



Coastal Contacts Inc.

CONSOLIDATED FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEARS ENDING OCTOBER 31, 2009 and 2008



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Coastal Contacts Inc. as at October 31, 2009 and 2008 and the consolidated statements of operations and comprehensive earnings, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

December 15, 2009

COASTAL CONTACTS INC.
CONSOLIDATED BALANCE SHEETS

(\$000's, except share amounts)

As at October 31	2009	2008
ASSETS		
Current		
Cash and equivalents <i>[note 5]</i>	\$ 11,532	\$ 15,206
Accounts receivable	7,965	7,336
Inventory	15,701	9,495
Prepaid expenses	1,532	1,693
Future income tax <i>[note 16]</i>	109	157
Due from related parties <i>[note 17]</i>	374	361
	<u>37,213</u>	<u>34,248</u>
Property, equipment and leasehold improvements <i>[note 6]</i>	2,813	3,038
Intangible assets <i>[note 7]</i>	9,517	11,061
Goodwill <i>[note 8]</i>	7,757	7,908
	<u>\$ 57,300</u>	<u>\$ 56,255</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 17,890	\$ 18,881
Income tax payable <i>[note 16]</i>	615	-
	<u>18,505</u>	<u>18,881</u>
Long-term lease inducement	18	79
Future income tax <i>[note 16]</i>	3,614	3,825
	<u>22,137</u>	<u>22,785</u>
SHAREHOLDERS' EQUITY		
Share capital <i>[note 10]</i>		
Authorized:		
Unlimited common shares without par value		
Unlimited Class A preferred shares without par value		
Issued and outstanding:		
56,901,719 common shares [2008 – 58,318,643]	40,248	41,250
Contributed surplus <i>[note 11]</i>	2,294	1,600
Accumulated other comprehensive loss <i>[note 12]</i>	(3,482)	(2,904)
Deficit	(3,897)	(6,476)
	<u>35,163</u>	<u>33,470</u>
	<u>\$ 57,300</u>	<u>\$ 56,255</u>

See accompanying notes to the consolidated financial statements

Commitments *[note 19]*

Contingency *[note 20]*

On behalf of the Board:

"Roger Hardy"

Roger V. Hardy, Director

"Jeffrey Mason"

Jeffrey R. Mason, Director

COASTAL CONTACTS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE EARNINGS

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

Years ended October 31	2009	2008
Sales	\$ 139,870	\$ 118,759
Cost of sales	97,009	84,785
Gross profit	42,861	33,974
Advertising	18,098	14,523
Selling, general and administration	16,758	15,854
Share-based compensation <i>[note 11]</i>	694	627
Amortization on property, equipment and leasehold improvements	996	1,237
Amortization on intangible assets	1,589	1,343
Foreign exchange (gains) losses	(110)	102
Interest income, net	(67)	(547)
Listing costs	906	-
Restructuring charges	-	844
Earnings (loss) before income taxes	3,997	(9)
Income tax expense – current <i>[note 16]</i>	1,286	908
Income tax expense – future <i>[note 16]</i>	(36)	(131)
Net earnings (loss)	2,747	(786)
Other comprehensive earnings		
Unrealized foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign operations	(578)	1,187
Comprehensive earnings	\$ 2,169	\$ 401
Basic earnings (loss) per share	\$ 0.05	\$ (0.01)
Diluted earnings (loss) per share	\$ 0.05	\$ (0.01)
Weighted average number of common shares outstanding <i>[note 13]</i>		
Basic	57,559,629	64,559,267
Diluted	57,869,238	64,559,267

See accompanying notes to the consolidated financial statements

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

Years ended October 31	2009	2008
Deficit, beginning of year	\$ (6,476)	\$ (70)
Net earnings (loss)	2,747	(786)
Premium on purchase of common shares for cancellation <i>[note 10]</i>	(168)	(5,620)
Deficit, end of year	\$ (3,897)	\$ (6,476)

See accompanying notes to the consolidated financial statements

COASTAL CONTACTS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$000's)

Years ended October 31	2009	2008
OPERATING ACTIVITIES		
Net earnings (loss)	\$ 2,747	\$ (786)
Non-cash items affecting earnings:		
Amortization	2,512	2,368
Share-based compensation	694	627
Future income taxes	(19)	68
Unrealized foreign exchange (gains) losses	263	(289)
Changes in non-cash working capital:		
Accounts receivable	(788)	(380)
Inventory	(6,412)	(723)
Prepaid expenses	311	(411)
Accounts payable and accrued liabilities	(521)	4,555
Income tax payable	621	(546)
Cash provided by (used in) operating activities	(592)	4,483
INVESTING ACTIVITIES		
Maturity of short-term investments	-	3,976
Repayments from (advances to) related parties	(12)	4
Disposition of property and equipment	60	-
Acquisition of property, equipment and leasehold improvements	(721)	(1,372)
Acquisition of intangible assets	(221)	(391)
Cash provided by (used in) investing activities	(894)	2,217
FINANCING ACTIVITIES		
Issuance of common shares	-	8
Purchase of common shares for cancellation	(1,169)	(14,870)
Share related costs	-	(279)
Cash used in financing activities	(1,169)	(15,141)
Effect of exchange rate changes on cash and equivalents	(1,019)	280
Decrease in cash and equivalents	(3,674)	(8,161)
Cash and equivalents, beginning of year	15,206	23,367
Cash and equivalents, end of year	\$ 11,532	\$ 15,206
Income tax paid in cash	\$ 1,065	\$ 395

See accompanying notes to the consolidated financial statements

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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. A provision is made for product returns and doubtful accounts receivable.

Deferred revenue includes revenue collected in advance of the product being shipped to the customer.

Foreign currency translation

The reporting and measurement currency of the Company is the Canadian dollar. Assets and liabilities of its subsidiaries with functional currencies other than the Canadian dollar are translated into Canadian dollars at the rates of exchange at the balance sheet date; income and expenses are translated at the average rates of exchange prevailing during the year. The resultant translation adjustments are reported as cumulative foreign currency translation adjustment in comprehensive earnings.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the exchange rate prevailing at the balance sheet date. Revenues and expenses denominated in currencies other than the functional currency are translated at the date prevailing on the transaction date. Foreign currency translation gains or losses are recorded in income in the period in which they occur.

Cash and equivalents

Cash and equivalents consists of cash on hand, bank balances, and investments with maturities from the date of inception of three months or less.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory is valued at the lower of cost and net realizable value, where cost is determined on a first in, first out basis.

Property, equipment and leasehold improvements

Property, equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is calculated over the estimated useful life of the assets at the following rates:

Computer hardware	30% declining balance
Computer software	100% declining balance
Customized ERP software	20% straight-line
Furniture, fixtures and equipment	20% declining balance
Leasehold improvements	Over the remaining term of the lease

Intangible assets

Finite life intangible assets are recorded at cost less accumulated amortization. Amortization is calculated over the estimated useful life of the assets at the following rates:

Customer lists	5 years straight-line
Website development	5 years straight-line

Trade names are considered to have an indefinite life and are not amortized. Their values are reviewed for possible impairments annually or more frequently if events or changes in circumstances indicate possible impairment, based on the profitability and cash flows of the underlying business.

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 the reporting units to which the goodwill relates.

Income taxes

Income taxes are accounted for using the liability method of tax allocation. Under this method future income tax assets and liabilities are recognized for the tax consequences of temporary differences by applying substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

The effect on future taxes for a change in tax rates is recognized in income in the period that includes the substantive enactment. In addition, future tax assets are recognized to the extent their realization is more likely than not.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-based compensation

The Company follows the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, Stock-Based Compensation and Other Stock Based Payments which requires the use of the fair value method of accounting for all stock options granted.

Earnings per share

The Company calculates basic earnings per share using the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period. Stock options and warrants are dilutive when the Company has income from continuing operations and when the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

3. CHANGE IN ACCOUNTING POLICIES

Effective November 1, 2008, the Company has adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These standards have been adopted on a prospective basis with no restatement of prior period financial statements.

(a) Inventories

In March 2007, the CICA approved Handbook Section 3031, "*Inventories*" which replaced the existing Handbook Section 3030, "*Inventories*". This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories. The adoption of this standard had no impact on the consolidated financial statements.

(b) Financial instruments

In July 2007, the CICA approved Handbook Section 3862 "*Financial Instruments – Disclosure*" and Handbook Section 3863 "*Financial Instruments – Presentation*" which together replace the existing Handbook Section 3861 "*Financial Instruments – Disclosure and Presentation*". These standards are effective for annual financial statements beginning on or before October 1, 2007. Together, these standards require the Company to provide disclosure that enable users to evaluate the significance of financial instruments on the entity's financial position and performance including the nature and extent of risks associated with financial instruments to which the entity is exposed and establish standards for presentation of financial instruments and nonfinancial derivatives including the classification of financial instruments between liabilities and equity and the classification of related interest, dividends, losses and gains and circumstances in which financial assets and liabilities are offset. Apart from the disclosure in Note 14, the adoption of these standards had no impact on the consolidated financial statements.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

3. CHANGE IN ACCOUNTING POLICIES (Continued)

(c) Goodwill and intangible assets

In October 2007, the CICA approved Handbook Section 3064, "*Goodwill and Intangible Assets*" which replaced the existing Handbook Sections 3062, "*Goodwill and Other Intangible Assets*" and 3450 "*Research and Development Costs*". This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008, with earlier application encouraged. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The adoption of this standard had no impact on the consolidated financial statements.

(d) Capital disclosures

In August 2008, the CICA approved Handbook Section 1535, "*Capital Disclosures*". This standard is effective for annual financial statements beginning on or before October 1, 2007. The standard establishes the required disclosure of information relating to a Company's capital and how it is managed. Apart from the addition of note 15, Management of Capital, the adoption of this standard has not impact on the consolidated financial statements.

4. 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 Company's financial statements for the year beginning on November 1, 2011. The Company will undertake the appropriate measures to ensure compliance with these new standards by the prescribed adoption date. The Company is currently assessing the implications of these standards on the consolidated financial statements.

5. CASH AND EQUIVALENTS

The Company 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 the Company.

COASTAL CONTACTS INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

October 31, 2009 and 2008

6. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Cost \$000's	Accumulated Amortization \$000's	Net Book Value \$000's
2009			
Computer hardware	1,137	640	497
Computer software	276	224	52
Customized ERP software	1,914	1,185	729
Furniture, fixtures and equipment	1,720	559	1,161
Leasehold improvements	1,211	837	374
	6,258	3,445	2,813
2008			
Computer hardware	1,060	478	582
Computer software	112	97	15
Customized ERP software	1,921	858	1,063
Furniture, fixtures and equipment	1,121	339	782
Leasehold improvements	1,162	566	596
	5,376	2,338	3,038

7. INTANGIBLE ASSETS

	Cost \$000's	Accumulated Amortization \$000's	Net Book Value \$000's
2009			
Brand names and trademarks acquired	7,656	-	7,656
Customer lists acquired	3,596	3,201	395
Website creation	3,967	2,501	1,466
	15,219	5,702	9,517
2008			
Brand names and trademarks acquired	7,798	-	7,798
Customer lists acquired	3,667	2,532	1,135
Website creation	3,770	1,642	2,128
	15,235	4,174	11,061

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

8. GOODWILL

	October 31, 2008 \$000's	Currency Impact \$000's	October 31, 2009 \$000's
Business acquisitions:			
Asianzakka	579	-	579
Lensway	5,560	(114)	5,446
Mylenses	1,608	(34)	1,574
Yourlenses	161	(3)	158
Total goodwill	7,908	(151)	7,757

9. OPERATING FACILITY

A subsidiary of the Company has access to a secured overdraft facility, totaling 25,000,000 Swedish Krona (Canadian dollar equivalent of approximately \$3.8 million) with interest payable at a rate of 1% above the Stockholm Interbank Offered Rate.

The subsidiary uses this operating facility from time to time for working capital purposes. As at October 31, 2009, there was no balance outstanding pursuant to this facility.

10. 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:

	2009		2008	
	#	\$000's	#	\$000's
Balance, beginning of year	58,318,643	41,250	71,426,512	50,857
Cancelled	-	-	(78,500)	(89)
Purchased and cancelled	(1,416,924)	(1,002)	(13,038,744)	(9,530)
Issued on exercise of options	-	-	9,375	12
Balance, end of year	56,901,719	40,248	58,318,643	41,250

On December 19, 2008, the Company renewed a Normal Course Issuer Bid for a maximum eligible purchase of 3,634,369 common shares, which expires on December 18, 2009. As at October 31, 2009, the Company had purchased 1,416,924 common shares for an average price of \$0.83 per share. All of these shares have been cancelled. The excess premium of the purchase price over the average stated capital of the shares has been charged to deficit.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

10. SHARE CAPITAL (continued)

(b) Share purchase options

The Company'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 the Company's Compensation and Corporate Governance Committee.

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

	Number of share purchase options	Exercise Price \$/share
Options outstanding, October 31, 2007	2,208,439	0.87 – 1.37
Granted	1,185,000	0.69 – 1.11
Exercised	(9,375)	0.87
Forfeited	(207,793)	0.87 – 1.37
Options outstanding, October 31, 2008	3,176,271	0.69 - 1.14
Granted	1,580,000	0.80 – 1.50
Forfeited	(218,534)	0.99 – 1.50
Expired	(134,429)	1.00
Options outstanding, October 31, 2009	4,403,308	0.69 – 1.14

The following table summarizes information about Company share purchase options outstanding as at October 31, 2009:

Range of exercise price \$/share	Share purchase options Outstanding			Share purchase options Exercisable	
	Number of common shares issuable	Weighted average remaining contractual life (years)	Weighted average exercise price \$/share	Number of common shares issuable	Weighted average exercise price \$/share
\$0.69	50,000	4.23	0.69	16,667	0.69
\$0.80 - \$0.99	2,327,500	3.73	0.85	1,050,245	0.86
\$1.00 - \$1.14	2,025,808	3.20	1.07	1,000,622	1.07
	4,403,308	3.49	0.95	2,067,534	0.96

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

10. SHARE CAPITAL (continued)

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:

	2009	2008
Dividend yield	0%	0%
Expected volatility	57.3%	56.5%
Risk free interest rate	2.14%	3.12%
Expected lives	5.0 years	5.0 years

(c) Employee Share Ownership Plan

On August 1, 2009, the Company established an employee share ownership plan (ESOP) whereby the Company 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 the Company through the open market. Approximately one half of our employees are eligible to participate in the ESOP.

The Company's share of contribution made during the year totaled \$60,386.

11. CONTRIBUTED SURPLUS

	2009 \$000's	2008 \$000's
Balance – beginning of year	1,600	973
Share-based compensation	694	627
Balance – end of year	2,294	1,600

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

	2009 \$000's	2008 \$000's
Balance – beginning of year	(2,904)	(4,091)
Unrealized foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign operations	(578)	1,187
Balance – end of year	(3,482)	(2,904)

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

13. EARNINGS PER SHARE

	2009	2008
Basic weighted average number of common shares outstanding - basic	57,559,629	64,599,267
Stock options	309,609	-
Diluted weighted average number of common shares outstanding - diluted	57,869,238	64,599,267

14. FINANCIAL INSTRUMENTS

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, market risk, and liquidity risk. The following analysis provides a measurement of risks as at October 31, 2009. The board of directors reviews with management the principal risks affecting the Company and the systems that have been put in place to manage these risks.

Credit risk

The Company's principal financial assets are and cash equivalents, accounts receivable and amounts due from related parties, which represent the Company's exposure to credit risk in relation to financial assets.

The Company's credit risk is primarily attributable to its trade receivables and promissory notes receivable. The amounts disclosed in the balance sheets are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. To mitigate the risk of bad debts, the Company implements collection strategies internally and through third parties and has policies and procedures in place to limit the extension of credit where the risk of loss is determined to be high.

The credit risk on cash and equivalents is less because the counterparties are banks and corporations with high credit-ratings assigned by international credit-rating agencies. The Company does not have financial assets that are invested in asset backed commercial paper.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	October 31, 2009 \$000's	October 31, 2008 \$000's
Cash	10,020	14,830
Other cash investments	1,512	376
Cash and equivalents	11,532	15,206
Accounts receivable	7,965	7,336
Promissory notes receivable, as included in due from related parties	374	361
	19,871	22,903

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

14. FINANCIAL INSTRUMENTS (Continued)

The aging of accounts receivable, net of applicable allowance for bad debts was:

	October 31, 2009 \$000's	October 31, 2008 \$000's
Current trade receivables	7,714	6,695
Taxes receivable	97	317
Aged between 60 – 120 days	88	202
Aged greater than 120 days	66	122
	7,965	7,336

Continuity of allowance for bad debts:

	\$000's
Balance, November 1, 2008	762
Increase during the year	135
Balance, October 31, 2009	897

Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates will affect the Company's income or the value of the financial instruments held.

Foreign currency exchange risk

The Company's functional currencies are the Canadian Dollar ("CAD") and the Swedish Krona ("SEK"). The Company is exposed to fluctuations in the U.S. Dollar ("USD"), the Swedish Krona ("SEK"), the Norwegian Kroner ("NOK") and the European Union Euro ("EURO") relative to these functional currencies. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

The Company is exposed to the following currency risk at October 31, 2009:

(000's \$CAD)	USD	SEK	NOK	EURO
Cash and cash equivalents	3,305	(1,792)	2,268	2,120
Accounts receivable	593	1,744	1,287	1,611
Accounts payable and accrued liabilities	5,502	7,969	622	463
	(1,604)	(8,017)	2,933	3,268

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

14. FINANCIAL INSTRUMENTS (Continued)

Foreign currency exchange risk sensitivity analysis

The following table details the Company's sensitivity analysis to a 10% strengthening in the U.S. Dollar, the Swedish Krona, the Norwegian Kroner and the European Union Euro on net earnings and comprehensive earnings against the Canadian dollar. The sensitivity analysis includes foreign currency denominated monetary items and adjusts their translation at year end for a 10% change in the foreign currency rates. For a 10% weakening of the U.S. Dollar, the Swedish Krona, the Norwegian Kroner and the European Union Euro against the Canadian dollar, there would be an equal and opposite impact on net earnings and comprehensive earnings.

(000's \$CAD)	USD	SEK	NOK	EURO
Net earnings	(3,319)	321	2,170	1,479
Comprehensive earnings	-	3,225	-	-

Interest rate risk

The Company's policy is to invest cash and equivalents at floating rates of interest, in order to maintain liquidity, while achieving a satisfactory return for the Company. Fluctuations in interest rates impact on the value of cash equivalents. The Company's exposure to interest rate risk is limited, as the Company does not have any interest bearing financial liabilities.

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet requirements. The Company does not have long-term financial liabilities. All of the accounts payable at October 31, 2009 are due within sixty days.

Fair values

The Company's financial instruments consist of cash and equivalents, short-term investments, accounts receivable, due from related parties and accounts payable and accrued liabilities. The carrying value of cash and equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities approximates their fair value due to the immediate or short term maturity of these financial instruments. The fair value of the due from related parties is not reasonably determinable due to the related party nature of the amounts and the absence of a secondary market for such instruments.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

15. MANAGEMENT OF CAPITAL

The Company's objective is to maintain a sufficient capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company considers the items included in the consolidated shareholders' equity, excluding accumulated and other comprehensive earnings, as capital.

In order to maintain or adjust its capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids or other issuer bids, declare dividends, issue debt or issue new shares. A subsidiary of the Company is subject to a capital sufficiency covenant in association with the overdraft facility in note 9. As at October 31, 2009, the facility was unused and therefore the subsidiary was not subject to these covenants. The Company's overall strategy with respect to capital management remains unchanged from the year ended October 31, 2008.

16. INCOME TAXES

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets and liabilities are as follows:

	2009 \$000's	2008 \$000's
Future income tax assets		
Unused tax losses	3,087	3,071
Net book value of capital assets in excess of tax value	(194)	(362)
Share issue costs	79	249
Other	88	111
Total future tax assets	3,060	3,069
Valuation allowance	(2,951)	(2,912)
Total future tax assets	109	157
Future income tax liabilities		
Expense recognized for tax purposes in foreign jurisdictions	(916)	(724)
Net book value of capital assets in excess of tax value	(507)	(741)
Other	(17)	-
Carrying value of intangible assets in excess of tax basis	(2,174)	(2,360)
Total future tax liability	(3,614)	(3,825)

The potential income tax benefits relating to the future income tax assets have not been recognized in the consolidated financial statements where their realization did not meet the requirements of "more likely than not" under the liability method of tax allocation.

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

16. INCOME TAXES (Continued)

Significant components of the income tax expense attributable to continuing operations are as follows:

	2009 \$000's	2008 \$000's
Current income tax expense	1,286	908
Future income tax recovery relating to reversal of taxable temporary differences	(36)	(131)
	1,250	777

The reconciliation of income taxes attributable to continuing operations computed at the statutory income tax rates to income tax expense, at the statutory tax rate of 30.0% [2008 – 30.5%] is as follows:

	2009 \$000's	2008 \$000's
Income tax expense (recovery) at statutory tax rates	1,199	(3)
Permanent differences	112	300
Non-capital losses generated	39	980
Foreign tax rate differential	(128)	(197)
Change in future tax rate	42	-
Other	(14)	(303)
	1,250	777

As at October 31, 2009, the Company has non-capital loss carry-forwards of 11,912,000 for Canadian income tax purposes that expire as follows:

	\$000's
2010	304
2014	443
2026	5,418
2027	1,098
2028	3,296
2029	1,353
	11,912

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

17. RELATED PARTY TRANSACTIONS

	2009 \$000's	2008 \$000's
Promissory notes receivable	374	361

As at October 31, 2009, 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 officers of the Company and are personally liable for the amounts owed.

18. SEGMENTED INFORMATION

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

Geographical information is based on the location of the customers in which the Company sells its products. Intercompany revenues 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
Revenue						
Year ended October 31, 2009	30,842	25,593	19,652	19,435	44,348	139,870
Year ended October 31, 2008	30,929	13,754	19,278	17,706	37,092	118,759
Property, equipment and leasehold improvements						
As at October 31, 2009	1,296	1,517	-	-	-	2,813
As at October 31, 2008	1,703	1,335	-	-	-	3,038
Intangible assets						
As at October 31, 2009	3,349	1,038	-	-	5,130	9,517
As at October 31, 2008	4,086	1,396	-	-	5,579	11,061
Goodwill						
As at October 31, 2009	5,604	-	-	-	2,153	7,757
As at October 31, 2008	5,721	-	-	-	2,187	7,908

COASTAL CONTACTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008

19. COMMITMENTS

The Company is committed to minimum annual payments, primarily related to lease costs on its warehouse and office premises, as follows:

	\$000's
2010	938
2011	1,082
2012	1,230
2013	1,455
2014	1,489
2015 and after	1,220
	7,414

Operating costs on leases have been excluded.

20. CONTINGENCY

On September 6, 2007, the Company received a petition filed by the College of Opticians of British Columbia (the "Opticians") in the Supreme Court of British Columbia. The Opticians sought an order to restrict Coastal Contacts Inc. from selling contact lenses to members of the public in British Columbia. On April 25, 2008, the Supreme Court of British Columbia denied the petition filed by the Opticians.

On May 26, 2008, the Company received a notice of appeal filed by the Opticians with the British Columbia Court of Appeal seeking to overturn the ruling by the Supreme Court of British Columbia.

On August 14, 2008 the Company filed a statement of claim against the Opticians for certain statements made relating to the sale of contact lenses. The Company is unable to predict the outcome of the claim at this time.

On May 13, 2009, the appeal filed by the opticians was heard by the British Columbia Court of Appeal and defended against by the Company. The Appeal Court held that the Company may sell contact lenses to members of the public in British Columbia, upon receipt of a copy of the prescription from the customer.

The Company is engaged in certain other 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.

21. COMPARATIVE FIGURES

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

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Year Ended October 31, 2009

December 16, 2009

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) is dated as of December 16, 2009 and should be read in conjunction with Coastal Contacts Inc.'s (the "Company", "our", "we", "us" or "Coastal Contacts") audited consolidated financial statements and notes thereto for the year ended October 31, 2009. 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 relationships with suppliers; our anticipated results of operations, including but not limited to anticipated sales, revenues, earnings, tax benefits or similar matters; 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, 2009 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.

Coastal launched its business in the year 2000 selling contact lenses online. In 2004, after a successful start up phase, Coastal 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. In 2009 we continued to target global markets for both eyeglasses and contact lens sales. These efforts have culminated to produce a globally diversified platform upon which to build our business over the long term. Coastal has 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 1.4 million orders shipped and \$140 million in sales in our 2009 fiscal year by focusing on award winning customer service, delivering superior customer value, fast and reliable delivery, and building strong brands. Our reorder rate* exceeded 70% in 2009, which suggests we are providing a compelling value proposition to our customers.

In addition to global expansion, in 2009 Coastal expanded the online eyeglasses business it launched in fiscal 2008. During the year Coastal broadened its selection of eyeglasses, updated its websites, and expanded its assembly facilities in Europe and North America. Coastal now offers a large selection of eyeglasses, contact lenses, sunglasses and related accessories, through its recognized leading online properties 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. In 2009 Coastal invested in our service and cost advantage over these stores by stocking all of the eyeglass frames that we offer and avoiding expensive retail space. With volume purchasing and higher production volumes per unit of space, we have been able to pass savings onto consumers and offer in-stock eyeglasses at prices significantly below typical retail prices. Also, because we assemble most of our glasses in-house using the latest technology, we can often achieve our ship to the customer target of 24-48 hours from the order time.

* Orders shipped, reorders and reorder rate are non-GAAP measures that do not have a standardized meaning prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. See *Supplemental Non-GAAP Measures*.

Selected Annual Information

(\$000's except share and per share information)

Years ended October 31	2009	2008	2007
Sales	139,870	118,759	102,174
Gross profit	42,861	33,974	28,925
Adjusted EBITDA*	8,005	3,597	4,193
Restructuring Charges	-	844	-
Earnings (loss) before taxes	3,997	(9)	2,588
Income tax expense	1,250	777	963
Net earnings (loss)	2,747	(786)	1,625
Total assets	57,300	56,255	66,082
Total long-term financial obligations	-	-	-
Dividends	-	-	-
Weighted average number of common shares – basic	57,559,629	64,559,267	72,948,602
Weighted average number of common shares – fully diluted	57,869,238	64,559,267	73,074,756
Basic earnings (loss) per share	0.05	(0.01)	0.02
Fully diluted earnings (loss) per share	0.05	(0.01)	0.02

Certain prior period figures have been reclassified to conform to the current year's presentation

* 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*.

Quarterly Financial Information
(in \$000's, except share and per share information)

Quarter ended	Oct. 31, 2009	July 31, 2009	Apr. 30, 2009	Jan. 31, 2009	Oct. 31, 2008	July 31, 2008	Apr. 30, 2008	Jan. 31, 2008
Sales	37,716	37,511	33,301	31,342	32,027	32,725	28,632	25,375
Adjusted EBITDA*	2,828	1,967	1,385	1,823	1,664	1,276	967	(321)
Restructuring Charges	-	-	-	-	-	-	(844)	-
Net Earnings (loss)	648	603	528	968	397	211	(692)	(701)
Weighted average # of shares - basic	56,901	57,057	57,975	58,318	58,451	63,430	65,092	71,275
Weighted average # of shares - diluted	57,705	57,374	57,988	58,320	58,605	63,535	65,092	71,275
Basic earnings (loss) per share	0.01	0.01	0.01	0.02	0.01	0.00	(0.01)	(0.01)
Diluted earnings (loss) per share	0.01	0.01	0.01	0.02	0.01	0.00	(0.01)	(0.01)

* 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*.

Results of operations and comparison of the quarters and years ended October 31, 2009 and October 31, 2008

Sales increased by \$5.7 million or 18% to \$37.7 million (360,518 orders shipped) in the three months ended October 31, 2009 as compared to \$32.0 million (311,778 orders shipped) during the same period in 2008. Our sales grew 16% due to an increase in shipped orders^{*}, decreased 1% as a result of foreign currency exchange rates, and increased 3% due to a decline in average sale per order, exclusive of foreign exchange. Our sales increased as a result of continued growth in marketing investments, the eyeglasses business we launched in fiscal 2008, and our customers' continued adoption of the direct to consumer sales model.

Sales increased by 18% in the 2009 fiscal year to \$139.9 million (1,355,832 orders shipped) compared to \$118.8 million (1,204,189 orders shipped) in our 2008 fiscal year. Sales increased 13% due to growth in shipped orders, 1% as a result of foreign currency exchange rates, and 4% due to growth in average sale per order, exclusive of foreign exchange. Similar to our quarterly sales growth, our annual sales increased as a result of continued growth in marketing investments, the introduction of our new eyeglasses business, and our customers' continued adoption of the direct to consumer sales model.

During the three months ended October 31, 2009, gross margins increased to 31.2% of sales as compared to 29.6% of sales for the same period in 2008. During the year ended October 31, 2009, gross margins increased to 30.6% of sales as compared to 28.6% of sales in the year ended October 31, 2008. These improvements are the result of increased retail pricing, an increase in the proportion of sales from higher gross margin markets, and a proportionate increase in the sales earned from our higher margin eyeglasses business. From a geographic perspective, we generally experience higher gross margins in markets where we achieve a significant leadership position. Beginning in the fourth quarter of 2009, Coastal began classifying payment processing charges in selling, general and administrative ("SG&A") expenses rather than in cost of goods sold, to be more consistent with industry practice – see *"Classification of Payment Processing (credit card) Charges"*.

Advertising investment remained relatively constant at 12.4% of sales (\$4.7 million) in the fourth quarter of 2009 compared to 12.0% of sales (\$3.9 million) in the same period in 2008. Our investment in advertising was a similarly consistent 12.9% of sales (\$18.1 million) in the 2009 fiscal year compared to 12.2% of sales (\$14.5 million) in the 2008 fiscal year.

We often experience higher profit margins in markets which have high internet use penetration and in which we hold clear market share leadership. Therefore, we direct a large proportion of our marketing investments in regions or product categories that we believe may result in retail pricing strength and advertising efficiencies once the markets mature. In addition to size and market position, our reorder rate^{*}, which is in excess of 75% in some of these markets, further enhances that efficiency. Our goal is to replicate our success in these markets into other markets, by offering similar levels of service, and by investing in similar brand-building marketing techniques.

^{*} Orders shipped, reorders and reorder rate are non-GAAP measures that do not have standardized meanings prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Refer to *Supplemental Non-GAAP Measures*.

SG&A expenses decreased to 11.4% of sales (\$4.3 million) in the fourth quarter of 2009, compared to 12.3% of sales (\$4.0 million) in the same period of 2008. SG&A expenses also decreased to 12.0% of sales (\$16.8 million) in fiscal 2009, as compared 13.3% of sales (\$15.9 million) in fiscal 2008. In both the quarterly and annual period, SG&A costs as a percentage of sales improved due to overhead leverage and the continuous search for operating efficiencies, derived in part from the restructuring effort we undertook in 2008, while we made investments to support our business.

In the quarter ended October 31, 2009, we recognized foreign currency exchange gains on the translation of our monetary assets of \$0.1 million, compared to losses of \$0.4 million in the same period of the previous year. In the year ended October 31, 2009, we recognized foreign currency exchange gains on the translation of our monetary assets of \$0.1 million, compared to \$0.1 million losses in the same period of the previous year. We do not hold any financial instruments for the purposes of hedging exposure to foreign currency fluctuations.

Beginning in the second half of the 2008 calendar year, disruption of global financial markets resulted in increased volatility in foreign exchange rates. This volatility continued throughout our 2009 fiscal year. We operate internationally and our operating results are subject to fluctuations in foreign currency exchange rates to the extent that transactions are made in currencies other than the functional currencies of our operating entities.

Most of our product purchases and operating costs are denominated in US Dollars (USD) or Swedish Krona (SEK) and some of our exposure to those currencies is naturally hedged by revenues in those currencies. Additionally, a material portion of our revenues are generated in other currencies, such as the Canadian Dollar (CAD), the Euro and the Norwegian Kroner. Fluctuations in the USD or the SEK relative to the CAD and other currencies can have a significant impact on our profit margins derived from other countries. Conversely, we may benefit from a weakness in USD, SEK and CAD to the extent that we incur costs in those currencies to generate revenues in other stronger currencies.

Amortization for the quarter ended October 31, 2009 increased by \$0.1 million from the same quarter of the previous year to \$0.8 million. Amortization for the year ended October 31, 2009 was \$2.6 million, which is the same level as the previous fiscal year.

During the fourth quarter of 2009, we recorded \$0.9 million in one-time professional and other administrative costs associated with listing the Company's shares on the NASDAQ OMX Stockholm exchange, for which we achieved approval by the Swedish Financial Regulatory Agency during the quarter. Our common shares commenced trading on the NASDAQ OMX Stockholm on November 9, 2009. The Company's common shares continue to be traded on the Toronto Stock Exchange, Canada's senior exchange, under the symbol COA. We expect ongoing SG&A costs associated with the listing to be immaterial, and to include these costs in SG&A expenses in future periods.

During the second fiscal quarter of 2008, we incurred certain restructuring charges associated with the consolidation of our Dutch and Asian operations totaling \$0.8 million. This one time charge was comprised of severance costs and other costs such as inventory and other asset revaluations and general and administrative costs related to the restructuring.

Income tax rates, as a percentage of income in the countries in which we generate taxable income, remained constant in the fourth fiscal quarter and fiscal years ended October 31, 2009 relative to the same periods in 2008. Our consolidated tax expense, as a percentage of earnings before income taxes, or pretax earnings, improved as the proportion of our pretax earnings in the fourth fiscal quarter and the fiscal year 2009 relative to the same periods in 2008. Some of our operations generate taxable income, while in others we have cumulative tax losses that may be applied against current and future taxable earnings to reduce our tax liability on those earnings. In the fiscal fourth quarter and year period of 2009 the latter operations made up a more positive contribution to our pretax earnings than in the same periods of 2008. We have not recognized a tax asset in relation to these loss pools, as their realization is currently uncertain. Consequently our tax expense, as a percentage of pretax earnings, has changed significantly in the past, and could continue to do so in future periods.

Liquidity and Capital Resources

At October 31, 2009 we had cash and equivalents of \$11.5 million as compared to cash and equivalents of \$15.2 million at October 31, 2008.

Cash outflows from operations during the fourth fiscal quarter of 2009 were \$2.2 million. We generated \$1.5 million from net earnings excluding non-cash items, and used \$3.7 million to expand non-cash working capital. In particular, we invested \$3.0 million in inventory to support our eyeglasses product offering and service levels and to acquire additional contact lens inventories at favourable prices. This compares to cash inflows from operations of \$1.8 million in the same period last year, of which \$1.2 million was inflows from net earnings excluding non-cash items, and \$0.6 million of which was from reduction in total working capital.

Cash outflows from operations for the year ended October 31, 2009 were \$0.6 million. We generated \$6.2 million from net earnings excluding non-cash items, and used \$6.8 million to expand non-cash working capital. In particular, we invested \$6.4 million in inventory to support our eyeglasses product offering and service levels and to acquire additional contact lens inventories at favourable prices. For the same period in 2008, we had cash inflows from operations of \$4.5 million, \$2.0 million of which was from net loss excluding non-cash items and \$2.5 million of which was from a decrease in total working capital. Cash flows from changes in non-cash working capital can fluctuate from quarter to quarter in the ordinary course of business with the timing of receipts, inventory deliveries, and payments from customers and suppliers.

We used \$0.3 million for investing activities in the fourth quarter of 2009 primarily relating to the acquisition of eyeglass production equipment, website development and leasehold improvements, compared to using \$0.5 million in the same period in 2008. We used \$0.9 million from investing activities in the year ended October 31, 2009 primarily in support of our eyeglasses business. In the previous fiscal year, we generated \$2.2 million as proceeds from matured short term investments exceeded investments in leasehold improvements, production equipment and software development.

On December 19, 2008 we renewed a Normal Course Issuer Bid expiring on December 18, 2009 for a maximum eligible purchase of 3,634,369 common shares. As at October 31, 2009, the Company had purchased 1,416,924 common shares for an average price of \$0.83. All of these shares have been cancelled. The excess of premium of the purchase price over the average stated capital of the shares has been charged to deficit.

We believe that available cash, together with cash flow from operating activities will be sufficient to support our operations beyond the end of fiscal 2010.

We plan to improve our product offerings, increase our production capacity, improve service levels and consider strategic acquisitions. We expect to make further capital expenditures to support our eyeglasses business. We may seek additional sources of financing, including equity offerings that would be dilutive to the interests of current shareholders, 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 strategic objectives, which could adversely affect our business, financial condition and results of operations.

Critical Accounting Estimates

The Company 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 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.

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 a completed 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 sale is reasonably assured. A provision is made for product returns and doubtful accounts receivables.

Deferred revenue includes sales 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 involves 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 significant management judgment. These estimates will likely change over time. Goodwill and intangible assets with indefinite lives totaled \$17.3 million and \$19.0 million at October 31, 2009 and October 31, 2008, respectively. Changes in goodwill balances were due entirely to foreign exchange.

Allowance for Doubtful Accounts

We offer credit to certain 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 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 was \$0.9 million at October 31, 2009 and \$0.8 million at October 31, 2008.

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.

Change in Accounting Policies

Effective November 1, 2008, the Company has adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These standards have been adopted on a prospective basis with no restatement of prior period financial statements.

Inventories

In March 2007, the CICA approved Handbook Section 3031, "*Inventories*" which replaced the existing Handbook Section 3030, "*Inventories*". This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories. The adoption of this standard had no impact on the consolidated financial statements.

Financial instruments

In July 2007, the CICA approved Handbook Section 3862 "*Financial Instruments – Disclosure*" and Handbook Section 3863 "*Financial Instruments – Presentation*" which together replace the existing Handbook Section 3861 "*Financial Instruments – Disclosure and Presentation*". These standards are effective for annual financial statements beginning on or before October 1, 2007. Together, these standards require the Company to provide disclosure that enable users to evaluate the significance of financial instruments on the entity's financial position and performance including the nature and extent of risks associated with financial instruments to which the entity is exposed and establish standards for presentation of financial instruments and nonfinancial derivatives including the classification of financial instruments between liabilities and equity and the classification of related interest, dividends, losses and gains and circumstances in which financial assets and liabilities are offset. Apart from the disclosure in Note 14, the adoption of these standards had no impact on the consolidated financial statements.

Goodwill and intangible assets

In October 2007, the CICA approved Handbook Section 3064, "*Goodwill and Intangible Assets*" which replaced the existing Handbook Sections 3062, "*Goodwill and Other Intangible Assets*" and 3450 "*Research and Development Costs*". This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008, with earlier application encouraged. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The adoption of this standard had no impact on the consolidated financial statements.

Capital disclosures

In August 2008, the CICA approved Handbook Section 1535, "*Capital Disclosures*". This standard is effective for annual financial statements beginning on or before October 1, 2007. The standard establishes the required disclosure of information relating to a Company's capital and how it is managed. Apart from the addition of note 15, Management of Capital, the adoption of this standard has not impact on the consolidated financial statements.

Common Shares

As at December 16, 2009, the Company had 56,901,719 common shares and 4,403,308 options outstanding. None of these securities are subject to voluntary pooling agreements and 2,335,774 options have not yet vested as of December 16, 2009.

Related Party Transactions

As at October 31, 2009, there were seven promissory notes receivable from officers of the Company ranging in value from \$0.01 million to \$0.1 million and totaling \$0.37 million. Accumulated interest on these notes totals \$0.06 million. The notes are payable on demand and bear interest at a rate of 5% per annum.

During the year, we received no net re-payments from officers (2008 – advanced \$0.05 million). The debtors are personally liable for the amounts owed.

Contractual Obligations

We are committed to minimum annual payments, primarily related to lease costs on our premises, as follows:

	\$000's
2010	938
2011	1,082
2012	1,230
2013	1,455
2014	1,489
2015 and thereafter	1,220
	<u>7,414</u>

Operating costs on leases have been excluded. We have no obligations for annual payments related to long-term debt or capital lease obligations.

Contingent Liabilities

In September 2007, we received a petition filed by the College of Opticians of British Columbia (the "Opticians") in the Supreme Court of British Columbia. The Opticians sought an order to prevent us from selling contact lenses to members of the public in British Columbia. In April, 2008, the Supreme Court of British Columbia denied the petition filed by the Opticians.

In May 2008, we received a notice of appeal filed by the Opticians with the British Columbia Court of Appeal seeking to overturn the ruling by the Supreme Court of British Columbia.

In August 2008, we filed a statement of claim against the Opticians for certain statements made relating to the sale of contact lenses.

In May 2009, the appeal filed by the Opticians was heard by the British Columbia Court of Appeal and defended against by the Company. The Appeal Court held that we may sell contact lenses to members of the public in British Columbia upon receipt of a copy of a prescription from the customer, however this decision was suspended until May 1, 2010. We are currently reviewing the practicality of this decision, including legal and other options.

The Company is engaged in certain other 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.

In the ordinary course of our business, inquiries are made periodically by regulatory authorities and assertions are made. We review these and respond to them in due course. To date, no reservation or provision has been made in the financial statements in connection with these matters.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as defined by applicable securities regulations in Canada at October 31, 2009 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 October 31, 2009, an evaluation of the design and effectiveness of the Company'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 and effectiveness of the Company'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 and effectiveness of our internal controls over financial reporting as at October 31, 2009 based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has concluded that the effectiveness of internal controls is sufficient for the nature and size of the Company'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 fourth quarter of 2009, management did not make any changes to its system of internal controls that materially affect internal controls over financial reporting.

Classification of Payment Processing (credit card) Charges

Beginning in the fourth fiscal quarter of 2009 and to conform with industry practice, we began classifying costs associated with processing payments, including those related to credit cards, to selling, general and administrative expenses. Traditionally these costs were recorded in cost of goods sold and have consistently ranged between 1.2-1.5% of sales each fiscal quarter for the last 3 fiscal years. We have concluded that these amounts are not material as they do not affect the overall results of the prior year. Comparative figures will be adjusted in the future to reflect this reporting.

Supplemental Non-GAAP Measures

We report our results in accordance with Canadian GAAP, however, we present Adjusted EBITDA and the number of orders shipped and the reorder rate in our filings because we believe our investors use these figures to make 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 earnings, primarily because it does not include amortization, interest, income taxes, share based compensation expense, foreign exchange gains and losses, listing costs and restructuring costs.

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

(\$000's)	2009	2008	2007
Net earnings (loss)	2,747	(786)	1,625
Depreciation and amortization	2,585	2,580	2,032
Interest income, net	(67)	(547)	(833)
Income tax expense – current	1,286	908	901
Income tax expense (recovery) – future	(36)	(131)	62
Share-based compensation	694	627	443
Foreign exchange (gain) loss	(110)	102	(37)
Listing costs (2009) and restructuring costs (2008)	906	844	-
Adjusted EBITDA	8,005	3,597	4,193

Additional Information

Additional information relating to the Company, including our most recently filed annual information form dated January 29, 2009, can be found on SEDAR at www.sedar.com.