

Interim Consolidated Financial Statements

Coastal Contacts Inc.

Unaudited

For the three and six months ended April 30, 2006

Coastal Contacts Inc.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	April 30, 2006 \$	October 31, 2005 \$
ASSETS		
Current		
Cash	2,387,611	2,985,600
Short-term investments	29,108,703	10,624,139
Accounts receivable <i>[note 3]</i>	6,169,221	4,809,216
Income taxes receivable	3,598	3,598
Inventory	7,518,320	7,020,637
Prepaid expenses	1,575,085	949,662
Due from related parties <i>[note 10]</i>	481,176	322,250
	47,243,714	26,715,102
Property, equipment and leasehold improvements <i>[note 4]</i>	2,119,206	1,446,029
Intangible assets <i>[note 5]</i>	5,701,522	5,466,712
Goodwill	5,618,507	5,479,147
	60,682,949	39,106,990
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	789,594	328,157
Accounts payable and accrued liabilities	8,876,780	10,259,818
Income taxes payable	200,834	308,447
Deferred revenue	274,355	77,502
Current portion of lease inducement	24,337	24,337
Current portion of long-term debt <i>[note 6]</i>	34,985	379,257
	10,200,885	11,377,518
Long-term lease inducement	101,191	114,177
Future income tax liability	1,774,599	1,646,676
	12,076,675	13,138,371
Shareholders' Equity		
Share capital		
Authorized:		
Unlimited common shares without par value		
Unlimited Class A preferred shares without par value		
Issued and outstanding <i>[note 7]</i> :		
69,870,663 common shares [2005 – 51,632,951]	48,564,650	26,263,656
Shares to be issued <i>[note 7]</i>	420,691	—
Contributed surplus <i>[note 8]</i>	590,510	593,083
Cumulative foreign currency translation adjustment	(2,227,705)	(1,808,808)
Retained earnings	1,258,128	920,688
	48,606,274	25,968,619
	60,682,949	39,106,990

See accompanying notes to the unaudited interim consolidated financial statements

On behalf of the Board:

/s/ Roger V. Hardy
Director

/s/ Michaela Tokarski
Director

Coastal Contacts Inc.

**CONSOLIDATED STATEMENTS OF INCOME
AND RETAINED EARNINGS (DEFICIT)**

(Unaudited)

	Three months ended April 30		Six months ended April 30	
	2006 \$	2005 \$	2006 \$	2005 \$
Sales	17,603,271	14,854,904	36,012,819	26,891,633
Cost of sales	13,315,328	10,777,677	27,105,619	19,846,440
Gross profit	4,287,943	4,077,227	8,907,200	7,045,193
Selling, general and administration expenses	3,812,805	3,347,853	7,868,750	5,781,156
Stock-based compensation	19,292	98,043	46,303	116,310
Amortization	289,919	172,225	550,534	346,623
Interest on long-term debt	13,814	22,984	29,812	58,689
Interest income	(285,279)	(44,948)	(371,400)	(49,952)
Income before income taxes	437,392	481,070	783,201	792,367
Income tax expense - current	153,803	55,105	242,742	126,673
Income tax expense - future	183,345	(10,409)	203,019	(13,686)
Net income	100,244	436,374	337,440	679,380
Retained earnings (deficit), beginning of period	1,157,884	(932,379)	920,688	(1,175,385)
Retained earnings (deficit), end of period	1,258,128	(496,005)	1,258,128	(496,005)
Basic earnings per share	0.00	0.01	0.01	0.02
Diluted earnings per share	0.00	0.01	0.01	0.01
Weighted average number of common shares outstanding – basic [note 9]	63,681,865	43,123,319	60,817,055	39,375,483
Weighted average number of common shares outstanding – diluted [note 9]	65,204,309	52,959,221	62,339,499	48,696,904

See accompanying notes to the unaudited interim consolidated financial statements

Coastal Contacts Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Three months ended April 30		Six months ended April 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income	100,244	436,374	337,440	679,380
Non-cash items:				
Amortization	289,919	172,225	550,534	346,623
Amortization of deferred lease inducement	(6,493)	(6,243)	(12,986)	(13,433)
Accrued interest	58,761	(40,258)	(27,360)	(41,175)
Stock-based compensation	19,292	98,043	46,303	116,310
Future income taxes	183,345	(10,409)	203,019	(13,686)
Changes in non-cash working capital:				
Accounts receivable	(631,681)	(586,320)	(1,310,192)	97,333
Inventory	399,681	54,369	(414,683)	66,819
Prepaid expenses	(520,210)	(332,387)	(609,036)	(316,617)
Accounts payable and accrued liabilities	1,541,865	1,321,715	(1,502,270)	1,125,913
Income taxes payable	(5,938)	58,965	(136,824)	129,148
Deferred revenue	144,848	(50,133)	196,946	(229,670)
Due from related parties	(141,161)	26,660	(116,558)	(7,035)
Cash provided by (used in) operating activities	1,432,472	1,142,601	(2,795,667)	1,939,910
INVESTING ACTIVITIES				
Purchase of short-term investments	(23,879,589)	(11,662,227)	(50,512,274)	(11,662,227)
Sale of short-term investments	24,189,751	52,072	32,123,125	450,804
Acquisition of property, equipment and leasehold improvements	(543,219)	(93,172)	(851,618)	(257,089)
Acquisition of intangible assets	(134,480)	(87,884)	(450,052)	(87,884)
Disposition of intangible assets		3,641		3,641
Advances to related parties	(19,253)	(67,825)	(42,368)	(93,101)
Cash used in investing activities	(386,790)	(11,855,395)	(19,733,187)	(11,645,856)
FINANCING ACTIVITIES				
Issuance of share capital	653,021	12,680,369	1,335,427	12,680,369
Proceeds received for shares to be issued	420,691		420,691	
Issuance of special warrants	—	—	22,500,000	—
Share issue costs	(165,465)	(939,329)	(1,580,775)	(939,329)
Bank indebtedness	183,766	(159,704)	461,437	(177,206)
Repayment of long-term debt	(213,146)	(161,623)	(343,687)	(332,588)
Cash provided by financing activities	878,867	11,419,713	22,793,093	11,231,246
Effect of exchange rate changes	(744,704)	(2,970)	(862,228)	1,482
Increase in cash	1,924,549	703,949	264,239	1,526,782
Cash, beginning of period	1,207,766	1,666,514	2,985,600	843,681
Cash, end of period	2,387,611	2,370,463	2,387,611	2,370,463
Interest paid in cash	13,814	22,984	29,812	58,689
Income taxes paid in cash	121,704	4,033	521,396	4,388

See accompanying notes to the unaudited consolidated interim financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2006

Unaudited

1. BASIS OF PRESENTATION

Coastal Contacts Inc. (“the Company”) is a global on-line retailer of contact lenses sold through internet sites and call centres 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.

The Company identified an adjustment in its reported results for the first quarter of fiscal 2006 relating to an understatement of foreign exchange transaction gains which reduced the net income reported in that quarter. This adjustment has been reflected in the current quarter and the first six months of fiscal 2006 results reported in the Company’s unaudited interim consolidated financial statements.

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

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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
Total consideration	1,060,225
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)
Net assets acquired	878,654
Goodwill	181,571

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.

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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3. ACCOUNTS RECEIVABLE

	April 30, 2006	October 31, 2005
	\$	\$
Accounts receivable	5,658,583	4,104,580
Allowance for doubtful accounts	(450,609)	(259,980)
Value added tax receivable	961,247	964,616
	6,169,221	4,809,216

4. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
April 30, 2006			
Leasehold improvements	742,089	114,977	627,112
Computer hardware	601,708	174,088	427,620
Computer software	89,352	36,377	52,975
Furniture and fixtures	412,596	105,825	306,771
Customized ERP software	864,176	159,448	704,728
	2,709,921	590,715	2,119,206
October 31, 2005			
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
Customized ERP software	512,138	90,379	421,759
	1,822,125	376,096	1,446,029

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5. INTANGIBLE ASSETS

	Cost \$	Accumulated Amortization \$	Net Book Value \$
April 30, 2006			
Website creation	1,304,708	279,640	1,025,068
Lensway name	2,502,005	—	2,502,005
Yourlenses name	443,917	—	443,917
Lensway customer list	1,830,735	694,244	1,136,491
Yourlenses customer list	634,167	116,264	517,903
Pharmalens agreements	76,138	—	76,138
	6,791,670	1,090,148	5,701,522
October 31, 2005			
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	1,785,027	501,557	1,283,470
Yourlenses customer list	618,333	63,812	554,521
Pharmalens agreements	76,138	—	76,138
	6,152,035	685,323	5,466,712

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6. LONG-TERM DEBT

	April 30, 2006 \$	October 31, 2005 \$
VanCity Capital		
Loan #2: Repayable in monthly instalments of \$8,378, blended principal and interest at a fixed interest rate of 13%. The loan has matured on March 15, 2006.	—	170,690
Loan #3: Repayable in monthly instalments of \$6,065 blended principal and interest at a fixed interest rate of 13%. The loan matured on June 15, 2006.	34,985	68,412
Handelsbanken Loan: 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) matured on February 28, 2006.	—	140,155
	34,985	379,257
Less current portion	34,985	379,257
	—	—

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	10,048,261	22,117,101	1,646,775	1,903,516
Issued on exercise of options	8,189,451	183,893	2,371,166	86,059
Issued to Marlin Financial Group Inc.	—	—	40,150	40,150
Balance - end of period	69,870,663	48,564,650	51,632,951	26,263,656

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 of 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 related to the offering. Net proceeds were \$21,006,183 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. These warrants were exercised on March 30, 2006 into common shares.

Between February 1, 2006 and April 30, 2006, a further 560,581 agents warrants and 11,111 options were exercised for cash proceeds of \$639,864 and \$11,111, respectively.

The Company received proceeds of \$420,691 from the exercise of 384,492 warrants for which the shares were issued subsequent to April 30, 2006.

8. CONTRIBUTED SURPLUS

	April 30, 2006	October 31, 2005
	\$	\$
Balance - beginning of period	593,083	105,898
Stock-based compensation	46,303	175,632
Compensation warrants	—	478,800
Reclassification to share capital on exercise of warrants	(48,876)	(167,247)
Balance - end of period	590,510	593,083

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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9. EARNINGS PER SHARE

	Three months ended		Six months ended	
	April 30		April 30	
	2006	2005	2006	2005
Weighted average number of common shares outstanding – basic	63,681,865	43,123,319	60,817,055	39,375,483
Stock options	629,869	9,043,353	629,869	8,968,255
Warrants	892,575	792,549	892,575	353,166
Weighted average number of common shares outstanding – diluted	65,204,309	52,959,221	62,339,499	48,696,904

10. RELATED PARTY TRANSACTIONS

Due from related parties

	April 30,	October 31,
	2006	2005
	\$	\$
Promissory notes receivable	243,700	115,000
Advances to officers	197,785	167,559
CMP Medical Inc.	39,691	39,691
	481,176	322,250

The amounts due from related parties includes: (1) promissory notes from six members of management. 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 \$197,785. 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.

All related party transactions are measured at their exchange amounts.

Coastal Contacts Inc.

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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 \$
Sales						
3 months ended April 30, 2006	6,450,394	4,420,588	2,792,439	4,679,813	(739,963)	17,603,271
3 months ended April 30, 2005	6,588,505	3,796,573	2,152,086	2,526,287	(208,547)	14,854,904
6 months ended April 30, 2006	13,123,921	9,106,298	5,281,024	9,556,064	(1,054,488)	36,012,819
6 months ended April 30, 2005	12,856,132	6,807,821	3,610,974	3,844,906	(228,200)	26,891,633
Property, equipment and leasehold improvements						
As at April 30, 2006	—	1,071,992	—	1,047,214	—	2,119,206
As at October 31, 2005	—	703,778	—	742,251	—	1,466,029
Goodwill						
April 30, 2006	—	5,618,507	—	—	—	5,618,507
October 31, 2005	—	5,479,147	—	—	—	5,479,147

Included in "Other" are Canadian Revenues, including Intercompany Revenues, of \$1,022,709 and \$1,626,194 for the 3 months ended April 30, 2006 and the 6 months ended April 30, 2006 respectively (2005 - \$733,448 and \$906,574). Property, equipment and leasehold improvements in Canada were \$1,047,214 at April 30, 2006 (2005 - \$742,251).

12. COMPARATIVE FIGURES

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