

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

COASTAL CONTACTS INC.

UNAUDITED

FOR THE THREE MONTHS ENDED JANUARY 31, 2009

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

	January 31, 2009	October 31, 2008
	(Unaudited)	
ASSETS		
Current		
Cash and cash equivalents	11,956	15,206
Accounts receivable	8,053	7,279
Income tax receivable	-	57
Inventory	10,783	9,495
Prepaid expenses	1,380	1,693
Future income tax	159	157
Due from related parties	365	361
	32,696	34,248
Property, equipment and leasehold improvements	2,930	3,038
Intangible assets	10,219	11,061
Goodwill	7,522	7,908
	53,367	56,255
LIABILITIES		
Current		
Accounts payable and accrued liabilities	15,819	18,787
Income tax payable	454	-
Deferred revenue	43	27
Lease inducement	68	67
	16,384	18,881
Long-term lease inducement	59	79
Future income tax	3,568	3,825
	20,011	22,785
SHAREHOLDERS' EQUITY		
Share capital <i>[note 4]</i>		
Authorized:		
Unlimited common shares without par value		
Unlimited Class A preferred shares without par value		
Issued and outstanding:		
58,318,643 common shares [2008 – 58,318,643]	41,250	41,250
Shares held in treasury		
19,024 common shares [2008 – nil]	(17)	-
Contributed surplus <i>[note 5]</i>	1,748	1,600
Accumulated other comprehensive loss <i>[note 6]</i>	(4,117)	(2,904)
Deficit	(5,508)	(6,476)
	33,356	33,470
	53,367	56,255

See accompanying notes to the unaudited interim consolidated financial statements

Contingency *[note 9]*

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

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

Three months ended January 31	2009	2008
Sales	31,342	25,375
Cost of sales	21,733	19,012
Gross profit	9,609	6,363
Advertising	4,126	3,137
Selling, general and administration expenses	3,660	3,547
Share-based compensation	148	155
Amortization on property, equipment and leasehold improvements	215	229
Amortization on intangible assets	399	371
Foreign exchange gains	(202)	(245)
Interest income, net	(42)	(232)
Earnings (loss) before income taxes	1,305	(599)
Income tax expense	337	102
Net earnings (loss)	968	(701)
Other comprehensive earnings (loss)		
Unrealized foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign operations	(1,213)	1,281
Comprehensive earnings (loss)	(245)	580
Basic earnings (loss) per share	0.02	(0.01)
Diluted earnings (loss) per share	0.02	(0.01)
Weighted average number of common shares outstanding		
Basic	58,318,284	71,275,469
Diluted	58,320,367	71,275,469

See accompanying notes to the unaudited interim consolidated financial statements

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

Three months ended January 31	2009	2008
Deficit, beginning of period	(6,476)	(70)
Net earnings (loss)	968	(701)
Premium on purchase of common shares for cancellation	-	(89)
Deficit, end of period	(5,508)	(860)

See accompanying notes to the unaudited interim consolidated financial statements

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

Three months ended January 31	2009	2008
OPERATING ACTIVITIES		
Net earnings (loss)	968	(701)
Non-cash items:		
Amortization	614	600
Amortization of deferred lease inducement	(20)	(20)
Accrued interest	-	(6)
Share-based compensation	148	155
Future income taxes	(13)	(10)
Unrealized foreign exchange gains	-	(234)
Changes in non-cash working capital:		
Accounts receivable	(1,054)	72
Inventory	(1,558)	(1,407)
Prepaid expenses	422	(91)
Accounts payable and accrued liabilities	(2,400)	2,436
Income tax payable	397	(378)
Deferred revenue	16	23
Cash provided by (used in) operating activities	(2,480)	439
INVESTING ACTIVITIES		
Maturity of short-term investments	-	3,976
Repayments from (advances to) related parties	(3)	5
Acquisition of property, equipment and leasehold improvements	(157)	(328)
Acquisition of intangible assets	-	(278)
Cash provided by (used in) investing activities	(160)	3,375
FINANCING ACTIVITIES		
Purchase of common shares for cancellation	(17)	(310)
Cash used in financing activities	(17)	(310)
Effect of exchange rate changes on cash and cash equivalents	(593)	463
Increase (decrease) in cash and cash equivalents	(3,250)	3,967
Cash and cash equivalents, beginning of period	15,206	23,367
Cash and cash equivalents, end of period	11,956	27,334
Income taxes paid in cash	109	673

See accompanying notes to the unaudited interim consolidated financial statements

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2009

Unaudited

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

These unaudited interim consolidated financial statements have been prepared by the Company 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 reflect the same accounting principles and methods of application as those disclosed in the notes to the Company’s audited consolidated financial statements for the year ended October 31, 2008, with the exception of the application of the accounting policies described in Note 2. These unaudited interim consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended October 31, 2008. The consolidated financial statements include accounts of the Company and its wholly owned subsidiaries. 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. CHANGE IN ACCOUNTING POLICIES

Effective November 1, 2008, the Company has adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”). These standards have been adopted on a prospective basis with no restatement of prior period financial statements.

(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 adoption of this standard had no impact on the 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 adoption of this standard had no impact on the consolidated financial statements.

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3. FUTURE ACCOUNTING POLICIES

Transition to International Financial Reporting Standards

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 the Company's financial statements for the year beginning on November 1, 2011. The Company will undertake the appropriate measures to ensure compliance with these new standards by the prescribed adoption date. The Company is currently assessing the implications of these standards on the consolidated financial statements.

4. 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:

	Three Months Ended January 31, 2009		Three Months Ended October 31, 2008	
	#	\$000's	#	\$000's
Balance, beginning of period	58,318,643	41,250	63,430,443	44,996
Purchased and cancelled	-	-	(5,111,800)	(3,746)
Balance, end of period including shares held in treasury	58,318,643	41,250	58,318,643	41,250
Shares purchased not cancelled	(19,024)	(17)	-	-
Balance, end of period	58,299,619	41,233	58,318,643	41,250

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 deficit.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. SHARE CAPITAL (continued)

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 deficit.

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 deficit.

On December 19, 2008, the Company renewed the Normal Course Issuer Bid with the Toronto Stock Exchange for a maximum eligible repurchase of 3,634,369 common shares. As at January 31, 2009, the Company had repurchased 19,024 common shares for an average price of \$0.90 per share, and classified them as shares held in treasury.

As at January 31, 2009, 807,428 (October 31, 2008 – 807,428) common shares were subject to voluntary pooling restrictions.

(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 options:

	#	\$
Options outstanding, November 1, 2008	3,176,271	0.69 - 1.14
Granted	940,000	0.80
Forfeited	(15,834)	1.00
Options outstanding, January 31, 2009	4,100,437	0.69 - 1.14

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4. SHARE CAPITAL (continued)

The following table summarizes information about Company share purchase options outstanding as at January 31, 2009:

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	2,107,500	4.07	0.86	408,511	0.93
\$1.00 - \$1.14	1,992,937	3.25	1.07	683,022	1.05
	4,100,437	3.76	0.96	1,091,533	1.00

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:

	2009	2008
Dividend yield	0%	0%
Expected volatility	57%	56%
Risk free interest rate	1.96%	3.12%
Expected lives	5.0 years	5.0 years

5. CONTRIBUTED SURPLUS

	\$000's
Balance - November 1, 2008	1,600
Share-based compensation	148
Balance - January 31, 2009	1,748

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6. ACCUMULATED OTHER COMPREHENSIVE LOSS

	\$000's
Balance - November 1, 2008	(2,904)
Unrealized foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign operations	(1,213)
Balance - January 31, 2009	(4,117)

7. RELATED PARTY TRANSACTIONS

	January 31, 2009 \$000's	October 31, 2008 \$000's
Promissory notes receivable	365	361

As at January 31, 2009, 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 \$0.05 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.

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8. 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 \$000's	Sweden \$000's	Norway \$000's	Other \$000's	Total \$000's
Revenue					
Three months ended January 31, 2009	4,582	7,212	4,464	15,084	31,342
Three months ended January 31, 2008	3,928	6,020	4,152	11,275	25,375
Property, equipment and leasehold improvements					
As at January 31, 2009	-	1,491	-	1,439	2,930
As at October 31, 2008	-	1,703	-	1,335	3,038
Intangible assets					
As at January 31, 2009	-	3,695	-	6,524	10,219
As at October 31, 2008	-	4,086	-	6,975	11,061
Goodwill					
As at January 31, 2009	-	5,420	-	2,102	7,522
As at October 31, 2008	-	5,721	-	2,187	7,908

Included in "Other" are revenues to non-related customers in the Company's country of home domicile of \$4.7 million for the three months ended January 31, 2009 (2008 - \$2.6 million). Property, equipment and leasehold improvements located in the Company's country of home domicile were \$1.4 million at January 31, 2009 (2008 - \$1.3 million), and intangible assets were \$1.3 million at January 31, 2009 (2008 - \$1.5 million).

9. CONTINGENCY

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

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9. CONTINGENCY (continued)

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.

10. COMPARATIVE FIGURES

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