

Management's Discussion and Analysis of Financial Condition and Results of Operations for the quarter ended January 31, 2009

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) is dated as of March 11, 2009 and should be read in conjunction with Coastal Contacts Inc.'s (the "Company", "our", "we", "us", "Coastal Contacts" or "Coastal") unaudited interim consolidated financial statements for the fiscal quarter ended January 31, 2009 and the corresponding notes thereto. We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") and use Canadian dollars as our reporting currency.

Forward-looking statements

All statements made in this management's discussion and analysis, other than statements of historical fact, are forward-looking statements. The words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", "goal", "target", "should," "likely," "potential," "continue," "project," "forecast," "prospects," and similar expressions typically are used to identify forward-looking statements. Examples of such forward looking statements within this document include statements relating to: our perception of the contact lens industry or market and anticipated trends in that market in any of the countries in which we do business; our anticipated ability to procure products, or the terms under which we may procure our products; our anticipated business operations, inventory levels, ability to handle specific order and call volumes, ability to fill and timely ship orders, ability to achieve greater marketing efficiency or similar statements; our relationships with suppliers; our anticipated results of operations, including but not limited to anticipated sales, revenues, earnings, tax benefits or similar matters; sufficiency of cash flows; and our perceptions regarding volatility in and impact of foreign currency exchange rates.

Forward-looking statements are based on the then-current expectations, beliefs, assumptions, estimates and forecasts about our business and the industry and markets in which we operate. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions which are difficult to predict. Assumptions underlying our expectations regarding forward-looking statements or information contained in this MD&A include, among others: that we will maintain our position in the markets we operate in and expand into other markets in a favourable manner; that we will have sufficient capital to continue making investments in advertising and personnel to support our business and new product lines, including our prescription eyeglass business; that we will be able to generate and maintain sufficient cash flows to support our operations; that we will be successful in defending against the appeal by the College of Opticians in British Columbia; that we will be able to establish and/or maintain necessary relationships with suppliers; and that we will retain key personnel. The foregoing list of assumptions is not exhaustive.

Persons reading this MD&A are cautioned that forward-looking statements or information are only predictions, and that our actual future results or performance may be materially different due to a number of factors. These factors include, but are not limited to: changes in the market; potential downturns in economic conditions; consumer credit risk; our ability to implement our business strategies; competition; limited suppliers; inventory risk; disruption in our distribution facilities; mergers and acquisitions; foreign currency exchange rate fluctuations; regulatory requirements; demand for contact lenses and related vision care products; competition and dependence on the internet and other risks detailed in our filings with the Canadian securities regulatory authorities. Reference should be made to the section entitled "Risk Factors" contained in our most recently filed

Annual Information Form dated January 29, 2009, for a detailed description of the risks and uncertainties relating to our business. These risks, as well as others, could cause actual results and events to vary significantly. Accordingly, readers should not place undue reliance on forward-looking statements and information, which are qualified in their entirety by this cautionary statement. These forward-looking statements are made as of the date of this MD&A and we expressly disclaim any intent or obligation to update these forward-looking statements, unless we specifically state otherwise and except as required by applicable law.

Overview

Coastal Contacts is a leading worldwide direct to consumer retailer of vision care products, with customers in North America, Europe and the Asia Pacific region. Coastal has created a leading multinational optical business designed to provide significant savings to consumers and enhanced service levels when compared with traditional sources of vision care products, such as retail optical stores or directly from eye care practitioners.

Since our inception in 2000, our business has grown to 1.2 million orders shipped in our 2008 fiscal year representing over \$118 million in revenues. While we initially focused on the North American market, in recent years we have successfully executed a strategy of global market diversification, achieving the largest market share of any direct to consumer contact lens retailer in many global markets. We are focused on achieving consistent and sustainable growth through the continued development of our core business. Our growth initiatives include the expansion into new markets through existing distribution hubs, the expansion of market share within existing markets and the introduction of new products.

Recent market data estimates the global market for soft contact lenses at \$5.3 billion in 2008 with worldwide growth rates estimated in the range of 8 to 9%. The largest market for contact lenses continues to be the United States, while other markets are experiencing higher growth rates as their markets proceed toward maturity. To date we have focused on expanding our geographic footprint into important markets around the world for contact lenses. Coastal plans to continue its efforts to grow both organically and through timely strategic acquisitions.

In addition, our database of vision corrected customers around the world represents a significant opportunity. To date we have been successful in offering additional vision care products to our customers such as eyeglasses, contact lens solutions and sunglasses.

Results of Operations – for the three months ended January 31, 2009 compared to the three months ended January 31, 2008

(\$000's)	Three months ended January 31,	
	2009	2008
Sales	31,342	25,375
Gross profit	9,609	6,363
Income (loss) before taxes	1,305	(599)
Net income (loss)	968	(701)
Adjusted EBITDA¹	2,025	(76)

Revenues increased by \$5.9 million or 24% to \$31.3 million (299,855 shipped orders¹) in the three months ended January 31, 2009 as compared to \$25.4 million (277,018 orders shipped¹) during the same period in 2008. Our revenues grew 8% due to an increase in shipped orders¹, 8% as a result of favorable foreign currency exchange rates, and 8% due to an increase in our average revenue per order, exclusive of foreign exchange. Our revenues increased in all of our major markets as a result of continued growth in marketing investments, the prescription eyeglasses business we launched in fiscal 2008, and our customers' continued adoption of the direct to consumer sales model.

Gross margin increased to 31% in the quarter ended January 31, 2009 from 25% in the first quarter of fiscal 2008 as the result of increases in retail pricing, particularly in North America, favourable foreign exchange rate fluctuations and the wider absorption of fixed costs over a larger base of sales.

Advertising expenses increased to \$4.1 million in the first three months of 2009, compared to \$3.1 million in the first three months of the last fiscal year. Advertising costs increased primarily as a result of increased investments in growth markets where we are targeting a leadership position, and as a result of the promotion of our new prescription eyeglasses business.

The majority of our investments in advertising are made with the goal of sustaining the dominant market leadership we enjoy in some markets, and establishing similar leadership positions in a number of the emerging markets in which we participate. Our experience has been that achieving this position results in more retail pricing power and greater advertising efficiencies, which are measured by advertising costs as a proportion of total revenues. In addition to size and market position, our reorder rate¹, which is in excess of 70%, further enhances that efficiency and creates a profitable and ongoing recurring revenue stream. Our goal is to replicate our success in these markets into other markets, by offering similar levels of service, and by investing in similar brand-building marketing techniques.

¹ Adjusted EBITDA, shipped orders, reorders and reorder rate(s) are non-GAAP measures that do not have a standardized meaning prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Refer to Supplemental Non-GAAP measures on page 11.

Selling, general and administrative expenses (“SG&A”) decreased as a percentage of revenues to 12% from 14% in last year’s first quarter, but increased slightly to \$3.7 million from \$3.5 million in last year’s first quarter. Overall SG&A spending increased primarily as a result of additional employees to support our growing operations and our prescription eyeglasses business, as well as increased employee compensation costs.

In both the quarter ended January 31, 2009 and 2008 we recognized foreign currency exchange gains on the translation of our monetary assets and liabilities in our self sustaining operations of \$0.2 million.

Amortization for the quarter ended January 31, 2009, remained constant at \$0.6 million compared to the same period in 2008. Additions to property and equipment were not significant during the quarter as our website development projects were largely complete and we required fewer other capital improvements.

Our income tax, as a percentage of taxable income in the countries in which we generate taxable income, declined slightly in the first quarter of 2009 compared to the same period of 2008 in line with declines in corporate tax rates in the jurisdictions in which we operate. Our European operations generate taxable income, while in certain other jurisdictions we have incurred losses historically that can be applied against current and future taxable earnings to reduce our tax liability on those earnings. As we remain uncertain of realizing the future benefit of those losses, we have taken a valuation allowance against these future tax assets. Consequently, our consolidated tax expense, as a percentage of income before income taxes, will vary from quarter to quarter in line with the mix of net income within each taxable jurisdiction.

Liquidity and Capital Resources

At January 31, 2009 we had cash and cash equivalents of \$12.0 million, as compared to cash and cash equivalents of \$15.2 million at October 31, 2008.

Cash used in operations of \$2.5 million during the first fiscal quarter of 2009 was largely the result of increases in non-cash working capital such as accounts receivable and inventory and reductions of accounts payable which exceeded the \$1.7 million generated from net income excluding non-cash items. We expect cash flows from changes in working capital to vary from quarter to quarter as we grow and due to the timing of ordinary course receipts and payments. This compares to cash inflows of \$0.4 million generated from operations in the same period last year, of which \$0.2 million was from a net loss excluding non-cash items, and \$0.6 million was from reductions in non-cash working capital.

Cash used for investing activities was \$0.2 million for the first quarter of 2009, compared to cash provided of \$3.4 million in the same quarter of 2008. In the first quarter of 2008, our cash provided by investing activities grew as we allowed \$4.0 million of short term investments to mature into cash and cash equivalents, which was in excess of an investment of \$0.6 million in capital spending, the majority of which related to improvements in our website technologies and establishment of our prescription eyeglasses business. During the first quarter of 2009, we reduced our capital spending relative to the prior year as our website development projects were largely complete and we required fewer other capital improvements.

On December 19, 2008, we renewed our Normal Course Issuer Bid (“NCIB”) 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. This compares to \$0.3 million of cash invested in the first quarter of 2008 to purchase 272,800 common shares under a previous NCIB.

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

We believe that existing available cash, together with cash flow from operating activities will be sufficient to support the NCIB and our operations to the end of the 2010 fiscal year. We are actively expanding our product offerings and seeking strategic acquisitions. We may seek additional sources of funds for accelerated growth, acquisitions of companies or assets or other activities, and there can be no assurance that such funds will be available on satisfactory terms or at all. Failure to obtain such financing could delay or prevent our planned growth, which could adversely affect our business, financial condition and results of operations.

Critical Accounting Estimates

The Company prepares its consolidated financial statements in accordance with Canadian GAAP. The preparation of consolidated financial statements in conformity with GAAP 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 financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates are based upon historical experience and other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an on-going basis and form the basis for making decisions regarding the carrying value of assets and liabilities and the reported amount of revenues and expenses. Actual results may differ from these estimates under different assumptions.

We have identified the following as critical accounting estimates, which are defined as those that are reflective of significant judgments and uncertainties, are the most pervasive and important to the presentation of our financial condition and results of operations and could potentially result in materially different results under different assumptions and conditions.

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.

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

Accounting for Long-lived Assets

The ability to realize long-lived assets which are primarily comprised of customer lists and website creation costs are evaluated periodically as events or circumstances indicate a possible inability to recover their carrying amount. Such evaluation is based on assessment of reorder rates and various analyses, including undiscounted cash flow and profitability projections that incorporate, as

applicable, the impact on the existing business. The analyses necessarily involve significant management judgment. Any impairment loss, if indicated, is measured as the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset.

Accounting for Goodwill and Intangible Assets with Indefinite Lives

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill is not amortized and we perform an annual impairment test of our recorded goodwill. In addition, we test our other indefinite-lived intangible assets for impairment. These impairment tests can be significantly altered by estimates of future performance, long-term discount rates used or market price valuation multiples. The analyses necessarily involve significant management judgment. These estimates will likely change over time. Goodwill and intangible assets with indefinite lives totaled \$15.0 million and \$15.7 million at January 31, 2009 and October 31, 2008, respectively.

Allowance for Doubtful Accounts

We offer credit to most of our customers. These customers do not have to pay for the order until the goods are received – generally estimated to be less than 15 days. The majority of the individual receivable balances are small amounts of less than \$150 and there are a large number of records. Given the composition of the receivable portfolio, using a specific balance approach to determine an allowance for doubtful accounts for the bulk of the receivables is not feasible. Consequently, management estimates an allowance for doubtful accounts based on the aging of the receivable portfolio. The analyses necessarily involve significant judgment. These analyses can be significantly altered by estimates of the probability of future collection or changes in payment patterns of customers. The allowance for doubtful accounts at January 31, 2009, and 2008 was \$0.8 million.

Share-based Compensation

The fair value of each share purchase option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. The amount of share-based compensation associated with any share purchase options that are granted will be estimated and expensed, based on the vesting schedule, using assumptions involving the estimated dividend yield, expected volatility, the risk-free interest rate and the expected lives of the share purchase options.

Income Taxes

We account for income taxes using the liability method of accounting. Under the liability method, future income tax assets and liabilities are determined based on differences between the carrying amounts of balance sheet items and their corresponding tax values. The determination of the income tax provision requires management to interpret regulatory requirements and to make certain judgements. While income tax filings are subject to audits and assessments, management believes that adequate provision has been made for all income tax obligations. However, changes in the interpretations or judgements may result in an increase or decrease in our income tax provision in the future. The amount of any such increase or decrease cannot be reasonably estimated.

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.

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 only impacted disclosures in the financial statements.

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 only impacted disclosures in the financial statements.

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.

Common Shares

As at March 11, 2009, we had 58,318,643 common shares and 4,100,437 options outstanding. Of these securities, 807,428 common shares are subject to voluntary pooling agreements and 3,009,904 options have not yet vested.

Quarterly Financial Information

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

Quarter ended	Jan. 31, 2009	Oct. 31, 2008	July 31, 2008	Apr. 30, 2008	Jan. 31, 2008	Oct. 31, 2007	July 31, 2007	Apr. 30, 2007
Sales	31,342	32,027	32,725	28,632	25,375	26,657	27,310	24,602
Net Income (loss)	968	397	211	(692)	(701)	257	374	313
Weighted Average # of shares - Basic	58,318	58,451	63,430	65,092	71,275	72,015	72,454	72,974
Weighted Average # of shares - Diluted	58,320	58,605	63,535	65,353	71,275	72,194	73,031	73,457
Basic Earnings (Loss) per share	0.02	0.01	0.00	(0.01)	(0.01)	0.00	0.01	0.00
Diluted Earnings (Loss) per share	0.02	0.01	0.00	(0.01)	(0.01)	0.00	0.01	0.00

Seasonality may impact our revenue distribution throughout the year. Our sales are generally stronger during the spring, summer and fall months. Our industry generally experiences lower sales during the holiday season as customers choose to divert discretionary funds towards holiday purchases.

Related Party Transactions

As at January 31, 2009, there were seven promissory notes outstanding, ranging in value from \$0.01 million to \$0.1 million and totaling \$0.32 million (October 31, 2008: \$0.32 million). Accumulated interest totals \$0.05 million (October 31, 2008: \$0.04). 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.

Contractual Obligations

We are committed to minimum annual payments, primarily related to lease costs on its premises, as follows:

	\$000's
2009	558
2010	540
2011 and thereafter	166
	1,264

Operating costs on leases have been excluded. We have no obligations for annual payments related to long-term debt or capital lease obligations.

Contingent Liability

On September 6, 2007, we 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 us 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.

In May 2008 we 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. We believe the original petition and the subsequent appeal is without merit and we intend to vigorously defend against the appeal.

In the ordinary course of our business, inquiries are made periodically by regulatory authorities and assertions are made. We review these and respond to them in due course. To date, no reservation or provision has been made in the financial statements in connection with these matters.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as defined by applicable securities regulations in Canada at January 31, 2009 that have, or are reasonably likely to have, a current or future material effect on our results of operations or financial condition.

Critical Suppliers

We currently purchase significant amounts of inventory from a limited number of major suppliers. We believe that alternative suppliers are available should those suppliers refuse or be unable to provide us with products.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), on a timely basis so that appropriate decisions can be made regarding public disclosure.

As of January 31, 2009, an evaluation of the design of the Company’s disclosure controls and procedures as defined in National Instrument 52-109 was carried out. Based on that evaluation, the CEO and CFO concluded that the design and operation of those disclosure controls and procedures were effective.

Internal Controls over Financial Reporting

Management is responsible for certifying the design of the Company’s internal control over financial reporting as required by National Instrument 52-109.

Our internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the CEO and CFO, carried out an evaluation of the design of our internal controls over financial reporting as at January 31, 2009. Management believes the design to be sufficient for the nature and size of the Company’s business, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

During the first quarter of 2009, management did not make changes to its system of internal controls that materially affect internal controls over financial reporting.

Supplemental Non-GAAP Measures

We report our results in accordance with Canadian GAAP, however, we present Adjusted EBITDA and the number of orders shipped and the reorder rate, which is defined as the percentage of orders in the quarter shipped to customers that we estimate have ordered from us in the past. We believe that our investors may use these figures to make more informed investment decisions about us.

Adjusted EBITDA is a non-GAAP measure that does not have any standardized meaning prescribed by Canadian GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. Adjusted EBITDA should be considered in addition to, and not as a substitute for, net income, cash flows and other measures of financial performance and liquidity reported in accordance with Canadian GAAP.

Adjusted EBITDA is a measure we believe is useful in assessing performance and highlighting trends on an overall basis. Adjusted EBITDA differs from the most comparable GAAP measure, net income, primarily because it does not include interest, income taxes, amortization and share-based compensation expense.

The following table provides a reconciliation of net income to Adjusted EBITDA:

	For the three months ended January 31,	
(\$000's)	2009	2008
Net income (loss)	968	(701)
Amortization	614	600
Interest income, net	(42)	(232)
Income tax expense	337	102
Share-based compensation	148	155
Adjusted EBITDA	2,025	(76)

Additional Information

Additional information relating to the Company, including the Company's most recently filed annual information form, dated January 29, 2009, can be found on SEDAR at www.sedar.com.