

Interim Consolidated Financial Statements

Coastal Contacts Inc.

Unaudited

For the three months ended January 31, 2007

Coastal Contacts Inc.

CONSOLIDATED BALANCE SHEETS

	January 31, 2007	October 31, 2006
	\$000's	\$000's
	(unaudited)	
ASSETS		
Current		
Cash and cash equivalents <i>[note 4]</i>	23,358	24,273
Accounts receivable <i>[note 5]</i>	7,665	7,127
Inventory	13,453	12,262
Prepaid expenses	1,230	702
Due from related parties <i>[note 13]</i>	606	610
	<u>46,312</u>	<u>44,974</u>
Property, equipment and leasehold improvements <i>[note 6]</i>	2,924	2,773
Intangible assets <i>[note 7]</i>	12,969	13,632
Goodwill <i>[note 8]</i>	8,562	6,697
	<u>70,767</u>	<u>68,076</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities <i>[note 5]</i>	14,005	11,867
Income taxes payable	472	212
Deferred revenue	350	205
Current portion of lease inducement	67	26
	<u>14,894</u>	<u>12,310</u>
Long-term lease inducement	106	86
Future income tax liability	4,034	4,227
	<u>19,034</u>	<u>16,623</u>
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:		
73,180,412 common shares [2006 – 74,681,712]	53,263	53,515
Shares held in Treasury		
1,135,500 common shares [2006 – 42,700]	(1,242)	(41)
Contributed surplus <i>[note 10]</i>	636	530
Accumulated other comprehensive income <i>[note 11]</i>	(1,088)	(2,135)
Retained earnings (deficit)	164	(416)
	<u>51,733</u>	<u>51,453</u>
	<u>70,767</u>	<u>68,076</u>

See accompanying notes to the unaudited interim consolidated financial statements

Coastal Contacts Inc.**CONSOLIDATED STATEMENTS OF NET INCOME AND
COMPREHENSIVE INCOME**

(Unaudited)

For the three months ended January 31	2007 \$000's	2006 \$000's
Sales	23,605	18,410
Cost of sales	17,305	13,790
Gross profit	6,300	4,620
Selling, general and administration expenses	5,802	4,329
Share-based compensation	106	27
Amortization on property, equipment and leasehold improvements	160	171
Amortization on intangible assets	344	90
Foreign exchange gains	(685)	(273)
Interest on long-term debt	13	16
Interest income	(252)	(86)
Income before income taxes	812	346
Income tax expense - current	160	89
Income tax expense (recovery) - future	(29)	20
Net income	681	237
Other comprehensive income, net of tax		
Unrealized foreign exchange gains on translation of financial statements of self-sustaining foreign operations	1,047	158
Comprehensive income	1,728	395
Basic earnings per share	0.01	0.00
Diluted earnings per share	0.01	0.00
Weighted average number of common shares outstanding – basic [note 12]	74,338,984	58,034,604
Weighted average number of common shares outstanding – diluted [note 12]	74,869,028	60,264,972

See accompanying notes to the unaudited interim consolidated financial statements

Coastal Contacts Inc.

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(DEFICIT)**
(Unaudited)

For the three months ended January 31	2007 \$000's	2006 \$000's
Retained earnings (deficit), beginning of period	(416)	921
Net income	681	237
Premium on purchase of common shares for cancellation	(101)	—
Retained earnings, end of period	164	1,158

See accompanying notes to the unaudited interim consolidated financial statements

Coastal Contacts Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

For the three months ended January 31	2007 \$000's	2006 \$000's
OPERATING ACTIVITIES		
Net income	681	237
Non-cash items:		
Amortization	504	261
Amortization of deferred lease inducement	61	(7)
Accrued interest	(11)	(86)
Share-based compensation	106	27
Future income taxes	(29)	20
Unrealized foreign exchange gains	(669)	(368)
Changes in non-cash working capital:		
Accounts receivable	416	(679)
Inventory	(650)	(814)
Prepaid expenses	(402)	(89)
Accounts payable and accrued liabilities	1,018	(3,044)
Income taxes payable	190	(131)
Deferred revenue	92	52
Due from related parties	—	25
Cash provided by (used in) operating activities	1,307	(4,596)
INVESTING ACTIVITIES		
Purchase of short-term investments	—	(26,633)
Sale of short-term investments	—	7,933
Advances to related parties	(8)	(23)
Repayment of promissory notes	23	—
Business acquisition, net of cash acquired	(14)	—
Acquisition of property, equipment and leasehold improvements	(169)	(308)
Acquisition of intangible assets	(483)	(315)
Cash used in investing activities	(651)	(19,346)
FINANCING ACTIVITIES		
Issuance of share capital	—	682
Issuance of special warrants	—	22,500
Purchase of common shares for cancellation	(1,555)	—
Cost of financing	—	(1,415)
Bank indebtedness	—	278
Repayment of long-term debt	—	(131)
Cash provided by (used in) financing activities	(1,555)	21,914
Effect of exchange rate changes on cash and cash equivalents	(16)	250
Decrease in cash and cash equivalents	(915)	(1,778)
Cash and cash equivalents, beginning of period	24,273	2,986
Cash and cash equivalents, end of period	23,358	1,208
Income taxes paid in cash	27	400
Interest paid in cash	13	16

See accompanying notes to the unaudited consolidated interim financial statements

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Unaudited

1. BASIS OF PRESENTATION

Coastal Contacts Inc. (“the Company”) is a global vision care supplier with operations in North America, Asia and Europe.

These unaudited consolidated interim 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 to the notes to the Company’s audited consolidated financial statements for the year ended October 31, 2006, with the exception of the application of the accounting policies described in Note 2. These unaudited consolidated interim financial statements and notes thereon should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended October 31, 2006.

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. CHANGE IN ACCOUNTING POLICIES

Effective November 1, 2006, the Company has adopted the recommendations of the Canadian Institute of Chartered Accountants’ (“CICA”) Handbook Sections 1530, *Comprehensive Income*, 3855, *Financial Instruments – Recognition and Measurement*, 3861, *Financial Instruments – Disclosure and Presentation*, and 3865, *Hedges*. Any changes in measurement resulting from applying the new standards on November 1, 2006, were recorded against opening retained earnings or opening other comprehensive income with no impact on net income.

Financial instruments

All financial assets and liabilities are recorded on the balance sheet. Initial recognition of financial assets and liabilities is at fair value. Subsequent measurement of the financial assets and liabilities is determined as follows:

Cash is measured at fair value, with changes in fair value recorded in net income. The carrying amount approximates fair value.

Cash equivalents and short-term investments are comprised of guaranteed investment certificates. They are classified as held to maturity and reported at amortized cost.

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2. CHANGE IN ACCOUNTING POLICIES (continued)

Accounts receivable, classified as loans and receivables, and accounts payable, classified as other financial liabilities, are measured at fair value at inception, which, due to their short-term nature, approximates their amortized cost.

Promissory notes receivable, classified as loans and receivables, are measured at amortized cost, which approximates face value, with interest earned recorded in net income.

Advances to officers classified as loans and receivables, are measured at amortized cost, which approximates face value, with interest earned recorded in net income.

Comprehensive income

Comprehensive income includes net earnings and other comprehensive income. Other comprehensive income refers to changes in the net assets from certain transactions and events, other than transactions with shareholders. These changes are recorded directly as a separate component of shareholders' equity and excluded from net earnings. The Company's other comprehensive income includes the foreign currency translation adjustment for its foreign subsidiaries that do not use the Canadian dollar as their measurement currency. Cumulative foreign currency translation adjustment balances of prior years have been reclassified as Accumulated other comprehensive income.

Coastal Contacts Inc.

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3. BUSINESS ACQUISITIONS

(i) Acquisition of Mylenses

On August 11, 2006, through the Company's wholly owned subsidiary, Lenslogistics AB (formerly Lensway AB), the Company completed the acquisition of all of the private companies' shares of Eye-1 B.V., Eye-2 B.V. and Condis B.V. ("Mylenses"), a European retailer of contact lenses. The consideration paid consisted of cash of \$3,358,582 (2,350,000 Euros) and 1,650,000 common shares of the Company. The shares issued are subject to a voluntary pooling restriction. Under the terms of the agreement, 40% of the shares will be released on August 11, 2007, with the remaining 60% released in four equal increments, each six months over the next two years, commencing August 11, 2007.

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 the purposes of computing the purchase price, the value of restricted common shares was determined by taking the closing price of the Company's common stock as quoted on the TSX Exchange for the five days before, the day of and the five days following the date of acquisition. This average price was then reduced by a 15% discount due to the restriction provision associated with the common shares issued. This discount is consistent with the discount applied to previous transactions with the same restrictions.

The following sets forth the purchase price and its allocation to the tangible and intangible assets acquired at the currency exchange rates prevailing on the day of acquisition.

	\$000's
Cash	3,358
Restricted common shares	1,702
Direct acquisition costs	321
Total consideration	5,381
Cash	26
Other current assets	566
Property, equipment and leasehold improvements	244
Mylenses customer list	893
Mylenses trade name	3,837
Website development	187
Current liabilities	(491)
Future income tax liability	(1,455)
Net assets acquired	3,807
Goodwill	1,574

Following the acquisition, Mylenses purchased inventory in the amount of \$736,590 from its former parent.

Mylenses operates two websites and each has its own trademarks and tradenames. Goodwill has been allocated to the Dutch reporting unit and is not deductible for income tax purposes. The results of operations have been included in the accompanying consolidated financial statements since August 12, 2006, the date of acquisition.

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(ii) Acquisition of Asianzakka

On October 13, 2006 the Company completed the acquisition of all of the private company shares of Asianzakka PTE. Ltd. (“Asianzakka”), an Asian retailer of contact lenses. The consideration paid consisted of cash of \$588,077 (817,000 Singapore Dollars) and 1,041,428 common shares of the Company. The shares issued are subject to a voluntary pooling restriction. Under the terms of the agreement, 40% of the shares will be released on October 13, 2007, with the remaining 60% released in four equal increments, each six months over the next two years, commencing October 13, 2007.

Under the terms of the agreement, the Company is required to make contingent payments of 778,000 Singapore Dollars on October 11, 2008 and 389,000 Singapore Dollars on April 11, 2009 if certain specified revenue and net income targets are met. Since the outcome of the contingency cannot be determined without a reasonable doubt, the contingent payments have not been accrued. Should the contingent payments be made at a later date, they will be accounted for as an adjustment of the purchase price of Asianzakka.

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 the purposes of computing the purchase price, the value of restricted common shares was determined by taking the closing price of the Company’s common stock as quoted on the TSX Exchange for the five days before, the day of and the five days following the date of acquisition. This average price was then reduced by a 15% discount due to the restriction provision associated with the common shares issued. This discount is consistent with the discount applied to previous transactions with the same restrictions.

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

	\$
Cash	588
Restricted common shares	811
Direct acquisition costs	105
Total consideration	1,504
Cash	148
Other current assets	532
Property and equipment	6
Asianzakka customer lists	234
Asianzakka trademarks and tradenames	819
Current liabilities	(617)
Future income tax liability	(211)
Net assets acquired	911
Goodwill	593

Asianzakka operates under several websites and has several trademarks and tradenames. Goodwill has been allocated to the Singapore reporting unit and is not tax deductible for income

Coastal Contacts Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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tax purposes. The results of operations have been included in the accompanying consolidated financial statements since October 14, 2006, the date of acquisition.

4. CASH AND CASH EQUIVALENTS

	2007	2006
	\$000's	\$000's
Cash	4,811	3,976
Guaranteed investment certificates	18,547	19,940
Other cash investments	—	357
	23,358	24,273

The investments mature 7-90 days from the date of investment with an average interest rate of 4.6% (2006 – 3.7%).

5. ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**Accounts receivable**

	2007	2006
	\$000's	\$000's
Accounts receivable	7,567	7,281
Allowance for doubtful accounts	(741)	(607)
Value added tax receivable	819	453
	7,665	7,127

Accounts payable and accrued liabilities

	2007	2006
	\$000's	\$000's
Accounts payable - trade	10,366	9,864
Accrued liabilities	3,361	1,707
Value added tax payable	278	296
	14,005	11,867

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6. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Cost	Accumulated	Net Book
	\$000's	Amortization	Value
		\$000's	\$000's
January 31, 2007			
Computer hardware	831	331	500
Computer software	393	223	170
Customized ERP software	1,463	331	1,132
Furniture and fixtures	649	217	432
Leasehold improvements	935	245	690
	4,271	1,347	2,924
October 31, 2006			
Computer hardware	735	258	477
Computer software	311	144	167
Customized ERP software	1,184	249	935
Furniture and fixtures	688	209	479
Leasehold improvements	915	200	715
	3,833	1,060	2,773

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7. INTANGIBLE ASSETS

	Cost \$000's	Accumulated Amortization \$000's	Net Book Value \$000's
January 31, 2007			
Website creation	2,520	477	2,043
Brand names and trademarks acquired	8,324	—	8,324
Customer lists acquired	3,948	1,346	2,602
	14,792	1,823	12,969
October 31, 2006			
Website creation	1,930	295	1,635
Brand names and trademarks acquired	8,800	—	8,800
Customer lists acquired	4,236	1,039	3,197
	14,966	1,334	13,632

8. GOODWILL

	October 31, 2006 \$000's	Additions and adjustments \$000's	Currency Impact \$000's	January 31, 2007 \$000's
Business acquisitions:				
Asianzakka	364	230	38	632
Lensway	5,583	—	485	6,068
MyLenses	590	986	112	1,688
Yourlenses	160	—	14	174
	6,697	1,216	649	8,562

Coastal Contacts Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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9. SHARE CAPITAL**Issued and outstanding common shares**

	2007		2006	
	Number of Common Shares #	\$000's	Number of Common Shares #	\$000's
Balance - beginning of period	74,681,712	53,515	51,632,951	26,264
Issued in private placement	—	—	9,000,000	21,070
Purchased and cancelled	(365,800)	(252)	—	—
Issued on exercise of warrants	—	—	3,163,715	3,480
Issued on exercise of options	—	—	8,193,618	188
Issued in purchase of Mylenses [note 3(i)]	—	—	1,650,000	1,702
Issued in purchase of Asianzakka [note 3(ii)]	—	—	1,041,428	811
Balance, end of period including shares held in treasury	74,315,912	53,263	74,681,712	53,515
Shares purchased not cancelled	(1,135,500)	(1,242)	(42,700)	(41)
Balance - end of period	73,180,412	52,021	74,639,012	53,474

On October 16, 2006, the Toronto Stock Exchange accepted the Company's notice of intention to make a Normal Course Issuer Bid for its common shares through the facilities of the exchange. Effective October 18, 2006, the Company may commence making purchases of up to a maximum of 4,933,641 common shares. Any shares acquired will be purchased at the market price for the common shares at the time of acquisition and will be cancelled. The bid will terminate on the earlier of the date determined by the Company and October 17, 2007. As at January 31, 2007, 1,501,300 shares had been purchased under a Normal Course Issuer Bid for which 1,135,500 shares had not yet been cancelled. The shares were cancelled in February 2007. 365,800 shares were cancelled during the three months ended January 31, 2007, which had been purchased at an average price per share of \$0.97. The excess of the purchase price over the average stated capital of the shares has been charged to retained earnings. The average stated capital of each share cancelled is the sum of the stated value of the common shares, contributed surplus, retained earnings and accumulated other comprehensive income divided by the number of common shares outstanding at year end.

As at January 31, 2007, 4,688,745 shares were subject to voluntary pooling restrictions of which 2,691,428 were subject to regulatory trading restrictions.

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9. SHARE CAPITAL (cont'd.)

Share purchase options

The shareholders of the Corporation have adopted a share option plan (the "Option Plan") for its directors, officers and employees. 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 anytime under the Option Plan and any other employee incentive plan is 10% of the issued and outstanding common shares. The exercise price for an 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 generally 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 Option Plan is subject to the rules and policies of the Toronto Stock Exchange.

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

	#	\$
Share purchase options outstanding, October 31, 2006	1,140,300	0.125 – 1.37
Granted	275,000	0.97-0.99
Forfeited	(71,028)	1.00
Expired	(500)	0.275
Exercised	—	—
Share purchase options outstanding, January 31, 2007	1,343,772	0.125 – 1.37

Coastal Contacts Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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9. SHARE CAPITAL (cont'd.)

The following table summarizes information about Company share purchase options outstanding as at January 31, 2007:

Share purchase options Outstanding			Share purchase options Exercisable	
Shares #	Weighted Average Contractual Life (years)	Exercise Price \$	Shares #	Exercise Price \$
550,000	0.92	0.125	550,000	0.125
368,772	2.12	1.00	252,551	0.275
150,000	4.43	1.37	37,500	1.37
275,000	4.83	0.97-0.99	18,611	0.97-0.99
1,343,772	2.44	0.68	858,662	0.46

On November 22, 2006, an employee entered into a call option agreement with a principal shareholder for 300,000 options. These options are exercisable at \$0.99 per share and vest in equal monthly increments over 3 years. Using the Black-Scholes option-pricing model, the Company estimates the fair value of this option grant to be \$136,251. Compensation of \$21,411 has been recognized as expense in the quarter ended January 31, 2007.

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

	2007	2006
Dividend yield	0%	0%
Expected volatility	67%	59%
Risk free interest rate	4.5%	4.0%
Expected lives	3.0 years	2.7 years

Coastal Contacts Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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10. CONTRIBUTED SURPLUS

	2007
	\$000's
Balance - beginning of period	530
Share-based compensation	106
Balance - end of period	636

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2007
	\$000's
Balance - beginning of period (restated – see Note 2)	(2,135)
Unrealized foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign operations	1,047
Balance - end of period	(1,088)

12. EARNINGS PER SHARE

	2007	2006
Weighted average number of common shares outstanding - basic	74,338,984	58,034,604
Stock options and warrants	530,044	2,230,368
Weighted average number of common shares outstanding - diluted	74,869,028	60,264,972

13. DUE FROM RELATED PARTIES

	January 31, 2007	October 31, 2006
	\$000's	\$000's
Promissory notes receivable	358	376
Advances to officers	248	234
	606	610

Coastal Contacts Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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13. DUE FROM RELATED PARTIES (cont'd.)

The amounts due from related parties includes nine promissory notes from officers ranging in value from \$12,500 to \$102,000 and advances to officers. These notes and advances are payable on demand and bear interest at 5% per annum.

14. 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 \$000's	Sweden \$000's	Norway \$000's	Other \$000's	Total \$000's
Revenue					
3 months ended January 31, 2007	5,053	6,057	3,476	9,019	23,605
3 months ended January 31, 2006	6,674	4,686	2,489	4,561	18,410
Property, equipment and leasehold improvements					
As at January 31, 2007	—	1,616	—	1,308	2,924
As at October 31, 2006	—	1,439	—	1,334	2,773
Goodwill					
As at January 31, 2007	—	6,242	—	2,320	8,562
As at October 31, 2006	—	5,743	—	954	6,697

Included in "Other" are revenues to non-related customers in the Company's home domicile of \$1,338,000 (2006 \$603,000) and property, equipment and leasehold improvements located in the Company's home domicile of \$1,097,000 (2006 \$1,118,381).

15. COMPARATIVE FIGURES

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