

Interim Consolidated Financial Statements

**Coastal Contacts Inc.**

Unaudited

For the three months ended January 31, 2006

**Coastal Contacts Inc.**

**CONSOLIDATED BALANCE SHEET**

(Unaudited)

	January 31, 2006 \$	October 31, 2005 \$
<b>ASSETS [note 6]</b>		
<b>Current</b>		
Cash	1,207,766	2,985,600
Short-term investments	29,413,467	10,624,139
Accounts receivable [note 3]	5,544,769	4,809,216
Income taxes receivable	3,598	3,598
Inventory	7,885,947	7,020,637
Prepaid expenses	1,043,297	949,662
Due from related parties [note 10]	338,370	322,250
	<u>45,437,214</u>	<u>26,715,102</u>
Property, equipment and leasehold improvements [note 4]	1,676,867	1,446,029
Intangible assets [note 5]	5,682,130	5,466,712
Goodwill	5,552,495	5,479,147
	<u>58,348,706</u>	<u>39,106,990</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness	605,828	328,157
Accounts payable and accrued liabilities	7,273,740	10,259,818
Income taxes payable	204,470	308,447
Deferred revenue	129,507	77,502
Due to related parties [note 10]	17,607	—
Current portion of lease inducement	24,337	24,337
Current portion of long-term debt [note 6]	248,650	379,257
	<u>8,504,245</u>	<u>11,377,518</u>
Long-term lease inducement	107,684	114,177
Future income tax liability	1,571,021	1,646,676
	<u>10,182,950</u>	<u>13,138,371</u>
<b>Shareholders' equity</b>		
Share capital		
Authorized:		
Unlimited common shares without par value		
Unlimited Class A preferred shares without par value		
Issued and outstanding:		
60,298,971 common shares [2005 – 51,632,951]	26,919,968	26,263,656
Special warrants [note 7]	21,160,434	—
Contributed surplus [note 8]	578,454	593,083
Cumulative foreign currency translation adjustment	(1,650,984)	(1,808,808)
Retained earnings	1,157,884	920,688
	<u>48,165,756</u>	<u>25,968,619</u>
	<u>58,348,706</u>	<u>39,106,990</u>

See accompanying notes to the unaudited interim consolidated financial statements

On behalf of the Board:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

**Coastal Contacts Inc.****CONSOLIDATED STATEMENT OF INCOME AND  
RETAINED EARNINGS (DEFICIT)**

(Unaudited)

For the three months ended January 31

	2006	2005
	\$	\$
<b>Sales</b>	<b>18,409,548</b>	12,036,729
Cost of sales	13,790,291	9,068,764
<b>Gross profit</b>	<b>4,619,257</b>	2,967,965
Selling, general and administration expenses	4,055,943	2,433,302
Stock-based compensation	27,011	18,267
Amortization	260,615	174,398
Interest on long-term debt	15,998	35,704
Interest income	(86,121)	(5,003)
Income before income taxes	345,811	311,297
Income tax expense - current	88,939	71,569
Income tax expense (recovery) - future	19,674	(3,278)
<b>Net income</b>	<b>237,198</b>	243,006
Retained earnings (deficit), beginning of period	920,686	(1,175,385)
<b>Retained earnings (deficit), end of period</b>	<b>1,157,884</b>	(932,379)
Basic earnings per share	0.00	0.01
Diluted earnings per share	0.00	0.01
Weighted average number of common shares outstanding – basic <i>[note 9]</i>	58,034,604	35,777,134
Weighted average number of common shares outstanding – diluted <i>[note 9]</i>	60,264,972	46,562,596

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

**Coastal Contacts Inc.****CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Unaudited)

For the three months ended January 31

	2006	2005
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net income	237,198	243,006
Non-cash items:		
Amortization	260,615	174,398
Amortization of deferred lease inducement	(6,493)	(7,190)
Accrued interest	(86,121)	(916)
Stock-based compensation	27,011	18,267
Future income taxes	19,674	(3,278)
Changes in non-cash working capital:		
Accounts receivable	(678,513)	683,653
Inventory	(814,364)	12,450
Prepaid expenses	(88,825)	15,770
Accounts payable and accrued liabilities	(3,044,135)	(195,802)
Income taxes payable	(130,886)	70,183
Deferred revenue	52,098	(179,537)
Due from related parties	24,602	(33,695)
<b>Cash (used in) provided by operating activities</b>	<b>(4,228,139)</b>	<b>797,309</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of short-term investments	(26,632,685)	—
Sale of short-term investments	7,933,374	398,732
Advances to related parties	(23,115)	(25,276)
Acquisition of property, equipment and leasehold improvements	(308,399)	(163,917)
Acquisition of intangible assets	(315,572)	—
<b>Cash (used in) provided by investing activities</b>	<b>(19,346,397)</b>	<b>209,539</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of share capital	682,406	—
Issuance of special warrants	22,500,000	—
Cost of financing	(1,415,310)	—
Bank indebtedness	277,671	(17,502)
Repayment of long-term debt	(130,541)	(170,965)
<b>Cash provided by (used in) financing activities</b>	<b>21,914,226</b>	<b>(188,467)</b>
Effect of exchange rate changes on cash	(117,524)	4,452
<b>Increase (decrease) in cash</b>	<b>(1,660,310)</b>	<b>822,833</b>
Cash, beginning of period	2,985,600	843,681
<b>Cash, end of period</b>	<b>1,207,766</b>	<b>1,666,514</b>
Income taxes paid in cash	399,692	355
Interest paid in cash	15,998	35,762

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

## **Coastal Contacts Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2006

Unaudited

## **1. BASIS OF PRESENTATION**

Coastal Contacts Inc. (“the Company”) is a global on-line retailer of contact lenses sold throughout internet sites created and operated by the Company. The Company has operations in North America and Europe.

These unaudited consolidated interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”) with respect to interim financial statements, applied on a consistent basis. These unaudited interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 2 to the Company’s audited consolidated financial statements as at and for the year ended October 31, 2005. Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These unaudited consolidated interim financial statements and notes thereon should be read in conjunction with the audited consolidated financial statements and notes for the year ended October 31, 2005.

The preparation of these unaudited consolidated interim 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 consolidated interim 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. ACQUISITION OF YOURLENSES**

On May 4, 2005 through the Company’s wholly owned subsidiary, Lenslogistics AB (formerly Lensway AB), the Company completed the acquisition of all of the shares of Yourlenses Scandinavia AB (“Yourlenses”), a European retailer of contact lenses. The consideration paid consisted of cash of \$949,032 (5,380,000 Swedish Krona) and the assumption of debt in the amount of \$156,167, with fifty percent of the cash paid upon signing on May 4, 2005 and the remaining fifty percent held in escrow, payable eighteen months from such 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.

## Coastal Contacts Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2006

Unaudited

#### 2. ACQUISITION OF YOURLENSES (cont'd.)

The following sets forth the purchase price and its allocation to the tangible and intangible assets acquired.

	\$
Cash	949,032
Direct acquisition costs	111,193
<b>Total consideration</b>	<b>1,060,225</b>
Cash	33,988
Other current assets	240,942
Property and equipment	5,865
Your Lenses customer list	735,000
Your Lenses trade name	514,500
Website development	134,750
Current liabilities	(313,440)
Long-term debt	(85,361)
Future income tax liability	(387,590)
<b>Net assets acquired</b>	<b>878,654</b>
<b>Goodwill</b>	<b>181,571</b>

Goodwill has been allocated to the Swedish reporting unit and is not deductible for income tax purposes.

The results of operations of Yourlenses have been included in the accompanying interim consolidated statements since May 4, 2005.

#### 3. ACCOUNTS RECEIVABLE

	2006	2005
	\$	\$
Accounts receivable	5,271,784	4,104,580
Allowance for doubtful accounts	(417,883)	(259,980)
Value added tax receivable	690,868	964,616
	<b>5,544,769</b>	<b>4,809,216</b>

**Coastal Contacts Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2006

Unaudited

**4. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

	<b>Cost</b>	<b>Accumulated</b>	<b>Net Book</b>
	<b>\$</b>	<b>Amortization</b>	<b>Value</b>
		<b>\$</b>	<b>\$</b>
<b>January 31, 2006</b>			
Leasehold improvements	518,458	90,830	427,628
Computer hardware	537,933	145,961	391,972
Computer software	54,637	30,899	25,739
Furniture and fixtures	383,001	85,598	297,403
Computerized ERP software	655,211	119,085	536,126
	<b>2,151,240</b>	<b>472,373</b>	<b>1,676,867</b>
<b>October 31, 2005</b>			
Leasehold improvements	465,094	70,667	394,427
Computer hardware	500,506	120,134	380,372
Computer software	51,899	22,782	29,117
Furniture and fixtures	292,488	72,134	220,354
Computerized ERP software	512,138	90,379	421,759
	<b>1,822,125</b>	<b>376,096</b>	<b>1,446,029</b>

**Coastal Contacts Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2006

Unaudited

**5. INTANGIBLE ASSETS**

	<b>Cost</b>	<b>Accumulated</b>	<b>Net Book</b>
	<b>\$</b>	<b>Amortization</b>	<b>Value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>January 31, 2006</b>			
Website creation	1,153,452	223,880	929,572
Lensway name	2,439,537	—	2,439,537
Yourlenses name	432,833	—	432,833
Lensway customer list	1,785,027	506,560	1,278,467
Yourlenses customer list	618,333	92,750	525,584
Pharmalens agreements	76,138	—	76,138
	<b>6,505,320</b>	<b>823,190</b>	<b>5,682,130</b>
<b>October 31, 2005</b>			
Website creation	800,167	119,954	680,213
Lensway name	2,439,537	—	2,439,537
Yourlenses name	432,833	—	432,833
Lensway customer list	2,133,904	213,385	1,920,518
Yourlenses customer list	618,333	63,812	554,521
Pharmalens agreements	76,138	—	76,138
	<b>6,152,035</b>	<b>685,323</b>	<b>5,466,712</b>

**Coastal Contacts Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**6. LONG-TERM DEBT**

	January 31, 2006 \$	October 31, 2005 \$
<b>VanCity Capital</b>		
<b>Loan #2:</b> Repayable in monthly instalments of \$8,378, blended principal and interest at 13%. The loan has matured on March 15, 2006.	154,606	170,690
<b>Loan #3:</b> Repayable in monthly instalments of \$6,065 blended principal and interest at a fixed interest rate of 13.0%. The loan matures on June 15, 2006.	52,266	68,412
<b>Handelsbanken Loan:</b> Repayable in monthly instalments of \$38,266, consisting of blended principal and interest at 7.45%. The loan is denominated in Swedish Krona (SEK 277,776) matures on February 28, 2006.	41,778	140,155
	<b>248,650</b>	<b>379,257</b>
Less current portion	<b>248,650</b>	<b>379,257</b>

The Van City loans are collateralized by a general security agreement over all the assets of the Company and certain personal guarantees by shareholders. These Van City loans are subordinate to any other loan facilities that the Company might obtain in the future. These loans also give VanCity the option of participating in equity offerings undertaken by the Company by converting the debt outstanding at the date of such offering into the equity offered.

The Handelsbanken loan is collateralized by a floating charge on the assets of Lensway, to a maximum of 7,500,000 krona (\$1,291,500), depending on the amount of outstanding loan.

Under terms of the banks loan facilities with Vancity Capital, there are certain covenants over working capital and effective net worth, as well as those restricting shareholder loans and capital expenditures. As at January 31, 2006, the Company had exceeded the covenant restricting annual capital expenditures to less than \$100,000 per annum. The Company has not obtained a waiver from the lender as all of the Company's loans are due and payable in the upcoming fiscal year and are already classified as current liabilities.

## Coastal Contacts Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 7. SHARE CAPITAL

### Issued and outstanding common shares

	2006		2005	
	Number of Common Shares #	\$	Number of Common Shares #	\$
Balance - beginning of period	51,632,951	26,263,656	33,874,860	11,569,500
Issued in private placement	—	—	2,500,000	1,762,560
Issued in private placement	—	—	11,200,000	10,901,871
Issued on exercise of warrants	487,680	483,530	1,646,775	1,903,516
Issued on exercise of options	8,178,340	172,782	2,371,166	86,059
Issued to Marlin Financial Group Inc.	—	—	40,150	40,150
<b>Balance - end of period</b>	<b>60,298,971</b>	<b>26,919,968</b>	<b>51,632,951</b>	<b>26,263,656</b>

Between November 1, 2005 and January 31, 2006, 487,680 agents warrants and 8,178,340 options were exercised for cash proceeds of \$483,530 and \$172,782, respectively.

On January 31, 2006, the Company closed on an underwritten bought deal 9,000,000 special warrants by way of private placement, at a price of \$2.50 per special warrant, for gross cash proceeds of \$22.5 million. The Company paid underwriters a commission equal to 6% of the gross proceeds and up to \$30,000 for underwriters' expenses and fees related to the offering. Net proceeds were \$21,160,434 after underwriters' commission and other underwriting costs.

The special warrants and common shares issuable upon exercise of the special warrants were subject to resale restrictions for a period of four months from the closing date.

Each special warrant is exercisable to acquire one common share of the Company for no additional consideration. The special warrants shall be exercisable by the holders thereof at any time and will be automatically exercised on the earlier of the following dates: (i) the fifth business day after a receipt is issued by the last of the securities regulatory authorities in each of the jurisdictions in Canada in which purchasers of the special warrants are resident for a final prospectus qualifying the common shares to be issued upon the exercise of the special warrants; and (ii) the date which is four months and one day after the closing date.

The final prospectus was filed and receipted on March 23, 2006 and substantially all conditions of the underwriting agreement have been satisfied.

**Coastal Contacts Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2006

Unaudited

**8. CONTRIBUTED SURPLUS**

	2006	2005
	\$	\$
Balance - beginning of period	593,083	105,898
Stock-based compensation	27,011	175,632
Compensation warrants	—	478,800
Reclassification to share capital on exercise of warrants	(41,640)	(167,247)
Balance - end of period	578,454	593,083

**9. EARNINGS PER SHARE**

	2006	2005
Weighted average number of common shares outstanding - basic	58,034,604	35,777,134
Stock options	751,532	10,751,371
Warrants	1,478,836	34,091
Weighted average number of common shares outstanding - diluted	60,264,972	46,562,596

**10. RELATED PARTY TRANSACTIONS**

**Due from related parties**

	January 31, 2006	October 31, 2005
	\$	\$
Promissory notes receivable	115,000	115,000
Advances to officers	183,679	167,559
CMP Medical Inc.	39,691	39,691
	338,370	322,250

**Coastal Contacts Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**10. RELATED PARTY TRANSACTIONS (cont'd.)**

The amounts due from related parties includes: (1) two promissory notes from an officer and a shareholder for \$100,000 and \$15,000 respectively. These loans are payable on demand and bear interest at 5% per annum; (2) Other advances to officers of the Company in the amount of \$183,679. 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**

	<b>January 31, 2006</b>	<b>October 31, 2005</b>
	\$	\$
Advances from officers	<b>17,607</b>	—

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

All related party transactions are measured at their exchange amounts.

## Coastal Contacts Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2006

Unaudited

#### 11. SEGMENTED INFORMATION

The Company operates in one business segment, the sale of contact lenses. The Company's sales are in North America and Europe. Geographical information is based on the countries in which the Company sells contact lenses and accessories.

	United States \$	Sweden \$	Norway \$	Other \$	Intercompany Eliminations \$	Total \$
<b>Sales</b>						
3 months ended January 31, 2006	6,673,527	6,827,101	2,275,519	2,947,926	(314,525)	18,409,548
3 months ended January 31, 2005	6,432,220	3,147,572	1,458,888	1,155,295	(157,246)	12,036,729
<b>Property, equipment and leasehold improvements</b>						
As at January 31, 2006	—	914,559	—	762,308	—	1,676,867
As at October 31, 2005	—	703,778	—	742,251	—	1,466,029
<b>Goodwill</b>						
As at January 31, 2006	—	5,552,495	—	—	—	5,552,495
As at October 31, 2005	—	5,479,147	—	—	—	5,479,147

Included in "Other" is Canadian sales of \$603,485 (2005 \$173,126) and property, equipment and leasehold improvements of \$762,308 (2005 \$742,251) located in Canada.

#### 12. COMPARATIVE FIGURES

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