

Interim Consolidated Financial Statements

Coastal Contacts Inc.

Unaudited

For the three and nine months ended July 31, 2005

Coastal Contacts Inc.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	July 31 2005 \$	October 31, 2004 \$
ASSETS [note 6]		
Current		
Cash	2,666,845	843,681
Short-term investments	11,492,743	776,675
Accounts receivable	4,623,835	3,043,140
Income taxes receivable	3,598	3,598
Inventory	6,427,513	3,997,434
Prepaid expenses	764,552	234,963
Due from related parties [note 10]	302,977	194,856
	26,282,063	9,094,347
Long-term receivable	—	13,713
Property, equipment and leasehold improvements [note 4]	1,159,706	841,506
Intangible assets [note 5]	5,839,510	5,041,909
Goodwill	5,827,547	6,137,943
	39,108,826	21,129,418
LIABILITIES, SHARE CAPITAL AND DEFICIT		
Current		
Bank indebtedness	533,510	683,863
Accounts payable and accrued liabilities	10,753,352	5,215,624
Income taxes payable	390,660	99,552
Deferred revenue	80,380	307,067
Due to related parties [note 10]	—	38,733
Current portion of lease inducement	24,337	24,337
Current portion of long-term debt [note 6]	524,640	610,408
	12,306,879	6,979,584
Long-term lease inducement	114,177	133,853
Long-term debt [note 6]	—	409,242
Future income tax liability	1,630,466	1,415,911
	14,051,522	8,938,590
Share capital and deficit		
Share capital		
Authorized:		
Unlimited common shares without par value		
Unlimited Class A preferred shares without par value		
Issued and outstanding [note 7]:		
50,108,480 common shares [2004 - 33,874,860]	24,731,146	11,569,500
Shares to be issued [note 7]	—	1,762,560
Contributed surplus [note 8]	731,301	105,898
Cumulative foreign currency translation adjustment	(1,109,318)	(71,745)
Retained earnings (deficit)	704,175	(1,175,385)
	25,057,304	12,190,828
	39,108,826	21,129,418

See accompanying notes to the unaudited interim consolidated financial statements

On behalf of the Board:

/s/ Roger Hardy
Director

/s/ Curt Cranfield
Director

Coastal Contacts Inc.

**CONSOLIDATED STATEMENTS OF INCOME (LOSS)
AND RETAINED EARNINGS (DEFICIT)**

(Unaudited)

	Three months ended July 31		Nine months ended July 31	
	2005 \$	2004 \$	2005 \$	2004 \$
Sales	19,817,554	6,996,983	46,707,879	19,519,550
Cost of sales	14,161,486	5,673,810	34,007,887	16,245,411
Gross profit	5,656,068	1,323,173	12,699,992	3,274,139
Selling, general and administration expenses	4,045,589	1,469,254	9,826,745	3,887,295
Stock-based compensation	30,293	—	146,603	99,000
Amortization	228,831	14,749	575,454	43,609
Interest on long-term debt	22,516	15,710	81,205	60,005
Interest income	(76,713)	—	(127,933)	—
Income (loss) before income taxes	1,405,552	(176,540)	2,197,918	(815,770)
Income tax expense - current	519,272	—	645,945	—
Income tax recovery - future	(313,900)	—	(327,586)	—
Net income (loss)	1,200,180	(176,540)	1,879,559	(815,770)
Deficit, beginning of period	(496,005)	(1,275,065)	(1,175,385)	(635,835)
Retained earnings (deficit), end of period	704,175	(1,451,605)	704,175	(1,451,605)
Basic earnings (loss) per share	.02	(.01)	.04	(.05)
Diluted earnings (loss) per share	.02	(.01)	.04	(.05)
Weighted average number of common shares outstanding - basic	50,044,222	21,235,996	42,970,791	17,048,076
Weighted average number of common shares outstanding - diluted	60,251,874	21,235,996	52,563,249	17,048,076

See accompanying notes to the unaudited interim consolidated financial statements

Coastal Contacts Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Three months ended July 31		Nine months ended July 31	
	2005	2004	2005	2004
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income (loss)	1,200,180	(176,540)	1,879,559	(815,770)
Non-cash items:				
Amortization	228,831	14,749	575,454	43,609
Amortization of deferred lease inducement	(6,243)	—	(19,676)	—
Accrued interest	(74,248)	—	(115,422)	—
Stock-based compensation	30,293	—	146,603	99,000
Shares issued for goods and services	—	—	—	350,000
Current income tax	297,016	—	297,016	—
Future income taxes	(313,900)	—	(327,586)	—
Loss on disposal of short term investment	—	67,844	—	67,844
Changes in non-cash working capital:				
Accounts receivable	(1,715,173)	119,836	(1,617,840)	(352,565)
Inventory	(2,583,630)	(144,409)	(2,516,811)	(784,515)
Prepaid expenses	(258,040)	(121,649)	(559,636)	(157,574)
Accounts payable and accrued liabilities	4,542,591	320,724	5,668,502	1,224,225
Income taxes payable	191,166	—	320,314	—
Deferred revenue	2,983	200,501	(226,687)	294,580
Due from related parties	(36,163)	184,432	(43,198)	126,079
Income taxes receivable	—	15,943	—	7,217
Cash provided by operating activities	1,505,663	481,431	3,460,592	102,130
INVESTING ACTIVITIES				
Purchase of short-term investments	561,285	(109,519)	(11,100,942)	(4,909,519)
Sale of short-term investments	—	4,332,157	450,804	4,332,157
Acquisition of property, equipment and leasehold improvements	(209,608)	(61,935)	(466,697)	(99,910)
Acquisition of intangible assets	(288,057)	(7,300)	(375,941)	(76,359)
Disposition of intangible assets	—	—	3,641	—
Acquisition costs	(940,349)	(5,574,100)	(955,369)	(5,651,418)
Advances to related parties	(59,127)	—	(152,228)	—
Cash (used in) provided by investing activities	(935,856)	(1,420,697)	(12,596,732)	(6,405,049)
FINANCING ACTIVITIES				
Issuance of share capital	96,696	2,047,082	12,777,065	8,515,107
Advances to related parties	—	(139,799)	—	(141,546)
Share issue costs	—	(237,442)	(939,330)	(1,110,047)
Bank indebtedness	26,852	(142,161)	(150,353)	(319,528)
Repayment of long-term debt	(219,442)	(48,741)	(552,030)	(134,957)
Cash (used in) provided by financing activities	(95,894)	1,478,939	11,135,352	6,809,029
Effect of exchange rate changes on cash	(177,532)	—	(176,048)	—
Increase in cash	297,382	539,673	1,823,164	506,110
Cash, beginning of period	2,370,464	67,851	843,681	101,414
Cash, end of period	2,666,845	607,524	2,666,845	607,524
Interest paid in cash	22,516	15,710	81,205	60,005
Income taxes paid in cash	3,621	—	9,009	—

See accompanying notes to the unaudited consolidated interim financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2005

Unaudited

1. BASIS OF PRESENTATION

Coastal Contacts Inc. (“the Company”) is a global on-line retailer of contact lenses sold throughout internet sites created and operated by the Company. The Company has operations in North America and Europe.

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”) with respect to interim financial statements, applied on a consistent basis. These unaudited interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 2 to the Company’s audited consolidated financial statements as at and for the year ended October 31, 2004. Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These unaudited consolidated interim financial statements and notes thereon should be read in conjunction with the audited consolidated financial statements and notes for the year ended October 31, 2004.

The preparation of these unaudited consolidated interim 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 consolidated interim 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. ACQUISITION OF LENSWAY

On July 26, 2004, the Company completed the acquisition of all of the shares of Lensway, a European retailer of contact lenses. The consideration paid included \$5,655,000 in cash and 13,195,000 restricted common shares of the Company. The shares are subject to a pooling agreement for a period of 36 months after the closing date of July 26, 2004. Forty percent of the pooled shares will be released 12 months after closing and 15% of the shares will be released every six months thereafter (all shares will be released as of 36 months after the closing date).

The acquisition was accounted for using the purchase method whereby assets acquired and liabilities assumed were recorded at their fair market values as of the date of the acquisition. For purposes of computing the purchase price, the value of the restricted common shares was determined by taking the closing price of the Company’s common stock as quoted on the TSX Venture Exchange for the two days before, the day of and the two days following the announcement of the signing of the letter of intent to acquire Lensway (June 24, 2004). This average price was then reduced by a 46% discount (as determined by a third party appraisal) due to the restriction provisions associated with the common shares issued.

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. ACQUISITION OF LENSWAY (cont'd.)

The following sets forth the purchase price and its allocation to the tangible and intangible assets acquired.

	\$
Cash	5,655,000
Restricted common shares	5,500,000
Direct acquisition costs	773,953
Total consideration	11,928,953
Cash	550,084
Other current assets	3,656,208
Property and equipment	353,263
Lensway customer list	2,083,333
Lensway trade name	2,847,223
Website development	125,000
Current liabilities	(2,116,763)
Long-term debt	(280,776)
Future income taxes	(1,462,207)
Net assets acquired	5,755,365
Goodwill	6,173,588

Goodwill is not deductible for income tax purposes.

3. ACQUISITION OF YOUR LENSES

On May 4, 2005 through the Company's wholly owned subsidiary, Lensway AB, the Company completed the acquisition of all of the shares of Your Lenses, a European retailer of contact lenses. The consideration paid consisted of cash of \$949,032 (5,380,000 Swedish Krona), with fifty percent of the cash paid upon signing on May 4, 2005 and the remaining fifty percent held in escrow, payable eighteen months from the date of signing.

The acquisition was accounted for using the purchase method whereby assets acquired and liabilities assumed were recorded at their fair market values as of the date of the acquisition

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Unaudited

3. ACQUISITION OF YOUR LENSES (cont'd.)

The following sets forth the purchase price and its allocation to the tangible and intangible assets acquired. The overall purchase price allocation set out below is preliminary and will be finalized in the fourth quarter of 2005. The final allocations may differ materially from the preliminary allocations presented below.

	\$
Cash	949,032
Direct acquisition costs	111,193
Total consideration	1,060,225
Cash	33,988
Other current assets	240,942
Property and equipment	5,865
Your Lenses customer list	735,000
Your Lenses trade name	514,500
Website development	134,750
Current liabilities	(313,440)
Long-term debt	(85,361)
Future income tax liability	(387,590)
Net assets acquired	878,654
Goodwill	181,571

Goodwill is not deductible for income tax purposes.

The results of operations of Your Lenses have been included in the accompanying interim consolidated statements since May 4, 2005.

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	July 31, 2005 \$	October 31, 2004 \$
Leasehold improvements	455,008	355,314
Furniture and fixtures	264,244	199,404
Computer hardware	365,160	196,466
Computer software	45,700	11,525
Customized ERP software	331,047	223,408
	1,461,159	986,117
Accumulated amortization	(301,453)	(144,611)
Net book value	1,159,706	841,506

5. INTANGIBLE ASSETS

	July 31, 2005 \$	October 31, 2004 \$
Website development	697,896	303,050
Lensway trade name	2,595,706	2,830,783
Your Lenses trade name	460,542	—
Lensway customer list	1,899,297	2,071,306
Your Lenses customer list	657,917	—
Pharmalens agreements [note 7]	76,138	—
	6,387,496	5,205,139
Accumulated amortization	(547,986)	(163,230)
Net book value	5,839,510	5,041,909

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2005

Unaudited

6. LONG-TERM DEBT

	July 31, 2005	October 31, 2004
	\$	\$
VanCity Capital		
Loan #1: Repayable in monthly instalments of \$7,381, blended principal and interest at prime (4.25%) plus 10.5%. The loan matured on March 15, 2005.	—	35,776
Loan #2: Repayable in monthly instalments of \$8,378, blended principal and interest at 13%. The loan matures on March 15, 2006.	186,773	232,759
Loan #3: Repayable in monthly instalments of \$6,065 blended principal and interest at a fixed interest rate of 13.0%. The loan matures on June 15, 2006.	83,473	127,560
Handelsbanken Loan: Repayable in monthly instalments of \$38,266, consisting of blended principal and interest at 7.45%. The loan is denominated in Swedish Krona (SEK 3,611,106) matures on February 28, 2006.	254,394	623,555
	524,640	1,019,650
Less current portion	524,640	610,408
	—	409,242

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6. LONG-TERM DEBT (cont'd.)

The Van City loans are collateralized by a general security agreement over all the assets of the Company and certain personal guarantees by shareholders. These Van City loans are subordinate to any other loan facilities that the Company might obtain in the future. These loans also give VanCity the option of participating in equity offerings undertaken by the Company by converting the debt outstanding at the date of such offering into the equity offered.

Under terms of the Company's loan facilities with Van City Capital, there are certain covenants over working capital and effective net worth, as well as a covenant restricting capital expenditures to less than \$100,000 per annum. As at July 31, 2005, the Company had incurred \$502,487 in capital expenditures, with approximately \$225,000 consisting of capitalized internal website development costs, approximately \$114,000 having been spent on phone and computer equipment and the remainder on leasehold improvements, software and furniture and equipment. The Company has obtained a waiver from the lender in regards the above covenant restriction.

The Handelsbanken loan is collateralized by a floating charge on the assets of Lensway, to a maximum of 7,500,000 krona (\$1,170,750), depending on the amount of outstanding loan.

Anticipated requirements to meet long-term debt principal repayments over the next year from August 1, 2005 are as follows:

	\$
<hr/>	
July 31, 2006	524,640
	<hr/>
	524,640
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Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7. SHARE CAPITAL

Issued and outstanding common shares

	July 31, 2005		October 31, 2004	
	Number of Common Shares		Number of Common Shares	
	#	\$	#	\$
Balance - beginning of period	33,874,860	11,569,500	12,280,000	77,000
Issued in private placement	2,500,000	1,762,560	—	—
Issued in private placement	11,200,000	10,901,871	620,000	310,000
Issued on exercise of warrants	407,276	401,476	100,000	5,000
Issued for goods	—	—	700,000	350,000
Issued in initial public offering	—	—	6,000,000	5,127,395
Issued for services	—	—	375,000	—
Issued on exercise of options	2,086,194	55,589	264,960	1,325
Issued under greenshoe option	—	—	164,000	151,700
Issued under greenshoe option	—	—	50,900	47,080
Issued for services	—	—	125,000	—
Issued in purchase of Lensway	—	—	13,195,000	5,500,000
Issued to Marlin Financial Group Inc.	40,150	40,150	—	—
Balance - end of period	50,108,480	24,731,146	33,874,860	11,569,500

Between November 1, 2003 and December 15, 2003 the Company issued 1,420,000 common shares to non-related parties of the Company, of which 620,000 of the shares were issued for cash of \$310,000, 100,000 shares were issued on the exercise of warrants for cash of \$5,000 and 700,000 shares were issued in exchange for the settlement of accounts payable.

On March 29, 2004, the Company undertook an Initial Public Offering (IPO), issuing 6,000,000 common shares for proceeds of \$6,000,000, less share issue costs of \$872,605. There were a further 375,000 units issued to the underwriter. Each unit consists of one common share and one warrant exercisable at \$1.50 for a period of two years.

On April 7, 2004, employees of the Company exercised options for 264,960 shares, for proceeds of \$1,325.

On April 23, 2004 and May 28, 2004, the underwriter exercised part of its rights under the greenshoe option granted in the IPO and 164,000 and 50,900 common shares were issued for proceeds of \$151,700, and \$47,080 respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Unaudited

7. SHARE CAPITAL (cont'd.)

On July 22, 2004, the Company undertook a private placement issuing 2,500,000 shares for proceeds of \$2,000,000, less share issue cost of \$237,440. These shares were presented on the consolidated balance sheet at October 31, 2004 as "Shares to be issued" as they were paid for in the fourth quarter of fiscal 2004, but were only issued in the first quarter of fiscal 2005 (November 23, 2004). Each of the 2,500,000 shares includes a share purchase warrant entitling the holder to purchase one share per warrant at an exercise price of \$1.00 for a period of two years. There were a further 125,000 units comprising one common share and one purchase warrant issued to the underwriter. Each warrant is exercisable into one common share at \$0.80 for a period of two years. Underwriting fees also included 250,000 agent's warrants exercisable at \$0.80 for a period of 2 years.

On July 26, 2004, the Company issued 13,195,000 common shares in connection with the purchase of Lensway [see note 2].

On February 22, 2005, the Company, through its newly incorporated subsidiary Coastal Pharma Lens Inc. entered into a purchase and sale agreement with Marlin Financial Group Inc. The Company acquired the Pharma Lens trademark application, the Distributorship Pilot Agreement between Ahold USA Inc. and Marlin Financial Group Inc. and the supply contract between Ralphs Grocery Company and Marlin Financial Group Inc. for 40,150 shares valued at \$1.00 per share and cash of \$14,850. The shares are subject to a voluntary pooling agreement of three years with tranches released at six month intervals.

On March 1, 2005, 198,840 options were issued to employees of Lensway AB at \$1.00. These options vest evenly over three years, beginning on March 31, 2005.

On March 1, 2005, 54,000 options were issued to directors of the Company. These options are exercisable at \$1.00 per share. 30,000 of these options vest on February 18, 2005 while the remaining options vest on February 18, 2006.

On March 10, 2005, the Company undertook a private placement issuing 11,200,000 shares at \$1.10 per share. The underwriters received a commission of 6.5% of gross proceeds and "Compensation Warrants" of 9.5% of the total number of shares sold. These warrants are exercisable at \$1.10 per warrant and are exercisable for up to 18 months after closing. Net proceeds were \$11,380,671 after underwriters commission and other share issue costs. In addition, the "Compensation Warrants" have been valued at \$478,800 and offset against the proceeds with a corresponding increase in contributed surplus.

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7. SHARE CAPITAL (cont'd.)

Between February 4 and April 26, 2005, 11,500 and 304,147 agents warrants were exercised at \$0.80 and \$1.00 respectively for proceeds of \$311,796.

Between February 16 and April 26, 2005, 18,750 and 1,900,000 options were exercised for proceeds of \$48,574.

Between May 1 and July 31, 2005, 91,629 agents warrants were issued and 167,444 options were exercised for proceeds of \$89,680 and \$7,015 respectively.

8. CONTRIBUTED SURPLUS

	July 31, 2005 \$	October 31, 2004 \$
Balance - beginning of period	105,898	—
Stock-based compensation	146,603	105,898
Compensation warrants	478,800	—
Balance - end of period	731,301	105,898

9. EARNINGS PER SHARE

	Three months ended July 31		Nine months ended July 31	
	2005	2004	2005	2004
Weighted average number of common shares outstanding - basic	50,044,222	21,235,996	42,970,791	17,048,076
Stock options	8,964,969	—	8,874,625	—
Warrants	1,242,683	—	717,833	—
Weighted average number of common shares outstanding - diluted	60,251,874	21,235,996	52,563,249	17,048,076

Coastal Contacts Inc.

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10. RELATED PARTY TRANSACTIONS

Due from related parties

	July 31, 2005	October 31, 2004
	\$	\$
Promissory notes receivable	115,000	115,000
Advances to officers	148,286	40,165
CMP Medical Inc.	39,691	39,691
Due on exercise of options	—	—
	302,977	194,856

The amounts due from related parties includes: (1) two promissory notes from an officer and a shareholder for \$100,000 and \$15,000 respectively. These loans are payable on demand and bear interest at 5% per annum; (2) Other advances to officers of the Company in the amount of \$148,286. These advances are non interest bearing with no fixed terms of repayment; (3) \$39,691 from CMP Medical Inc., a company controlled by an officer and shareholder of the Company.

Due to related parties

	July 31, 2005	October 31, 2004
	\$	\$
Advances from officers	—	38,733

These advances are non interest bearing with no fixed terms of repayment.

All related party transactions are measured at their exchange amounts.

Coastal Contacts Inc.

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11. SEGMENTED INFORMATION

The Company operates in one business segment, the sale of contact lenses. The Company's sales are in North America and Europe. Geographical information is based on the countries in which the Company sells contact lenses and accessories.

	United States and Canada \$	Sweden \$	Norway \$	Other \$	Intercompany Eliminations \$	Total \$
Sales						
3 months ended July 31, 2005	10,068,111	5,987,038	2,761,096	1,623,488	(622,179)	19,817,554
3 months ended July 31, 2004	6,996,983	—	—	—	—	6,996,983
9 months ended July 31, 2005	24,694,823	13,222,654	6,372,071	3,269,980	(851,649)	46,707,879
9 months ended July 31, 2004	19,519,550	—	—	—	—	19,519,550
Property, equipment and leasehold improvements						
As at July 31, 2005	679,839	479,867	—	—	—	1,159,706
As at October 31, 2004	494,261	347,245	—	—	—	841,506
Goodwill						
As at July 31, 2005	—	5,827,547	—	—	—	5,827,547
As at October 31, 2004	—	6,137,943	—	—	—	6,137,943

12. COMPARATIVE FIGURES

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