

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, 2005. 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. These forward looking statements are made as of the date of this Management Discussion and Analysis and, except as otherwise required by law, the Company assumes no obligation to update or revise them to reflect new information, future events or otherwise. Reference should be made to the section entitled "Risk Factors" contained in the Annual Information Form dated February 10, 2006 for a detailed description of the risks and uncertainties relating to the business of the Company.

CORPORATE OVERVIEW AND HISTORY

With operation and distribution hubs in North America and Europe, the Company is one of the largest and fastest growing vision care providers in the world. The Company has shipped over one and a half million orders since inception and continues to strengthen the Coastal Contacts brand through the compelling value proposition of savings and convenience. The Company leverages the efficiencies of the internet to streamline the distribution chain, bypassing middlemen to sell directly to the consumer, and achieve superior management of information and working capital. Management believes that by combining these efficiencies with a singular product focus and multi-national operations, Coastal is able to maintain a competitive advantage in its market.

Since its formation, in October of 2000, the Company has experienced significant growth. The Company's revenue has grown from \$2.5 million in 2001 to \$8.9 million in 2002, an increase of 256% and to \$20.1 million in 2003, for an increase of 127%. Revenue for 2004 was \$31.2 million, an increase of 55%. Revenue in 2005 was \$67.5 million, an increase of 116%. This five year history represents a compound annual growth rate (CAGR) of 92%. Revenue in the first half of 2006 continued to trend upwards to \$ 36 million, an increase of 34 % over 2005.

The Company has developed a strong annuity sales base from repeat customers which accounted for approximately 42% of total orders for the quarter ended April 30, 2006. With the average customer placing a re-order every six, nine or 12 months, the compounding effect of this annuity stream aids in driving profitable growth.

On March 31, 2004, the Company listed its common shares on the TSX Venture Exchange under the trading symbol "COA". On March 10, 2005, the Company closed a \$12.32 million private placement involving 11.2 million shares and 1,064,000 warrants. The net proceeds of \$11.38 million from the offering was used for financing further expansion, sales and marketing, and working capital purposes.

On January 31, 2006, the Company completed on a bought deal underwritten basis, the sale of 9,000,000 special warrants by way of private placement, at a price of \$2.50 per special warrant, for net proceeds of \$21,084,690.

On May 9, 2006, the Company began trading on the Toronto Stock Exchange.

SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Quarter ended April 30, 2006	Quarter ended Jan. 31, 2006	Quarter ended Oct. 31, 2005	Quarter ended Jul. 31, 2005	Quarter ended Apr. 30, 2005	Quarter ended Jan. 31, 2005	Quarter ended Oct. 31, 2004	Quarter ended Jul. 31, 2004
Sales	\$ 17,603,271	\$18,409,548	\$20,820,006	\$19,817,514	\$14,854,904	\$12,036,729	\$11,726,733	\$6,996,983
Gross Profit	\$4,287,943	\$4,619,257	\$5,164,114	\$5,656,068	\$4,077,227	\$2,967,965	\$2,451,224	\$1,323,173
EBITDA (1)	\$475,138	\$563,314	\$502,984	\$1,610,479	\$729,374	\$534,663	\$346,268	(\$146,081)
Net Income (loss)	\$100,244	\$237,198	\$216,514	\$1,200,180	\$436,374	\$243,006	\$276,220	(\$176,540)
Weighted Average # of shares - Basic	63,681,865	58,034,604	50,573,011	50,044,222	43,123,319	35,777,134	33,874,960	21,235,996
Weighted Average # of shares - Fully Diluted	65,204,309	60,264,972	60,983,391	60,251,874	52,959,221	46,562,596	44,519,450	21,235,996
Basic Earnings (Loss) per share	\$0.00	\$0.00	\$0.00	\$0.02	\$0.01	\$0.01	\$0.01	(\$0.01)
Diluted Earnings (Loss) per share	\$0.00	\$0.00	\$0.00	\$0.02	\$0.01	\$0.01	\$0.01	(\$0.01)

- (1) EBITDA is defined as earnings from operations before interest, income taxes, amortization and stock based compensation. 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.

	Quarter ended Apr. 30, 2006	Quarter ended Jan. 31, 2006	Quarter ended Oct. 31, 2005	Quarter ended July 31, 2005	Quarter ended Apr. 30, 2005	Quarter ended Jan. 31, 2005	Quarter ended Oct. 31, 2004	Quarter ended July 31, 2004
Net income	\$100,244	\$237,198	\$216,514	\$1,200,179	\$436,374	\$243,006	\$219,395	(\$119,715)
Income tax expense (recovery) - current	\$153,803	\$88,939	(\$171,349)	\$519,271	\$55,105	\$71,569	(\$21,347)	\$ -
Income tax expense (recovery) - future	\$183,345	\$19,674	\$233,883	(\$313,899)	(\$10,409)	(\$3,278)	(\$38,045)	\$ -
Income (loss) before income taxes	\$437,392	\$345,811	\$279,047	\$1,405,552	\$481,070	\$311,297	\$160,003	(\$119,715)
Amortization	\$289,919	\$260,615	\$257,377	\$228,831	\$172,225	\$174,398	\$151,689	\$14,774
Interest on long-term debt	\$13,814	\$15,998	\$17,797	\$22,516	\$22,984	\$35,704	\$27,678	\$15,702
Interest income	(\$285,279)	(\$86,121)	(\$80,266)	(\$76,713)	(\$44,948)	(\$5,003)	\$ -	\$ -
Stock based compensation	\$19,292	\$27,011	\$29,029	\$30,293	\$98,043	\$18,267	\$6,898	\$ -
EBITDA	\$475,138	\$563,314	\$502,984	\$1,610,479	\$729,374	\$534,663	\$331,642	(\$146,081)

RESULTS OF OPERATIONS

Quarter Ended April 30, 2006

Sales for the quarter ended April 30, 2006 were \$17,603,271, an increase of \$2,748,367 or 18.5% over the first quarter of 2005. The increase in the Canadian Dollar against the US Dollar and the major European Currencies had a marked impact on revenues in the quarter. Adjusting for the unfavourable impact of the strengthening Canadian Dollar against the underlying currencies, revenues increased 32% or \$4.8 million over last year.

Total order volume for the quarter was 209,894 orders, an increase of 54,271 orders or 35% over the first quarter of 2005. There were 87,135 orders from returning customers, an increase of 21,810 orders or 33% over the same quarter in 2005. This increase in orders from existing customers continues to reflect the growing annuity aspect of the Company's business model. In the second quarter of fiscal 2006, 122,759 orders were shipped to new customers, an increase of 32,461 or 36% over the same quarter in 2005.

Gross profit for the quarter ended April 30, 2006 increased by \$210,716 over the second quarter of 2005 to \$4,287,943 representing a 5.2% increase over last year. Gross profit was 24.4% of sales for the second quarter of 2006, representing a decrease from the 27.4% in the same quarter in the preceding year. While volume gains contributed positively to margins, the margin was compressed as a consequence of the unfavourable impact of exchange, a higher proportion of sales through lower cost brands focused on new market development and, to a lesser extent, the impact of expanding distribution capabilities.

The Company's SG&A for the quarter ended April 30, 2006 was 21.7% of net sales, a decrease over the 22.5% from the prior year. Underlying spending increased by 2.3% of net sales driven primarily by increased spending in marketing and an increase in professional fees. Foreign currency exchange gains, including an adjustment relating to an understatement of foreign exchange transaction gains that occurred in the first quarter of 2006, had a positive impact, more than offsetting the unfavourable impact of foreign exchange fluctuations in gross profit.

Management believes that a short-term increase in marketing spending is necessary in order to extend the Company's reach into new international markets. Marketing spending has increased as the Company continues to enter and expand its entry into new markets. Historically, the initial customer acquisition costs in new markets are high since the Company must establish initial brand awareness. Coastal is continuing to incur these costs in the German, UK, Australian and New Zealand markets. Combined, these markets are significant and consequently, the Company believes that this is a necessary cost of growth. Based on historical results management believes that as these markets cycle through to re-orders, all of the above mentioned markets will become profitable.

The Company also continued to build out the Lens Logistics program in Europe in the second quarter of 2006. Approximately fifty percent of contact lenses are purchased directly from eye-care practitioners ("ECPs"). Coastal's large volume and centralized distribution model allows the Company to act as a cost effective service oriented source of lenses for the ECP community at large. On behalf of the ECP, the Company will ship orders directly to the residences of patients saving the customer both time and money. The ECPs save money on administrative costs, inventory costs and lens costs. It also provides the ECP a "one-stop shop" option versus the conventional methodology of contacting each manufacturer separately with manufacturer specific orders. The Company believes that by extending its service to include ECPs it increases the near and long-term market opportunity materially. An additional service offered through the Lens Logistics program is the marketing of eye-exams to existing customers in the Company's database.

Stock-based compensation represents a non cash expense resulting from the Company's issuance of stock options to employees and directors of the Company. The Company believes that the granting of stock options to employees is a key incentive to provide employees with ownership in the Company and an interest in the continued growth and success of the Company. Stock based compensation for the quarter ended April 30, 2006 was \$19,292 as compared to \$98,043 for the first quarter of the preceding year.

EBITDA for the quarter ended April 30, 2006 was \$475,138 as compared to \$729,374 for the same period in 2005. Increased SG&A as discussed above were only partially offset by increased margins derived from the higher sales revenue driven by an increase in new orders of 32,461 and an increase in orders to returning customers of 21,810.

Amortization for the quarter ended April 30, 2006 increased by \$117,694 from the second quarter of the previous year to \$289,919. This increase was due in part to capital expenditures of \$328,089 on computer hardware, \$699,331 on computer software and website development and \$381,909 on leasehold improvements between February 1, 2005 and April 30, 2006. In addition, as a result of the acquisition of Yourlenses in May 2005, \$735,000 was allocated to the Yourlenses customer list which is being amortized over a five year period. In the second quarter of 2006, there was approximately \$29,000 associated with the amortization of the Yourlenses customer list that was not incurred in the second quarter of 2005.

Interest expense for the quarter ended April 30, 2006 was \$13,814 as compared to \$22,984 for the second quarter of 2005. This decrease in interest expense resulted from the Company having reduced its debt balances resulting from principal payments.

Interest income for the quarter ended April 31, 2006 was \$285,279 as compared to \$44,948 for the second quarter of 2006. Interest income consists primarily of interest earned on the funds raised through a private placement in January, 2006.

Current income tax expense of \$153,803 for the second quarter of 2006 represents taxes payable on the Company's European operations.

Future income tax expense of \$183,345 for the second quarter ended April 30, 2006 is primarily attributable to an increase in Lensway AB's future income tax liability, partially offset by the draw down of the future income tax liability recognized in the purchase price allocation for the acquisition of Lensway AB and Yourlenses in 2004 and 2005, respectively.

Net Income for the quarter ended April 30, 2006 was \$100,244 as compared to \$436,374 for the same period in 2006. As discussed above, increased SG&A resulting from increased professional fees and the Company's expansion into new markets and investing in its Lens Logistics program was only partially offset by the increased margin derived from the increased sales revenue driven by an increase in new orders of 32,461 and an increase in orders to returning customers of 21,810.

Liquidity and Capital Resources

Financial condition

On January 31, 2006, the Company completed on a bought deal underwritten basis, the sale of 9,000,000 special warrants by way of private placement, at a price of \$2.50 per special warrant, for net proceeds of \$21 million. Each special warrant was exercisable to acquire one common share of the Company for no additional consideration. The special warrants were exercisable by the holders thereof at any time and were 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.

In the fourth quarter of 2005, the Company fully implemented a program where the majority of the Company's customers were granted credit. The decision to offer this service was based on the success achieved by the Company's European operations, which has been historically offering this service for over four years. The Company believes that new customers might be wary of ordering contact lenses from an on-line retailer and having to pay for the contact lenses prior to receiving the product. The Company's program, named "Invoice Me Later" or IML allows the customer to order from the Company and only pay after receiving the product. This program has resulted in an increased rate of conversion in the number of customers ordering from the Company's websites, as customers realize they can try out the Company's product and receive the Company's product prior to paying.

Net cash provided by operating activities for the quarter ended April 30, 2006 was \$1,432,472 as compared to cash provided by operating activities of \$1,142,601 in the second quarter of the preceding year.

Net cash used in investing activities for the quarter ended April 30, 2006 was \$386,790 as opposed to \$11,855,395 last year. Short term investments remained reasonably consistent this quarter as opposed to the previous year. In 2005, the Company invested the proceeds of the private placement completed in the quarter. Primary uses of cash in the quarter ended April 30, 2006 investments in computer hardware and leasehold improvements of \$287,406 and investments in website development of \$243,680.

Net cash provided by financing activities for the quarter ended April 30, 2006 was \$878,867 as compared to \$11,419,713 in the second quarter of 2005. In the second quarter of 2006, the principal source of financing was obtained through option and warrant exercises. There was \$653,021 obtained through option and warrant exercises and proceeds of \$420,691 for warrant exercises where the shares were issued subsequent to April 30, 2006. This cash provided through financing activities was offset by a net change in the Company's long term debt of \$29,380. On March 10, 2005, the Company closed a private placement involving 11.2 million shares and 1,064,000 warrants for net proceeds of \$11.38 million.

The Company believes that its available cash, together with cash flow from operations and the recently completed special warrants financing will be sufficient to support current operations and organic growth at least through fiscal 2006.

The Company may 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.

SELECTED FINANCIAL INFORMATION FOR THE FIRST SIX MONTHS OF THE YEAR (UNAUDITED)

	Six Months ended April 30, 2006	Six Months ended April 30, 2005
Sales	\$36,012,819	\$26,891,633
Gross Profit	\$8,907,200	\$7,045,193
EBITDA (1)	\$1,038,452	\$1,264,037
Net Income	\$ 337,442	\$679,380
Weighted Average # of shares - Basic	60,817,055	39,375,483
Weighted Average # of shares - Fully Diluted	62,339,499	48,696,904
Basic Earnings per share	\$0.01	\$0.02
Diluted Earnings per share	\$0.01	\$0.01

- (1) EBITDA is defined as earnings from operations before interest, income taxes, amortization and stock based compensation. 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.

RESULTS OF OPERATIONS

Six Months Ended April 30, 2006

Sales for the six months ended April 30, 2006 were \$36,012,819, an increase of \$9,121,186 or 34% over the first half of 2005. The increase in the Canadian Dollar against the US Dollar and the major European Currencies had a marked impact on revenues in the period. Adjusting for the unfavourable impact of the strengthening Canadian Dollar against the underlying currencies, revenues increased 41% over last year.

Total order volume for the six months ended April 30, 2006 was 391,404 orders, an increase of 111,620 orders or 40% over the same period in 2005. There were 183,212 orders from returning customers, an increase of 63,300 orders or 53% over the same period in 2005. This increase in orders from existing customers continues to reflect the growing annuity aspect of the Company's business model. In the first six months of fiscal 2006, 208,192 orders were shipped to new customers, an increase of 48,320 or 30% over the same period in 2005.

Gross profit for the six months ended April 30, 2006 increased by \$1,862,007 over the first six months of 2005 to \$8,907,200 representing a 26.4% increase over last year. Gross profit was 24.7% of sales for the first six months of 2006, representing a decrease from the 26.2% in the same period in the preceding year. While volume gains and the impact of leveraging volume buys contributed positively to margins, the margin was compressed as a consequence of the unfavourable impact of exchange, a higher proportion of sales through lower cost brands focused on new market development and the impact of expanding distribution capabilities.

The Company's SG&A for the six months ended April 30, 2006 was 21.8% of net sales, a slight increase over the 21.5% from the prior year. Underlying spending increased by 1.8% of net sales driven primarily by increased spending in marketing and an increase in professional fees. Management believes that a short-term increase in marketing spending is necessary in order to extend the Company's reach into new international markets. The Company also continued to build out the Lens Logistics program in Europe in the first half of 2006. The Company believes that by extending its service to include ECPs it increases the near and long-term market opportunity materially. An additional service offered through the Lens Logistics program is the marketing of eye-exams to existing customers in the Company's database.

Stock-based compensation represents a non cash expense resulting from the Company's issuance of stock options to employees and directors of the Company. The Company believes that the granting of stock options to employees is a key incentive to provide employees with ownership in the Company and an interest in the continued growth and success of the Company. Stock based compensation for the six months ended April 30, 2006 was \$46,303 as compared to \$116,310 for the first six months of the preceding year.

EBITDA for the six months ended April 30, 2006 was \$1,038,452 as compared to \$1,264,037 for the same period in 2005. Increased SG&A as discussed above were only partially offset by increased margins derived from the higher sales revenue driven by an increase in new orders of 48,320 and an increase in orders to returning customers of 63,300.

Amortization for the six months ended April 30, 2006 increased by \$203,911 from the first six months of the previous year to \$550,534. This increase was due in part to capital expenditures of \$328,089 on computer hardware, \$699,331 on computer software and website development and \$381,909 on leasehold improvements between February 1, 2005 and April 30, 2006. In addition, as a result of the acquisition of Yourlenses in May 2005, \$735,000 was allocated to the Yourlenses customer list which is being amortized over a five year period. In the first six months of 2006, there was approximately \$60,000 associated with the amortization of the Yourlenses customer list that was not incurred in the first half of 2005.

Interest expense for the six months ended April 30, 2006 was \$29,812 as compared to \$58,689 for the first half of 2005. This decrease in interest expense resulted from the Company having reduced its debt balances resulting from principal payments.

Interest income for the six months ended April 31, 2006 was \$371,400 as compared to \$49,952 for the first half of 2006. Interest income consists primarily of interest earned on the funds raised through a private placement in January, 2006.

Current income tax expense of \$242,742 for the first half of 2006 represents taxes payable on the Company's European operations.

Future income tax expense of \$203,019 for the second six months ended April 30, 2006 is primarily attributable to an increase in Lensway AB's future income tax liability, partially offset by the draw down of the future income tax liability recognized in the purchase price allocation for the acquisition of Lensway AB and Yourlenses in 2004 and 2005, respectively.

Net Income for the six months ended April 30, 2006 was \$337,440 as compared to \$679,380 for the same period in 2006. As discussed above, increased SG&A resulting from increased professional fees and the Company's expansion into new markets and investing in its Lens Logistics program was only partially offset by increased the increased margin derived from the increased sales revenue driven by an increase in new orders of 48,320 and an increase in orders to returning customers of 63,300.

Liquidity and Capital Resources

Financial condition

On January 31, 2006, the Company completed on a bought deal underwritten basis, the sale of 9,000,000 special warrants by way of private placement, at a price of \$2.50 per special warrant, for net proceeds of \$21 million. Each special warrant was exercisable to acquire one common share of the Company for no additional consideration. The special warrants were exercisable by the holders thereof at any time and were 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.

In the fourth quarter of 2005, the Company fully implemented a program where the majority of the Company's customers were granted credit. The decision to offer this service was based on the success achieved by the Company's European operations, which has been historically offering this service for over four years. The Company believes that new customers might be wary of ordering contact lenses from an on-line retailer and having to pay for the contact lenses prior to receiving the product. The Company's program, named "Invoice Me Later" or IML allows the customer to order from the Company and only pay after receiving the product. This program has resulted in an increased rate of conversion in the number of customers ordering from the Company's websites, as customers realize they can try out the Company's product and receive the Company's product prior to paying.

Net cash used operating activities for the six ended April 30, 2006 was \$2,795,667 as compared to cash provided by operating activities of \$1,939,910 in the first half of the preceding year. The key drivers of the changes in working capital for the six months of 2006 were the increase in receivables associated with the Invoice me Later program and a reduction in supplier payables in the first quarter of the year.

Net cash used in investing activities for the six months ended April 30, 2006 was \$19,733,187 as opposed to \$11,645,856 last year. The primary use of cash in the first six months was the net acquisition of short term investments of \$18,389,149 (versus \$11,211,423 in 2005), investments in computer hardware and leasehold improvements of \$595,805 and investments in website development of \$559,252.

Net cash provided by financing activities for the half ended April 30, 2006 was \$22,793,093 as compared to \$11,231,246 in the first half of 2005. In 2006, the principal source of financing was the issuance of nine million special warrants resulting in net proceeds of \$21 million on January 31, 2006. There was a further \$1.3 million obtained through option and warrant exercises and proceeds of \$0.4 million for warrant exercises where the shares were issued subsequent to April 30, 2006. In 2005, the Company closed a private placement involving 11.2 million shares and 1,064,000 warrants for net proceeds of \$11.4 million. This cash provided through financing activities was offset by a net change in the Company's long term debt of \$117,750.

The Company believes that its available cash, together with cash flow from operations and the recently completed special warrants financing will be sufficient to support current operations and organic growth at least through fiscal 2006.

The Company may 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.

Common Shares

As at June 26, 2006, the Company had 70,274,822 common shares, 399,992 options and 4,167 warrants issued and outstanding. Of these securities, 5,962,834 common shares and 165,000 options remain in escrow or have not yet vested as of June 26, 2006.

Critical Accounting Estimates

Coastal Contacts Inc. prepares its financial statements in accordance with Canadian generally accepted accounting principles ("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 revenues 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 revenues and expenses. Actual results may differ from these estimates under different assumptions.

Stock Based Compensation

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. The amount of stock based compensation associated with any options that are granted will be estimated and expensed using weighted average assumptions involving the estimated dividend yield, expected volatility, the risk free interest rate and the expected lives of the options.

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

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill is not amortized and is reviewed for possible impairment annually or more frequently if events or changes in circumstances indicate possible impairment, based on the profitability and cash flows of Lensway AB. There have been no indicators of potential impairment during the quarter or any other circumstances that would require us to perform a goodwill impairment test other than the annual test that will be performed in the fourth quarter.

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.

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
Yourlenses customer list	735,000
Yourlenses 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.

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. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, those relating to changes in the market, potential downturns in economic conditions, limited suppliers, inventory risk, disruption in our distribution facilities, foreign exchange, fluctuations, regulatory requirements, demand for contact lenses, competition and dependence on the internet. These risks, as well as others, could cause actual results and events to vary significantly.

Additional Information

Additional information relating to the Company, including the Company's most recently filed annual information form, can be found on SEDAR at www.sedar.com.