

Interim Consolidated Financial Statements

Coastal Contacts Inc.

Unaudited

For the three and nine months ended July 31, 2006

Coastal Contacts Inc.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	July 31, 2006 \$	October 31, 2005 \$
ASSETS		
Current		
Cash	10,065,492	2,985,600
Short-term investments <i>[note 3]</i>	20,033,530	10,624,139
Accounts receivable <i>[note 4]</i>	6,842,907	4,809,216
Income taxes receivable	-	3,598
Inventory	9,843,328	7,020,637
Prepaid expenses	1,049,417	949,662
Due from related parties <i>[note 11]</i>	497,545	322,250
	48,332,219	26,715,102
Property, equipment and leasehold improvements <i>[note 5]</i>	2,408,076	1,446,029
Intangible assets <i>[note 6]</i>	5,956,653	5,466,712
Goodwill	5,783,539	5,479,147
	62,480,487	39,106,990
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	414,382	328,157
Accounts payable and accrued liabilities	11,314,247	10,259,818
Income taxes payable	309,749	308,447
Deferred revenue	183,201	77,502
Current portion of lease inducement	24,337	24,337
Current portion of long-term debt <i>[note 7]</i>	18,503	379,257
	12,264,419	11,377,518
Long-term lease inducement	94,698	114,177
Future income tax liability	1,911,242	1,646,676
	14,270,359	13,138,371
Shareholders' Equity		
Share capital		
Authorized:		
Unlimited common shares without par value		
Unlimited Class A preferred shares without par value		
Issued and outstanding <i>[note 8]</i> :		
71,250,003 common shares [2005 – 51,632,951]	49,979,453	26,263,656
Shares to be issued <i>[note 8]</i>	503,000	—
Contributed surplus <i>[note 9]</i>	631,392	593,083
Cumulative foreign currency translation adjustment	(2,018,627)	(1,808,808)
Retained earnings (deficit)	(885,090)	920,688
	48,210,128	25,968,619
	62,480,487	39,106,990

See accompanying notes to the unaudited interim consolidated financial statements

On behalf of the Board:

Roger V. Hardy

Director

Curt Cranfield

Director

Coastal Contacts Inc.

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

(Unaudited)

	Three months ended July 31		Nine months ended July 31	
	2006 \$	2005 \$	2006 \$	2005 \$
Sales	21,657,030	19,817,554	57,669,849	46,707,879
Cost of sales	17,026,842	14,161,486	44,132,461	34,007,887
Gross profit	4,630,188	5,656,068	13,537,388	12,699,992
Selling, general and administration expenses	6,422,839	4,045,589	14,291,587	9,826,745
Stock-based compensation	40,194	30,293	86,497	146,603
Amortization	331,823	228,831	882,357	575,454
Interest on long-term debt	3,510	22,516	33,322	81,205
Interest income	(303,543)	(76,713)	(674,943)	(127,933)
Income (loss) before income taxes	(1,864,635)	1,405,552	(1,081,432)	2,197,918
Income tax expense - current	194,827	519,272	437,569	645,945
Income tax expense (recovery)- future	83,756	(313,900)	286,777	(327,586)
Net Income (loss)	(2,143,218)	1,200,180	(1,805,778)	1,879,559
Retained earnings (deficit), beginning of period	1,258,128	(496,005)	920,688	(1,175,384)
Retained earnings (deficit), end of period	(885,090)	704,175	(885,090)	704,175
Basic earnings (loss) per share	(0.03)	0.02	(0.03)	0.04
Diluted earnings (loss) per share	(0.03)	0.02	(0.03)	0.04
Weighted average number of common shares outstanding – basic [note 10]	69,704,510	50,044,222	63,295,681	42,970,791
Weighted average number of common shares outstanding – diluted [note 10]	69,704,510	60,251,874	63,295,681	52,563,249

See accompanying notes to the unaudited interim consolidated financial statements

Coastal Contacts Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Three months ended		Nine months ended	
	July 31		July 31	
	2006	2005	2006	2005
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income (loss)	(2,143,218)	1,200,180	(1,805,776)	1,879,559
Non-cash items:				
Amortization	331,823	228,831	882,357	575,454
Amortization of deferred lease inducement	(6,493)	(6,243)	(19,479)	(19,676)
Accrued interest	-	(74,248)	(27,360)	(115,422)
Stock-based compensation	40,194	30,293	86,497	146,603
Current income taxes	-	297,016	-	297,016
Future income taxes	83,756	(313,900)	286,775	(327,586)
Changes in non-cash working capital:				
Accounts receivable	(538,801)	(1,715,173)	(1,848,995)	(1,617,840)
Inventory	(2,200,946)	(2,583,630)	(2,615,629)	(2,516,811)
Prepaid expenses	543,089	(258,040)	(65,947)	(559,636)
Accounts payable and accrued liabilities	2,237,088	4,542,591	734,818	5,668,502
Income taxes payable	104,339	191,166	(32,485)	320,314
Deferred revenue	(91,154)	2,983	105,792	(226,687)
Due from related parties	54,872	(36,163)	(61,686)	(43,198)
Cash provided by (used in) operating activities	(1,585,451)	1,505,663	(4,381,118)	3,460,592
INVESTING ACTIVITIES				
Purchase of short-term investments	(1,464)	-	(41,425,359)	(11,100,942)
Sale of short-term investments	9,086,915	561,285	32,121,661	450,804
Acquisition of property, equipment and leasehold improvements	(400,940)	(209,608)	(1,252,558)	(466,697)
Acquisition of intangible assets	(289,509)	(1,228,406)	(739,561)	(1,331,310)
Disposition of intangible assets	-	-	-	3,641
Advances to related parties	(59,127)	(59,127)	(101,495)	(152,228)
Cash provided by (used in) investing activities	8,335,875	(935,856)	(11,397,312)	(12,596,732)
FINANCING ACTIVITIES				
Issuance of share capital	994,112	96,696	2,750,230	12,777,065
Proceeds received for shares to be issued	503,000	-	503,000	-
Issuance of special warrants	-	-	22,500,000	-
Share issue costs	-	-	(1,752,662)	(939,330)
Bank indebtedness	(375,212)	26,852	86,225	(150,353)
Repayment of long-term debt	(16,482)	(219,442)	(188,282)	(552,030)
Cash provided by (used in) financing activities	1,105,418	(95,894)	23,898,511	11,135,352
Effect of exchange rate changes on cash	(177,961)	(177,533)	(1,040,189)	(176,048)
Increase in cash	7,677,881	297,382	7,079,892	1,823,164
Cash, beginning of period	2,387,611	2,370,464	2,985,600	843,681
Cash, end of period	10,065,492	2,666,845	10,065,492	2,666,845
Interest paid in cash	5,348	22,516	35,160	81,205
Income taxes (recovered) paid in cash	92,981	3,621	614,377	9,009

See accompanying notes to the unaudited consolidated interim financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2006

Unaudited

1. BASIS OF PRESENTATION

Coastal Contacts Inc. (“the Company”) is a global on-line retailer of contact lenses sold through internet sites and call centres operated by the Company. The Company has operations in North America and Europe.

These unaudited consolidated interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”) with respect to interim financial statements, applied on a consistent basis. These unaudited interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 2 to the Company’s audited consolidated financial statements as at and for the year ended October 31, 2005. Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These unaudited consolidated interim financial statements and notes thereon should be read in conjunction with the audited consolidated financial statements and notes for the year ended October 31, 2005.

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

2. ACQUISITION OF YOURLENSES

On May 4, 2005 through the Company’s wholly owned subsidiary, Lenslogistics AB (formerly Lensway AB), the Company completed the acquisition of all of the shares of Yourlenses Scandinavia AB (“Yourlenses”), a European retailer of contact lenses. The consideration paid consisted of cash of \$949,032 (5,380,000 Swedish Krona) and the assumption of debt in the amount of \$156,167, with fifty percent of the cash paid upon signing on May 4, 2005 and the remaining fifty percent held in escrow, payable eighteen months from such date.

The acquisition was accounted for using the purchase method whereby assets acquired and liabilities assumed were recorded at their fair market values as of the date of the acquisition.

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2006

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2. ACQUISITION OF YOURLENSES (cont'd.)

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

	\$
Cash	949,032
Direct acquisition costs	111,193
Total consideration	1,060,225
Cash	33,988
Other current assets	240,942
Property and equipment	5,865
Your Lenses customer list	735,000
Your Lenses trade name	514,500
Website development	134,750
Current liabilities	(313,440)
Long-term debt	(85,361)
Future income tax liability	(387,590)
Net assets acquired	878,654
Goodwill	181,571

Goodwill has been allocated to the Swedish reporting unit and is not deductible for income tax purposes.

The results of operations of Yourlenses have been included in the accompanying interim consolidated financial statements since May 4, 2005.

3. SHORT-TERM INVESTMENTS

	2006	2005
	\$	\$
Guaranteed Investment Certificates	19,675,281	10,401,481
Other	358,249	222,658
	20,033,530	10,624,139

The investments mature 30-90 days from the date of investment with an average interest rate of 4.6% (2005 – 3.3%).

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2006

Unaudited

4. ACCOUNTS RECEIVABLE

	2006	2005
	\$	\$
Accounts receivable	6,115,383	4,104,580
Allowance for doubtful accounts	(396,952)	(259,980)
Value added tax receivable	1,124,476	964,616
	6,842,907	4,809,216

5. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
July 31, 2006			
Leasehold improvements	789,772	149,093	640,679
Computer hardware	657,941	206,380	451,561
Computer software	90,798	48,332	42,466
Furniture and fixtures	512,717	129,114	383,603
ERP software	1,105,252	215,485	889,767
	3,156,480	748,404	2,408,076
October 31, 2005			
Leasehold improvements	465,094	70,667	394,427
Computer hardware	500,506	120,134	380,372
Computer software	51,899	22,782	29,117
Furniture and fixtures	292,488	72,134	220,354
ERP software	512,138	90,379	421,759
	1,822,125	376,096	1,446,029

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2006

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6. INTANGIBLE ASSETS

	Cost	Accumulated	Net Book
	\$	Amortization	Value
		\$	\$
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July 31, 2006			
Website creation	1,502,152	290,513	1,211,639
Lensway name	2,575,980	—	2,575,980
Yourlenses name	457,042	—	457,042
Lensway customer list	1,884,863	782,225	1,102,638
Yourlenses customer list	652,917	119,701	533,216
Pharmalens agreements	76,138	—	76,138
	7,149,092	1,192,439	5,956,653
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October 31, 2005			
Website creation	800,167	119,954	680,213
Lensway name	2,439,537	—	2,439,537
Yourlenses name	432,833	—	432,833
Lensway customer list	1,785,027	501,557	1,283,470
Yourlenses customer list	618,333	63,812	554,521
Pharmalens agreements	76,138	—	76,138
	6,152,035	685,323	5,466,712
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Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7. LONG-TERM DEBT

	July 31, 2006	October 31, 2005
	\$	\$
VanCity Capital		
Loan #2: Repayable in monthly installments of \$8,378, blended principal and interest at 13%. The loan has matured on March 15, 2006.	—	170,690
Loan #3: Repayable in monthly installments of \$6,065 blended principal and interest at a fixed interest rate of 13%. The loan matures on October 15, 2006.	18,503	68,412
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 277,776) matured on February 28, 2006.	—	140,155
	18,503	379,257
Less current portion	18,503	379,257
	—	—

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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8. SHARE CAPITAL

Issued and outstanding common shares

	2006		2005	
	Number of Common Shares #	\$	Number of Common Shares #	\$
Balance - beginning of period	51,632,951	26,263,656	33,874,860	11,569,500
Issued in private placement	—	—	2,500,000	1,762,560
Issued in private placement	—	—	11,200,000	10,901,871
Issued on exercise of warrants	11,424,684	23,527,737	1,646,775	1,903,516
Issued on exercise of options	8,192,368	188,060	2,371,166	86,059
Issued to Marlin Financial Group Inc.	—	—	40,150	40,150
Balance - end of period	71,250,003	49,979,453	51,632,951	26,263,656

Between November 1, 2005 and January 31, 2006, 487,680 agents warrants and 8,178,340 options were exercised for cash proceeds of \$483,530 and \$172,782, respectively.

On January 31, 2006, the Company closed on an underwritten bought deal 9,000,000 special warrants by way of private placement, at a price of \$2.50 per special warrant, for gross cash proceeds of \$22.5 million. The Company paid underwriters a commission equal to 6% of the gross proceeds and up to \$30,000 for underwriters' expenses and fees related to the offering. Net proceeds were \$21,069,671 after underwriters' commission and other underwriting costs. The special warrants and common shares issuable upon exercise of the special warrants were subject to resale restrictions for a period of four months from the closing date. Each special warrant is exercisable to acquire one common share of the Company for no additional consideration. These warrants were exercised on March 30, 2006 into common shares.

Between February 1, 2006 and July 31, 2006, a further 1,937,004 agents warrants and 14,028 options were exercised for cash proceeds of \$1,974,536 and \$15,278 respectively.

The Company received proceeds of \$503,000 from the exercise of 510,500 warrants for which the shares were issued subsequent to July 31, 2006.

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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9. CONTRIBUTED SURPLUS

	July 31, 2006	October 31, 2005
	\$	\$
Balance - beginning of period	593,083	105,898
Stock-based compensation	86,497	175,632
Compensation warrants	-	478,800
Reclassification to share capital on exercise of warrants	(48,188)	(167,247)
Balance - end of period	631,392	593,083

10. EARNINGS (LOSS) PER SHARE

	Three months ended		Nine months ended	
	July 31		July 31	
	2006	2005	2006	2005
	\$	\$	\$	\$
Weighted average number of common shares outstanding – basic	69,704,510	50,044,222	63,925,681	42,970,791
Stock options	-	8,964,969	-	8,874,625
Warrants	-	1,242,683	-	717,833
Weighted average number of common shares outstanding – diluted	69,704,510	60,251,874	63,925,681	52,563,249

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11. RELATED PARTY TRANSACTIONS

Due from related parties

	July 31, 2006	October 31, 2005
	\$	\$
Promissory notes receivable	243,700	115,000
Advances to officers	214,154	167,559
CMP Medical Inc.	39,691	39,691
	497,545	322,250

The amounts due from related parties includes: (1) promissory notes from six members of management. These loans are payable on demand and bear interest at 5% per annum; (2) Other advances to officers of the Company in the amount of \$214,154. These advances are non interest bearing with no fixed terms of repayment; and (3) \$39,691 from CMP Medical Inc., a company controlled by an officer and shareholder of the Company.

All related party transactions are measured at their exchange amounts.

Coastal Contacts Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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12. SEGMENTED INFORMATION

The Company operates in one business segment, the sale of contact lenses. The Company ships product from North America and Europe to Customers in North America, Europe and Asia.

The geographical information is based on the location of the customers in which the Company sells contact lenses and accessories. Certain comparative figures have been adjusted to reflect this reporting. In particular, Intercompany revenues are excluded from the revenues in the country of shipment.

	United States	Sweden	Norway	Other	Total
	\$	\$	\$	\$	\$
Revenue					
3 Mos. Ended:					
July 31, 2006	7,036,580	5,850,053	3,585,020	5,185,377	21,657,030
July 31, 2005	8,128,067	5,986,998	2,761,096	2,941,393	19,817,554
9 Mos. Ended:					
July 31, 2006	20,160,501	15,409,578	8,866,044	13,233,726	57,669,849
July 31, 2005	20,984,199	12,794,819	6,372,070	6,556,790	46,707,879
Property, equipment and leasehold improvements					
July 31, 2006		1,261,096		1,146,980	2,408,076
October 31, 2005		703,778		742,251	1,466,029
Goodwill					
July 31, 2006		5,783,539			5,783,539
October 31, 2005		5,479,147			5,479,147

Included in "Other" are revenues to non-related customers in Canada of \$1,046,829 and \$2,478,707 for the 3 months and the 9 months ended July 31, 2006 respectively (2005 - \$817,876 and \$1,494,943). Property, equipment and leasehold improvements in Canada were \$1,146,980 at July 31, 2006 (2005 - \$742,251).

Coastal Contacts Inc.

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13. SUBSEQUENT EVENT

On August 12, 2006, the Company acquired the leading on-line distributor of contact lenses and optical products in the Netherlands. The acquisition three companies all organized under the laws in The Netherlands.

14. COMPARATIVE FIGURES

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