

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S MESSAGE

Dear fellow Shareholders:

Coastal Contacts Inc.'s (the "Company") performance for the fiscal year ending October 31, 2004 was in line with our expectations and consistent with our outlook and guidance last quarter. This year's results were affected by a continuing devaluation of the US currency which affected top and bottom line results. Notwithstanding this decline in the US dollar, the Company is now better positioned due to our unique multinational operations. On that note, I am very pleased to report that the integration of Lensway AB has been completed. With our combined efforts, international sales now account for approximately 45% of our total sales. In this document, international sales are considered to be sales outside of the United States and Canada. The focus for the upcoming year rests squarely on delivering growth and earnings from all our business units.

The Company's inaugural year as a public company had three key performance drivers: strong people, a dynamic strategy and effective execution capabilities. With our diversification across supply partners, geographies, markets and products, the last year has been productive on several fronts.

People continue to be one of our strongest assets. The Company's goal of recruiting and retaining the highest caliber individuals continues to pay dividends. Our team's ability to build and execute our dynamic strategy provides us with a platform to execute our mission and objectives in an efficient manner.

This year we were also pleased with the completion of our agreement to become an authorized distributor of Johnson and Johnson products. This partnership has enabled us to reduce costs on these products and to offer our customers incentives that would not otherwise be available. We look to establish additional material supply partners in the coming year and diversify our product offerings in a way that contributes meaningfully to our earnings.

Our goal to build a more diversified platform continues into the current year with several key milestones to be achieved. We will continue to focus on organic growth, strategic partnerships and acquisitions in the coming year. The strong annuity we believe we have built with our existing customers coupled with an economic platform that is multinational offers us a predictable economic base from which to grow.

Like any business we have areas for improvement—strategic partnerships were a disappointment in 2004. We look to re-establish this critical competency in 2005. Additional distribution through established networks is an area that we continue to believe offers one of our best opportunities.

Having completed one acquisition, identifying additional targets continues to be a core strength of the organization. We believe additional opportunities will be present this year as the industry in general continues to consolidate. Accretive acquisitions will remain a focus of the organization and form part of our strategic growth plan for the year.

Strength and breadth of talent continues to propel us forward towards growth and earnings. Our strong entrepreneurial culture creates an environment where everyone is accountable to their peers and is driven to continue to create and add value. Historically our company has been undercapitalized relative to our competitors who seem content to increase losses year over year. Regardless of the market environment, the Company is working hard to stay 'top-of-mind' with our clients by generating strategic and unique delivery options and solutions that inspire our customers to return. This dynamic approach is paying dividends as our revenue and franchise continue to grow. As North America's pre-eminent direct distributor of contact lenses, we will strive to execute our vision effectively, generating client and shareholder value.

I look forward to updating you on the path to continued growth and earnings.

Sincerely,

/s/ Roger V. Hardy

Roger V. Hardy
Chairman & Chief Executive Officer
Coastal Contacts Inc.

PRESIDENT'S MESSAGE

Dear fellow shareholders:

As we complete Fiscal 2004 and move forward, we find ourselves in a position to capitalize on the momentum of the last quarter of the year and accelerate our growth.

If I had to choose a theme to summarize 2004 at Coastal it would have to be improved efficiencies. We cut our selling, general and administrative costs to 19% of net sales from 21.8% in the prior fiscal year. We believe that we have the most efficient business model for contact lens distribution in the industry and driving efficiency further within this framework only serves to strengthen our competitive advantage.

With Lensway AB now fully integrated, we recorded 4th quarter revenues of \$11.7 million up from \$7 million the previous quarter. What is most exciting about these results is that the majority of this growth was derived from new markets where the opportunity remains in the earliest stages of the business cycle.

With strong operations on two continents, we now serve customers efficiently in seventeen countries and converse daily in eight languages. This was the operational platform that we envisioned creating at the beginning of 2004 and we are optimistic that it will drive growth and earnings in 2005.

Despite the weakness in the US dollar, we managed to grow revenues this past year to \$31.2 million from \$20.1 million in 2003, an increase of 55%. Total orders for the year increased 75% to 313,243 orders. Although the average order size increased in US dollars terms, the improvement was more than offset by the appreciation of the Canadian dollar. In 2005, we believe that the Company's continued global expansion will function as an offset to currency fluctuations by diversifying the currencies used and thereby lessening the company's dependency on any one currency.

Gross margin was also affected by the weakness in the US dollar. Having said this, we managed to shift purchasing and drive rates with suppliers to record gross margin for the year of 18.3% but still reported a 0.6% decline from the previous year's gross margin of 18.9%. Due in part to the weakness of the US dollar, we had a very disappointing second quarter in this regard recording a gross margin of 10.1%. However, the fourth quarter saw marked improvement reporting gross margins of 20.9%. This improvement was driven by two factors. Firstly, the gross margin on European sales is naturally higher and sales in this region accounted for close to 45% of the Company's revenue during the quarter. Secondly, by combining the purchasing function of Coastal and Lensway we were able to demand better pricing and terms on most products.

2004 was also a year where we began to enjoy the compounding effect of our repeat order business. We grew our reorder business from 35,520 orders in 2003 to 104,602 in 2004, an increase of 195%. In 2005, reorders should continue to compound and will

account for a greater percentage of our sales mix. With the initial investment made in acquiring these customers, the contribution to earnings from this annuity will drive earnings in 2005. Our earnings model has always been predicated on harvesting this annuity stream when it reached critical mass. We believe we are there and look forward to providing our shareholders with both strong growth and earnings in 2005.

Sincerely,

/s/ William Wrixon

William Wrixon
President
Coastal Contacts Inc.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following management's discussion and analysis should be read in conjunction with Coastal Contacts Inc.'s (the "Company") audited consolidated financial statements for the year ended October 31, 2004, audited financial statements for the year ended October 31, 2003 and its Prospectus (the "Prospectus") dated March 18, 2004. The Company prepares its consolidated financial statements in accordance with Canadian GAAP. This discussion of our business may include forward looking statements about our future operations, financial results and objectives. These statements are necessarily based on estimates and assumptions that are subject to risks and uncertainties. Our actual results could differ materially from those expressed or implied by such forward looking information due to a variety of factors including, but not limited to, our ability to implement our business strategies, competition, general economic conditions, currency fluctuations, 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 the Prospectus for a detailed description of the risks and uncertainties relating to the business of the Company.

CORPORATE OVERVIEW

With operations and distribution hubs in both North America and Europe, the Company is one of the largest and fastest growing direct marketers of contact lenses in the world. The Company has shipped over one million orders since inception and continues to strengthen the Coastal Contacts brand through the compelling value proposition provided to its customers. The Company leverages the efficiencies of the internet and focuses on one product to create the distinct competitive advantage of a more efficient and more customer-focused business model.

Since its formation in October of 2000, the Company has experienced significant growth. Revenue has grown from \$2.5 million in 2001 to \$8.9 million in 2002, an increase of 256%, and to \$20.2 million in 2003, an increase of 127%. Revenue for 2004 was \$31.2 million, an increase of 55% from the preceding year.

On March 29, 2004 the Company listed on the TSX-Venture Exchange under the trading symbol "COA". As at January 28, 2005 the Company had 36,374,860 shares issued and outstanding and fully diluted shares of 51,548,591.

At October 31, 2004, Coastal had a total of 77 employees, including 29 in customer service and marketing, 17 in shipping and logistics, 16 in administration and 15 in management roles.

VISION AND STRATEGY

The Company's long-term strategy is to become the leader in the direct distribution market for contact lenses. The Company's growth strategy focuses on three fundamentals: organic growth, geographic expansion and vertical industry expansion.

Organic growth

Since its inception, the Company has experienced significant organic growth. Revenue has grown from \$2.5 million in 2001 to \$8.9 million in 2002, an increase of 256%, and to \$20.2 million in 2003, an increase of 127%. Combined with Lensway AB, total revenue for 2004 was \$31.2 million, an increase of 55% from the preceding year.

Geographic expansion

The global market for contact lenses is approximately US \$5.6 billion a year. North America accounts for approximately 42% of global sales, Asia accounts for approximately 31% and Europe accounts for approximately 27%. The market for contact lenses continues to grow in the high single-digit and low double-digit rates, with higher growth seen internationally than in the United States. The slower growth in the United States is primarily due to its more mature market, where approximately 35 million of the approximately 80 million contact lens users globally reside. In the US, roughly 20% of the vision corrected population wears contacts, while the percentage is only approximately 13% in Japan and approximately 7% in Europe. As a result, the less mature international markets are growing faster on average than the US market.

The Company spent its first three years of operation focused on obtaining market share in the United States. At the end of 2003, the US accounted for over 90% of the Company's sales. During 2004, the Company began to expand its operations internationally through both the \$11.9 million acquisition of Lensway AB and the launch of several new web sites. In the fourth quarter of 2004, international sales accounted for approximately 45% of the Company's revenue.

On July 26, 2004, the Company acquired 100% of the issued and outstanding shares of Lensway AB. Lensway AB is a leading European direct marketer of replacement contact lenses. Lensway AB has demonstrated consistent growth since its inception in 2000 and provides the Company with access to the European contact lens market.

The push into additional markets will continue in 2005 both through organic growth and acquisitions.

Vertical industry expansion

With over 600,000 unique customers served since inception, the Company believes that the opportunity to enhance its value proposition to its customers can be increased substantially through the launch of private label lenses both in the vision correction and "Plano" (a non prescription colored lens) markets. Management believes that it has

achieved the critical mass necessary to successfully launch its own line of products in 2005 or 2006.

KEY PERFORMANCE DRIVERS

Several key performance drivers affect our ability to deliver value to our customers and therefore achieve our strategic vision and build long term value for our shareholders. These critical factors include our ability to attract and retain exceptional employees, our ability to operate efficiently and sustain growth, and our ability to attain the financial resources required to achieve our objectives.

An exceptional team

We believe that our people are our finest asset. The Company recognizes that our ability to attract and retain quality people is fundamental to our success. They drive our ability to be successful by developing innovative solutions to continually improve the value proposition to our customer. Therefore, we emphasize the development of a sustainable corporate culture that values performance, leadership and innovation and provides exceptional opportunities for growth and career development.

Improving operating efficiency

In order to enhance shareholder value, we must operate efficiently and thus we continually seek out ways to improve our efficiency. The two measures used to determine operating efficiency are gross margin and selling, general and administrative (“SG&A”) expenses as a percentage of sales.

In 2004, the Company’s gross margin declined to 18.3% from 18.9% in the previous year. The weak US dollar had a negative impact on gross margin during 2004. This was most evident during the second quarter of 2004 when the Company reported gross margins of 10.1%. The Company worked very hard during the third quarter to shift the vast majority of our purchasing to US based suppliers to hedge against the weak dollar. As a result, in the third quarter we recorded a gross margin of 18.9%. The fourth quarter saw further improvement with gross margins reaching 20.9%. Management believes that fourth quarter gross margin improvement was driven by two factors. Firstly, the acquisition of Lensway AB which traditionally has higher margins than the Company’s North American operations was included in the results of the Company for the first time. Secondly, purchasing was improved by consolidating large volume orders from both the Company and Lensway AB. The additional purchasing power afforded to the Company through the Lensway AB acquisition will continue to create opportunities for improved purchasing and should enhance the Company’s gross margin in 2005.

In 2004, our SG&A expenses were 19.0% of total revenue which was an improvement from the 21.8% recorded in 2003. The fourth quarter of 2004 saw a marked improvement with SG&A expenses accounting for 17.4% of total revenue. The decrease was a direct result of synergies and improved efficiencies from the consolidated operations of

Lensway AB and the Company. The Company will continue to drive these synergies in 2005 but further improvements in this regard will be predominantly driven by diligent cost management at every level within the Company.

Sustained growth

Since 2000, the Company has enjoyed a compound annual growth rate of 88.5%. Our ability to continue to grow at this rate is predicated upon several factors, the most significant current factors being the sales and marketing to support this growth target and the continued contribution from our existing customer base.

Over the past three years, we have made a considerable investment in our customer service infrastructure to drive the Company's transition to one that will derive the majority of its revenue from its existing customer base. We believe that the annuity aspect of our business model is what will continue to drive profitability given that the initial customer acquisition investment has been made.

Sales and marketing expenditures increased by 15.5% in fiscal year 2004 over the comparable period of 2003. As a percentage of sales, sales and marketing dropped by 4.3% to 12.4% in 2004 from 16.7% in 2003. This is mainly a function of repeat orders accounting for a larger percentage of sales in 2004 as the Company continues to demonstrate its ability to capture and retain customers. To this end, we have increased our customer service team (from 9 at the end of 2003 to 29 at the end of 2004) to support our existing and ever growing customer base. This investment has been and is continuing to drive our growth and ability to capitalize on the significant potential that exists for our service.

Financial resources

The Company's philosophy with respect to managing finances has always been one of responsible growth. Recognizing that with each new customer there exists a potential annuity stream, it has always been in the long-term interest of the Company to grow top-line sales as aggressively as internal cash flow will allow. To this end, in its first three years of operations (fiscal 2001 – 2003), the Company recorded total sales of \$31.6 million on less than \$500,000 in invested capital.

In March of 2004, the Company raised \$6 million at the time of its initial public offering followed by an additional \$2 million through a private placement in July of 2004. This cash infusion improved our financial flexibility and enabled the Company to complete the \$11.9 million acquisition of Lensway AB in July 2004.

We believe that in 2005 the Company will pursue additional acquisitions that are in line with our current growth strategies and the Company anticipates the need to seek additional equity financing in 2005 in order to execute on these opportunities.

COMPETITIVE MARKET & EXTERNAL ENVIRONMENT

The market

Coastal Contacts is proud to be one of the top three companies operating in the online market for contact lenses. Although we continue to increase sales and market share, our revenues account for just over 0.5% of the total potential market worldwide (approximately \$5.6 billion US). The Company sees a significant opportunity to continue to increase our market share.

The market for contact lenses continues to grow in the high single-digit and low double-digit rates, with higher growth seen internationally than in the United States. The slower US growth is primarily due to its more mature market, where approximately 35 million of the approximately 80 million global contact lens users reside. In the US, roughly 20% of the vision corrected population wears contacts, while the percentage is only approximately 13% in Japan and approximately 7% in Europe. As a result, the less mature international markets are growing faster on average than the US market.

Canadian dollar appreciation

We operate internationally with approximately 95% of our business conducted in foreign currencies, predominantly US dollars, Swedish krona and British pounds. Accordingly, our results are affected by the year-over-year exchange rate fluctuations of various currencies relative to the Canadian dollar.

During the rapid decline of the US dollar relative to the Canadian dollar over the past two years, the Company has shifted purchasing to US suppliers where available as a hedge against corresponding sales.

It is management's belief that the Company's continued global expansion will function as an offset to currency fluctuations by diversifying the currencies used and thereby lessening the Company's dependency on any one currency.

The Fairness to Contact Lens Consumer Act

In February, 2004, the Fairness to Contact Lens Consumers Act (the "FCLC") was implemented in the United States. Since the law went into effect, the Company has had to cancel a significant number of orders in accordance with the passive verification requirement mandated by the legislation. While the cancellation rate has decreased in the quarter ended October 31, 2004 versus the preceding quarters, the Company continues to work to find means within the FCLC to reduce this cancellation rate. The Company believes that the FCLC will have the designed effect of increasing customers' choice in the market. The law requires that all eye care practitioners provide their customers with a copy of their prescription after a contact lens fitting. With this information, the customer is in a more informed position and can include other value propositions such as price and convenience in their purchase decision. The on-line retailer segment of the market offers

consumers an attractive alternative through significantly reduced pricing, much greater stock selection, and home delivery.

SELECTED ANNUAL INFORMATION

	2004	2003	2002
Sales	\$31,246,283	\$20,143,438	\$8,881,165
EBITDA	(\$330,572)	(\$587,894)	\$235,985
Net (Loss)Income	(\$539,550)	(\$656,982)	\$201,729
Weighted Average # of shares	21,218,334	12,123,123	12,000,000
Basic & diluted (loss)earnings per share	(\$0.03)	(\$0.05)	\$0.02
Total Current Assets	\$9,094,347	\$1,735,674	\$760,928
Total Assets	\$21,129,418	\$1,839,415	\$840,384
Total Current Liabilities	\$6,979,584	\$2,001,464	\$629,465
Total Liabilities	\$8,938,590	\$2,398,250	\$777,237

LONG-TERM DEBT

	2004 \$	2003 \$	2002 \$
VanCity Capital			
Loan #1: Repayable in monthly instalments of \$7,381, blended principal and interest at prime (4.25%) plus 10.5%. The loan matures on March 15, 2005.	35,776	106,058	179,763
Loan #2: Repayable in monthly instalments of \$8,378, blended principal and interest at 13%. The loan matures on March 15, 2006.	232,759	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.	127,560	180,000	
Handelsbanken Loan: Repayable in monthly instalments of \$38,266, consisting of blended principal and interest at 7.70%. The loan denominated in Swedish Krona (SEK 3,611,106) matures on February 28, 2006.	623,555	—	
	1,019,650	580,886	179,763
Less current portion	610,408	184,100	66,885
	409,242	396,786	112,878

RESULTS OF OPERATIONS

Year End October 31, 2004

Sales for the fiscal year ended October 31, 2004 were \$31,246,283, an increase of \$11,020,845 or 55% from the previous year. Total order volume for the year was 313,243 orders, an increase of 133,921 or 75% from the preceding year. There were 104,602 orders shipped to returning customers, an increase of 69,082 or 195% over the previous year. In fiscal 2004, 208,641 orders were shipped to new customers, an increase of 133,241 orders or 75% over the previous year. The successful increase in the Company's sales resulted from increased orders from the Company's existing customer base, up 195% over the previous year. This increase in orders from existing customers reflects the growing annuity aspect of the Company's business model. In addition, the Company saw an increase in the average US dollar order during the year. The impact of this increase was offset by the increase in value of the Canadian dollar during the year. The fourth quarter also included sales from Lensway AB. Lensway AB's sales made up approximately 17% of the Company's sales for the year.

Gross profit for the fiscal year ended October 31, 2004 was \$5,709,403, an increase of \$1,904,146 or 50.0% over the previous fiscal year. Gross profit was 18.3% of sales in 2004 as compared to 18.9% in 2003. The weak US dollar had a negative impact on gross margin during 2004. This was most evident during the second quarter of 2004 when the Company reported gross margins of 10.1%. Throughout the year, the US dollar weakened from 1.32 in October, 2003 to 1.22 in October, 2004. In response, throughout the year, the Company adopted a strategy of shifting the vast majority of its purchasing to US based suppliers to hedge against the weak US dollar. As a result of this strategy, gross margin in the third quarter improved to 18.9% followed by a further improvement to 20.9% in the fourth quarter. Fourth quarter gross margin improvement was driven by two factors. First, the acquisition of Lensway AB, which traditionally has higher margins than the Company's North American operations, was included in the results of the Company for the first time. Secondly, purchasing was improved by consolidating large volume orders from both the Company and Lensway AB. Management believes that the additional purchasing power afforded to the Company through the Lensway AB acquisition will continue to create opportunities for improved purchasing and should enhance the Company's gross margin in 2005.

SG&A costs represented 19.0% of net sales, an improvement over the 21.8% in the prior fiscal year. This improvement was primarily due to a focused effort in reducing selling expenses to 13.0% of gross sales as compared to 17.0% in the prior fiscal year. This is mainly a function of repeat orders accounting for a larger percentage of sales in 2004. The fourth quarter of 2004 saw a marked improvement with SG&A expenses accounting for 17.4% of total revenue. The decrease was a direct result of synergies and improved efficiencies from the consolidated operations of Lensway AB and the Company. The Company will continue to drive these synergies in 2005 but further improvements in this

regard will be predominantly driven by diligent cost management at every level within the Company.

Stock-based compensation for the year ended October, 31, 2004 includes \$99,000 and \$6,898 in stock based compensation for options issued to a consultant and employees of the Company.

EBITDA is defined as earnings from continuing operations before interest, income taxes, depreciation and amortization. The Company reports its results in accordance with Canadian GAAP; however, although this is a non-GAAP measure, the Company presents EBITDA in its filings because it believes its current and potential investors use EBITDA to make investment decisions about the Company. Investors should not consider EBITDA to be an alternative to net income, nor to cash provided by operating activities nor any other indicator of performance or liquidity which has been determined in accordance with Canadian GAAP. The Company's method of calculating EBITDA may differ from the methods used by other companies.

EBITDA for the year ended October 31, 2004 was a loss of \$330,572 compared to a loss of \$587,894 for the previous year, a reduction in the loss of 44.0%. This improvement was directly connected to the factors documented above.

Amortization for the year ended October 31, 2004 increased by \$161,263 to \$195,323 compared to \$34,060 in the previous year. This increase was due primarily to increased capital expenditures in the Company of \$73,444 in computer hardware and \$111,911 in website creation, resulting in increased amortization. In addition, the inclusion of Lensway AB in the fourth quarter resulted in an increase of \$439,932 in assets and \$22,340 in amortization. As part of the purchase of Lensway AB, \$2,083,333 was allocated to the value of the Lensway AB development customer list. In the fourth quarter, there was \$104,166 in amortization associated with this list.

Interest expense for the year ended October 31, 2004 increased by \$46,941 to \$87,763 as compared to \$40,732 in the preceding year. This increase was due to a full year of interest payments on the Company's credit facilities with Van City Capital. These loans were incurred during fiscal 2003, resulting in interest expense for only part of fiscal 2003. In addition, the Lensway AB loan facility of \$623,555 resulted in an interest expense of \$13,438 in the fourth quarter of 2004.

Net loss for the fiscal year ended October 31, 2004 was \$539,550 or \$0.03 per share as compared to 656,982 or \$0.05 per share in the preceding year. The reasons for this improvement are documented above.

SUMMARY OF QUARTERLY RESULTS

	Q 4	Q 3	Q 2
Revenue	\$11,726,733	\$6,996,983	\$5,842,511
EBITDA	\$399,370	(\$146,081)	(\$545,995)
Net Income(Loss)	\$276,220	(\$176,540)	(\$590,722)
Weighted Average # of shares	33,874,860	21,235,996	16,901,900
Basic & diluted earnings(loss) per share	\$0.01	(\$0.01)	(\$0.03)
Total Current Assets	\$9,094,347	\$6,994,177	\$7,641,899
Total Assets	\$21,129,418	\$19,237,065	\$7,908,204
Total Current Liabilities	\$6,979,584	\$4,943,985	\$2,726,793
Total Liabilities	\$8,938,590	\$6,226,085	\$3,061,849

RESULTS OF OPERATIONS

Quarter Ended October 31, 2004

Sales for the quarter ended October 31, 2004 were \$11,726,333, an increase of \$4,729,750 or 68.0% from the previous quarter. Total order volume for the quarter was 121,518 orders, an increase of 53,731 or 79.0% from the preceding quarter. There were 51,377 orders shipped to returning customers, an increase of 30,488 or 146.0% over the previous quarter. This increase in orders from existing customers reflects the growing annuity aspect of the Company's business model. In the fourth quarter of fiscal 2004, 70,141 orders were shipped to new customers, an increase of 23,243 orders or 50% over the previous quarter. The fourth quarter also included sales from Lensway AB which did not occur in the first three quarters.

Gross profit for the quarter ended October 31, 2004 was \$2,435,264, an increase of \$1,112,091 or 84.0% over the previous quarter. Gross profit was 20.9% of sales in the fourth quarter of 2004 as compared to 18.9% in the third quarter of 2004. Fourth quarter gross margin improvement was driven by three factors. Firstly, the acquisition of Lensway AB which traditionally has higher margins than the Company's North American operations was included in the results of the Company for the first time. Secondly, purchasing was improved by consolidating large volume orders from both the Company and Lensway AB. Management believes that the additional purchasing power afforded to the Company through the Lensway AB acquisition will continue to create opportunities for improved purchasing and should enhance the Company's gross margin

in 2005. In addition, the Company's strategy of shifting the vast majority of our purchasing to US based suppliers to hedge against the weak dollar helped increase gross profit.

The Company's SG&A represented 17.4% of net sales, an improvement over the 21.0% in the preceding quarter. The fourth quarter of 2004 saw a marked improvement with SG&A expenses accounting for 17.4% of total revenue. The decrease was a direct result of synergies and improved efficiencies from the consolidated operations of Lensway AB and the Company. Marketing as a percentage of sales also decreased from 13.7% in the third quarter to 10.6% in fourth quarter.

EBITDA for the quarter ended October 31, 2004 was \$399,370 or \$0.01 per share, compared to a loss of \$146,081 or \$0.01 per share in the preceding quarter. This improvement in EBITDA was directly connected to the factors documented above in the discussion of annual results.

Net income for the quarter ended October 31, 2004 was \$276,220 or \$0.01 per share as compared to a loss of \$176,540 or \$0.01 per share in the preceding quarter. The reason for this improvement in net income is documented above in the discussion of annual results. The fourth quarter saw increased amortization of \$110,459 resulting from depreciation of assets acquired in the Lensway acquisition.

Liquidity and Capital Resources

Financial condition

The Company has historically funded its growth through a combination of funds generated from operations and borrowings. Working capital requirements generally precede the realization of sales on a monthly basis. The Company uses funds generated from operations and borrowings to increase inventory levels in anticipation of future sales realization. The Company's supply arrangements have historically required the Company to pay cash upon delivery of inventory. As a result, the Company is generally unable to rely on standard trade credit arrangements in purchasing its inventory, which would ordinarily permit the net amount due to be paid within 30 days of shipment of ordered merchandise. In addition, in order to help ensure sufficient supply, the Company generally carried a higher level of inventory than if it were able to purchase directly from contact lens manufacturers. On May 2, 2004, the Company signed an agreement with Johnson and Johnson Eye Care Division, allowing the Company to obtain credit terms and operate its inventory in a more efficient manner. Subsequently the Company has received credit terms from CIBA Vision and Baush & Lomb.

Net Cash provided by operating activities was \$703,053 in 2004, as compared to a cash outflow of 844,136 in the preceding year. The improvement in cash from operations resulted primarily from the Company having received credit terms from its major suppliers during the year.

Net Cash used in investing activities was \$7,204,009 as compared to \$93,872 in the preceding fiscal year. Primary uses of cash in the current year were \$5,655,000 cash used in the acquisition of Lensway AB, \$509,518 invested in short term securities, \$478,956 used in the acquisition of computer property, equipment and leasehold improvements related to the company's move to new facilities and \$111,910 used in developing the Company's website.

Net Cash provided by financing activities was \$7,251,114 as compared to \$870,047 in the preceding year, primarily as a result of the following events:

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 and 100,000 shares were issued on the exercise of warrants for cash of \$5,000.

On March 29, 2004, the Company undertook an initial public offering ("IPO"), issuing 6,000,000 common shares for proceeds of \$6,000,000, less share issue cost of \$872,605.

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 \$47,080 respectively.

On July 22, 2004, the Company undertook a private placement issuing 2,500,000 shares for proceeds of \$2,000,000, less share issue cost of \$237,440. These shares were issued on November 23, 2004.

The Company believes that its available cash, together with cash flow from operations will be sufficient to support current operations and organic growth at least through fiscal 2005. The Company may be required to seek additional sources of funds for accelerated growth or continued growth after that point, and there can be no assurance that such funds will be available on satisfactory terms. Failure to obtain such financing could delay or prevent the Company's planned growth, which could adversely affect the Company's business, financial condition and results of operations.

In addition, in 2005 the Company will likely pursue additional acquisitions that are in line with our current growth strategies and the Company anticipates the need to seek additional equity financing in 2005 in order to execute on these opportunities.

Contractual obligations

	Total	Less than 1 year	1 – 3 years	4 to 5 years
Long Term Debt	\$1,019,650	\$610,408	\$409,242	\$ 0
Operating Lease Commitments	\$1,317,437	\$185,969	\$767,468	\$364,000
Total Contractual Obligations	\$2,337,087	\$796,377	\$1,176,710	\$364,000

Transactions with related parties

Due from related parties

	2004 \$	2003 \$
Promissory notes receivable	115,000	—
Advances to officers	40,165	—
CMP Medical Inc.	39,691	31,127
	194,856	31,127

The amounts due from related parties includes: (1) two promissory notes from an officer and shareholder for \$100,000 and \$15,000 respectively. These loans are payable on demand and bear interest at 5% per annum from the dates of the loans; (2) other advances to officers of the Company in the amount of \$40,165. These advances are non interest bearing with no fixed terms of repayment; and (3) \$39,691 from CMP Medical Inc., a company controlled by an officer and shareholder of the Company.

Due to related parties

	2004 \$	2003 \$
Advances from officers	38,733	1,747

These advances are non interest bearing with no fixed terms of repayment.

All related party transactions are measured at their exchange amounts.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 consolidated financial statements and the reported amounts of

revenues and expenses during the reporting period. Actual results could differ from these estimates.

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.

Goodwill and other indefinite intangible life assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill is reviewed for possible impairment annually based on the profitability and cash flows of Lensway AB. Based on this testing, the Company has determined that no goodwill impairment charge is required.

The Company intends to keep the Lensway AB name and brand intact. All future sales and marketing efforts in Europe will be conducted using the Lensway AB name. As a result, the trade name is considered to have an indefinite life and will not be amortized. The value will be reviewed for possible impairment annually, based on the profitability and cash flows of Lensway AB.

Forward-looking statements

In addition to historical information, this report and the reports and documents incorporated by reference in this report contain statements that could relate to future events and the Company's future results. Although the Company believes the assumptions underlying these forward looking statements are reasonable, any of these assumptions could prove to be inaccurate and, as a result, the forward-looking statements made based on these assumptions could be incorrect. The Company's operations involve risk and uncertainty, many of which are outside of the Company's control, and any one or any combination of these risks and uncertainties could affect whether the forward-looking statements ultimately prove to be correct.