

**NAPIER ENVIRONMENTAL
TECHNOLOGIES INC.
CONSOLIDATED
FINANCIAL STATEMENTS
DECEMBER 31, 2003**

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AUDITORS' REPORT

The Shareholders,
Napier Environmental Technologies Inc.

We have audited the consolidated balance sheets of Napier Environmental Technologies Inc. as at December 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for the years ended December 31, 2003 and December 31, 2002. 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 December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied except for the change in the method of accounting for stock based compensation as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

“DELOITTE & TOUCHE LLP”

Chartered Accountants
Vancouver, British Columbia

February 18, 2004

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Napier Environmental Technologies Inc. are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management conforming to accounting principles generally accepted in Canada. These statements include some amounts that are based on best estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The company maintains a system of internal control, which provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained.

The Board of Directors carries out its responsibility for the financial statements principally through its Audit Committee, consisting solely of outside directors. The Audit Committee meets periodically with management, as well as the external auditors, to review the financial statements and to satisfy itself that each party is properly discharging its responsibilities.

The external auditors, Deloitte & Touche LLP, have been appointed by the shareholders to render their opinion on the financial statements. The auditors have full and free access to the Audit Committee and their report is included herein.

Frank Dixon
Chief Executive Officer

Janice Comeau
Chief Financial Officer

March 1, 2004

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS DECEMBER 31

	2003	2002
ASSETS		
Current		
Cash and cash equivalents	\$ 96,217	\$ 285,097
Accounts receivable (Note 4)	342,178	617,166
Inventory (Note 5)	1,438,734	1,574,303
Prepaid expenses	157,120	185,079
	2,034,249	2,661,645
Investments (Note 6)	17,655	161,585
Capital assets (Note 7)	639,951	754,517
Deferred Charges (Note 8)	51,549	
	\$ 2,743,404	\$ 3,577,747
LIABILITIES		
Current		
Bank indebtedness (Note 9)	\$ -	\$ 353,000
Accounts payable	1,794,502	936,999
Current portion of long term debt	69,989	80,033
	1,864,491	1,370,032
Long term debt (Note 10)	44,979	114,313
Convertible debenture (Note 11)	337,440	-
	2,246,910	1,484,345
SHAREHOLDERS' EQUITY		
Capital stock (Note 12)	23,343,041	23,335,041
Convertible debenture (Note 11)	173,700	-
Contributed surplus (Note 12)	61,309	39,890
Deficit	(23,081,556)	(21,281,529)
	496,494	2,093,402
	\$ 2,743,404	\$ 3,577,747

Approved by the Directors

signed: "Frank Dixon"

signed: "Peter Jeffrey"

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEARS ENDED DECEMBER 31**

	2003	2002
Sales	\$ 6,951,632	\$ 8,069,430
Cost of sales	4,217,033	4,745,653
Gross profit	2,734,599	3,323,777
	39.3%	41.2%
Expenses		
Selling and marketing (Schedule)	2,485,875	2,451,016
General and administrative (Schedule)	1,628,332	1,633,812
Research and product development	223,560	197,600
	4,337,767	4,282,428
Operating loss	(1,603,168)	(958,651)
Other items		
Equity loss in investment	(93,930)	(113,960)
Write down of investment	(50,000)	(150,000)
Foreign exchange loss	(62,585)	(40,391)
Interest and other	9,656	31,968
	(196,859)	(272,383)
Net loss for the year	(1,800,027)	(1,231,034)
Deficit at beginning of the year	(21,281,529)	(20,050,495)
Deficit at end of the year	\$ (23,081,556)	\$ (21,281,529)
Weighted average shares outstanding	47,649,850	47,446,234
Loss per share, basic and fully diluted	\$ (0.04)	\$ (0.03)

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31**

	2003	2002
Operating activities		
Net loss for the year	\$ (1,800,027)	\$ (1,231,034)
Items not involving cash		
Amortization	176,671	164,260
Accretion of convertible debenture	11,140	-
Stock based compensation	21,419	-
Equity loss in investment	93,930	113,960
Write down of investment	50,000	150,000
(Gain) loss on disposal of capital assets	(50)	1,912
	(1,446,917)	(800,902)
Change in non-cash operating working capital		
Accounts receivable	274,988	73,793
Inventory	135,569	32,407
Prepaid expenses	35,959	(22,025)
Accounts payable	857,503	(1,138)
	1,304,019	83,037
	(142,898)	(717,865)
Financing activities		
Bank indebtedness	(353,000)	63,000
Shares issued for cash	-	64,600
Convertible debenture issued net of fees	439,227	-
Repayment of long-term debt	(79,378)	(83,109)
	6,849	44,491
Investing activities		
Purchase of capital assets	(52,881)	(28,127)
Proceeds on disposal of capital assets	50	4,800
	(52,831)	(23,327)
Change in cash during the year	(188,880)	(696,701)
Cash and cash equivalents at beginning of the year	285,097	981,798
Cash and cash equivalents at end of the year	\$ 96,217	\$ 285,097
Supplemental information		
Interest paid	\$ 101,214	\$ 67,873

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

1. CONTINUING OPERATIONS

The company is incorporated under the Company Act of British Columbia and is primarily involved in the manufacture and distribution of a wide range of products created through environmentally advanced technology. The product lines include coating removal and wood restoration products.

The company has incurred significant losses over the past fiscal periods and has been reliant on sources of cash from other than operations. Such sources have included bank financing and issuances of equity. The ability of the company to continue as a going concern is dependent upon either achieving cash flow from operations or obtaining an injection of capital.

Management is of the opinion that significant growth in sales will be required to achieve positive cash flow from operations. Subsequent to the end of the year, new financing arrangements were completed to provide the working capital necessary for operations, assuming sales growth is achieved. If significant sales growth is not achieved, additional financing will be required in the year. Management believes that actions taken will mitigate the conditions and events that raise doubts about the validity of the going concern assumption used in preparing these financial statements.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the company will continue to operate in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. If the going concern assumption was not appropriate, then certain adjustments would be necessary to the carrying values of assets and liabilities, the reported costs and expenses and balance sheet classifications used.

2. CHANGE IN ACCOUNTING POLICY

During the fourth quarter of 2003 and effective January 1, 2003 the company adopted, on a prospective basis, the fair value based method of accounting for employee stock based compensation. Accordingly, the change from the intrinsic value based method to the fair value based method applies to awards granted, settled or modified on or after January 1, 2003.

The effect of this change for the year ended December 31, 2003 is to increase salaries and wage expense by \$21,419 with a corresponding increase to contributed surplus.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These consolidated financial statements include the accounts of the company and its wholly owned subsidiaries. Inter-company balances and transactions are eliminated on consolidation.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reporting period. Actual results could differ from those estimates.

b) Cash and cash equivalents

Cash and cash equivalents are comprised of highly liquid investments having original terms to maturity of 90 days or less when acquired.

c) Inventory

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value.

d) Investments

Investments over which the company exercises significant influence are accounted for using the equity method. Other long-term investments are recorded at the lower of cost and estimated net realizable value.

e) Capital assets and amortization

Capital assets are recorded at cost. Amortization is provided under the straight-line method at annual rates varying from 2 to 10 years.

f) Deferred charges

Deferred financing costs are being amortized over the original term of the convertible debenture.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Revenue recognition

Revenue is recognized when goods are shipped, significant risks and benefits of ownership are transferred, and collectability is reasonably assured.

h) Income taxes

Income taxes are accounted for using the liability method whereby future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of tax losses that are likely to be realized. Future income tax assets and liabilities are measured using enacted tax rates that are expected to be effective when recovered or settled. The net change in recorded future income tax assets and liabilities is recognized in income in the period in which the change occurs including any change in applicable future tax rates.

i) Stock options

Effective January 1, 2002 the company adopted, on a prospective basis the recommendations by the Canadian Institute of Chartered Accountants for stock based compensation. In accordance with these recommendations, the company measures certain stock based transactions with non-employees using the fair value based method and certain stock based transactions with employees using the intrinsic value based method. Under the intrinsic value based method, no compensation costs are recognized when options are granted and proceeds received on exercise of employee stock options are recorded as share capital.

For employee stock options granted during 2002 the company has disclosed the pro-forma effect as if the fair value based method had been used (Note 12 (d)).

Effective January 1, 2003 the company adopted on a prospective basis the fair value based method of accounting for employee stock based compensation. The fair value based method requires the company to estimate compensation costs on the date options are granted, using an option- pricing model.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Foreign currency translation

The functional currency of the company's operations is the Canadian dollar. Transactions and account balances originally stated in currencies other than the Canadian dollar have been translated into Canadian dollars using the temporal method as follows:

- Revenue and expense items at the rate of exchange in effect on the dates they occur;
- Non-monetary assets and liabilities at historical exchange rates; and
- Monetary assets and liabilities at the exchange rate at the balance sheet dates.

Exchange gains and losses are included in the determination of income in the period in which they occur.

k) Loss per share

Loss per share is calculated based on the weighted average number of shares outstanding during the period. Potentially dilutive items are described in Note 12. Fully diluted loss per share is the same as basic loss per share as the exercise of options and warrants would reduce the loss per share.

l) Comparative figures

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

4. ACCOUNTS RECEIVABLE

In March of 2003 the company entered into a revolving arrangement to sell eligible receivables to a major financial institution. Under the terms of the arrangement, the company has the option to sell 90% of insured foreign receivables up to a maximum of \$US 750,000, for a fee ranging from 3.0% to 3.5% of face value. The sale of receivables is without recourse except for unanticipated product returns. Subsequent to the year-end this arrangement was replaced (Note 17).

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

5. INVENTORY

Inventory is comprised of:

	<u>2003</u>	<u>2002</u>
Raw materials	\$ 592,295	\$ 786,639
Finished goods	846,439	787,664
	<u>\$ 1,438,734</u>	<u>\$ 1,574,303</u>

6. INVESTMENTS

The company has investments in the common shares of two public companies as follows:

	<u>2003</u>	<u>2002</u>
Investment in Ecoprogress, beginning of the year	\$ 111,585	\$ 225,545
Equity share of losses	(93,930)	(150,110)
Gain on dilution of equity interest	-	36,150
Investment in Ecoprogress, end of the year	<u>17,655</u>	<u>111,585</u>
Investment in Radical Elastomers Inc. at written down cost	50,000	200,000
Write down	(50,000)	(150,000)
year	<u>-</u>	<u>50,000</u>
Total investments, end of the year	<u>\$ 17,655</u>	<u>\$ 161,585</u>

The company's investment in Consolidated Ecoprogress Technology Inc. ("Ecoprogress") represents a 21% interest (2002 - 21%). The excess purchase price of the company's investment over the fair value of the underlying net assets has been allocated to product licenses owned by Ecoprogress and is amortized on a straight-line basis over the estimated life of the product licenses.

The investment in Radical Elastomers Inc. was written down to its net realizable value at the end of 2003 and 2002.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

7. CAPITAL ASSETS

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Machinery and equipment	\$ 937,369	\$ 619,600	\$ 317,769	\$378,365
Furniture and fixtures	211,300	81,218	130,082	153,496
Leasehold improvements	277,544	85,444	192,100	222,656
	<u>\$ 1,426,213</u>	<u>\$ 786,262</u>	<u>\$ 639,951</u>	<u>\$ 754,517</u>

8. DEFERRED CHARGES

The deferred charges represent fees related to the debenture financing and are being amortized over the life of the convertible debenture.

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Deferred financing charges	<u>\$ 60,773</u>	<u>\$ (9,224)</u>	<u>\$ 51,549</u>	<u>\$ -</u>

9. BANK INDEBTEDNESS

During the year ended December 31, 2003 the company's operating loan facility was repaid and replaced by a short-term loan and an accounts receivable sale arrangement (Note 4). The short-term loan was repaid in May from the proceeds of the sale of accounts receivable and the issuance of convertible debentures (Note 11).

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

10. LONG TERM DEBT

	<u>2003</u>	<u>2002</u>
Capital lease obligations repayable in aggregate monthly instalments of \$7,123 including interest averaging 11.19% per annum due until January, 2005.	\$ 114,968	\$ 194,346
Less current portion	<u>69,989</u>	<u>80,033</u>
	<u>\$ 44,979</u>	<u>\$ 114,313</u>

Principal repayments required are as follows: 2004 - \$69,989; 2005 - \$44,979.

11. CONVERTIBLE DEBENTURE

During the year ended December 31, 2003 the company issued convertible debentures in the amount of \$500,000. The debentures are unsecured and bear interest, payable semi-annually, at 8% per annum and are subordinate to all financing arrangements with commercial lenders. The debentures are convertible, at the holder's option, into securities of the company until their maturity date, June 12, 2008, at a conversion price of \$0.25 per share. If converted prior to June 12, 2005 the holder receives one-half share purchase warrant exercisable at \$0.40 during the first year following conversion and \$0.50 during the second year. No warrants are issued if conversion occurs subsequent to June 12, 2005.

Commencing June 12, 2004 the debentures automatically convert if over a 30 day period the company's average closing stock price exceeds \$0.33 per share.

The principal amount of \$500,000 has been apportioned to its liability and equity components, using the residual value method based on discounted future cash flows at a rate of 20% per annum at the date of issuance as follows: \$326,300 to long-term debt and \$173,700 to equity. The \$326,300 will be accreted to its face value of \$500,000 through the recording of additional interest expense over the term of the debenture.

During the year ended December 31, 2003 the liability component was accreted by \$11,140.

Subsequent to year end the company issued 100,000 common shares and 50,000 warrants on the conversion of \$25,000 of the convertible debenture.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

12. CAPITAL STOCK

a) Authorized
145,635,962 common shares

b) Issued

	2003		2002	
	Number of shares	\$	Number of shares	\$
Beginning of the year	47,628,042	23,335,041	47,248,042	23,270,441
Issued for services	40,000	8,000	-	-
Issued for cash	-	-	380,000	64,600
End of the year	47,668,042	23,343,041	47,628,042	23,335,041

During the year ended December 31, 2003, the company issued 40,000 common shares and 20,000 warrants as payment of a finder's fee for the convertible debenture (Note 11). The value of common shares issued is based on their market value on date of issue.

During the year ended December 31, 2002, 380,000 stock options were exercised at \$0.17 per share for proceeds of \$64,600.

c) Stock options

Under the terms of the company's incentive stock option plan, options are granted to employees and directors upon approval by the Board of Directors and the exercise price of each option is determined by reference to the market price of the company's stock. Options are normally exercisable within 10 years from the date of grant or a lesser period as determined by the Board and within 30 days of termination of employment. Options generally vest upon grant date, however the Board reserves the right to attach vesting periods to stock options granted

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

12. CAPITAL STOCK (continued)

c) Stock options (continued)

The following table summarizes the status and changes in stock options outstanding at December 31, 2003 and 2002:

	2003		2002	
	Number	Weighted average price	Number	Weighted average price
Beginning of the year	3,639,000	\$0.90	4,087,000	\$0.98
Granted	265,000	0.28	895,000	0.30
Exercised	-	-	(380,000)	0.17
Cancelled/expired	(1,169,000)	1.71	(963,000)	0.98
End of the year	2,735,000	0.49	3,639,000	0.90
Exercisable, end of the year	2,660,000	\$0.50	3,339,000	\$0.88
Options reserved for issuance under stock option plan	1,885,000		981,000	

The following table summarizes information about stock options outstanding at December 31, 2003:

Range of exercise prices	Number of options	Weighted average remaining contractual life	Weighted average exercise price
Vested			
\$.17 - \$.28	1,695,000	3.3 years	\$0.21
\$.40	150,000	3.3 years	\$0.40
\$.85 - \$1.15	715,000	1.0 years	\$1.00
\$2.18	100,000	6.4 years	\$2.18
	2,660,000	2.6 years	\$0.49
Non-vested			
\$0.28	75,000	3.9 years	\$0.28
	2,735,000	2.5 years	\$0.50

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

12. CAPITAL STOCK (continued)

d) Stock-based compensation

During 2003 the company adopted the fair value based method of accounting for stock-based compensation and recorded compensation expense of \$21,419 relating to the 265,000 stock options granted during the year.

Prior to January 1, 2003 the company accounted for employee stock options using the intrinsic value based method and is required to disclose pro forma net loss and loss per share as if the fair value based method had been used for all options granted since January 1, 2002. Pro forma compensation expense for 2003 relates to 300,000 stock options issued during 2002 that vest over a two year period and were recorded using the intrinsic value based method.

	<u>2003</u>	<u>2002</u>
Net loss, as reported	\$ (1,722,097)	\$ (1,231,034)
Additional compensation expense	(49,088)	(160,676)
Net loss, pro forma	<u>\$ (1,771,185)</u>	<u>\$ (1,391,710)</u>
Loss per share, as reported	\$ (0.04)	\$ (0.03)
Loss per share, pro forma	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>

The Black Scholes option-pricing model assumptions used to compute the fair value of options granted are as follows:

	<u>2003</u>	<u>2002</u>
Dividend yield	0%	0%
Expected volatility	79% - 80%	115% - 123%
Expected life	5 yrs	5 yrs
Risk free rate of return	3.7%	5.0%
Weighted average fair value of options granted	<u>\$ 0.08</u>	<u>\$ 0.25</u>

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

12. CAPITAL STOCK (continued)

e) Warrants

	<u>2003</u>	<u>2002</u>
Beginning of the year	2,917,120	2,917,120
Granted	20,000	-
End of the year	<u>2,937,120</u>	<u>2,917,120</u>

During the year ended December 31, 2003 the company obtained regulatory approval to extend the expiry date of the 2,917,120 warrants to September 11, 2005.

At December 31, 2003, 2,597,120 warrants are exercisable at \$0.41 per share and expire September 11, 2005; 320,000 warrants are exercisable at \$2.40 per share and expire September 11, 2005; and 20,000 warrants are exercisable at \$0.40 per share until June 12, 2004 and then \$0.50 per share until June 12, 2005.

13. INCOME TAXES

The approximate tax effect of temporary differences and tax loss carry forwards that give rise to the company's future income tax assets are as follows:

	<u>2003</u>	<u>2002</u>
Capital assets	\$ 1,330,000	\$ 1,270,000
Investments and other	251,000	243,000
Tax loss carryforwards	3,085,000	2,770,000
	<u>4,666,000</u>	<u>4,283,000</u>
Less valuation allowance	4,666,000	4,283,000
	<u>\$ -</u>	<u>\$ -</u>

The income tax recovery and change in valuation allowance differs from the amounts computed by applying Canadian statutory rates to loss before income taxes as follows:

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

13. INCOME TAXES (continued)

	<u>2003</u>	<u>2002</u>
Income tax recovery at statutory rate of 37.6% (2002 - 39.6%)	\$ (648,000)	\$ (490,000)
Manufacturing allowance	69,000	50,000
Amortization	63,000	65,000
Investments	41,000	105,000
Other	5,500	(10,000)
Valuation allowance	469,500	280,000
Income tax recovery	<u>\$ -</u>	<u>\$ -</u>

The company has loss carryforwards available for tax purposes as follows:

<u>Expiry date</u>	<u>Amount</u>
December 31, 2004	\$ 830,000
December 31, 2005	210,000
December 31, 2006	181,000
December 31, 2007	1,995,000
December 31, 2008	3,000,000
December 31, 2009	1,015,000
December 31, 2010	1,439,000
	<u>\$8,670,000</u>

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

14. SEGMENTED INFORMATION

The company operates in one industry segment, which is the manufacture and distribution of coatings removal products and wood restoration products in Canada and internationally. Within this general industry segment the company distributes to both retail or consumer and industrial sectors. All of the company's capital assets are located in Canada.

	<u>2003</u>	<u>2002</u>
Sales by region		
Canadian	\$ 2,518,202	\$ 2,872,000
International	4,433,430	5,197,000
Total Sales	<u>\$ 6,951,632</u>	<u>\$ 8,069,000</u>
Sales by sector		
Consumer	3,681,337	4,103,000
Industrial	3,270,295	3,966,000
	<u>\$ 6,951,632</u>	<u>\$ 8,069,000</u>

15. COMMITMENTS

The company leases its premises and certain office equipment under operating leases. The aggregate minimum rental payments under these leases are approximately 2004 - \$319,000; 2005 - \$345,000; 2006 - \$347,000; 2007 - \$204,000.

16. FINANCIAL INSTRUMENTS

(a) Fair values

The carrying values of cash, accounts receivable, bank indebtedness, accounts payable and capital lease obligations approximate their fair value based on their liquidity and short-term nature.

The carrying value of the convertible debenture approximates its fair value based on discounted cash flows at a rate of 20% per annum.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

16. FINANCIAL INSTRUMENTS (continued)

(a) Fair values (continued)

The quoted market prices of the company's investments aggregate \$314,784 at December 31, 2003. The market value of the company's investments may differ from net realizable value due to the number of shares held and the liquidity of these shares.

(b) Foreign exchange

The company is exposed to financial risk resulting from fluctuations in foreign exchange rates and the degree of volatility of these rates. The company does not use derivative financial instruments to reduce its exposure to rate changes.

17. SUBSEQUENT EVENTS

Subsequent to year-end the company entered into a financing arrangement with an asset based lender, which provides three financing facilities that have a term of up to one year.

The first facility is a \$2.0 million Factoring Facility which provides for funds on a recourse basis, of 80% of the invoice value in exchange for a minimum fee of 0.9% or, 0.06% per day that the amount is outstanding. The Factoring Facility can be terminated on 30 days notice by either party.

The second facility is a \$1.0 million Demand Operating Loan, secured by eligible inventory, which provides funding based on 75% of the appraised inventory value. Interest is payable on a monthly basis at a rate of 2% per month.

The final facility is a \$48,375 Term Loan secured by property, plant and equipment. Interest is payable monthly at a rate of 2% per month along with annual amortization of 30%.

The facilities contain standard covenant clauses for financial ratios, payment of priority payables, and financial reporting.

The company expects that it will be in a position to receive advances in 2004 up to the full value of Factoring Facility and approximately one half of the Demand Operating Loan.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED SCHEDULES

SELLING AND MARKETING EXPENSES YEARS ENDED DECEMBER 31

	2003	2002
Salaries and wages	\$ 1,093,626	\$ 1,136,489
Travel and entertainment	492,446	458,313
Commissions	267,599	291,600
Advertising	182,243	162,204
Consulting and other	174,975	22,206
Retail service fee	160,689	123,128
Promotional materials	157,576	269,540
Telecommunications	67,682	66,336
Bad debt expense (recovery)	(110,961)	(78,800)
	\$ 2,485,875	\$ 2,451,016

GENERAL AND ADMINISTRATIVE EXPENSES YEARS ENDED DECEMBER 31

	2003	2002
Salaries and wages	\$ 696,113	\$ 678,456
Insurance	214,227	195,253
Financing costs	143,327	69,678
Occupancy	106,356	108,454
Consulting	101,428	23,164
Professional fees	77,927	246,258
Office	63,364	79,280
Travel and corporate relations	56,446	85,617
Telecommunications	31,103	28,047
Regulatory and filing fees	23,030	14,082
Amortization	115,011	105,523
	\$ 1,628,332	\$ 1,633,812