

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

COASTAL CONTACTS INC.

UNAUDITED

FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2010

(Canadian dollars)

COASTAL CONTACTS INC.
CONSOLIDATED BALANCE SHEETS

(CAD \$000's)

	July 31, 2010	October 31, 2009
	(Unaudited)	
ASSETS		
Current		
Cash and cash equivalents <i>[note 3]</i>	\$ 20,812	\$ 11,532
Accounts receivable	8,190	7,965
Inventory	15,219	15,701
Prepaid expenses	2,229	1,532
Future income tax	93	109
Related party promissory notes <i>[note 8]</i>	201	374
	46,744	37,213
Property, equipment and leasehold improvements	4,866	2,813
Intangible assets	8,210	9,517
Goodwill	7,292	7,757
	\$ 67,112	\$ 57,300
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 25,904	\$ 17,908
Income tax payable	-	615
Deferred gain on sale of equipment <i>[note 4]</i>	63	-
Capital lease obligation <i>[note 4]</i>	330	-
	26,297	18,523
Deferred gain on sale of equipment <i>[note 4]</i>	251	-
Capital lease obligation <i>[note 4]</i>	1,487	-
Future income tax	3,209	3,614
	31,244	22,137
SHAREHOLDERS' EQUITY		
Share capital <i>[note 5]</i>		
Authorized:		
Unlimited common shares without par value		
Unlimited Class A preferred shares without par value		
Issued and outstanding:		
56,913,546 common shares [2009 – 56,901,719]	40,386	40,248
Shares held in treasury		
31,773 common shares [2009 – nil]	(40)	-
Contributed surplus <i>[note 6]</i>	2,644	2,294
Accumulated other comprehensive loss <i>[note 7]</i>	(4,834)	(3,482)
Deficit	(2,288)	(3,897)
	35,868	35,163
	\$ 67,112	\$ 57,300

Contingencies *[note 10]*

See accompanying notes to the unaudited interim consolidated financial statements

COASTAL CONTACTS INC.
CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

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

	Three months ended		Nine months ended	
	July 31		July 31	
	2010	2009	2010	2009
Sales	\$ 39,455	\$ 37,511	\$ 112,681	\$ 102,154
Cost of sales	28,078	26,332	80,737	71,079
Gross profit	11,377	11,179	31,944	31,075
Advertising	4,890	5,042	12,801	13,420
Selling, general and administration	5,087	4,170	14,565	12,478
Amortization on property, equipment and leasehold improvements	364	264	932	719
Amortization on intangible assets	308	352	1,098	1,115
Share-based compensation	109	189	459	485
Interest expense (income)	15	(12)	30	(68)
Foreign exchange (gain) loss	(5)	252	270	11
Earnings before income taxes	609	922	1,789	2,915
Income tax	80	319	128	816
Net earnings	529	603	1,661	2,099
Unrealized foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign operations	393	(46)	(1,352)	(1,057)
Comprehensive earnings	\$ 922	\$ 557	\$ 309	\$ 1,042
Basic net earnings per share	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.04
Diluted net earnings per share	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.04
Weighted average number of common shares outstanding				
Basic	56,981,557	57,057,145	56,948,115	57,781,343
Diluted	57,963,709	57,374,702	58,036,184	57,909,739

See accompanying notes to the unaudited interim consolidated financial statements

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

Nine months ended July 31	2010	2009
Deficit, beginning of period	\$ (3,897)	\$ (6,476)
Net earnings	1,661	2,099
Premium on purchase of common shares for cancellation	(52)	(168)
Deficit, end of period	\$ (2,288)	\$ (4,545)

See accompanying notes to the unaudited interim consolidated financial statements

COASTAL CONTACTS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (CAD \$000's)

	Three months ended		Nine months ended	
	July 31		July 31	
	2010	2009	2010	2009
OPERATING ACTIVITIES				
Net earnings	\$ 529	\$ 603	\$ 1,661	\$ 2,099
Non-cash items affecting earnings:				
Amortization	672	616	2,030	1,834
Amortization of deferred lease inducement	(2)	(20)	(31)	(60)
Share-based compensation	109	189	459	485
Future income taxes	(46)	96	(181)	58
Changes in non-cash working capital:				
Accounts receivable	303	67	(549)	(437)
Inventory	511	2,090	(201)	(3,433)
Prepaid expenses	4	159	(478)	462
Accounts payable and accrued liabilities	8,060	(3,763)	8,561	352
Income tax payable	65	117	(697)	281
Deferred gain on disposition of property and equipment [note 4]	313	-	313	-
Cash provided by operating activities	10,518	154	10,887	1,641
INVESTING ACTIVITIES				
Repayments from (advances to) related parties	(3)	(4)	172	(12)
Acquisition of property, equipment and leasehold improvements	(1,422)	(231)	(2,987)	(637)
Acquisition of intangible assets	(106)	(32)	(294)	(53)
Disposition of property and equipment [note 4]	1,817	-	1,817	60
Cash provided by (used in) investing activities	286	(267)	(1,292)	(642)
FINANCING ACTIVITIES				
Issuance of common shares on exercise of options	39	-	131	-
Purchase of common shares for cancellation	(158)	(199)	(158)	(1,169)
Cash used in financing activities	(119)	(199)	(27)	(1,169)
Effect of exchange rate changes on cash and cash equivalents	249	(315)	(288)	(1,036)
Increase (decrease) in cash and cash equivalents	10,934	(627)	9,280	(1,206)
Cash and cash equivalents, beginning of period	9,878	14,627	11,532	15,206
Cash and cash equivalents, end of period	\$ 20,812	\$ 14,000	\$ 20,812	\$ 14,000
Supplemental disclosure of cash flow information:				
Non-cash financing and investing activities:				
Assets acquired under capital lease [note 4]	\$ 1,817	-	\$ 1,817	-
Income tax paid in cash	\$ 103	\$ 237	\$ 602	\$ 834

See accompanying notes to the unaudited interim consolidated financial statements

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 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.

Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. These Sections replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for the accounting of non-controlling interests in a subsidiary in the consolidated financial statements subsequent to a business combination. These Sections will apply to Coastal's financial statements beginning on January 1, 2011. Coastal is currently evaluating the implications of these new Sections on the consolidated financial statements.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2010

Unaudited

2. FUTURE ACCOUNTING POLICIES (Continued)

Business Combinations

In January 2009, the CICA issued Section 1582, *Business Combinations*. This Section replaces Section 1581, *Business Combinations*. Section 1582 establishes standards for the recognition of business combination. This Section will apply to Coastal's financial statements beginning on January 1, 2011. Coastal is currently evaluating the implications of this new Section on the consolidated financial statements.

3. CASH AND CASH EQUIVALENTS

Coastal has the Canadian dollar equivalent of \$1.0 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 has access to credit facilities, totaling approximately \$10.5 million. As at July 31, 2010 and October 31, 2009, there was no balance outstanding pursuant to these facilities.

4. CAPITAL LEASE OBLIGATION

During the three months ended Jul 31, 2010, Coastal entered into a Canadian dollar denominated lease agreement to finance equipment totaling \$1.8 million with a fixed interest rate of 4.73% and 60 monthly payments. There is a bargain purchase option to purchase the equipment under this lease for \$1 when the lease term expires. As part of the transaction, the existing equipment was sold to the lessor and simultaneously leased back. The sale generated a deferred gain which will be amortized over the lease term.

	\$000's
2010	80
2011	330
2012	348
2013	367
2014 and thereafter	692
Less current capital lease obligation	(330)
Long-term capital lease obligation	1,487

During the three months ended July 31, 2010, no interest or principal was paid on the capital lease.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2010

Unaudited

5. 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:

	Nine Months Ended July 31, 2010		Nine Months Ended October 31, 2009	
	#	\$000's	#	\$000's
Balance, beginning of period	56,901,719	40,248	58,318,643	41,250
Issued on exercise of options	137,000	204	-	-
Purchased and cancelled	(93,400)	(66)	(1,416,924)	(1,002)
	56,945,319	40,386	56,901,719	40,248
Shares purchased not cancelled	(31,773)	(40)	-	-
Balance, end of period	56,913,546	40,346	56,901,719	40,248

On December 30, 2009 Coastal renewed a Normal Course Issuer Bid ("NCIB") with the Toronto Stock Exchange ("TSX") for maximum eligible purchases of 3,797,468 of Coastal's common stock. As at July 31, 2010, the Company had purchased 125,173 common shares for an average price of \$1.26 per share. Of those shares, 93,400 have been cancelled. The excess premium of the purchase price over the average stated capital of the shares has been charged to deficit.

(b) Share purchase options

Coastal's shareholder adopted stock option plan (the "Option Plan"), for its directors, officers, employees and service providers, sets out the terms upon which options to purchase common shares may be granted. 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.

Share purchase option activity for the nine months ended July 31, 2010:

	#	\$
Options outstanding, October 31, 2009	4,403,308	0.69 – 1.14
Granted	1,075,000	1.42 – 1.49
Exercised	(137,000)	0.69 – 1.09
Forfeited	(863,808)	0.80 – 1.12
Options outstanding, July 31, 2010	4,477,500	0.69 – 1.49

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2010

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5. SHARE CAPITAL (continued)

Share purchase options outstanding as at July 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	25,000	3.23	0.69	-	-
\$0.80 - \$0.99	1,826,500	2.73	0.86	1,260,955	0.87
\$1.00 - \$1.14	1,551,000	2.45	1.08	1,095,379	1.08
\$1.15 - \$1.49	1,075,000	4.80	1.44	76,455	1.48
	4,477,500	3.13	1.07	2,432,789	0.98

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	52.4%	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 nine months ended July 31, 2010 totaled \$224,403. There were no such contributions during the nine months ended July 31, 2009 as the plan was not in place.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2010

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6. CONTRIBUTED SURPLUS

	\$000's
Balance – October 31, 2009	2,294
Share-based compensation	459
Impact of options exercised	(73)
Impact of options cancelled and settled in cash	(36)
Balance – July 31, 2010	2,644

7. 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	(1,352)
Balance – July 31, 2010	(4,834)

8. RELATED PARTY BALANCES AND TRANSACTIONS

	July 31, 2010 \$000's	October 31, 2009 \$000's
Promissory notes receivable	201	374

As at July 31, 2010, there were four promissory notes outstanding to Coastal employees totalling \$0.2 million, of which \$0.04 million was accumulated interest. These loans are payable on demand and bear interest at a rate of 5% per annum and the debtors are personally liable for the amounts owed. Coastal did not have any loans outstanding to its Chief Executive Officer, its Chief Financial Officer or any of its directors at July 31, 2010.

COASTAL CONTACTS INC.

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July 31, 2010

Unaudited

9. 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 sales 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.

	Canada \$000's	Sweden \$000's	Norway \$000's	USA \$000's	Other \$000's	Total \$000's
Sales						
Three months ended July 31, 2010	8,623	7,929	4,902	6,001	12,000	39,455
Three months ended July 31, 2009	7,069	8,174	5,367	4,824	12,077	37,511
Nine months ended July 31, 2010	23,892	21,853	14,176	18,063	34,697	112,681
Nine months ended July 31, 2009	17,726	22,661	14,506	13,986	33,275	102,154
Property, equipment and leasehold improvements						
As at July 31, 2010	3,441	1,425	-	-	-	4,866
As at July 31, 2009	1,593	1,346	-	-	-	2,939
Intangible assets						
As at July 31, 2010	854	2,686	-	-	4,670	8,210
As at July 31, 2009	1,018	3,515	-	-	5,176	9,709
Goodwill						
As at July 31, 2010	-	5,241	-	-	2,051	7,292
As at July 31, 2009	-	5,479	-	-	2,119	7,598

10. 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.

11. COMPARATIVE FIGURES

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