

Interim Consolidated Financial Statements

**Coastal Contacts Inc.**

Unaudited

For the three and six months ended April 30, 2008

**Coastal Contacts Inc.**  
**CONSOLIDATED BALANCE SHEETS**  
(\$000's)

|  | April 30,<br>2008 | October 31,<br>2007 |
|--|-------------------|---------------------|
|  | (unaudited)       |                     |
| <b>ASSETS</b>  |                   |                     |
| <b>Current</b>                                       |                   |                     |
| Cash and cash equivalents                            | 17,544            | 23,367              |
| Short-term investments                               | —                 | 3,976               |
| Accounts receivable                                  | 7,343             | 6,649               |
| Inventory  | 9,563             | 8,531               |
| Prepaid expenses                                     | 1,630             | 1,270               |
| Due from related parties                             | 363               | 348                 |
|  | 36,443            | 44,141              |
| Property, equipment and leasehold improvements       | 3,143             | 2,700               |
| Intangible assets                                    | 12,548            | 11,712              |
| Goodwill   | 8,486             | 7,529               |
|  | 60,620            | 66,082              |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>          |                   |                     |
| <b>Current</b>                                       |                   |                     |
| Accounts payable and accrued liabilities             | 16,722            | 13,881              |
| Income taxes payable                                 | 164               | 711                 |
| Deferred revenue                                     | 25                | 23                  |
| Current portion of lease inducement                  | 68                | 68                  |
|  | 16,979            | 14,683              |
| Long-term lease inducement                           | 119               | 158                 |
| Future income tax liability                          | 4,203             | 3,661               |
|  | 21,301            | 18,502              |
| <b>Shareholders' equity</b>                          |                   |                     |
| Share capital <i>[note 4]</i>                        |                   |                     |
| Authorized:  |                   |                     |
| Unlimited common shares without par value            |                   |                     |
| Unlimited Class A preferred shares without par value |                   |                     |
| Issued and outstanding:                              |                   |                     |
| 63,430,443 common shares [2007 – 71,426,512]         | 44,996            | 50,857              |
| Shares held in Treasury                              |                   |                     |
| nil [2007 – 78,500 common shares]                    | —                 | (89)                |
| Contributed surplus <i>[note 5]</i>                  | 1,305             | 973                 |
| Accumulated other comprehensive loss <i>[note 6]</i> | (1,343)           | (4,091)             |
| Deficit  | (5,639)           | (70)                |
|  | 39,319            | 47,580              |
|  | 60,620            | 66,082              |

Subsequent events *[note 13]*

See accompanying notes to the unaudited interim consolidated financial statements

**Coastal Contacts Inc.****CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE INCOME (LOSS)**

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

|   | <b>Three months ended</b> |              | <b>Six months ended</b> |               |
|---|---------------------------|--------------|-------------------------|---------------|
|   | <b>April 30</b>           |              | <b>April 30</b>         |               |
|   | 2008                      | 2007         | 2008                    | 2007          |
| Sales   | 28,632                    | 24,602       | 54,007                  | 48,207        |
| Cost of sales   | 20,503                    | 17,977       | 39,515                  | 35,282        |
| <b>Gross profit</b>   | <b>8,129</b>              | <b>6,625</b> | <b>14,492</b>           | <b>12,925</b> |
| Selling, general and administration expenses  | 7,162                     | 5,767        | 13,846                  | 11,582        |
| Share-based compensation  | 179                       | 77           | 334                     | 183           |
| Amortization on property, equipment<br>and leasehold improvements   | 249                       | 214          | 478                     | 374           |
| Amortization on intangible assets   | 420                       | 243          | 791                     | 587           |
| Foreign exchange (gains) losses   | 50                        | (149)        | (195)                   | (834)         |
| Interest income, net  | (155)                     | (198)        | (387)                   | (450)         |
| Restructuring charges <i>[note 12]</i>  | 844                       | —            | 844                     | —             |
| Earnings (loss) before income taxes   | (620)                     | 671          | (1,219)                 | 1,483         |
| Income tax expense - current  | 94                        | 385          | 206                     | 545           |
| Income tax recovery - future  | (22)                      | (27)         | (32)                    | (56)          |
| <b>Net earnings (loss)</b>  | <b>(692)</b>              | <b>313</b>   | <b>(1,393)</b>          | <b>994</b>    |
| <b>Other comprehensive income (loss), net of tax</b>  |                           |              |                         |               |
| Unrealized foreign exchange gains (losses)<br>on translation of financial statements of<br>self-sustaining foreign operations | 1,468                     | (995)        | 2,749                   | 52            |
| <b>Comprehensive income (loss)</b>  | <b>776</b>                | <b>(682)</b> | <b>1,356</b>            | <b>1,046</b>  |
| Basic earnings (loss) per share <i>[note 7]</i>   | (0.01)                    | 0.00         | (0.02)                  | 0.01          |
| Diluted earnings (loss) per share <i>[note 7]</i>   | (0.01)                    | 0.00         | (0.02)                  | 0.01          |
| Weighted average number of common shares<br>outstanding – basic   | 65,091,658                | 72,974,277   | 68,217,592              | 73,674,214    |
| Weighted average number of common shares<br>outstanding – diluted   | 65,091,658                | 73,456,678   | 68,217,592              | 74,210,388    |

*See accompanying notes to the unaudited interim consolidated financial statements*

**Coastal Contacts Inc.**  
**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**  
**(DEFICIT)**  
(Unaudited) (\$000's)

| <b>For the six months ended April 30</b>              | <b>2008</b> | <b>2007</b> |
|---|-------------|-------------|
| Deficit, beginning of period                          | (70)        | (416)       |
| Net income (loss)                                     | (1,393)     | 994         |
| Premium on purchase of common shares for cancellation | (4,176)     | (520)       |
| Retained earnings (deficit), end of period            | (5,639)     | 58          |

*See accompanying notes to the unaudited interim consolidated financial statements*

**Coastal Contacts Inc**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited) (\$000's)

|  | <b>Three months ended</b> |                | <b>Six months ended</b> |                |
|--|---------------------------|----------------|-------------------------|----------------|
|  | <b>April 30</b>           |                | <b>April 30</b>         |                |
|  | <b>2008</b>               | <b>2007</b>    | <b>2008</b>             | <b>2007</b>    |
| <b>OPERATING ACTIVITIES</b>                                      |                           |                |                         |                |
| Net earnings (loss)  | (692)                     | 313            | (1,393)                 | 994            |
| Non-cash items:  |                           |                |                         |                |
| Amortization   | 669                       | 457            | 1,269                   | 961            |
| Share-based compensation   | 179                       | 77             | 334                     | 183            |
| Future income taxes (recovery)                                   | (22)                      | (27)           | (32)                    | (56)           |
| Unrealized foreign exchange losses (gains)                       | 5                         | (189)          | (229)                   | (858)          |
| Other non-cash items   | (24)                      | (26)           | (50)                    | (50)           |
| Changes in non-cash working capital:                             |                           |                |                         |                |
| Accounts receivable  | (128)                     | 949            | (56)                    | 1,365          |
| Inventory  | 983                       | 1,202          | (424)                   | 552            |
| Prepaid expenses   | (151)                     | (143)          | (242)                   | (545)          |
| Accounts payable and accrued liabilities                         | (901)                     | (4,321)        | 1,535                   | (3,229)        |
| Income taxes payable   | (9)                       | 284            | (387)                   | 474            |
| Deferred revenue   | (23)                      | (106)          | —                       | (14)           |
| <b>Cash provided by (used in) operating activities</b>           | <b>(114)</b>              | <b>(1,530)</b> | <b>325</b>              | <b>(223)</b>   |
| <b>INVESTING ACTIVITIES</b>                                      |                           |                |                         |                |
| Purchase of short-term investments                               | —                         | (3,886)        | —                       | (3,886)        |
| Maturity of short-term investments                               | —                         | —              | 3,976                   | —              |
| Advances to related parties                                      | (9)                       | (24)           | (4)                     | (32)           |
| Repayment of promissory notes                                    | —                         | 13             | —                       | 36             |
| Acquisition of property, equipment<br>and leasehold improvements | (367)                     | (275)          | (695)                   | (458)          |
| Acquisition of intangible assets                                 | (83)                      | (246)          | (361)                   | (729)          |
| <b>Cash provided by (used in) investing activities</b>           | <b>(459)</b>              | <b>(4,418)</b> | <b>2,916</b>            | <b>(5,069)</b> |
| <b>FINANCING ACTIVITIES</b>                                      |                           |                |                         |                |
| Purchase of common shares for cancellation                       | (9,476)                   | (605)          | (9,786)                 | (2,160)        |
| Share related costs  | (165)                     | —              | (165)                   | —              |
| <b>Cash (used in) financing activities</b>                       | <b>(9,641)</b>            | <b>(605)</b>   | <b>(9,951)</b>          | <b>(2,160)</b> |
| Effect of exchange rate changes<br>on cash and cash equivalents  | 424                       | (117)          | 887                     | (133)          |
| Decrease in cash and cash equivalents                            | (9,790)                   | (6,670)        | (5,823)                 | (7,585)        |
| Cash and cash equivalents, beginning of period                   | 27,334                    | 23,358         | 23,367                  | 24,273         |
| <b>Cash and cash equivalents, end of period</b>                  | <b>17,544</b>             | <b>16,688</b>  | <b>17,544</b>           | <b>16,688</b>  |
| Income taxes paid in cash  | 464                       | 47             | 1,137                   | 74             |

*See accompanying notes to the unaudited interim consolidated financial statements*

**Coastal Contacts Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

April 30, 2008

Unaudited

**1. BASIS OF PRESENTATION**

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

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, 2007, 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, 2007.

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, 2007, 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) 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 9.

**(b) 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 8.

## Coastal Contacts Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2008

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### 3. 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.

### 4. SHARE CAPITAL

#### Issued and outstanding common shares

|   | 2008                            |         | 2007                            |         |
|---|---------------------------------|---------|---------------------------------|---------|
|   | Number of<br>Common Shares<br># | \$000's | Number of<br>Common Shares<br># | \$000's |
| Balance, beginning of period                                | 71,426,512                      | 50,857  | 74,681,712                      | 53,515  |
| Issued on exercise of options                               | 9,375                           | 12      | 550,000                         | 69      |
| Purchased and cancelled                                     | (8,005,444)                     | (5,873) | (3,805,200)                     | (2,727) |
| Balance, end of period including shares<br>held in treasury | 63,430,443                      | 44,996  | 71,426,512                      | 50,857  |
| Shares purchased not cancelled                              | —                               | —       | (78,500)                        | (89)    |
| Balance, end of period                                      | 63,430,443                      | 44,996  | 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 its common shares through the facilities of the exchange. Effective October 18, 2006, the Company was able to commence making purchases and cancellations of up to a maximum of 4,933,641 common shares, at the market price for the common shares at the time of acquisition. The bid was terminated on October 17, 2007, and the Company purchased a total of 3,818,600 shares, all of which have been cancelled. 3,805,200 shares were purchased at an average price per share of \$1.05 and were cancelled during the year ended October 31, 2007. The remainder shares were cancelled in November 2007. The excess of the purchase price over the average stated capital of the shares has been charged to retained earnings.

**Coastal Contacts Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**4. SHARE CAPITAL (continued)**

On October 24, 2007, 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 26, 2007, the Company was able to commence making purchases and cancellations of up to a maximum of 4,607,285 common shares, at the market price for the common shares at the time of acquisition. The Company purchased and cancelled 1,154,700 shares at an average price per share of \$1.13 during the six months ended April 30, 2008. The excess 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 the average stated capital of the shares has been charged to retained earnings.

As at April 30, 2008, 1,211,143 (October 31, 2007 – 1,620,879) shares were subject to voluntary pooling restrictions.

**Share purchase options**

The shareholders of the Company have adopted a share 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 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, employee or service provider 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:

|   | <b>Amount</b>    | <b>Exercise price</b>  |
|---|------------------|------------------------|
| Share purchase options outstanding, November 1, 2007      | 2,208,439        | \$0.87 - \$1.37        |
| Granted   | 935,000          | \$1.05 - \$1.11        |
| Exercised   | (9,375)          | \$0.87                 |
| Forfeited   | (107,793)        | \$0.87 - \$1.37        |
| <b>Share purchase options outstanding, April 30, 2008</b> | <b>3,026,271</b> | <b>\$0.87 - \$1.37</b> |

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

April 30, 2008

Unaudited

**4. SHARE CAPITAL (continued)**

The following table summarizes information about Company share purchase options outstanding as at April 30, 2008:

| Range of exercise price<br>\$ | 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 \$ |
| \$0.87 - \$0.99               | 1,017,500                          | 3.90  | 0.92                               | 258,144                            | 0.94                               |
| \$1.00                        | 325,771                            | 1.03  | 1.00                               | 325,771                            | 1.00                               |
| \$1.05 - \$1.37               | 1,683,000                          | 4.52  | 1.09                               | 161,832                            | 1.11                               |
|                               | 3,026,271                          | 3.94  | 1.02                               | 745,747                            | 1.00                               |

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:

|                         | 2008      | 2007      |
|-------------------------|-----------|-----------|
| Dividend yield          | 0%        | 0%        |
| Expected volatility     | 61%       | 67%       |
| Risk free interest rate | 4.2%      | 4.5%      |
| Expected lives          | 5.0 years | 3.0 years |

**5. CONTRIBUTED SURPLUS**

|                            | \$000's |
|----------------------------|---------|
| Balance - November 1, 2007 | 973     |
| Share-based compensation   | 332     |
| Balance - April 30, 2008   | 1,305   |

**Coastal Contacts Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

April 30, 2008

Unaudited

**6. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

|  | <u>\$000's</u> |
|--|----------------|
| Balance - November 1, 2007   | (4,091)        |
| Unrealized foreign exchange gains on translation of financial statements of self-sustaining foreign operations | 2,748          |
| Balance - April 30, 2008   | (1,343)        |

**7. EARNINGS PER SHARE**

|  | <u>Three months ended</u> |            | <u>Six months ended</u> |            |
|--|---------------------------|------------|-------------------------|------------|
|  | <u>April 30</u>           |            | <u>April 30</u>         |            |
|  | 2008                      | 2007       | 2008                    | 2007       |
| Weighted average number of common shares outstanding - basic   | 65,091,658                | 72,974,277 | 68,217,592              | 73,674,214 |
| Stock options and warrants                                     | -                         | 482,401    | -                       | 536,174    |
| Weighted average number of common shares outstanding - diluted | 65,091,658                | 73,456,678 | 68,217,592              | 74,210,388 |

**8. 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 the balance sheet date of April 30, 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 promissory notes receivable, 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.

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

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**8. FINANCIAL INSTRUMENTS (continued)**

The credit risk on cash and cash equivalents is limited 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:

|   | <b>April 30,<br/>2008<br/>\$000's</b> | <b>October 31,<br/>2007<br/>\$000's</b> |
|---|---------------------------------------|---|
| Cash  | 13,073                                | 11,099                                  |
| Held to maturity guaranteed investment certificates,<br>bankers acceptances and commercial paper* | 4,072                                 | 11,916                                  |
| Other cash investments  | 399                                   | 352                                     |
| Cash and cash equivalents   | 17,544                                | 23,367                                  |
| Short-term investments, held to maturity, including bankers<br>acceptances and commercial paper   | —                                     | 3,976                                   |
| Accounts receivable   | 7,343                                 | 6,649                                   |
| Promissory notes receivable, as included in due from related parties                              | 363                                   | 342                                     |
|   | <b>25,250</b>                         | <b>34,334</b>                           |

\*These investments mature 41 days from the date of investment with an interest rate of 3.2% (2007 – 4.3%).

The aging of accounts receivable at the reporting date was:

|                              | <b>April 30,<br/>2008<br/>\$000's</b> | <b>October 31,<br/>2007<br/>\$000's</b> |
|------------------------------|---------------------------------------|---|
| Current trade receivables    | 6,941                                 | 5,514                                   |
| Value added taxes receivable | 2                                     | 604                                     |
| Aged between 60 – 120 days   | 206                                   | 197                                     |
| Aged greater than 120 days   | 194                                   | 334                                     |
|                              | <b>7,343</b>                          | <b>6,649</b>                            |

Reconciliation of allowance for bad debts:

|                           | <b>\$000's</b> |
|---------------------------|----------------|
| Balance, November 1, 2007 | 619            |
| Increase in period        | 320            |
| Balance, April 30, 2008   | <b>939</b>     |

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

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**8. FINANCIAL INSTRUMENTS (continued)****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 ("US\$"), 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 April 30, 2008:

| <b>(000's \$CAD)</b>                     | <b>US\$</b>    | <b>SEK</b>     | <b>NOK</b>   | <b>EURO</b>  |
|--|----------------|----------------|--------------|--------------|
| Cash and cash equivalents                | 1,948          | 3,742          | 351          | 1,282        |
| Accounts receivable                      | 614            | 2,029          | 1,153        | 1,692        |
| Accounts payable and accrued liabilities | (4,166)        | (9,457)        | (212)        | (534)        |
|  | <u>(1,604)</u> | <u>(3,686)</u> | <u>1,292</u> | <u>2,440</u> |

**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.

| <b>(000's \$CAD)</b> | <b>US\$</b> | <b>SEK</b> | <b>NOK</b> | <b>EURO</b> |
|----------------------|-------------|------------|------------|-------------|
| Net earnings         | (720)       | 57         | 555        | 213         |
| Comprehensive income | —           | 1,570      | —          | 679         |

**Coastal Contacts Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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Unaudited

**8. FINANCIAL INSTRUMENTS (continued)**

**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. The Company has the following financial liabilities at the reporting date, all of which are due within sixty days:

|                          | <b>April 30,<br/>2008<br/>\$000's</b> | <b>October 31,<br/>2007<br/>\$000's</b> |
|--------------------------|---------------------------------------|---|
| Accounts payable - trade | 12,020                                | 10,902                                  |
| Accrued liabilities      | 4,124                                 | 2,657                                   |
| Value added tax payable  | 578                                   | 322                                     |
|                          | <b>16,722</b>                         | <b>13,881</b>                           |

**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.

**9. 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, issue dividends, issue new 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.

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

April 30, 2008

Unaudited

**10. RELATED PARTY TRANSACTIONS**

|                             | April 30,<br>2008<br>\$000's | October 31,<br>2007<br>\$000's |
|-----------------------------|------------------------------|--------------------------------|
| Promissory notes receivable | 353                          | 342                            |
| Advances to officers        | 10                           | 6                              |
|                             | <u>363</u>                   | <u>348</u>                     |

During the year ended October 31, 2006, we issued nine promissory notes ranging in value from \$0.01 million to \$0.10 million and totalling \$0.36 million. These loans are payable on demand and bear interest at a rate of 5% per annum.

**11. SEGMENTED INFORMATION**

The Company operates in one business segment, the sale of contact lenses 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 related vision care products. Intercompany revenues have been excluded from the revenues in the country of shipment.

|   | United States<br>\$000's | Sweden<br>\$000's | Norway<br>\$000's | Other<br>\$000's | Total<br>\$000's |
|---|--------------------------|-------------------|-------------------|------------------|------------------|
| <b>Revenue</b>  |                          |                   |                   |                  |                  |
| <b>Three months ended April 30, 2008</b>              | <b>4,126</b>             | <b>7,643</b>      | <b>4,619</b>      | <b>12,244</b>    | <b>28,632</b>    |
| Three months ended April 30, 2007                     | 4,149                    | 6,201             | 3,578             | 10,674           | 24,602           |
| <b>Six months ended April 30, 2008</b>                | <b>8,054</b>             | <b>13,862</b>     | <b>8,771</b>      | <b>23,320</b>    | <b>54,007</b>    |
| Six months ended April 30, 2007                       | 9,202                    | 12,258            | 7,054             | 19,693           | 48,207           |
| <b>Property, equipment and leasehold improvements</b> |                          |                   |                   |                  |                  |
| <b>As at April 30, 2008</b>                           | <b>—</b>                 | <b>1,873</b>      | <b>—</b>          | <b>1,270</b>     | <b>3,143</b>     |
| As at October 31, 2007                                | —                        | 1,466             | —                 | 1,234            | 2,700            |
| <b>Intangible assets</b>                              |                          |                   |                   |                  |                  |
| <b>As at April 30, 2008</b>                           | <b>—</b>                 | <b>4,920</b>      | <b>—</b>          | <b>7,628</b>     | <b>12,548</b>    |
| As at October 31, 2007                                | —                        | 4,506             | —                 | 7,206            | 11,712           |
| <b>Goodwill</b>                                       |                          |                   |                   |                  |                  |
| <b>As at April 30, 2008</b>                           | <b>—</b>                 | <b>6,176</b>      | <b>—</b>          | <b>2,310</b>     | <b>8,486</b>     |
| 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 \$3.0 million and \$5.7 million for the three months and six months ended April 30, 2008 respectively (2007 - \$1.8 million and \$3.2 million). Property, equipment and leasehold improvements located in the Company's home domicile were \$1.0 million at April 30, 2008 (2007 - \$1.1 million), and intangible assets were \$1.7 million at April 30, 2008 (2007 - \$1.6 million).

**Coastal Contacts Inc.**

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**12. RESTRUCTURING CHARGES**

During the three months ended April 30, 2008, the Company incurred certain restructuring charges associated with the consolidation of its Dutch and Asian operations totalling \$0.8 million. This charge was comprised of severance costs totalling \$0.4 million, of which \$0.2 million are included in accounts payable and accrued liabilities and other costs such as inventory, other asset revaluations and general and administrative costs related to the restructuring totalling \$0.4 million of which \$0.03 million are included in accounts payable and accrued liabilities.

**13. SUBSEQUENT EVENTS**

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 the Company from selling contact lenses to members of the public in British Columbia. On April 25<sup>th</sup>, 2008, the Supreme Court of British Columbia denied the petition filed by the Opticians.

Subsequent to the end of the period, 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 the subsequent appeal is without merit, and intends to vigorously defend against the appeal.

**14. COMPARATIVE FIGURES**

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