

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

COASTAL CONTACTS INC.

UNAUDITED

FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2011

(Canadian Dollars)

COASTAL CONTACTS INC.
CONSOLIDATED BALANCE SHEETS

(\$000's)

| | July 31, 2011 | October 31, 2010 |
|--|------------------|---------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents <i>[note 3]</i> | \$ 14,207 | \$ 18,266 |
| Accounts receivable | 8,165 | 8,866 |
| Inventory | 22,783 | 17,536 |
| Prepaid expenses | 3,848 | 3,109 |
| Income taxes recoverable | 751 | - |
| Future income tax | 95 | 97 |
| Due from related parties <i>[note 10]</i> | 209 | 204 |
| | 50,058 | 48,078 |
| Property, equipment and leasehold improvements | 10,335 | 5,558 |
| Intangible assets | 9,477 | 8,908 |
| Goodwill | 7,706 | 7,715 |
| | \$ 77,576 | \$ 70,259 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 34,489 | \$ 26,988 |
| Income tax payable | - | 44 |
| Deferred revenue | 74 | 17 |
| Deferred gain on sale of equipment | 87 | 88 |
| Capital lease obligation <i>[note 5]</i> | 944 | 811 |
| Lease inducement | 93 | 7 |
| | 35,687 | 27,955 |
| Deferred gain on sale of equipment | 215 | 285 |
| Long-term debt <i>[note 4]</i> | 1,500 | - |
| Capital lease obligation <i>[note 5]</i> | 3,844 | 2,508 |
| Long-term lease inducement | 385 | 140 |
| Future income tax | 3,284 | 3,359 |
| | 44,915 | 34,247 |
| SHAREHOLDERS' EQUITY | | |
| Share capital <i>[note 6]</i> | | |
| Authorized: | | |
| Unlimited common shares without par value | | |
| Unlimited Class A preferred shares without par value | | |
| Issued and outstanding: | | |
| 55,678,471 common shares [2010 – 55,396,171] | 39,817 | 39,176 |
| Contributed surplus <i>[note 7]</i> | 3,150 | 2,663 |
| Accumulated other comprehensive loss <i>[note 8]</i> | (3,908) | (3,783) |
| Deficit | (6,398) | (2,044) |
| | 32,661 | 36,012 |
| | \$ 77,576 | \$ 70,259 |

See accompanying notes to the unaudited interim consolidated financial statements
Contingencies *[note 9]*

COASTAL CONTACTS INC.
CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE
EARNINGS (LOSS)

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

| | Three months ended | | Nine months ended | |
|---|--------------------|---------------|-------------------|---------------|
| | July 31 | | July 31 | |
| | 2011 | 2010 | 2011 | 2010 |
| Sales | \$ 49,589 | \$ 39,455 | \$ 134,036 | \$ 112,681 |
| Cost of sales | 34,481 | 28,078 | 93,730 | 80,737 |
| Gross profit | 15,108 | 11,377 | 40,306 | 31,944 |
| Advertising | 8,163 | 4,890 | 19,653 | 12,801 |
| Selling, general and administration | 7,320 | 5,087 | 22,104 | 14,565 |
| Share-based compensation | 310 | 109 | 768 | 459 |
| Amortization on property, equipment and leasehold improvements | 512 | 364 | 1,393 | 932 |
| Amortization on intangible assets | 235 | 308 | 613 | 1,098 |
| Foreign exchange (gains) losses | (336) | (5) | (330) | 270 |
| Interest | 75 | 15 | 210 | 30 |
| Earnings (loss) before income taxes | (1,171) | 609 | (4,105) | 1,789 |
| Income tax (recovery) | 384 | 80 | (138) | 128 |
| Net earnings (loss) | (1,555) | 529 | (3,967) | 1,661 |
| Unrealized foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign operations | (624) | 393 | (125) | (1,352) |
| Comprehensive earnings (loss) | \$ (2,179) | \$ 922 | \$ (4,092) | \$ 309 |
| Basic earnings (loss) per share | \$ (0.03) | \$ 0.01 | \$ (0.07) | \$ 0.03 |
| Diluted earnings (loss) per share | \$ (0.03) | \$ 0.01 | \$ (0.07) | \$ 0.03 |
| Weighted average number of common shares outstanding | | | | |
| Basic | 55,409,764 | 56,981,557 | 55,326,382 | 56,948,115 |
| Diluted | 55,409,764 | 57,963,709 | 55,326,382 | 58,036,184 |

See accompanying notes to the unaudited interim consolidated financial statements

COASTAL CONTACTS INC.
CONSOLIDATED STATEMENTS OF DEFICIT

(Unaudited) (\$000's)

| Nine months ended July 31 | 2011 | 2010 |
|---|-------------|-------------|
| Deficit, beginning of period | \$ (2,044) | \$ (3,897) |
| Net earnings (loss) | (3,967) | 1,661 |
| Premium on purchase of common shares for cancellation <i>[Note 6]</i> | (387) | (52) |
| Deficit, end of period | \$ (6,398) | \$ (2,288) |

See accompanying notes to the unaudited interim consolidated financial statements

COASTAL CONTACTS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (\$000's)

| | Three months ended | | Nine months ended | |
|--|--------------------|------------------|-------------------|------------------|
| | July 31 | | July 31 | |
| | 2011 | 2010 | 2011 | 2010 |
| OPERATING ACTIVITIES | | | | |
| Net earnings (loss) | \$ (1,555) | \$ 529 | \$ (3,967) | \$ 1,661 |
| Non-cash items affecting earnings: | | | | |
| Amortization | 747 | 672 | 2,006 | 2,030 |
| Amortization of deferred lease inducement | (23) | (2) | 331 | (31) |
| Share-based compensation | 310 | 109 | 768 | 459 |
| Future income taxes | (22) | (46) | (70) | (181) |
| Changes in non-cash working capital: | | | | |
| Accounts receivable | 857 | 303 | 709 | (549) |
| Inventory | 2,376 | 511 | (5,254) | (201) |
| Prepaid expenses | (1,334) | 4 | (702) | (478) |
| Accounts payable and accrued liabilities | 3,148 | 8,060 | 7,849 | 8,561 |
| Income tax payable | (158) | 65 | (552) | (697) |
| Deferred revenue | (76) | - | 53 | - |
| Deferred gain on disposition | - | 313 | (10) | 313 |
| Cash provided by operating activities | 4,270 | 10,518 | 1,161 | 10,887 |
| INVESTING ACTIVITIES | | | | |
| Repayments from (advances to) related parties | - | (3) | (8) | 172 |
| Acquisition of property, equipment and leasehold improvements | (404) | (1,422) | (3,181) | (2,987) |
| Acquisition of intangible assets | (996) | (106) | (1,189) | (294) |
| Disposition of property and equipment | - | 1,817 | 343 | 1,817 |
| Cash (used in) provided by investing activities | (1,400) | 286 | (4,035) | (1,292) |
| FINANCING ACTIVITIES | | | | |
| Issuance of common shares on exercise of options | 493 | 39 | 697 | 131 |
| Capital lease payments | (229) | - | (653) | - |
| Increase in capital lease obligation | - | - | 603 | - |
| Advance (repayment) of long-term debt | (3,000) | - | 1,500 | - |
| Purchase of common shares for cancellation | - | (158) | (3,011) | (158) |
| Cash used in financing activities | (2,736) | (119) | (864) | (27) |
| Effect of exchange rate changes on cash and cash equivalents | (293) | 249 | (321) | (288) |
| Increase (decrease) in cash and cash equivalents | (159) | 10,934 | (4,059) | 9,280 |
| Cash and cash equivalents, beginning of period | 14,366 | 9,878 | 18,266 | 11,532 |
| Cash and cash equivalents, end of period | \$ 14,207 | \$ 20,812 | \$ 14,207 | \$ 20,812 |
| Supplemental disclosure of cash flow information: | | | | |
| Income tax paid (recovered) in cash | \$ 297 | \$ 103 | \$ (534) | \$ 602 |
| Interest paid in cash | \$ 102 | \$ - | \$ 229 | \$ - |

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2011
Unaudited

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Coastal Contacts Inc. ("Coastal") is a global retailer of contact lenses, eyeglasses and related vision care products sold primarily through its internet sites. Coastal has customers in North America, Europe and the Asia Pacific region.

These unaudited interim consolidated financial statements have been prepared by Coastal in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements, and accordingly, do not include all disclosures required for annual financial statements. These unaudited interim consolidated financial statements, which include accounts of Coastal and its wholly owned subsidiaries, reflect the same accounting principles and methods of application as those disclosed in the notes to Coastal's audited consolidated financial statements for the year ended October 31, 2010 and should be read in conjunction with these statements. All intercompany transactions and balances have been eliminated.

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

2. FUTURE ACCOUNTING POLICIES

In accordance with the Canadian Institute of Chartered Accountants Accounting Standards Board (AcSB), Canadian publicly accountable enterprises will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS). This changeover to IFRS from Canadian GAAP will apply to Coastal's financial statements for the year beginning on November 1, 2011. Coastal will undertake the appropriate measures to ensure compliance with these new standards by the prescribed adoption date. Coastal is currently assessing the implications of these standards on the consolidated financial statements.

3. CASH AND CASH EQUIVALENTS

Coastal has the Canadian Dollar equivalent of \$1.1 million of cash on hand which is restricted pursuant to a letter of guarantee issued by a financial institution in favor of the Norwegian Customs and Excise Service to secure the payment of duty and value added tax collected by Coastal.

Coastal has the Canadian Dollar equivalent of \$0.2 million of cash on hand which is restricted for the purpose of providing security to retain the services of a certain Norwegian tax firm.

Coastal also has \$0.2 million in term deposits that are restricted for the purposes of providing security over certain debt facilities.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Unaudited

4. OPERATING LOAN FACILITIES

Coastal has access to a secured operating line of credit, totaling \$6.0 million with interest payable at the lender's prime rate. The balance is due for repayment on March 31, 2013. As at July 31, 2011 \$1.5 million was outstanding on this facility.

A subsidiary of Coastal has access to a secured operating loan facility, totaling 30,000,000 Swedish Krona (Canadian dollar equivalent of approximately \$4.6 million). The facility bears interest on any outstanding balance at a rate of 0.8% above the bank's lending rate. As at July 31, 2011, there was nil balance outstanding.

5. CAPITAL LEASE OBLIGATION

During the nine-month period ended July 31, 2011, Coastal sold equipment totaling \$0.3 million to a lessor and subsequently leased the assets back. The resulting lease is classified as a capital lease. The interest rate on the lease facility is fixed at 5.54% and is repayable over 48 monthly payments. Lease payments for the next year amount to \$0.08 million. There is a bargain purchase option to purchase the equipment under each lease for \$1 when the lease term expires.

During the nine-month period ended July 31, 2011, a lessor advanced \$1.7 million as prepayment for certain equipment on order.

6. SHARE CAPITAL

(a) Issued and outstanding common shares

Authorized share capital comprises an unlimited number of common shares without par value and an unlimited amount of Class A preferred shares without par value, of which none are issued. Common shares issued and outstanding are as follows:

| | Nine Months Ended July 31, 2011 | | Twelve Months Ended October 31, 2010 | |
|-------------------------------|------------------------------------|---------|---|---------|
| | # | \$000's | # | \$000's |
| Balance, beginning of period | 55,396,171 | 39,176 | 56,901,719 | 40,248 |
| Issued on exercise of options | 680,000 | 942 | 151,500 | 226 |
| Purchased and cancelled | (397,700) | (301) | (1,657,048) | (1,298) |
| Balance, end of period | 55,678,471 | 39,817 | 55,396,171 | 39,176 |

COASTAL CONTACTS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Unaudited

6. SHARE CAPITAL (Continued)

On January 11, 2011 Coastal renewed its NCIB with the TSX for maximum eligible purchases of 3,348,391 of Coastal's common shares. For the nine month period ended July 31, 2011, 397,700 common shares were repurchased and cancelled under this NCIB for an average price of \$1.73 per share. No common shares were repurchased for three month period ended July 31, 2011. The excess premium of the purchase price over the average stated capital of the shares has been charged to deficit.

(b) Share purchase options

Coastal's shareholders adopted a stock option plan (the "Option Plan") for its directors, officers, employees and service providers. The Option Plan provides that options to purchase common shares may be granted to eligible persons on terms determined within the limitations set out in the Option Plan. The maximum number of common shares to be reserved for issuance at any one time under the Option Plan and any other employee incentive plan is 10% of the then issued and outstanding common shares. The exercise price for a share purchase option granted under the Option Plan may not be less than that permitted by applicable regulatory authorities. Options granted may be subject to vesting requirements. Non-assignable options will be granted for a period which may not exceed five years from the date of the grant and will expire within 90 days upon the participant ceasing to be a director, officer, employee, or service provider. The Option Plan is administered by Coastal's Compensation and Corporate Governance Committee. During the quarter ended July 31, 2011, 150,000 non-employee options were granted to a firm that Coastal has engaged to provide investor relation services.

Share purchase option activity for the nine months ended July 31, 2011:

| | # | \$ |
|---|------------------|--------------------|
| Options outstanding, October 31, 2010 | 4,748,000 | 0.80 – 1.49 |
| Granted | 1,230,000 | 1.62 – 2.80 |
| Exercised | (680,000) | 1.00 – 1.11 |
| Forfeited | (175,000) | 0.89 – 1.12 |
| Options outstanding, July 31, 2011 | 5,123,000 | 0.80 – 2.80 |

Share purchase options outstanding as at July 31, 2011:

| Range of exercise price \$ | Share purchase options outstanding | | | Share purchase options exercisable | |
|-------------------------------|------------------------------------|--|------------------------------------|------------------------------------|------------------------------------|
| | Number of common shares issuable | Weighted average remaining contractual life in years | Weighted average exercise price \$ | Number of common shares issuable | Weighted average exercise price \$ |
| \$0.80 - \$0.99 | 1,445,000 | 1.89 | 0.86 | 1,336,668 | 0.86 |
| \$1.00 - \$1.14 | 1,063,000 | 1.38 | 1.10 | 1,009,000 | 1.10 |
| \$1.15 - \$1.62 | 2,165,000 | 4.07 | 1.50 | 595,164 | 1.48 |
| \$1.63 - \$2.80 | 450,000 | 4.89 | 2.80 | 25,000 | 2.80 |
| | 5,123,000 | 2.97 | 1.35 | 2,965,832 | 1.08 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6. SHARE CAPITAL (Continued)

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

| | <u>Three Months Ended July 31</u> | | <u>Nine Months Ended July 31</u> | |
|-------------------------|-----------------------------------|-----------|----------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Dividend yield | 0% | 0% | 0% | 0% |
| Expected volatility | 47.8% | 52.4% | 50.3% | 54.5% |
| Risk free interest rate | 2.2% | 2.5% | 2.3% | 2.6% |
| Expected lives | 5.0 years | 5.0 years | 5.0 years | 5.0 years |

(c) Employee Share Ownership Plan

Coastal offers certain employees the opportunity to participate in an employee share ownership plan (ESOP) whereby Coastal matches dollar contributions made by employees. The contributions are limited to 8% of gross salary and a maximum of \$7,500 per participant per year. The contributions are used to purchase common shares of Coastal on the open market. Approximately 59% of Coastal employees are eligible to participate in the ESOP.

Coastal's share of contributions made during the nine month period ended July 31, 2011 totaled \$0.4 million and \$0.1 million was contributed during the three month period ended July 31, 2011.

7. CONTRIBUTED SURPLUS

| | <u>\$000's</u> |
|----------------------------|----------------|
| Balance - October 31, 2010 | 2,663 |
| Share-based compensation | 768 |
| Options exercised | (281) |
| Balance - July 31, 2011 | <u>3,150</u> |

COASTAL CONTACTS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Unaudited

8. ACCUMULATED OTHER COMPREHENSIVE LOSS

| | \$000's |
|---|----------------|
| Balance - October 31, 2010 | (3,783) |
| Unrealized foreign exchange losses on translation of financial statements of self-sustaining foreign operations | (125) |
| Balance – July 31, 2011 | (3,908) |

9. CONTINGENCIES

Coastal is engaged in certain 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 to on-going operating results, liquidity or financial position. This includes certain legal actions by former employees for which \$0.7 million has been accrued in accounts payable and accrued liabilities as at July 31, 2011.

10. RELATED PARTY BALANCES AND TRANSACTIONS

| | July 31, 2011 \$000's | October 31, 2010 \$000's |
|-----------------------------|--------------------------------------|---|
| Promissory notes receivable | 209 | 204 |

As at July 31, 2011, there were four promissory notes outstanding, ranging in value from \$0.01 million to \$0.1 million and totalling \$0.16 million. Accumulated interest totals \$0.05 million. These loans are payable on demand and bear interest at a rate of 5% per annum. The debtors are principally officers of Coastal and are personally liable for the amounts owed. Coastal did not have any loans outstanding to its Chief Executive Officer, its Chief Financial Officer or any of its directors at July 31, 2011.

COASTAL CONTACTS INC.
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11. SEGMENTED INFORMATION

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

Geographical information is based on the location of the customers in which Coastal sells its products. Intercompany sales have been excluded. Certain comparative figures have been adjusted to reflect this reporting.

All figures below are presented in Canadian Dollars.

| | Canada \$000's | Sweden \$000's | Norway \$000's | USA \$000's | Other \$000's | Total \$000's |
|---|-------------------|-------------------|-------------------|----------------|------------------|------------------|
| Sales | | | | | | |
| Three months ended July 31, 2011 | 15,148 | 9,531 | 5,070 | 6,621 | 13,219 | 49,589 |
| Three months ended July 31, 2010 | 8,623 | 7,929 | 4,902 | 6,001 | 12,000 | 39,455 |
| Nine months ended July 31, 2011 | 36,499 | 25,455 | 14,164 | 20,158 | 37,760 | 134,036 |
| Nine months ended July 31, 2010 | 23,892 | 21,853 | 14,176 | 18,063 | 34,697 | 112,681 |
| Property, equipment and leasehold improvements | | | | | | |
| As at July 31, 2011 | 8,855 | 1,456 | - | - | 24 | 10,335 |
| As at July 31, 2010 | 3,441 | 1,425 | - | - | - | 4,866 |

| By Product Type | Three months ended July 31 | | | Nine months ended July 31 | | |
|------------------------|-----------------------------------|----------------------------|--------------------------|-----------------------------------|----------------------------|--------------------------|
| | Contact Lenses \$000's | Glasses \$000's | Total \$000's | Contact Lenses \$000's | Glasses \$000's | Total \$000's |
| Sales 2011 | 37,646 | 11,943 | 49,589 | 105,730 | 28,306 | 134,036 |
| Sales 2010 | 34,434 | 5,021 | 39,455 | 99,156 | 13,525 | 112,681 |