

Interim Consolidated Financial Statements

Coastal Contacts Inc.

Unaudited

For the three and nine months ended July 31, 2008

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

	July 31, 2008	October 31, 2007
	(unaudited)	
ASSETS		
Current		
Cash and cash equivalents	19,959	23,367
Short-term investments	—	3,976
Accounts receivable	7,833	6,649
Inventory	10,624	8,531
Prepaid expenses	2,095	1,270
Due from related parties	367	348
	<u>40,878</u>	<u>44,141</u>
Property, equipment and leasehold improvements	2,901	2,700
Intangible assets	12,225	11,712
Goodwill	8,537	7,529
	<u>64,541</u>	<u>66,082</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	20,220	13,881
Income tax payable	161	711
Deferred revenue	21	23
Current portion of lease inducement	68	68
	<u>20,470</u>	<u>14,683</u>
Long-term lease inducement	99	158
Future income tax liability	4,159	3,661
	<u>24,728</u>	<u>18,502</u>
Shareholders' equity		
Share capital <i>[note 4]</i>		
Authorized:		
Unlimited common shares without par value		
Unlimited Class A preferred shares without par value		
Issued and outstanding:		
63,430,443 common shares [2007 – 71,426,512]	44,996	50,857
Shares held in Treasury		
nil common shares [2007 – 78,500 common shares]	—	(89)
Contributed surplus <i>[note 5]</i>	2,081	973
Accumulated other comprehensive loss <i>[note 6]</i>	(1,834)	(4,091)
Deficit	(5,430)	(70)
	<u>39,813</u>	<u>47,580</u>
	<u>64,541</u>	<u>66,082</u>

Subsequent event *[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)

	Three months ended		Nine months ended	
	July 31		July 31	
	2008	2007	2008	2007
Sales	32,725	27,310	86,731	75,517
Cost of sales	23,775	19,772	63,289	55,054
Gross profit	8,950	7,538	23,442	20,463
Selling, general and administration expenses	7,674	6,286	21,519	17,868
Share-based compensation	160	132	495	315
Amortization on property, equipment and leasehold improvements	231	210	697	584
Amortization on intangible assets	432	327	1,234	914
Foreign exchange (gains) losses	(64)	165	(259)	(669)
Interest income, net	(91)	(176)	(477)	(626)
Restructuring charges <i>[note 12]</i>	—	—	844	—
Earnings (loss) before income taxes	608	594	(611)	2,077
Income tax expense - current	460	268	668	813
Income tax recovery - future	(63)	(48)	(95)	(104)
Net earnings (loss)	211	374	(1,184)	1,368
Other comprehensive income (loss), net of tax				
Unrealized foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign operations	(491)	(586)	2,257	(534)
Comprehensive income (loss)	(280)	(212)	1,073	834
Basic earnings (loss) per share <i>[note 7]</i>	0.00	0.01	(0.02)	0.02
Diluted earnings (loss) per share <i>[note 7]</i>	0.00	0.01	(0.02)	0.02
Weighted average number of common shares outstanding – basic	63,430,443	72,454,142	68,217,592	73,263,054
Weighted average number of common shares outstanding – diluted	63,534,580	73,030,749	68,217,592	73,853,395

See accompanying notes to the unaudited interim consolidated financial statements

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

For the nine months ended July 31	2008	2007
Deficit, beginning of period	(70)	(416)
Net income (loss)	(1,184)	1,368
Premium on purchase of common shares for cancellation	(4,176)	(652)
Retained earnings (deficit), end of period	(5,430)	300

See accompanying notes to the unaudited interim consolidated financial statements

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

	Three months ended		Nine months ended	
	July 31		July 31	
	2008	2007	2008	2007
OPERATING ACTIVITIES				
Net earnings (loss)	211	374	(1,184)	1,368
Non-cash items:				
Amortization	663	537	1,931	1,498
Share-based compensation	160	132	495	315
Future income taxes (recovery)	(63)	(48)	(95)	(104)
Unrealized foreign exchange (gains) losses	(42)	510	(271)	(348)
Other non-cash items	(23)	(63)	(73)	(113)
Changes in non-cash working capital:				
Accounts receivable	(455)	(1,753)	(511)	(388)
Inventory	(1,030)	2,657	(1,454)	3,209
Prepaid expenses	(259)	(966)	(501)	(1,511)
Accounts payable and accrued liabilities	3,470	2,436	5,005	(793)
Income taxes payable	(250)	143	(637)	617
Deferred revenue	(4)	(61)	(4)	(75)
Cash provided by operating activities	2,378	3,898	2,701	3,675
INVESTING ACTIVITIES				
Purchase of short-term investments	—	—	—	(3,886)
Maturity of short-term investments	—	—	3,976	—
Advances to related parties	(2)	(17)	(6)	(49)
Repayment of promissory notes	—	22	—	58
Acquisition of property, equipment and leasehold improvements	(197)	(86)	(892)	(544)
Acquisition of intangible assets	(30)	(385)	(391)	(1,114)
Cash provided by (used in) investing activities	(229)	(466)	2,687	(5,535)
FINANCING ACTIVITIES				
Purchase of common shares for cancellation	—	(489)	(9,786)	(2,649)
Share related costs	—	—	(165)	—
Cash used in financing activities	—	(489)	(9,951)	(2,649)
Effect of exchange rate changes on cash and cash equivalents	266	(148)	1,155	(281)
Increase (decrease) in cash and cash equivalents	2,415	2,795	(3,408)	(4,790)
Cash and cash equivalents, beginning of period	17,544	16,688	23,367	24,273
Cash and cash equivalents, end of period	19,959	19,483	19,959	19,483
Income tax paid in cash	320	287	1,457	361

See accompanying notes to the unaudited interim consolidated financial statements

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2008

Unaudited

1. BASIS OF PRESENTATION

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

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements, and accordingly, do not include all disclosures required for annual financial statements. These unaudited interim consolidated financial statements reflect the same accounting principles and methods of application as those disclosed in the notes to the Company’s audited consolidated financial statements for the year ended October 31, 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.

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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

	Nine Months Ended July 31, 2008		Nine Months Ended October 31, 2007	
	Number of Common Shares	\$000's	Number of Common Shares	\$000's
Balance, beginning of period	71,426,512	50,857	74,681,712	53,515
Issued on exercise of options	9,375	12	—	—
Purchased and cancelled	8,005,444	5,873	(2,202,200)	(1,578)
Balance, end of period including shares held in treasury	63,430,443	44,996	72,479,512	51,937
Shares purchased not cancelled	—	—	—	—
Balance, end of period	63,430,443	44,996	72,479,512	51,937

On October 16, 2006, the Toronto Stock Exchange accepted the Company’s notice of intention to make a Normal Course Issuer Bid for up to 4.9 million of its common shares through the facilities of the exchange, 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 up to 4.6 million of its common shares through the facilities of the exchange, 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 nine months ended July 31, 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 stated capital of the shares has been charged to retained earnings.

Subsequent to the end of the period, the Company completed the purchase of 5,000,000 of its common shares at \$1.00 per share, for a total of \$5,000,000, plus associated expenses, pursuant to its offer to purchase dated June 19, 2008.

As at July 31, 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:

	Amount	Exercise price
Share purchase options outstanding, November 1, 2007	2,208,439	\$0.87 - \$1.37
Granted	1,135,000	\$0.91 - \$1.11
Exercised	(9,375)	\$0.87
Forfeited	(157,793)	\$0.87 - \$1.37
Share purchase options outstanding, July 31, 2008	3,176,271	\$0.87 - \$1.37

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

July 31, 2008

Unaudited

4. SHARE CAPITAL (continued)

The following table summarizes information about Company share purchase options outstanding as at July 31, 2008:

Range of exercise price \$	Share purchase options Outstanding			Share purchase options Exercisable	
	Number of common shares issuable	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of common shares issuable	Weighted average exercise price \$
\$0.87 - \$0.99	1,167,500	3.82	0.91	403,561	0.93
\$1.00	325,771	0.78	1.00	325,771	1.00
\$1.05 - \$1.37	1,683,000	4.30	1.09	226,537	1.10
	3,176,271	3.76	1.01	955,869	0.99

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	56%	67%
Risk free interest rate	4.1%	4.5%
Expected lives	5.0 years	3.0 years

5. CONTRIBUTED SURPLUS

	\$000's
Balance - November 1, 2007	973
Share-based compensation	492
Translation of foreign subsidiary	616
Balance - July 31, 2008	2,081

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

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6. ACCUMULATED OTHER COMPREHENSIVE LOSS

	\$000's
Balance - November 1, 2007	(4,091)
Unrealized foreign exchange gains on translation of financial statements of self-sustaining foreign operations	2,257
Balance - July 31, 2008	(1,834)

7. EARNINGS PER SHARE

	Three months ended		Nine months ended	
	July 31		July 31	
	2008	2007	2008	2007
Weighted average number of common shares outstanding - basic	63,430,443	72,454,142	68,217,592	73,263,054
Stock options	104,137	576,607	-	590,341
Weighted average number of common shares outstanding - diluted	63,534,580	73,030,749	68,217,592	73,853,395

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 July 31, 2008. The board of directors reviews with management the principal risks affecting the Company and the systems that have been put in place to manage these risks.

Credit risk

The Company's principal financial assets are cash and cash equivalents, accounts receivable and 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:

	July 31, 2008 \$000's	October 31, 2007 \$000's
Cash	19,554	11,099
Held to maturity guaranteed investment certificates, bankers acceptances and commercial paper	—	11,916
Other cash investments	405	352
Cash and cash equivalents	19,959	23,367
Short-term investments, held to maturity, including bankers acceptances and commercial paper	—	3,976
Accounts receivable	7,833	6,649
Promissory notes receivable, as included in due from related parties	355	342
	28,147	34,334

The aging of accounts receivable at the reporting date was:

	July 31, 2008 \$000's	October 31, 2007 \$000's
Current trade receivables	6,934	5,514
Value added taxes receivable	44	604
Aged between 60 – 120 days	674	197
Aged greater than 120 days	181	334
	7,833	6,649

Reconciliation of allowance for bad debts:

	\$000's
Balance, November 1, 2007	619
Increase in period	273
Balance, July 31, 2008	892

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

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

(000's \$CAD)	USD	SEK	NOK	EURO
Cash and cash equivalents	1,478	5,882	1,191	1,499
Accounts receivable	505	2,228	1,111	1,776
Accounts payable and accrued liabilities	(4,023)	(11,491)	(641)	12
	<u>(2,040)</u>	<u>(3,381)</u>	<u>1,661</u>	<u>3,278</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.

(000's \$CAD)	USD	SEK	NOK	EURO
Net earnings	(685)	141	697	664
Comprehensive income	—	2,736	—	—

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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:

	July 31, 2008 \$000's	October 31, 2007 \$000's
Accounts payable - trade	15,242	10,902
Accrued liabilities	4,482	2,657
Value added tax payable	496	322
	<hr/> 20,220	<hr/> 13,881

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**

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10. RELATED PARTY TRANSACTIONS

	July 31, 2008 \$000's	October 31, 2007 \$000's
Promissory notes receivable	355	342
Advances to officers	12	6
	367	348

As at July 31, 2008, there were seven promissory notes outstanding, ranging in value from \$0.01 million to \$0.1 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, eyeglasses 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, eyeglasses and related vision care products. Intercompany revenues have been excluded from the revenues in the country of shipment.

	United States \$000's	Sweden \$000's	Norway \$000's	Other \$000's	Total \$000's
Revenue					
Three months ended July 31, 2008	4,375	9,168	5,536	13,646	32,725
Three months ended July 31, 2007	4,158	7,011	4,594	11,547	27,310
Nine months ended July 31, 2008	12,429	23,031	14,307	36,964	86,731
Nine months ended July 31, 2007	13,360	19,269	11,648	31,240	75,517
Property, equipment and leasehold improvements					
As at July 31, 2008	—	1,780	—	1,121	2,901
As at October 31, 2007	—	1,466	—	1,234	2,700
Intangible assets					
As at July 31, 2008	—	4,638	—	7,587	12,225
As at October 31, 2007	—	4,506	—	7,206	11,712
Goodwill					
As at July 31, 2008	—	6,213	—	2,324	8,537
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 \$3.7 million and \$9.4 million for the three months and nine months ended July 31, 2008 respectively (2007 - \$2.3 million and \$5.6 million). Property, equipment and leasehold improvements located in the Company's home domicile were \$1.1 million at July 31, 2008 (2007 - \$1.0 million), and intangible assets were \$1.5 million at July 31, 2008 (2007 - \$1.8 million).

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12. RESTRUCTURING CHARGES

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

13. SUBSEQUENT EVENT

Subsequent to the end of the period, the Company completed the purchase of 5,000,000 of its common shares at \$1.00 per share, for a total of \$5,000,000, plus associated expenses, pursuant to its offer to purchase dated June 19, 2008.

14. COMPARATIVE FIGURES

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