Interim Consolidated Financial Statements

Coastal Contacts Inc.

Unaudited

For the nine months ended July 31, 2004

Coastal Contacts Inc.

CONSOLIDATED BALANCE SHEET

Unaudited

	July 31, 2004 $	October 31, 2003 $
ASSETS		
Current		
Cash	**607,524**	101,414
Short-term investments	**509,519**	—
Accounts receivable	**1,500,420**	94,552
Income taxes receivable	**3,597**	10,814
Inventory	**3,667,636**	1,416,520
Prepaid expenses	**479,335**	81,247
Due from related parties *[note 8]*	**176,146**	31,127
	6,944,177	1,735,674
Due from related party	**24,750**	—
Property and equipment *[note 4]*	**516,766**	64,276
Intangible assets *[note 5]*	**2,527,235**	39,465
Goodwill *[note 3]*	**9,224,137**	—
	19,237,065	1,839,415
LIABILITIES, SHARE CAPITAL AND DEFICIT		
Current		
Bank indebtedness	**114,746**	434,274
Accounts payable and accrued liabilities	**3,723,612**	1,381,343
Deferred revenue	**294,580**	—
Due to related parties	**159,248**	1,747
Current portion of long-term debt *[note 6]*	**651,799**	184,100
	4,943,985	2,001,464
Long-term debt *[note 6]*	**564,100**	396,786
Future income tax liability *[note 3]*	**718,000**	—
	6,226,085	2,398,250
Share capital and deficit		
Share capital *[note 7]*		
Authorized:		
Unlimited common shares without par value		
Unlimited Class A preferred shares without par value		
Issued and outstanding:		
36,374,860 common shares [2003 - 12,280,000]	**14,363,585**	77,000
Contributed surplus	**99,000**	—
Deficit	**(1,451,605)**	(635,835)
	13,010,980	(558,835)
	19,237,065	1,839,415

See accompanying notes

On behalf of the Board:

/s/ Roger V. Hardy
Director

/s/ Murray McBride
Director

Coastal Contacts Inc.

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

Unaudited

	For the three months ended July 31, 2004 $	For the nine months ended July 31, 2004 $
Net sales	**6,996,983**	19,519,550
Cost of sales	**5,673,810**	16,245,411
Gross profit	**1,323,173**	3,274,139
Selling, general and administration expenses	**1,469,254**	3,887,295
Stock-based compensation	—	99,000
Loss before amortization and interest	**(146,081)**	(712,156)
Other		
Amortization	**14,749**	43,609
Interest on long-term debt	**15,710**	60,005
Net loss	**(176,540)**	(815,770)
Deficit, beginning of period	**(1,275,065)**	(635,835)
Deficit, end of period	**(1,451,605)**	(1,451,605)
Basic and diluted loss per share	**(0.01)**	(0.05)
Basic and diluted weighted average number of common shares outstanding	**21,235,996**	17,048,076

See accompanying notes

Coastal Contacts Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited

	For the three months ended July 31, 2004 $	For the nine months ended July 31, 2004 $
OPERATING ACTIVITIES		
Net loss	**(176,540)**	(815,770)
Non-cash items:		
Amortization	**14,749**	43,609
Stock-based compensation	**—**	99,000
Shares issued for goods and services	**—**	350,000
Loss on disposal of short term investment	**67,844**	67,844
Changes in non-cash working capital:		
Accounts receivable	**119,836**	(352,565)
Inventory	**(144,409)**	(784,515)
Prepaid expenses	**(121,649)**	(157,574)
Accounts payable and accrued liabilities	**320,724**	1,224,225
Income taxes receivable	**15,943**	7,217
Due from related party	**184,432**	126,079
Deferred revenue	**200,501**	294,580
Cash provided by operating activities	**481,431**	102,130
INVESTING ACTIVITIES		
Purchase of short-term investments	**(109,519)**	(4,909,519)
Sale of short-term investments	**4,332,157**	4,332,157
Business acquisition net of cash acquired	**(5,574,100)**	(5,651,418)
Acquisition of property and equipment	**(61,935)**	(99,910)
Acquisition of intangible assets	**(7,300)**	(76,359)
Cash used in investing activities	**(1,420,697)**	(6,405,049)
FINANCING ACTIVITIES		
Issuance of share capital	**2,047,082**	8,515,107
Advances to related parties	**(139,799)**	(141,546)
Bank indebtedness	**(142,161)**	(319,528)
Loan payments	**(48,741)**	(134,957)
Share issue costs	**(237,442)**	(1,110,047)
Cash provided by financing activities	**1,478,939**	6,809,029
Increase in cash position	**539,673**	506,110
Cash position, beginning of period	**67,851**	101,414
Cash position, end of period	**607,524**	607,524

See accompanying notes

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2004 Unaudited

1. BASIS OF PRESENTATION

These interim unaudited consolidated financial statements have been prepared by Coastal Contacts Inc. ("the Company") in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to interim financial statements, applied on a consistent basis. Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These interim unaudited consolidated financial statements and notes thereon should be read in conjunction with the audited financial statements and notes for the year ended October 31, 2003 included in the Company's prospectus dated March 18, 2004.

The preparation of these interim unaudited 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 interim unaudited consolidated financial statements reflect all adjustments (which include only normal, recurring 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. ADOPTION OF NEW ACCOUNTING POLICIES

Stock-based compensation

Effective November 1, 2003, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, Stock Based Compensation and other Stock Based which require prospective application to all stock options granted on or after the date of adoption. Under this standard, fair value accounting is required for all stock options granted. Previously, stock options were not recognized in the financial statements.

Earnings per share

Effective November 1, 2003, the Company adopted the recommendations of CICA Handbook Section 3500, Earnings Per Share. Under this standard, the Company calculates basic earnings per share using the weighted average number of common shares outstanding during the period. Diluted net earnings per share are calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted net earnings per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period. Stock options are dilutive when the company has income from continuing operations and the average market price of the common shares during the period exceed the exercise price of the options.

2. ADOPTION OF NEW ACCOUNTING POLICIES (cont'd.)

Short-term investments

Short-term investments consist of money market funds with the Royal Bank of Canada and are carried at the lower of cost and market value. At July 31, 2004, their carrying value approximates their fair value.

3. ACQUISITION OF LENSWAY

On July 26, 2004, the Company completed the acquisition of all of the shares of Lensway AB (Lensway). The consideration paid included $5,655,000 in cash and 13,195,000 restricted shares of the Company. The shares are subject to a pooling agreement for a period of 36 months after the closing date of July 26, 2004. Forty percent of the pooled shares will be released 12 months after closing and 15% of the shares will be released every six months thereafter until all shares will be released as of 36 months after the closing date.

The acquisition was accounted for using the purchase method whereby assets acquired and liabilities assumed were recorded at their fair market values as of the date of the acquisition. For purposes of computing the purchase price, the value of the restricted common stock was determined by taking the closing price of the company's common stock as quoted on the TSX Venture Exchange for the two days before, the day of and the two days following the announcement of the signing of the definitive agreement to acquire Lensway (June 24, 2004). This average price was then reduced by a 36% discount (as determined by a third party appraisal) due to the restriction provisions associated with the common shares issued.

3. ACQUISITION OF LENSWAY (cont'd.)

The following sets forth the purchase price and its allocation to the tangible and intangible assets acquired. The overall purchase price allocation set out below is preliminary and will be finalized in the fourth quarter of 2004. The final allocations may differ materially from the preliminary allocations presented below.

	$
Cash	5,655,000
Restricted shares	6,531,525
Direct acquisition costs	797,840
Total consideration	12,984,365
Cash	471,435
Other current assets	3,096,225
Property and equipment	367,133
Intangible assets	2,431,450
Current liabilities	(1,118,016)
Long-term debt	(769,999)
Future income taxes	(718,000)
Net assets acquired	3,760,228
Goodwill	9,224,137

Goodwill

Goodwill represents the shares and cash paid to Lensway (purchase price) less the net assets of Lensway and the value attributed to the Lensway name and Lensway customer list. The goodwill resulting from the purchase of Lensway has an indefinite life and will not be amortized. Goodwill will be reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate.

The unaudited pro forma information below sets forth summary results of operations as if the acquisitions of Lensway (acquired July 26, 2004) had taken place at the beginning of fiscal 2003, after giving effect to certain adjustments, including amortization of intangibles, depreciation and elimination of intercompany sales. The following pro forma information for the fiscal year 2003 and 9 months ended July 31, 2004 have been prepared for comparative purposes only and do not purport to be indicative of what would have actually occurred had the acquisition occurred at the beginning of fiscal 2003 or of results which may occur in the future.

3. ACQUISITION OF LENSWAY (cont'd.)

	Nine Months Ended July 31, 2004 $	Year Ended October 31, 2003 $
Net sales	**28,907,927**	27,517,335
Net (loss) income	**(298,341)**	(562,778)
Basic and diluted (loss) earnings per share	**(.01)**	(.03)
Basic and diluted weighted average number of common shares outstanding	**21,235,996**	21,235,996

4. PROPERTY AND EQUIPMENT

	July 31, 2004 $	October 31, 2003 $
Leasehold improvements	**32,330**	—
Computer hardware	**162,327**	62,888
Computer software	**219,313**	8,519
Furniture and fixtures	**148,699**	24,220
	562,669	95,627
Accumulated amortization	**(45,903)**	(31,351)
Net book value	**516,766**	64,276

5. INTANGIBLE ASSETS

	July 31, 2004 $	October 31, 2003 $
Website creation	**261,513**	66,181
Lensway Name	**1,758,752**	—
Lensway Customer Lists	**553,725**	—
	2,573,990	66,181
Accumulated amortization	**(46,755)**	(26,716)
Net book value	**2,527,235**	39,465

6. LONG-TERM DEBT

	July 31, 2004 $	October 31, 2003 $
VanCity Capital		
Loan #1: Repayable in monthly instalments of $7,381, blended principal and interest at prime plus 10.5%. The loan matures on March 15, 2005.	**56,368**	106,058
Loan #2: Repayable in monthly instalments of $8,378, blended principal and interest at prime plus 8.5%. The loan matures on March 15, 2006.	**248,276**	294,828
Loan #3: Repayable in monthly instalments of interest only at an interest rate of 13%. Beginning November 15, 2003 monthly payments are $26,250 blended principal and interest at a fixed interest rate of 13.0%. The loan matures on June 15, 2006.	**141,257**	180,000
Handelsbanken Loan # 1: Repayable in monthly of $13,333.32, consisting of blended principal and interest at 7.45%. The loan matures in February, 2006.	**201,666**	—
Handelsbanken Loan # 2: Repayable in monthly of $13,333.32, consisting of blended principal and interest at 7.45%. The loan matures in February, 2006.	**261,666**	—
Handelsbanken Loan # 3: Repayable in monthly of $13,333.32, consisting of blended principal and interest at 7.45%. The loan matures in February, 2006.	**306,667**	—
	1,215,900	580,886
Less current portion	**651,799**	184,100
	564,101	396,786

Under terms of the banks loan facilities with Van City Capital, there were certain covenants restricting shareholder loans and capital expenditures. As at July 31, 2004, the Company had exceeded the covenant restricting annual capital expenditures to less than $100,000 per annum. For the 9 months ended July 31, 2004, the Company had incurred capital expenditures of $99,910 in primarily computer and server purchases, along with $76,360 in developing the Company's website. The Company also approved two loans to an Officer of the company. These loans bear interest at 5% and are repayable on demand. See note 8.

7. SHARE CAPITAL

[a] Issued and outstanding common shares

On December 23, 2003 the Company underwent a share subdivision issuing two new common shares for every one issued and outstanding common share. All common share and per share data included herein have been adjusted to reflect the two for one subdivision as if it had occurred at the beginning of the periods reflected.

	July 31, 2004		**October 31, 2003**	
	Number of Common Shares #	$	**Number of Common Shares** #	$
Balance - beginning of period	12,280,000	77,000	12,000,000	42,000
Issued in private placement	620,000	310,000	280,000	35,000
Issued on exercise of warrants	100,000	5,000	—	—
Issued for goods and services	700,000	350,000	—	—
Issued in initial public offering	6,000,000	6,000,000	—	—
Issued for goods and services	375,000	—	—	—
Issued on exercise of options	264,960	1,325	—	—
Issued under greenshoe option	164,000	151,700	—	—
Issued under greenshoe option	50,900	47,083	—	—
Issued in private placement	2,500,000	2,000,000	—	—
Issued for goods and services	125,000	100,000	—	—
Issued in Purchase of Lensway	13,195,000	6,531,525	—	—
Balance - end of period	36,374,860	15,573,633	12,280,000	77,000

Between November 1, 2003 and December 15, 2003 the Company issued 1,420,000 common shares to non-related parties of the Company, of which 620,000 of the shares were issued for cash of $310,000, 100,000 shares were issued on the exercise of warrants for cash of $5,000 and 700,000 shares were issued in exchange for the settlement of accounts payable.

On March 29, 2004, the Company undertook an Initial Public Offering (IPO), issuing 6,000,000 common shares for proceeds of $6,000,000. There were a further 375,000 units issued to the underwriter as part of the underwriting fees. Each unit consists of one common share and one

7. SHARE CAPITAL (cont'd.)

warrant exercisable at $1.50 for a period of two years. Cash used primarily to obtain this financing amounted to $872,605, which has been netted against the proceeds.

On April 7, 2004, employees of the Company exercised options for 264,960 shares, for proceeds of $1,325.

On April 23, 2004 and May 28, 2004, the underwriter exercised part of its rights under the greenshoe option granted in the IPO and 164,000 and 50,900 common shares were issued for proceeds of $151,700 and $47,820, respectively.

On July 22, 2004, the Company undertook a Private Placement issuing 2,500,000 units for proceeds of $2,000,000. Each unit is comprised of one common share and a share purchase warrant entitling the holder to purchase one share per warrant at an exercise price of $1.00 for a period of two years. There were a further 125,000 units, with each unit compromising one common share and one purchase warrant, issued to the underwriter as part of the underwriting fees. Each warrant is exercisable into one common share at $0.80 for a period of two years. Underwriting fees also included 250,000 Agent's Options exercisable at $0.80 for a period of 2 years. Issue costs of $337,442 have been netted against the proceeds.

On July 26, 2004, the Company issued 13,195,000 common shares to the shareholders of Lensway AB to complete the acquisition of Lensway AB. The shares are subject to a pooling agreement for a period of 36 months after the closing date of July 26, 2004. Forty percent of the pooled shares will be released 12 months after closing and 15% of the shares will be released every six months thereafter until all shares will be released as of 36 months after the closing date.

[b] Stock options

The following stock options are outstanding at July 31, 2004:

Expiry Date	Price $	Outstanding #
January 1, 2006	.005	9,334,000
January 1, 2006	.125	730,240
January 1, 2006	.175	345,500
January 1, 2006	.275	110,000
December 31, 2007	.125	550,000

8. RELATED PARTY TRANSACTIONS

The amounts due from related parties includes two promissory notes from a related party for a total of $115,000. These loans are payable on demand and bear interest at 5% per annum from the dates of the loans.

9. COMPARATIVE FIGURES

As the Company did not prepare interim financial information in the prior fiscal year, comparative interim information has not been presented.

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