information of our shares on the TSX for the fiscal year ended October 31, 2009:

Trading Summary for COA*			
	High (\$)	Low (\$)	Volume Traded (# of Shares)
<b>2009</b>			
October	1.30	1.13	4,870,354
September	1.25	1.15	1,003,028
August	1.22	0.99	3,413,702
July	1.20	0.95	2,009,148
June	1.20	0.95	2,013,274
May	0.96	0.79	2,084,888
April	0.81	0.75	2,122,768
March	0.82	0.73	1,527,841
February	0.99	0.84	266,637
January	0.93	0.71	421,730
<b>2008</b>			
December	0.80	0.65	339,025
November	0.80	0.63	1,049,880

\* Trading information is in Canadian dollars, except volume traded.

#### POOLED SECURITIES

As at October 31, 2009 the company did not have any securities outstanding that were subject to a voluntary pooling arrangement.

#### DIRECTORS AND EXECUTIVE OFFICERS

The names of our directors and executive officers as at January 29, 2010, their province or state and country of residence, their principal occupations during the past five years, their respective positions with our Company and the date upon which they were first elected or appointed as a director or officer of our Company are set out in the table below:

Name and Province or State, and Country of Residence	Principal Occupation For the Past Five Years	Current Position(s) with Our Company
Roger V. Hardy <sup>(1)</sup> British Columbia, Canada	Since December 2003, Mr. Hardy has been our Chairman. From July 2002 until present, Mr. Hardy has been our Chief Executive Officer and a director of our Company and resumed the position of President in September 2006. From July 2002 to December 2003, Mr. Hardy was the President of our Company.	Chairman, Chief Executive Officer, President and Director
Daniel Mühlbach <sup>(1)</sup> Stockholm, Sweden	Since February 2005, Mr. Mühlbach has been a director of our Company. From January 2000 to present, Mr. Mühlbach has been the Chief Executive Officer and a director of LensLogistics AB.	Director
Curt Cranfield <sup>(1)(2)(3)</sup> British Columbia, Canada	Since December 2003, Mr. Cranfield has been a director of our Company. From May 2006 to present, Mr. Cranfield has been the President and Chief Executive Officer of Qool Media Ltd. and from January 2004 to April 2006, he was a business consultant and corporate director.	Director
Jeffrey Mason <sup>(1)(2)(3)</sup> British Columbia, Canada	Since October 2006, Mr. Mason has been a director of our Company. Mr. Mason was Chief Financial Officer and Director of Hunter Dickinson Inc. and has spent the last 15 years as a corporate officer and director to a number of publicly traded companies.	Director
Murray McBride <sup>(1)(2)(3)</sup> Ontario, Canada	Since December 2003, Mr. McBride has been a director of our Company. From February 1982 to present, Mr. McBride has been a	Director

Name and Province or State, and Country of Residence	Principal Occupation For the Past Five Years	Current Position(s) with Our Company
Michaela Tokarski <sup>(1)</sup> Ontario, Canada	business consultant with Murray McBride Consulting Services Ltd. Since February 2001, Ms. Tokarski has been a director of our Company. Since September 2007, Ms. Tokarski has been a strategic and marketing consultant with Creekside Communications. From July 2006 until August 2007, she was the Vice President, Marketing at MODASolutions Corporation. From December 2003 until July 2006, Ms. Tokarski was the Director, Sales and Marketing and Vice President, Product Management of our Company.	Director
Glen Kayll British Columbia, Canada	Since April 2007, Mr. Kayll has been our Chief Financial Officer. From November 2006 to April 2007, Mr. Kayll was our Vice President, International Operations. From June 2000 until November 2006, Mr. Kayll was Treasurer of PMC-Sierra, Inc.	Chief Financial Officer
Steve Bochen British Columbia, Canada	Since December 2003, Mr. Bochen has been the Chief Operating Officer of our Company. Prior to joining the Company, Mr. Bochen worked for Loomis Courier Services as its Regional Operations Manager for the Pacific.	Chief Operating Officer
Terry Vanderkruyk British Columbia, Canada	Since January 2006, Mr. Vanderkruyk has been Vice President, Corporate Development of our Company. From May 2004 until January 2006, Mr. Vanderkruyk was Director, Investor Relations with Protox Therapeutics Inc.	Vice President, Corporate Development

<sup>(1)</sup> Each director holds office until the expiry of his or her term of office or until his or her successor is elected or appointed, unless his or her office is earlier vacated in accordance with the articles of the Company or under the provisions of the *Canada Business Corporations Act*. Our articles provide for a staggered term for our directors. The terms for the classes of directors expire at the annual meeting of shareholders to be held in the following years as indicated: (i) Class I – 2012; (ii) Class II – 2010; and (iii) Class III – 2011. Daniel Mühlbach and Jeffrey Mason are Class I directors of our Company, Michaela Tokarski and Curt Cranfield are Class II directors of our Company and Roger V. Hardy and Murray McBride are Class III directors of our Company.

<sup>(2)</sup> A member of our compensation and corporate governance committee.

<sup>(3)</sup> A member of our audit committee.

As at October 31, 2009, the directors and senior officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 12,421,757 (approximately 22%) of the issued and outstanding common shares of our Company.

### **Audit Committee**

The audit committee meets with our auditor and is responsible for reviewing our interim and annual financial statements and making recommendations for the approval of such financial statements to our board of directors. Material issues related to the audit of our internal accounting controls and information systems are discussed with the audit committee as such issues arise. The audit committee has direct access to our auditors.

The audit committee charter sets out its responsibilities and duties, qualifications for membership, procedures for committee member removal and appointment and reporting to our board of directors. A copy of the audit committee charter is attached hereto as appendix "A".

Jeffrey Mason is the Chairman of the audit committee. The other members of the audit committee are Murray McBride and Curt Cranfield. Each member of the audit committee is financially literate within the meaning of National Instrument 52-110 - "Audit Committees" ("NI 52-110"). Jeffrey Mason, Murray McBride and Curt Cranfield are independent members of the audit committee as that term is used in NI 52-110.

**Relevant Educational Experience.** Set out below is a description of the education and experience of each audit committee member relevant to the performance of his responsibilities as an audit committee member:

Jeffrey Mason – Mr. Mason holds a Bachelor of Commerce degree from the University of British Columbia and obtained his chartered accountant designation while at the international accounting firm of Deloitte & Touche LLP. In October 2008, Mr. Mason completed the certification required to receive the Professional Institute of Corporate Directors' ICD.D designation. He spent the last 15 years as Chief Financial Officer and director to ten publicly traded (TSX and AMEX) companies. These companies are principally managed by Hunter Dickinson Inc., a Canadian management services company that oversees public companies with significant market capitalization operating in worldwide jurisdictions. As Chief Financial Officer and Director of Hunter Dickinson Inc., Mr. Mason's responsibilities included mergers and acquisitions, financial public reporting and administration, legal, human resources and information technology in addition to his directorship role.

Murray McBride – Mr. McBride acquired significant financial experience and exposure to accounting and financial issues while serving in a number of positions, including: Chairman of the Intellivest Group of Companies, President of the Alexander Proudfoot Company of Canada, Member of Parliament of Canada, Chairman of the Canadian Egg Marketing Agency, Vice Chairman and General Manager of the Farm Credit Corporation of Canada, Chief of Staff of the Canadian Ministry of Consumer and Corporate Affairs and Chief of Staff of the Postmaster General of Canada.

Curt Cranfield – Mr. Cranfield acquired significant financial experience and exposure to accounting and financial issues in his capacity as co-founder, Chief Executive Officer and President of IP Applications Corp. Mr. Cranfield was responsible for IP Applications Corp.'s growth from a start-up business to a publicly traded company. He currently serves as President and Chief Executive Officer of Qool Media Ltd. Mr. Cranfield has a Bachelors of Economics and Information Systems degree from the University of Victoria.

*Pre-Approval Policies and Procedures.* The audit committee charter includes responsibilities regarding the provision of non-audit services by our external auditors. The audit committee charter states that the audit committee shall: (i) pre-approve the retention of the independent auditor for any non-audit services, including tax services, and the fees for such non-audit services which are provided to our Company or its subsidiaries; (ii) consider whether the provision of non-audit services is compatible with maintaining the auditor's independence; and (iii) if so determined by the audit committee, recommend that our board of directors take appropriate action to satisfy itself of the independence of the auditor.

*Reliance on Certain Exemptions.* At no time since the commencement of our most recently completed financial year have we relied on any exemption from NI 52-110.

*Audit Committee Oversight.* At no time since the commencement of our most recently completed financial year was a recommendation of the audit committee to nominate or compensate an external auditor not adopted by our board of directors.

*Audit Fees.* The aggregate fees billed by our external auditor for audit services was \$285,423 for the fiscal year ended October 31, 2009 including \$26,712 relating to the prospectus prepared for the Company's listing on the Nasdaq OMX Nordic Exchange. For the fiscal year ended October 31, 2008 the aggregate fees billed our external auditor for audit services was \$261,122.

*Audit Related Fees.* There were no audit related fees billed in each of the last two fiscal years for assurance and related services by our external auditor that are reasonably related to the performance of the audit or review of our financial statements.

*Tax Fees.* The aggregate fees billed in each of the last two fiscal years for professional services rendered by our external auditor for tax compliance, tax advice, transfer pricing studies and tax planning were \$92,432 for the fiscal year ended October 31, 2009 and \$238,243 for the fiscal year ended October 31, 2008. Tax fees for 2009 and 2008 were primarily for preparation of our tax returns, assistance with audits and other tax consulting.

*All Other Fees.* There were no other fees billed in each of the last two fiscal years apart from the audit and tax fees already noted.

#### ***Compensation and Corporate Governance Committee***

Jeffrey Mason is the Chairman of the compensation and corporate governance committee. The other members of the compensation and corporate governance committee are Murray McBride and Curt Cranfield. The committee is responsible for reviewing and making recommendations to the board of directors regarding the hiring and appointment, compensation, benefits and termination of our officers, executives and other key employees, developing our procedures regarding corporate governance issues, advising the board of directors with respect to the filling of vacancies on the board of directors and reviewing the composition and effectiveness of the board of directors.

#### ***Conflicts of Interest***

Our directors are required by law to act honestly and in good faith with a view to the best interests of our Company, and to disclose any interests which they may have in any project or opportunity of our Company. If a conflict of interest arises at a meeting of our board of directors, any director in a conflict will disclose his interest and, if required, abstain from voting on such matter. See "Directors and Executive Officers" above.

#### ***Corporate Cease Trade Orders or Bankruptcies***

Except as disclosed elsewhere in this Annual Information Form and below, none of our directors or executive officers is, at the date of this Annual Information Form, or was within 10 years before the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company (including our Company) that:

- (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, CEO or CFO, or
- (ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Except as otherwise disclosed in this Annual Information Form and below, none of our directors or executive officers or, to our knowledge, any shareholder holding a sufficient number of our shares to materially affect the control of our Company:

- (i) is, as at the date of this Annual Information Form, or has been within the 10 years before the date of this Annual Information Form, a director or executive officer of any company (including our Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (ii) has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

## LEGAL PROCEEDINGS

Except as set out below, we are not involved nor have been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) within the preceding financial year.

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 sought an order to restrict the Company from selling contact lenses to members of the public in British Columbia. On April 25, 2008, the Supreme Court of British Columbia denied the petition filed by the Opticians. On May 26, 2008, the Company 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. On August 14, 2008 the Company filed a statement of claim against the Opticians for certain statements made relating to the sale of contact lenses. The Company is unable to predict the outcome of the claim at this time. In May 2009, the appeal filed by the Opticians was heard by the British Columbia Court of Appeal and defended against by the Company. The Court of Appeal held that we may sell contact lenses to members of the public of British Columbia upon receipt of a copy of a prescription from the customer, however this decision was suspended until May 1, 2010. We are currently reviewing the practicality of this decision including legal and other options.

The Company is engaged in certain other legal actions in the ordinary course of our business and believes that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

Given the nature of the business environment in which we operate and the relative strength of our financial position, other third parties have threatened or may commence legal or regulatory proceedings against us in the ordinary course of our business. An adverse determination in litigation or regulatory proceedings could subject us to significant liabilities to third parties. Although such disputes are often settled before trial, the costs associated with such arrangements may be substantial. We closely monitor the progress of all threatened litigation and, where the directors consider it appropriate, make the appropriate provisions and reserves in our financial statements.

## REGISTRAR AND TRANSFER AGENT

Our registrar and transfer agent is Computershare Trust Company of Canada, 510 Burrard Street, 2<sup>nd</sup> Floor, Vancouver, British Columbia V6C 3B9.

## INTEREST OF MANAGEMENT IN MATERIAL TRANSACTIONS

In the three most recently completed financial years, none of our insiders have been involved in any material transactions with us.

## MATERIAL CONTRACTS

Except as otherwise disclosed in this Annual Information Form, there are no contracts, other than contracts entered into in the ordinary course of business, that are material to our Company and that were entered into in the most recently completed financial year, or before the most recently completed financial year, but are still in effect.

## INTERESTS OF EXPERTS

Our auditors are KPMG LLP and they have advised us that they are independent of our Company in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

#### ADDITIONAL INFORMATION

Additional information regarding us, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, is contained in our management information circular in respect of our annual meeting of security holders held on March 13, 2009. Additional financial information is provided in our consolidated financial statements and related Management's Discussion and Analysis for the fiscal year ended October 31, 2009, which have been filed with various securities commissions.

Additional information relating to our Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## APPENDIX A

### AUDIT COMMITTEE CHARTER

The Audit Committee is appointed by the Company's board of directors (the "Board") to assist the Board in monitoring: (1) the integrity of the financial statements of the Company; (2) the compliance by the Company with legal and regulatory requirements; and (3) the independence and performance of the Company's external auditors, which external auditors shall report directly to the Audit Committee.

The members of the Audit Committee shall meet the independence and experience requirements of applicable securities laws and any exchange or quotation system upon which the Company's securities are listed or quoted. The members of the Audit Committee shall be appointed by the Board.

The Audit Committee shall have the authority to retain independent legal, accounting or other consultants to advise the Committee as the Audit Committee determines necessary to carry out its duties and the Audit Committee shall have the authority to set and pay the compensation for any such advisors. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

The Audit Committee shall make regular reports to the Board.

The Audit Committee shall:

1. Review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.
2. Review the annual audited financial statements, the interim financial statements, management's discussion and analysis with management and annual and interim earnings press releases, including major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls that could significantly affect the Company's financial statements. Such review must occur prior to the Company publicly disclosing any such information.
3. Ensure that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements.
4. Review an analysis prepared by management and the independent auditor of significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including an analysis of the effect of alternative GAAP methods on the Company's financial statements.
5. Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
6. Meet with management to review the Company's major financial risk exposures and the Company's internal controls.
7. Review major changes to the Company's internal controls and accounting principles and practices as suggested by the independent auditor, internal accounting or financial personnel or management.

8. Recommend to the Board the nomination and appointment of the independent auditor for the purposes of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, which independent auditor is ultimately accountable to the Audit Committee and the Board.
9. Review the experience and qualifications of the senior members of the independent auditor team, the audit procedures of the independent auditor and the rotation of the lead partner and reviewing partner of the independent auditor.
10. Approve the compensation to be paid to the independent auditor for audit services.
11. Pre-approve the retention of the independent auditor for all audit and any non-audit services, including tax services, and the fees for such non-audit services which are provided to the Company or its subsidiary entities.
12. Receive periodic reports from the independent auditor regarding the auditor's independence, discuss such reports with the auditor, consider whether the provision of non-audit services is compatible with maintaining the auditor's independence and, if so determined by the Audit Committee, recommend that the Board take appropriate action to satisfy itself of the independence of the auditor.
13. Evaluate together with the Board the performance of the independent auditor. If so determined by the Audit Committee, recommend that the Board replace the independent auditor.
14. Recommend to the Board guidelines for the Company's hiring of partners, employees and former partners and employees of the present and former independent auditor who were engaged on the Company's account.
15. Review the significant reports to management pertaining to the presentation and significant accounting policies of the Company's financial statements.
16. Obtain reports from management, the Company's senior accounting and financial personnel and the independent auditor that the Company and its subsidiaries are in conformity with applicable legal requirements, including disclosures of insider and affiliated party transactions.
17. Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee or anonymous complaints or published reports which raise material issues regarding the Company's financial statements or accounting policies.
18. Review with the independent auditor any problems or difficulties the auditor may have encountered and any disagreements between the independent auditor and management of the Company and any management letter provided by the auditor and the Company's response to that letter. Such review should include:
  - (a) any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information, and any disagreements with management;
  - (b) the internal accounting and financial responsibilities; and
  - (c) the investigation and implementation of the resolution of any disagreement between the independent auditor and the management of the Company.
19. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations.

20. Meet at least quarterly with the Chief Financial Officer and the independent auditor in separate executive sessions.
21. Establish a procedure for:
  - (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
  - (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with Canadian generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations.