



Coastal Contacts Inc.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AND MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED JANUARY 31, 2010

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

COASTAL CONTACTS INC.

UNAUDITED

FOR THE THREE MONTHS ENDED JANUARY 31, 2010

(Canadian Dollars)

COASTAL CONTACTS INC.
CONSOLIDATED BALANCE SHEETS

(\$000's)

	January 31, 2010	October 31, 2009
	(Unaudited)	
ASSETS		
Current		
Cash and cash equivalents <i>[note 3]</i>	\$ 13,727	\$ 11,532
Accounts receivable	8,686	7,965
Inventory	14,454	15,701
Prepaid expenses	1,426	1,532
Future income tax	102	109
Due from related parties	378	374
	<u>38,773</u>	<u>37,213</u>
Property, equipment and leasehold improvements	2,530	2,813
Intangible assets	8,728	9,517
Goodwill	7,353	7,757
	<u>\$ 57,384</u>	<u>\$ 57,300</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 18,714	\$ 17,890
Income tax payable	301	615
	<u>19,015</u>	<u>18,505</u>
Long-term lease inducement	4	18
Future income tax	3,347	3,614
	<u>22,366</u>	<u>22,137</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:		
56,901,719 common shares [2009 – 56,901,719]	40,248	40,248
Contributed surplus <i>[note 5]</i>	2,514	2,294
Accumulated other comprehensive loss <i>[note 6]</i>	(4,597)	(3,482)
Deficit	(3,147)	(3,897)
	<u>35,018</u>	<u>35,163</u>
	<u>\$ 57,384</u>	<u>\$ 57,300</u>

See accompanying notes to the unaudited interim consolidated financial statements

Contingencies *[note 9]*

COASTAL CONTACTS INC.
CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE LOSS

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

Three months ended January 31	2010	2009
Sales	\$ 35,908	\$ 31,342
Cost of sales	25,597	21,324
Gross profit	10,311	10,018
Advertising	3,991	4,126
Selling, general and administration	4,642	4,069
Share-based compensation	220	148
Amortization on property, equipment and leasehold improvements	282	215
Amortization on intangible assets	399	399
Foreign exchange gains	(18)	(202)
Interest (income) expense, net	14	(42)
Earnings before income taxes	781	1,305
Income tax	31	337
Net earnings	750	968
Unrealized foreign exchange losses on translation of financial statements of self-sustaining foreign operations	(1,115)	(1,213)
Comprehensive loss	\$ (365)	\$ (245)
Basic earnings per share	\$ 0.01	\$ 0.02
Diluted earnings per share	\$ 0.01	\$ 0.02
Weighted average number of common shares outstanding		
Basic	56,901,719	58,318,284
Diluted	58,502,318	58,318,284

See accompanying notes to the unaudited interim consolidated financial statements

COASTAL CONTACTS INC.
CONSOLIDATED STATEMENTS OF DEFICIT
(Unaudited) (\$000's)

Three months ended January 31	2010	2009
Deficit, beginning of period	\$ (3,897)	\$ (6,476)
Net earnings	750	968
Deficit, end of period	\$ (3,147)	\$ (5,508)

See accompanying notes to the unaudited interim consolidated financial statements

COASTAL CONTACTS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (\$000's)

Three months ended January 31	2010	2009
OPERATING ACTIVITIES		
Net earnings	\$ 750	\$ 968
Non-cash items affecting earnings:		
Amortization	674	594
Share-based compensation	220	148
Future income taxes	(71)	(13)
Changes in non-cash working capital:		
Accounts receivable	(1,038)	(1,054)
Inventory	607	(1,558)
Prepaid expenses	338	422
Accounts payable and accrued liabilities	1,419	(2,384)
Income tax payable	(346)	397
Cash provided by (used in) operating activities	2,553	(2,480)
INVESTING ACTIVITIES		
Repayments from (advances to) related parties	(4)	(3)
Acquisition of property, equipment and leasehold improvements	(15)	(157)
Acquisition of intangible assets	(29)	-
Cash used in investing activities	(48)	(160)
FINANCING ACTIVITIES		
Purchase of common shares for cancellation	-	(17)
Cash used in financing activities	-	(17)
Effect of exchange rate changes on cash and equivalents	(310)	(593)
Increase (decrease) in cash and equivalents	2,195	(3,250)
Cash and equivalents, beginning of period	11,532	15,206
Cash and equivalents, end of period	\$ 13,727	\$ 11,956
Income tax paid in cash	\$ 381	\$ 109

See accompanying notes to the unaudited interim consolidated financial statements

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010

Unaudited

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

These unaudited interim consolidated financial statements have been prepared by Coastal 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, which include accounts of Coastal and its wholly owned subsidiaries, reflect the same accounting principles and methods of application as those disclosed in the notes to Coastal's audited consolidated financial statements for the year ended October 31, 2009 and should be read in conjunction with these statements. All intercompany transactions and balances have been eliminated.

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. FUTURE ACCOUNTING POLICIES

Transition to International Financial Reporting Standards

In accordance with the Canadian Institute of Chartered Accountants Accounting Standards Board (AcSB), Canadian publicly accountable enterprises will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS). This changeover to IFRS from Canadian GAAP will apply to Coastal's financial statements for the year beginning on November 1, 2011. Coastal will undertake the appropriate measures to ensure compliance with these new standards by the prescribed adoption date. Coastal is currently assessing the implications of these standards on the consolidated financial statements.

3. CASH AND CASH EQUIVALENTS

Coastal has the Canadian Dollar equivalent of \$1.3 Million of cash on hand which is restricted pursuant to a letter of guarantee issued by a financial institution in favor of the Norwegian Customs and Excise Service to secure the payment of duty and value added tax collected by Coastal.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010

Unaudited

4. SHARE CAPITAL

(a) Issued and outstanding common shares

Authorized share capital comprises an unlimited number of common shares without par value and an unlimited amount of Class A preferred shares without par value, of which none are issued. Common shares issued and outstanding are as follows:

	Three Months Ended January 31, 2010		Three Months Ended October 31, 2009	
	#	\$000's	#	\$000's
Balance, beginning of period, being balance end of period	56,901,719	40,248	56,901,719	40,248

On December 30, 2009 Coastal renewed a Normal Course Issuer Bid ("NCIB") with the TSX for maximum eligible purchases of 3,797,468 of Coastal's common stock. For the three month period ended January 31, 2010, there have been no purchases under this NCIB.

(b) Share purchase options

Coastal's shareholders adopted a stock 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 at any one time under the Option Plan and any other employee incentive plan is 10% of the then issued and outstanding common shares. The exercise price for a share purchase 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 expire within 90 days upon the participant ceasing to be a director, officer, employee, or service provider. The Option Plan is administered by Coastal's Compensation and Corporate Governance Committee.

The following table contains information with respect to Coastal share options:

	#	\$
Options outstanding, October 31, 2009	4,403,308	0.69 - 1.14
Granted	285,000	1.49
Options outstanding, January 31, 2010	4,688,308	0.69 - 1.49

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010

Unaudited

4. SHARE CAPITAL (continued)

The following table summarizes information about Coastal share purchase options outstanding as at January 31, 2010:

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 \$
\$0.69	50,000	3.73	0.69	16,667	0.69
\$0.80 - \$0.99	2,327,500	3.23	0.85	1,050,245	0.85
\$1.00 - \$1.14	2,025,808	2.73	1.07	1,000,623	1.07
\$1.49	285,000	4.92	1.49	-	1.49
	4,688,308	3.12	0.99	2,067,535	0.96

The fair value of the option grants are estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2010	2009
Dividend yield	0%	0%
Expected volatility	56.5%	57.3%
Risk free interest rate	2.5%	2.1%
Expected lives	5.0 years	5.0 years

(c) Employee Share Ownership Plan

On August 1, 2009, Coastal established an employee share ownership plan (ESOP) whereby Coastal matches dollar contributions made by eligible employees. The contributions are limited to 8% of gross salary and a maximum of \$7,500 per participant per year. The contributions are used to purchase voting shares of Coastal through the open market. Approximately one half of our employees are eligible to participate in the ESOP.

Coastal's share of contribution made during the three months ended January 31, 2010 totaled \$60,670. There were no such contributions during the three months ended January 31, 2009 as the plan was not in place.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010

Unaudited

5. CONTRIBUTED SURPLUS

	\$000's
Balance - October 31, 2009	2,294
Share-based compensation	220
Balance – January 31, 2010	2,514

6. ACCUMULATED OTHER COMPREHENSIVE LOSS

	\$000's
Balance - October 31, 2009	(3,482)
Unrealized foreign exchange losses on translation of financial statements of self-sustaining foreign operations	(1,115)
Balance - January 31, 2010	(4,597)

7. RELATED PARTY BALANCES AND TRANSACTIONS

	January 31, 2010 \$000's	October 31, 2009 \$000's
Promissory notes receivable	378	374

As at January 31, 2010, there were five promissory notes outstanding, ranging in value from \$0.01 million to \$0.1 million and totalling \$0.32 million. Accumulated interest totals \$0.06 million. These loans are payable on demand and bear interest at a rate of 5% per annum. The debtors are principally officers of Coastal and are personally liable for the amounts owed.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010

Unaudited

8. SEGMENTED INFORMATION

Coastal operates in one business segment, the sale of contact lenses, glasses and related vision care products. Coastal ships product from North America and Europe to customers in North America, Europe and the Asia Pacific region.

Geographical information is based on the location of the customers in which Coastal sells its products. Intercompany sales have been excluded. Certain comparative figures have been adjusted to reflect this reporting.

All figures below are presented in Canadian Dollars.

	Sweden \$000's	Canada \$000's	Norway \$000's	USA \$000's	Other \$000's	Total \$000's
Sales						
Three months ended January 31, 2010	6,769	7,219	4,647	5,638	11,635	35,908
Three months ended January 31, 2009	7,212	4,808	4,464	4,416	10,442	31,342
Property, equipment and leasehold improvements						
As at January 31, 2010	1,110	1,420	-	-	-	2,530
As at October 31, 2009	1,296	1,517	-	-	-	2,813
Intangible assets						
As at January 31, 2010	2,987	912	-	-	4,829	8,728
As at October 31, 2009	3,349	1,038	-	-	5,130	9,517
Goodwill						
As at January 31, 2010	5,288	-	-	-	2,065	7,353
As at October 31, 2009	5,604	-	-	-	2,153	7,757

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010

Unaudited

9. CONTINGENCIES

Coastal is engaged in certain legal actions in the ordinary course of our business and believes that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

10. COMPARATIVE FIGURES

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

Management's Discussion and Analysis of Financial Condition and Results of Operations for the three months ended January 31, 2010

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) is dated as of March 17, 2010 and should be read in conjunction with Coastal Contacts Inc.'s (the "Company", "our", "we", "us", "Coastal" or "Coastal Contacts") unaudited interim consolidated financial statements and notes thereto for the three months ended January 31, 2010. We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") and use Canadian dollars as our reporting currency.

Forward-looking statements

All statements made in this management's discussion and analysis, other than statements of historical fact, are forward-looking statements. The words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", "goal", "target", "should," "likely," "potential," "continue," "project," "forecast," "prospects," and similar expressions typically are used to identify forward-looking statements. Examples of such forward-looking statements within this document include statements relating to: our perception of the contact lens industry or market and anticipated trends in that market in any of the countries in which we do business; our anticipated ability to procure products, or the terms under which we may procure our products; our anticipated business operations, inventory levels, ability to handle specific order and call volumes, ability to fill and timely ship orders, ability to achieve greater marketing efficiency or similar statements; our ability to increase production; our plans for capital expenditure plans; our relationships with suppliers, our anticipated results of operations, including but not limited to anticipated sales, revenues, earnings, tax benefits or similar matters; the effects of seasonality; sufficiency of cash flows; and our perceptions regarding volatility in and impact of foreign currency exchange rates.

Forward-looking statements are based on the then-current expectations, beliefs, assumptions, estimates and forecasts about our business and the industry and markets in which we operate. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions which are difficult to predict. Assumptions underlying our expectations regarding forward-looking statements or information contained in this MD&A include, among others: that we will maintain our position in the markets we operate in and expand into other markets in a favourable manner; that we will have sufficient capital to continue making investments in advertising, inventory, equipment and personnel to support our business and new product lines, including our eyeglass business; that we will be able to generate and maintain sufficient cash flows to support our operations; that we will be successful in complying with regulatory requirements in British Columbia and other jurisdictions; that we will be able to establish and/or maintain necessary relationships with suppliers; and that we will retain key personnel. The foregoing list of assumptions is not exhaustive.

Persons reading this MD&A are cautioned that forward-looking statements or information are only predictions, and that our actual future results or performance may be materially different due to a number of factors. These factors include, but are not limited to: changes in the market; potential downturns in economic conditions; consumer credit risk; our ability to implement our business strategies; competition; limited suppliers; inventory risk; disruption in our distribution facilities; mergers and acquisitions; foreign currency exchange rate fluctuations; regulatory requirements; demand for contact lenses and related vision care products; competition and dependence on the internet and other risks detailed in our filings with the Canadian and Swedish securities regulatory authorities. Reference should be made to the section entitled "Risk Factors" contained in our most

recently filed Annual Information Form dated January 29, 2010 and our listing prospectus, dated October 14, 2009 and filed with the Swedish Regulatory Agency, both of which are available on SEDAR at www.sedar.com, for a detailed description of the risks and uncertainties relating to our business. These risks, as well as others, could cause actual results and events to vary significantly. Accordingly, readers should not place undue reliance on forward-looking statements and information, which are qualified in their entirety by this cautionary statement. These forward-looking statements are made as of the date of this MD&A and we expressly disclaim any intent or obligation to update these forward-looking statements, unless we specifically state otherwise and except as required by applicable law.

Overview

Coastal Contacts, is the leading worldwide online retailer of contact lenses, eyeglasses, sunglasses and vision care accessories to customers in North America, Europe and the Asia Pacific region.

We launched our business in the year 2000 selling contact lenses online. In 2004, after a successful start up phase, we completed an initial public offering of shares in Canada. From 2004 to 2008 we targeted a significant portion of our marketing investments in multiple potentially lucrative national markets, and acquired a number of businesses in Europe and Asia. These efforts, along with our multinational marketing strategies, have culminated to produce a globally diversified business platform.

We have built a diversified international base of more than 2 million vision corrected customers and the largest market share of any online optical retailer in many of our markets. We have grown our business to approximately 1.4 million orders shipped and \$144 million in sales in the twelve months ended January 31, 2010, by focusing on award winning customer service, delivering superior customer value, fast and reliable delivery, and building strong brands. Our reorder rate regularly exceeds 70%.

During the first quarter of the 2010 fiscal year we experienced increased sales compared to the same period in 2009. In certain markets we made strategic pricing decisions to acquire more vision corrected customers, particularly in our eyeglasses business, and counteract some of the impact of seasonality that we can experience in the first quarter of our fiscal year. We combined these strategies with innovative promotional activities and were satisfied with the positive impact on overall sales while holding marketing costs consistent with the same period in 2009.

The first quarter of the 2010 fiscal year also involved planning and preparation such as expansion of our staffing in key strategic areas such as information technology and marketing. We expect these additional resources will contribute to our goals of improving our advertising, the effectiveness of our conversion rates and customer service levels in key growth markets and product lines such as eyeglasses.

During the first quarter of the 2010 fiscal year, we continued to expand the online eyeglasses business we launched in fiscal 2008. We broadened our selection of eyeglasses, updated our websites, and expanded the capacity for assembly at our facilities in Europe and North America. We now offer a large selection of eyeglasses, contact lenses, sunglasses and related accessories, through our websites to customers in nations around the world.

For many traditional retail optical stores, the eyeglass business is characterized by low daily sales

volumes and relatively expensive retail space. Additionally, many traditional retailers outsource their assembly processes to third parties. Consequently, such stores charge high retail prices to cover their costs, and often take substantial amounts of time to deliver their products to the end customer. We believe that volume purchasing and higher product volumes per unit of comparatively economical warehouse space, has resulted in our ability to offer our products at prices below those of traditional sources of vision care products such as retail optical stores or eye care practitioners. We are investing in our service and cost advantage over these traditional sources by stocking all of the eyeglass frames that we offer and avoiding expensive retail space. We also continue to expand our manufacturing and marketing capacity for glasses, while seeking out industry leading technology in our warehouse facilities.

Results of Operations – for the three months ended January 31, 2010 compared to the three months ended January 31, 2009

	Three months ended January 31,	
(\$000's)	2010	2009
Sales	35,908	31,342
Gross profit	10,311	10,018
Income before taxes	781	1,305
Net income	750	968
Adjusted EBITDA¹	1,678	1,823

Sales increased by \$4.6 million or 14.6% to \$35.9 million (347,051 orders shipped) in the three months ended January 31, 2010 compared to \$31.3 million (299,855 orders shipped) during the same period in 2009. Excluding the impact of foreign exchange, our sales grew by 19%. More specifically, sales grew 9% due to an increase in shipped orders, increased 10% due to an increase in our average revenue per order, exclusive of foreign exchange and decreased 4% as a result of foreign currency exchange rates. We experienced strong sales growth in the United States, Canada, and other developing geographies and in our online eyeglasses business. In particular, during the first quarter of 2010, total sales in the United States, before the impact of foreign exchange, increased 49% compared to the same period last year and total sales in Canada increased 50% compared to the same period last year. Sales in some of our more mature European markets remained relatively flat when comparing the first quarter of our 2010 fiscal year with the same period last year. Our eyeglasses business contributed \$3.8 million of sales during the first quarter of the 2010 fiscal year, a 180% improvement over the first quarter of 2009, with most sales occurring in North America.

Gross profit increased to \$10.3 million in the three months ended January 31, 2010 from \$10.0 million during the same period in 2009. As a percentage of sales, gross profit decreased to 29% in the quarter ended January 31, 2010 from 32% in the first quarter of fiscal 2009. The decrease in the gross profit percentage is largely a function of promotions to encourage market adoption of our eyeglasses business, and strategic pricing decisions in some of our markets. Cost of sales also increased as we addressed the growth in demand by adding staff to support higher sales volumes of eyeglasses and contact lenses. We expect to continue to expand the size of our physical facilities and staff them accordingly in future periods.

¹ Adjusted EBITDA is a non-GAAP measure that does not have a standardized meaning prescribed by Canadian GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. Refer to *Supplemental Non-GAAP Measures*

Advertising expenses decreased to \$4.0 million or 11% of sales in the first three months of 2010, compared to \$4.1 million or 13% of sales in the first three months of the last fiscal year. We believe that the reduced advertising investment and concurrent increased sales this fiscal quarter is indicative of the recurring nature of our contact lens business and the evolving nature of advertising in our eyeglasses business, which is more directed at promotional and market adoption activity, rather than the traditional media methods we have used in the past.

During the three months ended January 31, 2010, selling, general and administrative expenses remained flat at 13% as a percentage of sales relative to the first quarter of 2009. We expanded our information technology and marketing staff during the quarter to support our eyeglasses and other growth businesses.

Amortization for the fiscal quarter ended January 31, 2010, increased to \$0.7 million from \$0.6 million compared to the same period in 2009. The impact on amortization of capital asset additions during fiscal 2009 on amortization was largely offset by the effect of foreign currency exchange rates on the amortization of assets held by our foreign currency denominated self sustaining operations.

Our income tax, as a percentage of taxable income in the countries in which we generate taxable income, declined to \$0.03 million in the first quarter of 2010 compared \$0.3 million to the same period of 2009 due to the recognition of tax recoveries in certain jurisdictions in which we operate.

Liquidity and Capital Resources

At January 31, 2010 we had cash and cash equivalents of \$13.7 million, as compared to cash and cash equivalents of \$11.5 million at October 31, 2009.

Cash generated from operations was \$2.6 million during the first fiscal quarter of 2010. Of this, \$1.6 million came from cash earnings and \$1.0 million from changes in non-cash working capital items such as inventory, receivables, and accounts payable. We expect cash flows from changes in working capital to vary from quarter to quarter as our business changes and due to the timing of ordinary course receipts and payments.

Cash used for investing activities was \$0.05 million for the first quarter of 2010, compared to cash used of \$0.2 million in the same quarter of 2009. Although we invested in capital asset additions throughout fiscal 2009, there were no significant acquisitions in the three months ended January 31, 2010. We expect to expand our capital expenditures to support our information technology infrastructure and our eyeglasses manufacturing operations over the remainder of fiscal 2010.

We believe that existing available cash, operating facilities, and operational cash flow will be sufficient to support our capital expansion plans, stock purchases and operations through to the end of fiscal 2011. We are actively expanding our product offerings, assessing strategic opportunities, and considering strategic acquisitions. We may seek additional sources of funds for accelerated growth, acquisitions of companies or assets or other activities, and there can be no assurance that such funds will be available on satisfactory terms or at all. Failure to obtain such financing could delay or prevent our planned growth, which could adversely affect our business, financial condition and results of operations.

Critical Accounting Estimates

Coastal prepares its consolidated financial statements in accordance with Canadian GAAP. The preparation of consolidated financial statements in conformity with GAAP 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 financial statements as well as the reported amounts of sales and expenses during the reporting period. Estimates are based upon historical experience and other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an on-going basis and form the basis for making decisions regarding the carrying value of assets and liabilities and the reported amount of sales and expenses. Actual results may differ from these estimates under different assumptions.

We have identified the following as critical accounting estimates, which are defined as those that are reflective of significant judgments and uncertainties, are the most pervasive and important to the presentation of our financial condition and results of operations and could potentially result in materially different results under different assumptions and conditions.

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.

Accounting for Long-lived Assets

The ability to realize long-lived assets which are primarily comprised of customer lists and website creation costs are evaluated periodically as events or circumstances indicate a possible inability to recover their carrying amount. Such evaluation is based on assessment of reorder rates and various analyses, including undiscounted cash flow and profitability projections that incorporate, as applicable, the impact on the existing business. The analyses necessarily involve significant management judgment. Any impairment loss, if indicated, is measured as the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset.

Accounting for Goodwill and Intangible Assets with Indefinite Lives

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill is not amortized and we perform an annual impairment test of our recorded goodwill. In addition, we test our other indefinite-lived intangible assets for impairment. These impairment tests can be significantly altered by estimates of future performance, long-term discount rates used or market price valuation multiples. The analyses necessarily involve management judgment. These estimates will likely change over time. Goodwill and intangible assets with indefinite lives totaled \$16.1 million and \$17.3 million at January 31, 2010 and October 31, 2009, respectively.

Allowance for Doubtful Accounts

We offer credit to most of our customers. These customers do not have to pay for the order until the goods are received – generally estimated to be less than 15 days. The majority of the individual receivable balances are small amounts of less than \$150 and there are a large number of records. Given the composition of the receivable portfolio, using a specific balance approach to determine an allowance for doubtful accounts for the bulk of the receivables is not feasible. Consequently, management estimates an allowance for doubtful accounts based on the aging of the receivable portfolio. The analyses necessarily involve significant judgment. These analyses can be significantly altered by estimates of the probability of future collection or changes in payment patterns of customers. The allowance for doubtful accounts at January 31, 2010 was \$0.9 million.

Income Taxes

We account for income taxes using the liability method of accounting. Under the liability method, future income tax assets and liabilities are determined based on differences between the carrying amounts of balance sheet items and their corresponding tax values. The determination of the income tax provision requires management to interpret regulatory requirements and to make certain judgements. While income tax filings are subject to audits and assessments, management believes that adequate provision has been made for all income tax obligations. However, changes in the interpretations or judgements may result in an increase or decrease in our income tax provision in the future. The amount of any such increase or decrease cannot be reasonably estimated.

Future Accounting Policies

Transition to International Financial Reporting Standards

In accordance with the Canadian Institute of Chartered Accountants Accounting Standards Board (AcSB), Canadian publicly accountable enterprises will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS). This changeover to IFRS from Canadian GAAP will apply to the Coastal's financial statements for the year beginning on November 1, 2011. Coastal will undertake the appropriate measures to ensure compliance with these new standards by the prescribed adoption date. Coastal is currently assessing the implications of these standards on the consolidated financial statements.

Common Shares

As at March 17, 2010, we had 56,901,719 common shares and 4,688,308 options outstanding.

Quarterly Financial Information

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

Quarter ended	Jan. 31, 2010	Oct. 31, 2009	July 31, 2009	Apr. 30, 2009	Jan. 31, 2009	Oct. 31, 2008	July 31, 2008	Apr. 30, 2008
Sales	35,908	37,716	37,511	33,301	31,342	32,027	32,725	28,632
Adjusted EBITDA¹	1,678	2,828	1,967	1,385	1,823	1,664	1,276	967
Restructuring Charges	-	-	-	-	-	-	-	(844)
Net Earnings (loss)	750	648	603	528	968	397	211	(692)
Weighted average # of shares - basic	56,902	56,902	57,057	57,975	58,318	58,451	63,430	65,092
Weighted average # of shares - diluted	58,502	57,705	57,374	57,988	58,320	58,605	63,535	65,092
Basic earnings (loss) per share	0.01	0.01	0.01	0.01	0.02	0.01	0.00	(0.01)
Diluted earnings (loss) per share	0.01	0.01	0.01	0.01	0.02	0.01	0.00	(0.01)

Seasonality may impact our sales distribution throughout the year. Our sales are generally stronger during the spring, summer and fall months. Our industry generally experiences lower sales and profits during the holiday season as customers choose to divert discretionary funds towards holiday purchases.

¹ Adjusted EBITDA is a non-GAAP measure that does not have a standardized meaning prescribed by Canadian GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. Refer to *Supplemental Non-GAAP Measures*

Related Party Transactions

As at January 31, 2010, there were five promissory notes outstanding, ranging in value from \$0.01 million to \$0.1 million and totaling \$0.32 million. Accumulated interest totals \$0.06 million. These loans are payable on demand and bear interest at a rate of 5% per annum. The debtors are personally liable for the amounts owed.

Contingent Liability

Coastal is engaged in certain legal actions in the ordinary course of our business and believes that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

Off-Balance Sheet Arrangements

Coastal does not have any off-balance sheet arrangements as defined by applicable securities regulations in Canada at January 31, 2010 that have, or are reasonably likely to have, a current or future material effect on our results of operations or financial condition.

Critical Suppliers

We currently purchase significant amounts of inventory from a limited number of major suppliers. We believe that alternative suppliers are available should those suppliers refuse or be unable to provide us with products.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

As of January 31, 2010, an evaluation of the design of Coastal's disclosure controls and procedures as defined in National Instrument 52-109 was carried out. Based on that evaluation, the CEO and CFO concluded that the design and operation of those disclosure controls and procedures were effective.

Internal Controls over Financial Reporting

Management is responsible for certifying the design of Coastal's internal control over financial reporting as required by National Instrument 52-109.

Our internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance

with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the CEO and CFO, carried out an evaluation of the design of our internal controls over financial reporting as at January 31, 2010. Management believes the design to be effective for the nature and size of Coastal's business, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

During the first quarter of 2010, management did not make changes to its system of internal controls that materially affect internal controls over financial reporting.

Supplemental Non-GAAP Measures and Definitions

Our reorder rate is defined as the percentage of orders in the quarter shipped to customers that we estimate have ordered from us in the past.

We report our results in accordance with Canadian GAAP, however, we present Adjusted EBITDA as we believe that our investors may use these figures to make more informed investment decisions about us.

Adjusted EBITDA is a non-GAAP measure that does not have any standardized meaning prescribed by Canadian GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. Adjusted EBITDA should be considered in addition to, and not as a substitute for, net income, cash flows and other measures of financial performance and liquidity reported in accordance with Canadian GAAP.

Adjusted EBITDA is a measure we believe is useful in assessing performance and highlighting trends on an overall basis. Adjusted EBITDA differs from the most comparable GAAP measure, net income, primarily because it does not include interest, income taxes, amortization and share-based compensation expense.

The following table provides a reconciliation of net income to Adjusted EBITDA:

(\$000's)	For the three months ended January 31,	
	2010	2009
Net earnings (loss)	750	968
Depreciation and amortization	681	614
Interest income, net	14	(42)
Income tax expense	31	337
Share-based compensation	220	148
Foreign exchange (gain) loss	(18)	(202)
Adjusted EBITDA	1,678	1,823

Additional Information

Additional information relating to Coastal, including Coastal's most recently filed annual information form, dated January 29, 2010, can be found on SEDAR at www.sedar.com.