

TSX Venture Symbol: COA



Coastal Contacts Inc.

COASTAL REPORTS FIRST QUARTER 2005 RESULTS

HIGHLIGHTS	
<ul style="list-style-type: none">• Revenue growth of 80% to \$12 million• 54,587 orders shipped to returning customers up 215%• Gross margin percentage up 23.25%• A 12% reduction in selling expenses as a percentage of sales	<ul style="list-style-type: none">• \$797,309 cash provided by operating activities• EBITDA of \$516,000 up from a EBITDA deficit of 20,082• Earnings of \$243,006 (one cent per share)

Vancouver, British Columbia - March 21, 2005 - Coastal Contacts Inc. (TSX.V: COA) today reported consolidated financial results for the fiscal year 2005 first quarter, which ended January 31, 2004.

"We are very pleased with the results of the first quarter of 2005 and especially the tremendous growth in the number of orders that we shipped to returning customers," said Roger Hardy, Coastal's chairman and chief executive officer. "Our first quarter results demonstrate the fundamentals of our business model in action. Strong growth continues to flow from our strong value proposition, the compounding effect of our re-order annuity is beginning to drive profitability, increased scale and market diversification are resulting in gross margin improvements, and sales and marketing expenses are dropping as a percentage of sales as the company begins to harvest its annuity. Management believes that our momentum is building and we are in a position to capitalize on this momentum throughout 2005."

First quarter revenue grew 80 percent to \$12.04-million from \$6.68-million in the comparable period of fiscal 2004. EBITDA for the first quarter was \$516,000 up from an EBITDA deficit of \$20,082 in the comparable period of fiscal year 2004. Net income for the first quarter was \$243,000 (or one cent per share). Cash provided by operating activities was \$797,309.

"We have worked very hard to leverage our increasing buying power and consolidate the purchasing function across the breadth of our organization," commented Bill Wrixon, Coastal's president. "The result has been an improvement of 23.25% in our gross margin percentage. Given that costs of goods accounts for approximately seventy percent of our total costs, if we can improve this number it will have a material effect on our business. Improved gross margins yield a higher contribution margin per order so we essentially increase the lifetime value of our existing customer base when we realize and sustain improvements of this nature."

Subsequent to the first quarter, the Company completed a bought deal private placement of 11.2 million common shares at a price of \$1.10 per share for total proceeds of \$12.32-million which includes the underwriter's exercise of an over-allotment option of \$3.52-million.

QUARTER HIGHLIGHTS

The Company started fulfilling orders for 430 pharmacies throughout the United States through its wholly owned subsidiary Coastal Pharma Lens Inc. after completion of a transaction with Marlin Financial Group Inc. The Company acquired the Pharma Lens trademark application and the Distributorship Pilot Agreement between Ahold USA Inc. and Marlin Financial Group Inc. for 40,150 shares and cash of \$14,850. The shares are subject to a voluntary pooling agreement of three years with tranches released at six month intervals. Under the Pharma Lens initiative, Coastal is currently working with Ralph's Pharmacy, a division of the Kroger Co. Under the Ralph's banner, Kroger operates 342 stores. Coastal has also aligned itself with Ahold USA, which is marketing the program through its Giant Food Co. and Stop and Shop Supermarket Co. franchises.

The Company was also pleased to announce that its wholly owned subsidiary Lensway AB was awarded first place at the annual European QSurvey awards for customer service.

About Coastal Contacts

With operations and distribution hubs in both North America and Europe, Coastal Contacts is one of the largest and fastest growing direct marketers of contact lenses in the world. The Corporation's large volume business combined with its cost effective global operations enable it to offer replacement contact lenses to customers worldwide at reduced prices, delivered quickly with strong customer service follow-up. Coastal's direct to consumer model and single product focus combine to create the distinct competitive advantage of a more efficient, customer-focused model for world-wide contact lens distribution.

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This news release contains certain forward-looking statements that reflect the current views and/or expectations of Coastal Contacts Inc. with respect to its performance, business and future events. Such statements are subject to a number of risks, uncertainties and assumptions. Actual results and events may vary significantly.

MD&A

Dated March 11, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis should be read in conjunction with Coastal Contacts Inc.'s ("the Company") audited consolidated financial statements and management discussion and analysis for the year ended October 31, 2004. The Company prepares its consolidated financial statements in accordance with Canadian GAAP. This discussion of our business may include forward looking statements about our future operations, financial results and objectives. These statements are necessarily based on estimates and assumptions that are subject to risks and uncertainties. Our actual results could differ materially from those expressed or implied by such forward looking information due to a variety of factors including, but not limited to, our ability to implement our business strategies, competition, general economic conditions, currency fluctuations, and other risks detailed in our filings with the Canadian securities regulatory authorities. Reference should be made to the section entitled "Risk Factors" contained in the Prospectus dated March 18, 2004 for a detailed description of the risks and uncertainties relating to the business of the Company.

CORPORATE OVERVIEW

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

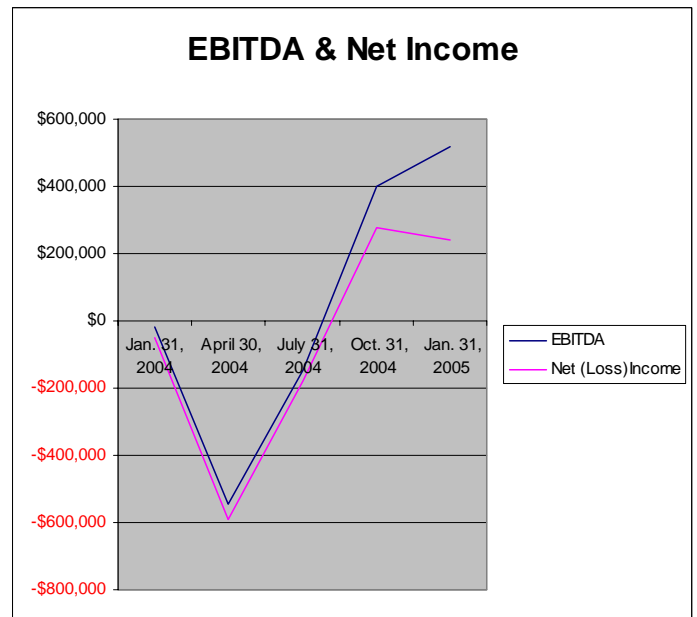
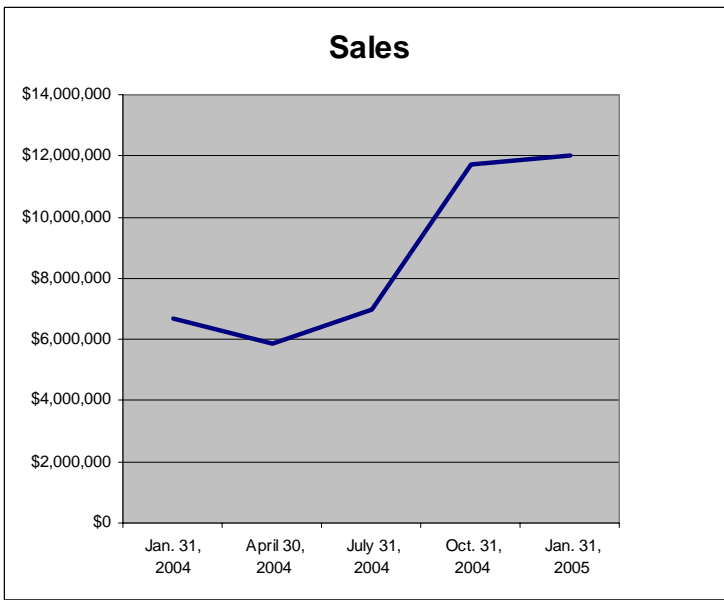
Since its formation, in October of 2000, the Company has experienced significant growth. The Company's revenue has grown from \$2.5 million in 2001 to \$8.9 million in 2002, an increase of 256% and to \$20.1 million in 2003, for an increase of 127%. Revenue for 2004 was \$31.2 million, an increase of 55%. Revenue in the first quarter of 2005 continues to trend upwards at \$12.0 million for the quarter.

On March 29, 2004, the Company listed on the TSX-Venture Exchange under the trading symbol "COA". As at March 11, 2005 the Company had 47,969,557 shares, 13,833,414 options and 4,599,693 warrants issued and outstanding. Included in these amounts are 11.2 million shares and 1,064,000 warrants associated with a \$12.32-million private placement that the Company closed on March 10, 2005. As such, the proceeds from this placement are not included in the first quarter financial statement results for the period ended January 31, 2005. The net proceeds from the offering will be used for financing further expansion, sales and marketing, and working capital purposes.

Selected Quarterly Financial Information :

	Quarter ended Jan. 31, 2005	Quarter ended Oct. 31, 2004	Quarter ended July 31, 2004	Quarter ended April 30, 2004	Quarter ended Jan. 31, 2004
Sales	\$12,036,729	\$11,726,733	\$6,996,983	\$5,842,511	\$6,680,056
EBITDA (see definition below)	\$516,396	\$399,370	(\$146,081)	(\$545,995)	(\$20,082)
Net (Loss) Income	\$243,006	\$276,220	(\$176,540)	(\$590,722)	(\$48,508)
Weighted Average # of Shares - Basic	35,777,134	33,874,960	21,235,996	16,901,900	13,005,435
Weighted Average # of shares - Diluted	46,562,596	44,519,450	21,235,996	16,901,900	13,005,435
Basic Earnings (Loss) per Share	\$0.01	\$0.01	(\$0.01)	(\$0.03)	\$0.00
Diluted Earnings (Loss) per Share	\$0.01	\$0.01	(\$0.01)	(\$0.03)	\$0.00

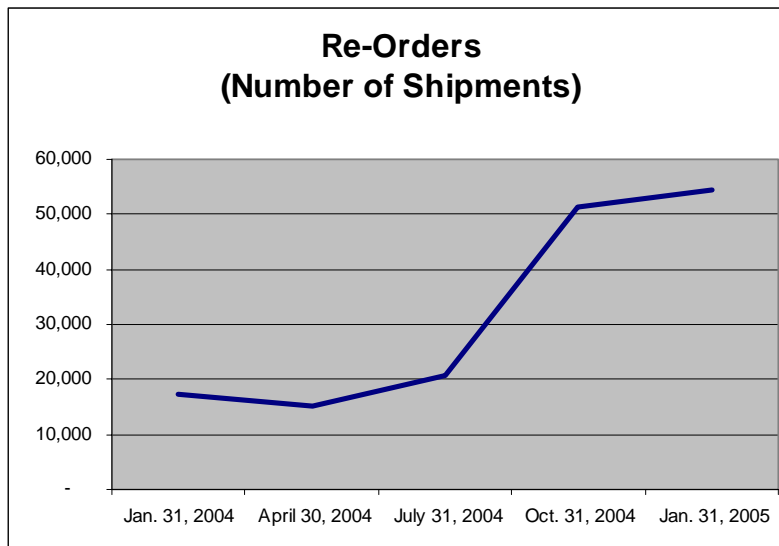
EBITDA is defined as earnings from continuing operations before interest, income taxes, depreciation and amortization. The Company reports its results in accordance with Canadian GAAP; however, although this is a non-GAAP measure, the Company presents EBITDA in its filings because it believes its current and potential investors use EBITDA to make investment decisions about the Company. Investors should not consider EBITDA to be an alternative to net income, nor to cash provided by operating activities nor any other indicator of performance or liquidity which has been determined in accordance with Canadian GAAP. The Company's method of calculating EBITDA may differ from the methods used by other companies.



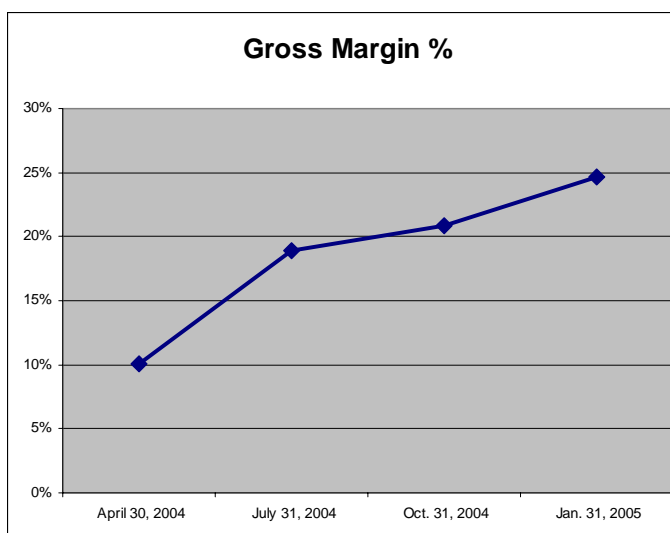
RESULTS OF OPERATIONS

Quarter End January 31, 2005

Sales for the first quarter ended January 31, 2005 were \$12,036,729 an increase of \$5,356,673 or 80 % over the same quarter in 2004. Total order volume for the quarter was 124,161 orders, an increase of 58,777 orders or 90% over the same quarter in 2004. There were 54,587 orders shipped to returning customers, an increase of 37,282 orders or 215% over the first quarter of 2004. In the first quarter ending January 31, 2005, there were 69,574 orders shipped to new customers, an increase of 21,495 orders or 45% over the same quarter in 2004. This increase in orders from existing customers reflects the growing annuity aspect of the Company's business model. In addition, for the quarter ended January 31, 2005, the Company saw an increase of more than 7% in the average US dollar order as compared to the same quarter in 2004. The impact of this increase was offset somewhat by the increase in value of the Canadian dollar during the year. The first quarter of 2005 also included sales from its wholly owned subsidiary, Lensway AB.



Gross profit for the quarter ended January 31, 2005 was \$2,967,965, an increase of \$1,629,747 or 121.8% over the quarter ended January 31, 2004. Gross profit was 24.66% of sales in the first quarter of 2005 as compared to 20.0% for the first quarter of 2004. First quarter gross margin improvement was driven by several factors. Firstly, the acquisition of Lensway AB which traditionally has higher margins than the Company's North American operations was included in the results of the Company in the first quarter of 2005. Secondly, purchasing was improved by consolidating large volume orders from both the Company and Lensway AB. Management believes that the additional purchasing power afforded to the Company through the Lensway AB acquisition should continue to create opportunities for improved purchasing. Finally, in response to the continued weakening of the US dollar, the Company adopted a strategy beginning in the prior fiscal year of shifting the vast majority of its purchasing to US based suppliers to hedge against the weak US dollar. The success of this strategy is evidenced by the Company's continued gross margin improvement, from 10.1% in the second quarter of 2004, to 18.9% in the third quarter, to 20.9% in the fourth quarter of 2004, and 24.66% in the first quarter of 2005. The Company continues to seek out innovative methods to improve its gross margin.



Selling, General and Administrative (SG&A) cost represented 20.2% of sales for the quarter ended January 31, 2005 compared to 18.9% in the first quarter of 2004. While the Company has naturally hedged its US dollar revenue by purchasing through US based suppliers, the Company is impacted by accounting rules which result in timing differences at the end of each quarter. While the Company recognizes revenue upon shipping, usually within two days of receiving the funds, the Company does not pay its suppliers for thirty to sixty days from date of receipt of goods. As a result of this difference in timing the Company is exposed to non cash foreign exchange gains or losses at the end of each accounting period. In the first quarter of 2005, the Company recorded a non cash foreign exchange loss of \$112,997. The Company also saw an increase in salaries of \$217,108 in the first quarter of 2005 as compared to the same quarter in 2004. This increase was directly associated with the Company's purchase of Lensway AB in July 2004. This increase in general and administrative expenses was off set by a reduction in selling expenses to 11.5% of gross sales as compared to 13.1% in the same quarter of 2004. This is mainly a function of repeat orders accounting for a larger percentage of sales in the first quarter of 2005.

Stock-based compensation for the first quarter ended January 31, 2005 includes \$18,267 resulting from the company's issuance of an employee stock option plan in October 2004. Stock-based compensation for the first quarter of year 2004 included \$99,000 for options issued to a consultant of the Company. Subsequent to quarter end, the Company issued 252,840 options to employees and directors of the Company. This issuance will result in additional stock based compensation being recorded on the Company's financial statements beginning in the second quarter of 2005.

EBITDA for the quarter ended January 31, 2005 was \$516,397, compared to a loss of \$20,082 for the same quarter in 2004, representing an increase in earnings of \$536,479. This improvement is predominantly due to an 80% increase in sales, a 23.25% increase in gross margin percentage, a 12% reduction in selling expenses as a percentage of sales and a 215% increase in sales to existing customers.

Amortization for the quarter ended January 31, 2005 increased by \$165,245 to \$174,398 as compared to \$9,153 for the same quarter in the previous year. This increase was due to increased capital expenditures in computer hardware and website creation in the year ended October 31, 2004 resulting in increased amortization. In addition, as part of the purchase of Lensway AB in July, 2004, \$2,083,333 was allocated to the value of the Lensway AB development customer list. In the first quarter, there was \$104,166 in amortization associated with this list, as compared to nil in the first quarter of 2004.

Interest expense for the quarter ended January 31, 2005 was \$35,704 as compared to \$19,273 in the comparable quarter for 2004, an increase of \$16,431. This increase was primarily due to the addition of Lensway AB's credit facility.

Net income for the quarter ended January 31, 2005 \$243,006 or \$.01 per fully diluted share as compared to a loss of \$48,508 or nil per share in the same quarter of the preceding year. As stated above, this improvement is predominantly due to a 80% increase in sales, a 23.25% increase in gross margin percentage, a 12% reduction in selling expenses as a percentage of sales and an a 215% increase in sales to existing customers.

SUBSEQUENT EVENTS

Between February 4 and March 3, 2005, 23,007 and 312,790 agents warrants were exercised at \$0.80 and \$1.00 respectively for proceeds of \$331,196.

On February 20, 2005, the Company signed an underwriting agreement to issue up to 11,200,000 shares at \$1.10 per share. The underwriters will receive a commission of 6.5% of gross proceeds and "Compensation Warrants" of 9.5% of the total number of shares sold. These warrants are exercisable at \$1.10 per warrant and are exercisable for up to 18 months after closing. The transaction closed on March 10, 2005 for proceeds of \$11.5 million net of issue costs of \$880,000.

On February 22, 2005, the Company, through its newly incorporated subsidiary Coastal Pharma Lens Inc. entered into a purchase and sale agreement with Marlin Financial Group Inc. The Company acquired the Pharma Lens trademark application, the Distributorship Pilot Agreement between Ahold USA Inc. and Marlin Financial Group Inc. and the supply contract between Ralphs Grocery Company and Marlin Financial Group Inc. for 40,150 shares and cash of \$14,850. The shares are subject to a voluntary pooling agreement of three years with tranches released at six month intervals.

On March 1, 2005, 198,840 options were issued to employees of Lensway AB at \$1.00. These options vest evenly over three years beginning on March 31, 2005.

On March 1, 2005, 54,000 options were issued to directors of the Company. These options are exercisable at \$1.00 per share. 30,000 of these options vest on February 18, 2005 while the remaining 24,000 options vest on February 18, 2006.

LIQUIDITY AND CAPITAL RESOURCES

Financial condition

The Company has historically funded its growth through a combination of funds generated from operations and borrowings. Working capital requirements generally precede the realization of sales on a monthly basis. The Company uses funds generated from operations and borrowings to increase inventory levels in anticipation of future sales realization. The Company's supply arrangements have historically required the Company to pay cash upon delivery of inventory. As a result, the Company is generally unable to rely on standard trade credit arrangements in purchasing its inventory, which would ordinarily permit the net amount due to be paid within 30 days of shipment of ordered merchandise. In addition, in order to help ensure sufficient supply, the Company generally carried a higher level of inventory than if it were able to purchase directly from contact lens manufacturers. In May 2, 2004, the Company signed an agreement with Johnson and Johnson Eye Care Division, allowing the Company to obtain credit terms and operate its inventory in a more efficient manner. Subsequently the Company has also received credit terms from CIBA Vision and Baush & Lomb.

Cash provided by operating activities was \$797,309 in the first quarter of 2005, as compared to 444,089 for the first quarter in the preceding year. The improvement in cash from operations resulted primarily from the Company having net income of \$243,006 in the quarter ended January 31, 2005 compared to a loss of \$49,038 for the similar quarter in 2004. Amortization expense also accounted for \$174,398 in the first quarter of 2005 as compared to \$9,153 in the first quarter of 2004.

Cash provided by investing activities for the quarter ended January 31, 2005 was \$234,815 as compared to \$27,241 of cash used in investing activities in the first quarter of 2004. Primary sources of cash in the first quarter of 2005 were the Company redeeming short term investments for \$398,732, offset by a \$163,914 investment in capital expenditures, primarily in website development. The first quarter in 2004 saw an investment in capital expenditures of \$27,241.

Cash used in financing activities was \$213,743 in the quarter ended January 31, 2005 as compared to cash provided by financing activities of \$279,784 in the same quarter of the preceding year. Cash used in financing activities for the quarter ended January 31, 2005 was primarily a result of repayments on the Company's long term debt. Cash provided by financing activities in the same quarter of 2004 was due to an influx of funds resulting from a private placement, offset by repayments on the Company's long term debt.

CRITICAL ACCOUNTING ESTIMATES

Stock Based Compensation

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. The amount of stock based compensation associated with options granted subsequent to January 31, 2005 will be estimated and expensed beginning in the second quarter of 2005 using weighted average assumptions involving the estimated dividend yield, expected volatility, the risk free interest rate and the expected lives of the options.

Revenue Recognition

Revenue from product sales is recognized when the product has been shipped to the customer. At this point, the amount of sales revenue is determinable, no significant vendor obligations remain and the collection of the revenue is reasonable assured.

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

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill is not amortized and is reviewed for possible impairment annually or more frequently if events or changes in circumstances indicate possible impairment, based on the profitability and cash flows of Lensway AB. Based on this testing, the Company has determined that no goodwill impairment charge is required as at January 31, 2005.

Forward-looking statements

In addition to historical information, this report and the reports and documents incorporated by reference in this report contain statements that could relate to future events and the Company's future results. Although the Company believes the assumptions underlying these forward looking statements are reasonable, any of these assumptions could prove to be inaccurate and, as a result, the forward-looking statements made based on these assumptions could be incorrect. The Company's operations involve risk and uncertainty, many of which are outside of the Company's control, and any one or any combination of these risks and uncertainties could affect whether the forward-looking statements ultimately prove to be correct.

CONSOLIDATED BALANCE SHEET

(unaudited)	January 31, 2005 \$	October 31, 2004 \$
ASSETS [note 5]		
Current		
Cash	1,666,514	843,681
Short-term investments	386,874	776,675
Accounts receivable	2,450,886	3,043,140
Income taxes receivable	3,598	3,598
Inventory	4,032,325	3,997,434
Prepaid expenses	223,197	234,963
Due from related parties [note 7]	220,134	194,856
	8,983,528	9,094,347
Long-term receivable	—	13,713
Property, equipment and leasehold improvements [note 3]	908,902	841,506
Intangible assets [note 4]	5,122,937	5,041,909
Goodwill	6,323,293	6,137,943
	21,338,660	21,129,418
LIABILITIES, SHARE CAPITAL AND DEFICIT		
Current		
Bank indebtedness	666,361	683,863
Accounts payable and accrued liabilities	5,095,937	5,215,624
Income taxes payable	172,794	99,552
Deferred revenue	127,530	307,067
Due to related parties [note 7]	5,038	38,733
Current portion of lease inducement	24,337	24,337
Current portion of long-term debt [note 5]	606,766	610,408
	6,698,763	6,979,584
Long-term lease inducement	126,663	133,853
Long-term debt [note 5]	260,630	409,242
Future income tax liability	1,446,516	1,415,911
	8,532,572	8,938,590
Share capital and deficit		
Share capital		
Authorized:		
Unlimited common shares without par value		
Unlimited Class A preferred shares without par value		
Issued and outstanding:		
36,374,860 common shares [2004 - 33,874,860]	13,332,060	11,569,500
Shares to be issued [note 6]	—	1,762,560
Contributed surplus	124,261	105,898
Cumulative foreign currency translation adjustment	282,146	(71,745)
Deficit	(932,379)	(1,175,385)
	12,806,088	12,190,828
	21,338,660	21,129,418

See accompanying notes to the unaudited interim consolidated financial statements

On behalf of the Board:

/s/ Roger V. hardy
Director

/s/ Curt Cranfield
Director

CONSOLIDATED STATEMENT OF INCOME (LOSS) AND DEFICIT

(Unaudited)

For the three months ended January 31

	2005 \$	2004 \$
Sales	12,036,729	6,680,056
Cost of sales	9,068,764	5,341,838
Gross profit	2,967,965	1,338,218
Selling, general and administration expenses	2,433,302	1,259,300
Stock-based compensation	18,267	99,000
Amortization	174,398	9,153
Interest on long-term debt	35,704	19,273
Interest income	(5,003)	—
Income before income taxes	311,297	(48,508)
Income tax expense - current	71,569	—
Income tax recovery - future	(3,278)	—
Net income (loss)	243,006	(48,508)
Deficit, beginning of period	(1,175,385)	(635,835)
Deficit, end of period	(932,379)	(684,343)
Basic earnings (loss) per share	0.01	0.00
Diluted earnings (loss) per share	0.01	0.00
Weighted average number of common shares outstanding - basic	35,777,134	13,005,435
Weighted average number of common shares outstanding - diluted	46,562,596	13,005,435

See accompanying notes to the unaudited interim consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

For the three months ended January 31

	2005 \$	2004 \$
OPERATING ACTIVITIES		
Net income (loss)	243,006	(48,508)
Non-cash items:		
Amortization	174,398	9,153
Amortization of deferred lease inducement	(7,190)	—
Accrued interest	(916)	—
Stock-based compensation	18,267	99,000
Future income taxes	(3,278)	—
Changes in non-cash working capital:		
Accounts receivable	683,653	(115,586)
Inventory	12,450	(604,624)
Prepaid expenses	15,770	(32,962)
Accounts payable and accrued liabilities	(195,802)	1,173,420
Income taxes payable	70,183	—
Deferred revenue	(179,537)	(158,167)
Due from related parties	(33,695)	110,959
Income taxes receivable	—	11,404
Cash provided by operating activities	797,309	444,089
INVESTING ACTIVITIES		
Sale of short-term investments	398,732	—
Acquisition of property, equipment and leasehold improvements	(163,917)	(27,241)
Cash provided by (used in) investing activities	234,815	(27,241)
FINANCING ACTIVITIES		
Issuance of share capital	—	770,000
Advances to related parties	(25,276)	(9,657)
Bank indebtedness	(17,502)	(434,274)
Repayment of long-term debt	(170,965)	(46,285)
Cash provided by (used in) financing activities	(213,743)	279,784
Effect of exchange rate changes on cash	4,452	—
Increase in cash	822,833	696,632
Cash, beginning of period	843,681	101,414
Cash, end of period	1,666,514	798,046
Income taxes paid in cash	355	—
Interest paid in cash	35,762	19,273

See accompanying notes to the unaudited consolidated interim financial statements

1. BASIS OF PRESENTATION

Coastal Contacts Inc. ("the Company") is a global on-line retailer of contact lenses sold throughout internet sites created and operated by the Company. The Company has operations in North America and Europe.

These unaudited consolidated interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to interim financial statements, applied on a consistent basis. These unaudited interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 2 to the Company's audited consolidated financial statements as at and for the year ended October 31, 2004. Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These unaudited consolidated interim financial statements and notes thereon should be read in conjunction with the audited consolidated financial statements and notes for the year ended October 31, 2004.

The preparation of these unaudited consolidated interim financial statements and the accompanying notes requires management to make estimates and assumptions that affect the amounts reported. In the opinion of management, these unaudited consolidated interim financial statements reflect all adjustments necessary to state fairly the results for the periods presented. Actual results could vary from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

2. ACQUISITION OF LENSWAY

On July 26, 2004, the Company completed the acquisition of all of the shares of Lensway, a European retailer of contact lenses. The consideration paid included \$5,655,000 in cash and 13,195,000 restricted common shares of the Company. The shares are subject to a pooling agreement for a period of 36 months after the closing date of July 26, 2004. Forty percent of the pooled shares will be released 12 months after closing and 15% of the shares will be released every six months thereafter (all shares will be released as of 36 months after the closing date).

The acquisition was accounted for using the purchase method whereby assets acquired and liabilities assumed were recorded at their fair market values as of the date of the acquisition. For purposes of computing the purchase price, the value of the restricted common shares was determined by taking the closing price of the Company's common stock as quoted on the TSX Venture Exchange for the two days before, the day of and the two days following the announcement of the signing of the letter of intent to acquire Lensway (June 24, 2004). This average price was then reduced by a 46% discount (as determined by a third party appraisal) due to the restriction provisions associated with the common shares issued.

The following sets forth the purchase price and its allocation to the tangible and intangible assets acquired.

	\$
Cash	5,655,000
Restricted common shares	5,500,000
Direct acquisition costs	773,953
Total consideration	11,928,953
Cash	550,084
Other current assets	3,656,208
Property and equipment	353,263
Lensway customer list	2,083,333
Lensway trade name	2,847,223
Website development	125,000
Current liabilities	(2,116,763)
Long-term debt	(280,776)
Future income taxes	(1,462,207)
Net assets acquired	5,755,365
Goodwill	6,173,588

Goodwill is not deductible for income tax purposes.

3. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	January 31, 2005 \$	October 31, 2004 \$
Leasehold improvements	360,180	355,314
Furniture and fixtures	216,309	199,404
Computer hardware	273,619	196,466
Computer software	15,681	11,525
Customized ERP software	238,496	223,408
	1,104,285	986,117
Accumulated amortization	(195,383)	(144,611)
Net book value	908,902	841,506

4. INTANGIBLE ASSETS

	January 31, 2005 \$	October 31, 2004 \$
Website development	360,751	303,050
Lensway trade name	2,916,265	2,830,783
Lensway customer list	2,133,854	2,071,306
	5,410,870	5,205,139
Accumulated amortization	(287,933)	(163,230)
Net book value	5,122,937	5,041,909

5. LONG-TERM DEBT

	January 31, 2005 \$	October 31, 2004 \$
VanCity Capital		
Loan #1: Repayable in monthly installments of \$7,381, blended principal and interest at prime (4.25%) plus 10.5%. The loan matured on March 15, 2005.	14,460	35,776
Loan #2: Repayable in monthly installments of \$8,378, blended principal and interest at 13%. The loan matures on March 15, 2006.	217,241	232,759
Loan #3: Repayable in monthly installments of \$6,065 blended principal and interest at a fixed interest rate of 13.0%. The loan matures on June 15, 2006.	113,351	127,560
Handelsbanken Loan: Repayable in monthly installments of \$38,266, consisting of blended principal and interest at 7.45%. The loan is denominated in Swedish Krona (SEK 3,611,106) matures on February 28, 2006.	522,344	623,555
	867,396	1,019,650
Less current portion	606,766	610,408
	260,630	409,242

All three Van City loans are collateralized by a general security agreement over all the assets of the Company and certain personal guarantees by shareholders. These Van City loans are subordinate to any other loan facilities that the Company might obtain in the future. These loans also give VanCity the option of participating in equity offerings undertaken by the Company by converting the debt outstanding at the date of such offering into the equity offered.

The Handelsbanken loan is collateralized by a floating charge on the assets of Lensway, to a maximum of 7,500,000 krona (\$1,291,500), depending on the amount of outstanding loan.

Anticipated requirements to meet long-term debt principal repayments over the next 5 years from February 1, 2005 are as follows:

	\$
2005	606,766
2006	167,526
2007	62,069
2008	31,035
	867,396

6. SHARE CAPITAL

Issued and outstanding common shares

	Number of		January 31,	October 31,
	Common Shares	\$	Number of	\$
	#	\$	#	\$
Balance - beginning of period	33,874,860	11,569,500	12,280,000	77,000
Issued in private placement	—	—	620,000	310,000
Issued on exercise of warrants	—	—	100,000	5,000
Issued for goods	—	—	700,000	350,000
Issued in initial public offering	—	—	6,000,000	5,127,395
Issued for services	—	—	375,000	—
Issued on exercise of options	—	—	264,960	1,325
Issued under greenshoe option	—	—	164,000	151,700
Issued under greenshoe option	—	—	50,900	47,080
Issued for services	—	—	125,000	—
Issued in purchase of Lensway	—	—	13,195,000	5,500,000
Issued in private placement	2,500,000	1,762,560	—	—
Balance - end of period	36,374,860	13,332,060	33,874,860	11,569,500

Between November 1, 2003 and December 15, 2003 the Company issued 1,420,000 common shares to non-related parties of the Company, of which 620,000 of the shares were issued for cash of \$310,000, 100,000 shares were issued on the exercise of warrants for cash of \$5,000 and 700,000 shares were issued in exchange for the settlement of accounts payable.

On March 29, 2004, the Company undertook an Initial Public Offering (IPO), issuing 6,000,000 common shares for proceeds of \$6,000,000, less share issue costs of \$872,605. There were a further 375,000 units issued to the underwriter. Each unit consists of one common share and one warrant exercisable at \$1.50 for a period of two years.

On April 7, 2004, employees of the Company exercised options for 264,960 shares, for proceeds of \$1,325.

On April 23, 2004 and May 28, 2004, the underwriter exercised part of its rights under the greenshoe option granted in the IPO and 164,000 and 50,900 common shares were issued for proceeds of \$151,700, and \$47,080 respectively.

On July 22, 2004, the Company undertook a private placement issuing 2,500,000 shares for proceeds of \$2,000,000, less share issue cost of \$237,440. These shares were presented on the consolidated balance sheet at October 31, 2004 as "Shares to be issued" as they were paid for in the fourth quarter of fiscal 2004, but were only issued in the first quarter of fiscal 2005 (November 23, 2004). Each of the 2,500,000 shares includes a share purchase warrant entitling the holder to purchase one share per warrant at an exercise price of \$1.00 for a period of two years. There were a further 125,000 units comprising one common share and one purchase warrant issued to the underwriter. Each warrant is exercisable into one common share at \$0.80 for a period of two years. Underwriting fees also included 250,000 agent's warrants exercisable at \$0.80 for a period of 2 years.

On July 26, 2004, the Company issued 13,195,000 common shares in connection with the purchase of Lensway [see note 2].

7. RELATED PARTY TRANSACTIONS

Due from related parties

	January 31, 2005 \$	October 31, 2004 \$
Promissory notes receivable	115,000	115,000
Advances to officers	65,443	40,165
CMP Medical Inc.	39,691	39,691
	220,134	194,856

The amounts due from related parties includes: (1) two promissory notes from an officer and a shareholder for \$100,000 and \$15,000 respectively. These loans are payable on demand and bear interest at 5% per annum; (2) Other advances to officers of the Company in the amount of \$65,443. These advances are non interest bearing with no fixed terms of repayment; and (3) \$39,691 from CMP Medical Inc., a company controlled by an officer and shareholder of the Company.

Due to related parties

	January 31, 2005 \$	October 31, 2004 \$
Advances from officers	5,038	38,733

These advances are non interest bearing with no fixed terms of repayment.

All related party transactions are measured at their exchange amounts.

8. SEGMENTED INFORMATION

The Company operates in one business segment, the sale of contact lenses. The Company's sales are in North America and Europe. Geographical information is based on the countries in which the Company sells contact lenses and accessories.

	United States and Canada \$	Sweden \$	Norway \$	Other \$	Inter-company Eliminations \$	Total \$
3 months ended January 31, 2005						
Sales	6,970,409	3,147,573	1,458,888	617,105	(157,246)	12,036,729
Property, equipment and leasehold improvements	558,748	350,154	—	—	—	908,902
Goodwill	—	6,323,293	—	—	—	6,323,293
3 months ended January 31, 2004						
Sales	6,680,056	—	—	—	—	6,680,056
At October 31, 2004						
Property, equipment and leasehold improvements	494,261	347,245	—	—	—	841,506
Goodwill	—	6,137,943	—	—	—	6,137,943

9. SUBSEQUENT EVENTS

Between February 4 and March 3, 2005, 23,007 and 312,790 agents warrants were exercised at \$0.80 and \$1.00 respectively for proceeds of \$331,196

On February 20, 2005, the Company signed an underwriting agreement to issue up to 11,200,000 shares at \$1.10 per share. The underwriters will receive a commission of 6.5% of gross proceeds and "Compensation Warrants" of 9.5% of the total number of shares sold. These warrants are exercisable at \$1.10 per warrant and are exercisable for up to 18 months after closing. The transaction closed on March 10, 2005 for proceeds of \$11.5 million net of issue costs of \$880,000.

On February 22, 2005, the Company, through its newly incorporated subsidiary Coastal Pharma Lens Inc. entered into a purchase and sale agreement with Marlin Financial Group Inc. The Company acquired the Pharma Lens trademark application, the Distributorship Pilot Agreement between Ahold USA Inc. and Marlin Financial Group Inc. and the supply contract between Ralphs Grocery Company and Marlin Financial Group Inc. for 40,150 shares and cash of \$14,850. The shares are subject to a voluntary pooling agreement of three years with tranches released at six month intervals.

On March 1, 2005, 198,840 options were issued to employees of Lensway AB at \$1.00. These options vest evenly over three years beginning on March 31, 2005.

On March 1, 2005, 54,000 options were issued to directors of the company. These options are exercisable at \$1.00 per share. 30,000 of these options vest on February 18, 2005 while the remaining 24,000 options vest on February 18, 2006.

10. COMPARATIVE FIGURES

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