

CONSOLIDATED FINANCIAL STATEMENTS

COASTAL CONTACTS INC.

October 31, 2008 and 2007



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Coastal Contacts Inc. as at October 31, 2008 and the consolidated statements of operations and comprehensive earnings, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at October 31, 2007 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated December 19, 2007.

Chartered Accountants

Vancouver, Canada
December 5, 2008

COASTAL CONTACTS INC.
CONSOLIDATED BALANCE SHEETS
(\$000's)

As at October 31

	2008	2007
ASSETS		
Current		
Cash and cash equivalents <i>[note 13]</i>	15,206	23,367
Short-term investments <i>[note 13]</i>	-	3,976
Accounts receivable <i>[note 5,13]</i>	7,279	6,649
Income tax receivable	57	-
Inventory	9,495	8,531
Prepaid expenses	1,693	1,270
Future income tax asset <i>[note 15]</i>	157	-
Due from related parties <i>[note 13, 16]</i>	361	348
	34,248	44,141
Property, equipment and leasehold improvements <i>[note 6]</i>	3,038	2,700
Intangible assets <i>[note 7]</i>	11,061	11,712
Goodwill <i>[note 8]</i>	7,908	7,529
	56,255	66,082
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities <i>[note 5]</i>	18,787	13,881
Income tax payable	-	711
Deferred revenue	27	23
Current portion of lease inducement	67	68
	18,881	14,683
Long-term lease inducement	79	158
Future income tax liabilities <i>[note 15]</i>	3,825	3,661
	22,785	18,502
Shareholders' equity		
Share capital <i>[note 9]</i>		
Authorized:		
Unlimited common shares without par value		
Unlimited Class A preferred shares without par value		
Issued and outstanding:		
58,318,643 common shares [2007 – 71,426,512]	41,250	50,857
Shares held in Treasury		
nil common shares [2007 – 78,500]	-	(89)
Contributed surplus <i>[note 10]</i>	1,600	973
Accumulated other comprehensive loss <i>[note 11]</i>	(2,904)	(4,091)
Deficit	(6,476)	(70)
	33,470	47,580
	56,255	66,082

See accompanying notes to the consolidated financial statements

Commitments and contingencies *[notes 18 and 19]*

On behalf of the Board:

“Roger Hardy”

Roger V. Hardy, Director

“Jeffrey Mason”

Jeffrey R. Mason, Director

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

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

Years ended October 31

	2008	2007
Sales	118,759	102,174
Cost of sales	86,243	74,497
Gross profit	32,516	27,677
Selling, general and administration expenses	28,919	23,484
Stock-based compensation <i>[note 10]</i>	627	443
Amortization on property, equipment and leasehold improvements	1,237	802
Amortization on intangible assets	1,343	1,230
Foreign exchange (gains) losses	102	(37)
Interest income, net	(547)	(833)
Restructuring charges <i>[note 20]</i>	844	-
Earnings (loss) before income taxes	(9)	2,588
Income tax expense - current <i>[note 15]</i>	908	901
Income tax expense - future <i>[note 15]</i>	(131)	62
Net earnings (loss)	(786)	1,625
Other comprehensive earnings (loss)		
Unrealized foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign operations	1,187	(1,956)
Comprehensive earnings (loss)	401	(331)
Basic earnings (loss) per share	(0.01)	0.02
Diluted earnings (loss) per share	(0.01)	0.02
Weighted average number of common shares outstanding – basic <i>[note 12]</i>	64,559,267	72,948,602
Weighted average number of common shares outstanding – diluted <i>[note 12]</i>	64,559,267	73,074,756

See accompanying notes to the consolidated financial statements

COASTAL CONTACTS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(\$000's)

Years ended October 31

	2008	2007
OPERATING ACTIVITIES		
Net earnings (loss)	(786)	1,625
Non-cash items:		
Amortization	2,448	2,032
Amortization of deferred lease inducement	(80)	(106)
Accrued interest	(18)	(137)
Share-based compensation	627	443
Future income taxes	68	62
Unrealized foreign exchange (gains)	(271)	(281)
Changes in non-cash working capital:		
Accounts receivable	(380)	855
Income tax receivable	185	-
Inventory	(723)	3,502
Prepaid expenses	(411)	(650)
Accounts payable and accrued liabilities	4,553	1,824
Income tax payable	(731)	479
Deferred revenue	2	(226)
Cash provided by operating activities	4,483	9,422
INVESTING ACTIVITIES		
Maturity (purchase) of short-term investments	3,976	(3,886)
Repayments from related parties	4	251
Repayment of promissory notes	-	58
Business acquisition, net of cash acquired	-	(14)
Receipt of leasehold inducements	-	134
Acquisition of property, equipment and leasehold improvements	(1,372)	(789)
Acquisition of intangible assets	(391)	(1,365)
Cash provided by (used in) investing activities	2,217	(5,611)
FINANCING ACTIVITIES		
Issuance of common shares	8	69
Purchase of common shares for cancellation	(14,870)	(4,054)
Share related costs	(279)	-
Cash used in financing activities	(15,141)	(3,985)
Effect of exchange rate changes on cash and cash equivalents	280	(732)
Decrease in cash and cash equivalents	(8,161)	(906)
Cash and cash equivalents, beginning of year	23,367	24,273
Cash and cash equivalents, end of year	15,206	23,367
Income taxes paid in cash	395	358

See accompanying notes to the consolidated financial statements

COASTAL CONTACTS INC.
CONSOLIDATED STATEMENTS OF DEFICIT
(\$000's)

Years ended October 31

	2008	2007
Deficit, beginning of year	(70)	(416)
Net earnings (loss)	(786)	1,625
Premium on purchase of common shares for cancellation <i>[note 9]</i>	(5,620)	(1,279)
Deficit, end of year	(6,476)	(70)

See accompanying notes to the consolidated financial statements

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

1. NATURE OF OPERATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue recognition

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

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

Foreign currency translation

The reporting and measurement currency of the Company is the Canadian dollar. Assets and liabilities of its subsidiaries with functional currencies other than the Canadian dollar are translated into Canadian dollars at the rates of exchange at the balance sheet date; income and expenses are translated at the average rates of exchange prevailing during the year. The resultant translation adjustments are reported as cumulative foreign currency translation adjustment in comprehensive income.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the exchange rate prevailing at the balance sheet date. Revenues and expenses denominated in currencies other than the functional currency 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.

During the year, two subsidiaries, previously accounted for as self sustaining, became integrated and underwent a change in their respective functional currencies. The impact of the translation on the effective date of each respective change is included in comprehensive income.

COASTAL CONTACTS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory is valued at the lower of cost and net realizable value, where cost is determined on a first in, first out basis.

Property, equipment and leasehold improvements

Property, equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is calculated over the estimated useful life of the assets at the following rates:

Computer hardware	30% declining balance
Computer software	100% declining balance
Customized ERP software	20% straight-line
Furniture, fixtures and equipment	20% declining balance
Leasehold improvements	Over the remaining term of the lease

Intangible assets

Finite life intangible assets are recorded at cost less accumulated amortization. Amortization is calculated over the estimated useful life of the assets at the following rates:

Customer lists	5 years straight-line
Website development	5 years straight-line

Trade names are considered to have an indefinite life and are not be amortized. Their values are reviewed for possible impairments annually or more frequently if events or changes in circumstances indicate possible impairment, based on the profitability and cash flows of the underlying business.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill is not amortized and is reviewed for possible impairment annually or more frequently if events or changes in circumstances indicate possible impairment, based on the profitability and cash flows of the reporting units to which the goodwill relates.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

Income taxes are accounted for using the liability method of tax allocation. Under this method future income tax assets and liabilities are recognized for the tax consequences of temporary differences by applying substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

The effect on future taxes for a change in tax rates is recognized in income in the period that includes the substantive enactment. In addition, future tax assets are recognized to the extent their realization is more likely than not.

Stock-based compensation

The Company follows the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3870, *Stock-Based Compensation and Other Stock Based Payments* which requires the use of the fair value method of accounting for all stock options granted.

Earnings per share

The Company calculates basic earnings per share using the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period. Stock options and warrants are dilutive when the Company has income from continuing operations and when the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

3. CHANGE IN ACCOUNTING POLICIES

Effective November 1, 2007, the Company has adopted the following accounting standards issued by the CICA. These standards have been adopted on a prospective basis with no restatement of prior period financial statements.

(a) Financial instruments – Disclosure and presentation

CICA Handbook sections 3862, “*Financial Instruments – Disclosures*” and 3863, “*Financial Instruments – Presentation*” require the disclosure of information with regards to the significance of financial instruments for the Company’s financial position and performance, the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how the Company manages those risks. These standards replace CICA Handbook section 3861 “*Financial Instruments*”. The additional disclosures required as a result of adopting these standards are included in note 13.

COASTAL CONTACTS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. CHANGE IN ACCOUNTING POLICIES (Continued)

(b) Capital disclosures

CICA Handbook section 1535, “*Capital Disclosures*” requires the Company to disclose information about the Company’s objectives, policies and processes for managing its capital, quantitative data about what the Company regards as capital and whether the Company has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The additional disclosures are presented in note 14.

4. FUTURE ACCOUNTING POLICIES

(a) Inventories

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

(b) Goodwill and intangible assets

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

COASTAL CONTACTS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5. ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts receivable	2008	2007
	\$000's	\$000's
Accounts receivable	7,781	6,664
Allowance for doubtful accounts	(762)	(619)
Value added tax receivable	260	604
	<u>7,279</u>	<u>6,649</u>
Accounts payable and accrued liabilities	2008	2007
	\$000's	\$000's
Accounts payable - trade	14,426	10,902
Accrued liabilities	4,039	2,657
Value added tax payable	322	322
	<u>18,787</u>	<u>13,881</u>

6. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Cost	Accumulated	Net Book
	\$000's	Amortization	Value
		\$000's	\$000's
2008			
Computer hardware	1,060	478	582
Computer software	112	97	15
Customized ERP Software	1,921	858	1,063
Furniture, fixtures and equipment	1,121	339	782
Leasehold improvements	1,162	566	596
	<u>5,376</u>	<u>2,338</u>	<u>3,038</u>
2007			
Computer hardware	917	423	494
Computer software	451	291	160
Customized ERP Software	1,462	484	978
Furniture, fixtures and equipment	781	289	492
Leasehold improvements	943	367	576
	<u>4,554</u>	<u>1,854</u>	<u>2,700</u>

As at October 31, 2008, there were no capital projects in progress not subject to amortization (2007 - \$0.4 million).

COASTAL CONTACTS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7. INTANGIBLE ASSETS

	Cost \$000's	Accumulated Amortization \$000's	Net Book Value \$000's
2008			
Brand names and trademarks acquired	7,798	-	7,798
Customer lists acquired	3,667	2,532	1,135
Website creation	3,770	1,642	2,128
	<u>15,235</u>	<u>4,174</u>	<u>11,061</u>
2007			
Brand names and trademarks acquired	7,386	-	7,386
Customer lists acquired	3,490	1,717	1,773
Website creation	3,402	849	2,553
	<u>14,278</u>	<u>2,566</u>	<u>11,712</u>

8. GOODWILL

	October 31, 2007 \$000's	Currency Impact \$000's	October 31, 2008 \$000's
Business acquisitions:			
Asianzakka	540	39	579
Lensway	5,321	239	5,560
Mylenses	1,514	94	1,608
Yourlenses	154	7	161
Total goodwill	<u>7,529</u>	<u>379</u>	<u>7,908</u>

COASTAL CONTACTS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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9. 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 as follows:

	2008		2007	
	#	\$000's	#	\$000's
Balance - beginning of year	71,426,512	50,857	74,681,712	53,515
Cancelled	(78,500)	(89)	-	-
	71,348,012	50,768	74,681,712	53,515
Purchased and cancelled	(13,038,744)	(9,530)	(3,805,200)	(2,727)
Issued on exercise of options	9,375	12	550,000	69
Balance - end of year including shares held in treasury	58,318,643	41,250	71,426,512	50,857
Shares repurchased not cancelled	-	-	(78,500)	(89)
Balance - end of year	58,318,643	41,250	71,348,012	50,768

On October 16, 2006, the Toronto Stock Exchange accepted the Company's notice of intention to make a Normal Course Issuer Bid for up to 4,933,641 of its common shares through the facilities of the exchange. The bid was terminated on October 17, 2007. As at October 17, 2007, a total of 3,818,600 shares had been purchased, of which 13,400 shares had not yet been cancelled. These shares were cancelled in November 2007. 3,805,200 shares were purchased at an average price of \$1.05 per share and were cancelled during the year ended October 31, 2007. The excess of the purchase price premium over the average stated capital of the shares has been charged to retained earnings.

On October 24, 2007, the Toronto Stock Exchange accepted the Company's notice of intention to make a Normal Course Issuer Bid for up to 4,607,285 of its common shares through the facilities of the exchange. The bid was terminated on October 24, 2008. As at October 24, 2008, a total 1,266,500 shares had been purchased at an average price of \$1.10 per share. All of these shares have been cancelled. The excess premium of the purchase price over the average stated capital of the shares has been charged to retained earnings.

On February 25, 2008, the Company completed the purchase of 6,837,344 common shares pursuant to an Issuer Bid. The shares were repurchased at \$1.25 per share, for a total cost of \$8.5 million and associated expenses. The excess of the purchase price over the average stated capital of the shares has been charged to retained earnings.

On August 1, 2008, the Company completed the purchase of 5,000,000 of its common shares at \$1.00 per share, for a total of \$5,000,000, plus associated expenses, pursuant to an offer to purchase dated June 19, 2008. All of these shares have been cancelled. The excess premium of the purchase price over the average stated capital of the shares has been charged to retained earnings. As at October 31, 2008, 807,428 (2007 – 1,620,879) common shares were subject to voluntary pooling restrictions.

COASTAL CONTACTS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

9. SHARE CAPITAL (Continued)

(b) Share purchase options

The shareholders of the Company have 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 or an employee of the Company. The Option Plan is administered by the Company’s Compensation and Corporate Governance Committee.

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

	#	\$
Options outstanding, October 31, 2006	1,140,300	0.125 – 1.37
Granted	1,805,000	0.87– 1.14
Exercised	(550,000)	0.125
Forfeited	(186,361)	1.00-1.37
Expired	(500)	0.175
Options outstanding, October 31, 2007	2,208,439	0.87 – 1.37
Granted	1,185,000	0.69 – 1.11
Exercised	(9,375)	0.87
Forfeited	(207,793)	0.87 – 1.37
Expired	-	-
Options outstanding, October 31, 2008	3,176,271	0.69 – 1.37

The following table summarizes information about Company stock options outstanding as at October 31, 2008:

Range of exercise price \$	Share purchase options Outstanding			Share purchase options Exercisable	
	Number of common shares issuable	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of common shares issuable	Weighted average exercise price \$
0.69 – 0.99	1,167,500	3.63	0.91	408,511	0.93
1.00	325,771	0.52	1.00	325,771	1.00
1.05 – 1.37	1,683,000	4.05	1.09	373,087	1.10
	3,176,271	3.53	1.01	1,107,369	1.00

COASTAL CONTACTS INC.
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9. 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:

	2008	2007
Dividend yield	0%	0%
Expected volatility	57%	62%
Risk free interest rate	3.12%	4.3%
Expected lives	5.0 years	5.0 years

10. CONTRIBUTED SURPLUS

	2008 \$000's	2007 \$000's
Balance - beginning of year	973	530
Stock-based compensation	627	443
Balance - end of year	1,600	973

11. ACCUMULATED OTHER COMPREHENSIVE LOSS

	2008 \$000's	2007 \$000's
Balance – beginning of year	(4,091)	(2,135)
Unrealized foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign operations	1,187	(1,956)
Balance – end of the year	(2,904)	(4,091)

12. EARNINGS PER SHARE

	2008	2007
Weighted average number of common shares outstanding - basic	64,599,267	72,948,602
Stock options	-	126,154
Weighted average number of common shares outstanding - diluted	64,599,267	73,074,756

COASTAL CONTACTS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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13. FINANCIAL INSTRUMENTS

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

Credit risk

The Company's principal financial assets are cash and cash equivalents, accounts receivable and amounts due from related parties, which represent the Company's exposure to credit risk in relation to financial assets.

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

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

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

	October 31, 2008 \$000's	October 31, 2007 \$000's
Cash	14,830	11,099
Held to maturity guaranteed investment certificates, bankers acceptances and commercial paper	-	11,916
Other cash investments	376	352
Cash and cash equivalents	15,206	23,367
Short-term investments, held to maturity, including bankers acceptances and commercial paper	-	3,976
Accounts receivable	7,279	6,649
Promissory notes receivable, as included in due from related parties	361	342
	22,846	34,334

COASTAL CONTACTS INC.
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13. FINANCIAL INSTRUMENTS (Continued)

The aging of accounts receivable at the reporting date was:

	October 31, 2008 \$000's	October 31, 2007 \$000's
Current trade receivables	6,695	5,514
Value added taxes receivable	260	604
Aged between 60 – 120 days	202	197
Aged greater than 120 days	122	334
	<u>7,279</u>	<u>6,649</u>

Continuity of allowance for bad debts:

	\$000's
Balance, November 1, 2007	619
Increase during the year	143
Balance, October 31, 2008	<u>762</u>

Market risk

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

Foreign currency exchange risk

The Company is mainly exposed to fluctuations in the U.S. Dollar ("USD"), the Swedish Krona ("SEK"), the Norwegian Kroner ("NOK") and the European Union Euro ("EURO"). The Company operates internationally, and the Company's results in its respective functional currencies are subject to fluctuations as a result of exchange variations to the extent that transactions are made in currencies other than functional currencies. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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

(000's \$CAD)	USD	SEK	NOK	EURO
Cash and cash equivalents	1,494	4,386	1,448	2,274
Accounts receivable	676	1,988	1,070	1,267
Accounts payable and accrued liabilities	(4,388)	(8,942)	(623)	(378)
	<u>(2,218)</u>	<u>(2,568)</u>	<u>1,895</u>	<u>3,163</u>

COASTAL CONTACTS INC.
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13. FINANCIAL INSTRUMENTS (Continued)

Foreign currency exchange risk sensitivity analysis

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

(000's \$CAD)	USD	SEK	NOK	EURO
Net earnings	(2,291)	360	2,007	1,205
Comprehensive income	-	(1,170)	-	-

Interest rate risk

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

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet requirements. The Company does not have long-term financial liabilities. All of the accounts payable at October 31, 2008 are due within sixty days.

Fair values

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

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14. MANAGEMENT OF CAPITAL

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

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

15. INCOME TAXES

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets and liabilities are as follows:

	2008	2007
	\$000's	\$000's
Future income tax assets		
Unused tax losses	3,071	2,303
Net book value of capital assets in excess of tax value	(362)	(404)
Share issue costs	249	581
Other	111	195
Total future tax assets	3,069	2,675
Valuation allowance	(2,912)	(2,675)
Total future tax assets	157	-
Future income tax liabilities		
Expense recognized for tax purposes in foreign jurisdictions	(724)	714
Net book value of capital assets in excess of tax value	(741)	425
Carrying value of intangible assets in excess of tax basis	(2,360)	2,522
	(3,825)	3,661

The potential income tax benefits relating to the future income tax assets have not been recognized in the consolidated financial statements where their realization did not meet the requirements of "more likely than not" under the liability method of tax allocation.

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15. INCOME TAXES (Continued)

Significant components of the income tax expense attributable to continuing operations are as follows:

	2008	2007
	\$000's	\$000's
Current income tax expense	908	901
Future income tax recovery relating to reversal of taxable temporary differences	(131)	62
	<u>777</u>	<u>963</u>

The reconciliation of income taxes attributable to continuing operations computed at the statutory income tax rates to income tax expense, at the statutory tax rate of 30.5% [2007 – 34.1%] is as follows:

	2008	2007
	\$000's	\$000's
Income tax expense (recovery) at statutory tax rates	(3)	883
Expenses not deductible for income tax purposes	300	403
Financing costs deductible for income tax purposes	-	(312)
Non-capital losses generated	980	338
Foreign tax rate differential	(197)	(181)
Change in future tax rate	-	(206)
Other	(303)	38
	<u>777</u>	<u>963</u>

As at October 31, 2008, the Company has non-capital loss carry-forwards of 11,210,000 for Canadian income tax purposes that expire as follows:

	\$000's
2010	304
2014	443
2026	5,418
2027	1,068
2028	3,977
	<u>11,210</u>

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16. RELATED PARTY TRANSACTIONS

	2008	2007
	\$000's	\$000's
Promissory notes receivable - officers	361	342
Advances to officers	-	6
Due from related parties	361	348

As at October 31, 2008, there were seven promissory notes outstanding, ranging in value from \$0.01 million to \$0.1 million and totalling \$0.32 million. Accumulated interest totals \$0.04 million. These loans are payable on demand and bear interest at a rate of 5% per annum. The debtors are personally liable for the amounts owed.

17. SEGMENTED INFORMATION

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

Geographical information is based on the location of the customers in which the Company sells contact lenses and accessories. Intercompany revenues have been excluded from the revenues in the country of shipment. Certain comparative figures have been adjusted to reflect this reporting.

	United States	Sweden	Norway	Other	Total
	\$000's	\$000's	\$000's	\$000's	\$000's
Revenue					
Year ended October 31, 2008	17,706	30,929	19,278	50,846	118,759
Year ended October 31, 2007	16,972	25,968	15,981	43,253	102,174
Property, equipment and leasehold improvements					
As at October 31, 2008	—	1,703	—	1,335	3,038
As at October 31, 2007	—	1,466	—	1,234	2,700
Intangible assets					
As at October 31, 2008	—	4,086	—	6,975	11,061
As at October 31, 2007	—	4,506	—	7,206	11,712
Goodwill					
As at October 31, 2008	—	5,721	—	2,187	7,908
As at October 31, 2007	—	5,475	—	2,054	7,529

Included in "Other" are revenues to non-related customers in the Company's home domicile of \$13.8 million for the year ended October 31, 2008 (2007 - \$8.6 million). Property, equipment and leasehold improvements located in the Company's home domicile were \$1.3 million at October 31, 2008 (2007 - \$1.1 million), and intangible assets were \$1.5 million at October 31, 2008 (2007 - \$1.8 million).

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18. COMMITMENTS

The Company is committed to minimum annual payments, primarily related to lease costs on its warehouse and office premises, as follows:

	\$000's
2009	1,131
2010	734
2011	187
	<hr/> 2,052 <hr/>

Operating costs on leases have been excluded.

19. CONTINGENCIES

- (a) Under the terms of the agreement to acquire the shares of Asianzakka PTE. Ltd., the Company may have been required to make a contingent payment of \$0.7 million on January 31, 2008 and \$0.4 million on July 31, 2008. These payments were contingent on Asianzakka meeting specified revenue and net income margin targets which were not met. Therefore, the amounts did not become payable.
- (b) On September 6, 2007, the Company received a petition filed by the College of Opticians Of British Columbia (the "Opticians") in the Supreme Court of British Columbia. The Opticians sought an order to restrict Coastal Contacts Inc. from selling contact lenses to members of the public in British Columbia. On April 25th, 2008, the Supreme Court of British Columbia denied the petition filed by the Opticians.

On May 26, 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. Management of the Company believes the original petition and subsequent appeal is without merit, and intends to vigorously defend against the appeal.

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.

20. RESTRUCTURING CHARGES

During the year ended October 31, 2008, the Company incurred certain restructuring charges associated with the consolidation of its Dutch and Asian operations totalling \$0.8 million.

21. COMPARATIVE FIGURES

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