

**NAPIER ENVIRONMENTAL
TECHNOLOGIES INC.**

**CONSOLIDATED
INTERIM FINANCIAL STATEMENTS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Napier Environmental Technologies Inc. manufactures and distributes highly effective, safe and environmentally advantaged chemicals for stripping paints/coatings, surface preparation as well as a complete line of wood restoration and protection products. Products are cost effective, user friendly and safe to use. As important, and especially in today's world Napier products are formulated and designed to be environmentally benign. Napier distributes products both domestically and internationally through an extensive network of distribution channels in the "Industrial" as well as "Consumer" markets.

Primary industrial uses for our products include paint stripping, concrete etching, rust or adhesive removal, as well as asbestos removal and containment and lead abatement. The products can be applied to a range of surfaces including metal, concrete, and wood. Typical surface preparation applications include aircraft, industrial plants, ships, bridges, storage tanks, oil refineries, railcars, concrete floors, and buildings. In the industry there is limited reliance on a particular market sector due to the diversity of product application. Market demand for the products is highly project driven. As well, most applications occur outdoors, so weather plays a major factor. Government spending on projects also has an impact on demand. Napier products have not yet been introduced and adopted for all applications. With steps taken in 2003, aviation is becoming one of our larger sectors.

Consumer uses for the products are similar, with the main difference being a smaller scale of project for the "do it yourself (DIY)" customer. Demand on the consumer side has historically been weighted towards wood restoration, wood coatings and some specialty cleaning products. Products for some of the industrial uses were not available to the consumer due to the complexity and sophistication of tools required for application. Last year, we developed a new line of products for consumers that overcome these application complexities and consumers now have access to a range of products that was previously only available to industrial users.

Competitive alternatives to our product offerings include products that are not environmentally benign and other surface preparation methods including sand blasting. On the wood coatings side, there are a number of competitive products, yet this is a small portion of our overall business. No one competitor offers the same range of products or has the same level of global product acceptance. This broad range of products gives the company a competitive advantage for mass retailers as they seek to consolidate vendors.

Competitors tend to be found on a regional or national level and in some instances are tied to one market sector such as aviation. Our competitive advantage is that our products are environmentally benign, cost effective, safe and easy to use. A number of the products are patented and supported by a competent Research and Development expertise.

Industrial products are distributed through a network of manufacturers and distributors of complimentary products with existing extensive distribution networks. The network requires extensive education and product training on the use and efficacy of Napier products. In turn, they use this knowledge and training to merchandise our products throughout their store and dealer network. Regional representation is utilized to expand our reach into the US retail market.

Shareholder value for this industry is generated through global distribution and product diversity and acceptance. Our vision is to be the global leader in products designed for surface preparation. In most stores today surface preparation is a confusing product category with a myriad of products some of which are ineffective, and most of which are environmentally hazardous. By positioning ourselves as a surface preparation specialist, we will be a "category leader" just as other larger manufacturers are leaders in primer and paint categories.

Deep distribution channels, product profitability and performance, product development, brand awareness, infrastructure and working capital drive performance. We continue to optimize our capabilities and resources in each of these areas.

Management's Discussion and Analysis (MD&A) for the quarter ended March 31, 2004 has been prepared to give shareholders and other stakeholders an assessment of what the company achieved in the quarter as well as an indication of initiatives underway and planned for this year to improve shareholder value. The MD&A for the quarter ended March 31, 2004 should be read in conjunction with the interim consolidated financial statements of the company and notes thereto for the periods ending March 31, 2004 and March 31, 2003.

Results of Operations

Sales

Sales in the quarter increased by \$0.1 million or 5% to \$1.6 million in 2004 from \$1.5 million in 2003. Sales from new business and expanded business from existing customers increased sales by \$0.6 million or 40% over last year. The following mostly offset this success:

- (\$0.3) million – Extension of the Spring Booking Program
- (\$0.1) million – a change in focus from general to commercial aviation resulted in lower general aviation sales, however, this loss was more than offset by higher sales in the commercial aviation sector.
- (\$0.1) million - loss of wood restoration product sales to Canadian regional paint dealer

The new and expanded business increased international sales by 28%. Domestic sales were down by 30% in the quarter due to the later spring booking program. Sales were split almost equally between industrial and consumer sales for the quarter. When compared with last year, consumer and industrial sales were 55% and 45% of sales respectively.

The partnership agreement signed with a major international paint manufacturer to co-brand, market and distribute our products worldwide, in the commercial aviation sector, yielded significant new business. Early in 2004, this agreement was extended to include military applications in both aviation and ground transport equipment. In the first quarter aviation sales to small aircraft refurbishers are down from last year as our partnership focuses on larger commercial clients.

A major North American paint manufacturer, which distributes a number of our products under their own label, are now selling Napier brand products in both their own stores and dealer networks. This encompasses our complete line of paint strippers, surface preparation and wood restoration products.

Sales to a major international coatings manufacturer, who was our first customer to private label our products, have returned to historic levels after a year of lower sales in 2003 due to their internal reorganization. This company is in the process of extending their line of private label products and signed an agreement to be a major distributor of our products in the United Kingdom. Finally, the largest regional paint and sundries distributor agreed to distribute our products throughout the Eastern and Southern US to independent hardware and paint dealers as well as regional home improvement centers.

Historically, the company has extended to its major customers, a Spring Booking Program, which provides discounts and favourable payment terms for placement of orders early in the year. In 2004, coupled with implementation of a new pricing structure, the company extended its Spring Booking Program into the second quarter. As a result, sales that would typically be booked in the first quarter of the year will be realized in the second quarter. In addition a Western Canadian chain of paint stores parent company acquired a competitor in wood restoration products and as a consequence sales to this customer are less than last year. Canadian consumer sales for the quarter are lower than last year for these reasons.

Marketing efforts focused on the launch of the new RemovALL product line specifically designed for the DIY market and encompassing the very best of our technologies and products including our patented SARA technology, which has historically been available to industrial customers only. Shipments of these products in Canada began in April.

Gross Profit

Gross margins at 43% are the same as the first quarter of last year. Charges relating to 2003 have reduced the first quarter 2004 margins by about 1.5%. Excluding this adjustment the first quarter margin is 44%, which is consistent with a higher level of industrial sales in the product mix. Gross profit remained unchanged at \$0.7 million.

Selling, Marketing and Research Expenses

Selling, Marketing and Research expenses at \$0.7 million are \$0.1 million higher than 2003. Spending exceeded 2003 for consulting and marketing materials expenses related to launch of the new RemovALL product line.

General and Administration Expenses

General and administration expenses at \$0.4 million are 10% higher than 2003. Spending exceeded 2003 for consulting fees and expenses related to strategic initiatives and the refinancing.

Other

Interest expense for the first quarter was \$56,441 compare to \$16,113 for the same period of 2003. Interest expense relates to the new financing arranged effective January 29, 2004.

Gain on sale of investment is the gain realized on the sale of the investment in Consolidated EcoProgress on March 31, 2004. Gain on sale of assets represents the proceeds on the sale of a formula for a non-strategic product. Annual sales from products using this formula were about \$0.1 million. Proceeds from the sale were \$166,250 plus a 5% royalty on future sales of products using this formulation.

Net Loss

The company's net loss for the quarter, including non-cash items, was \$0.2 million as compared to a net loss of \$0.4 million in 2003. The decreased loss is primarily attributable to the gains on sale of investment and sale of capital assets.

Selected Financial Information

The following financial information has been prepared in accordance with Canadian GAAP and is reported in Canadian dollars.

Set forth in the following table is selected financial data with respect to the Company's financial condition and results of operations for the three fiscal periods ended December 31, 2003, 2002 and 2001. The selected consolidated financial information should be read in conjunction with the Consolidated Financial Statements of the Company for the respective period together with Management's Discussion and Analysis.

Fiscal Periods Ended December 31 (audited) (\$million of dollars unless otherwise indicated)

	2003	2002	2001
Sales	7.00	8.1	7.4
Gross profit	2.7	3.3	2.0
Operating loss	(1.6)	(1.0)	(3.4)
Net loss	(1.8)	(1.2)	(12.9)
Loss per share, basic and fully diluted- \$	(0.04)	(0.03)	(0.27)
Total assets	2.7	3.6	4.8
Long- Term Financial Liabilities	0.4	0.1	0.2

Quarterly Information

Consolidated Quarterly Financial Results (unaudited) (\$ millions unless otherwise indicated)

	2003				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	1.5	2.6	1.8	1.1	2.0	3.3	1.9	1.0
Operating income (loss)	(0.3)	0.1	(0.6)	(0.8)	(0.2)	0.2	(0.3)	(0.6)
Net income (loss) for the period	(0.4)	0.0	(0.6)	(0.9)	(0.3)	0.3	(0.4)	(0.8)
Earnings (loss) per share, basic and fully diluted - \$	(0.01)	0.00	(0.01)	(0.02)	(0.01)	0.01	(0.01)	(0.2)

Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are developed based on the best available information and are believed by management to be reasonable under the existing circumstances. New events or additional information may result in the revision of these estimates over time. The company's significant accounting policies are described in Note 2 of the interim financial statements. The following discussion outlines what management believes to be the most critical accounting policies involving the use of significant estimates or assumptions.

Accounts Receivable, Allowance for doubtful accounts and product returns

The allowance for doubtful accounts is estimated based on historical trends. The company regularly reviews the age of accounts receivable in detail by customer and follows up delinquent accounts directly with the customer. Based on discussions with the customer, independent credit rating reports and past collection history, the company will estimate an appropriate allowance for doubtful accounts. A significant portion of sales is to a number of large customers with higher quality credit. This subjects the company to a greater exposure from any one particular customer. If the estimate of the allowance is understated, this could result in a charge to earnings in the future, should the account ultimately be not collectible. Over the past two years, accounts written off as a percent of sales were less than 0.5% in 2003 and 1.8% in 2002. The allowance for doubtful accounts at the end of the quarter is 0.5%

The provision for product returns is estimated based on historic experience for particular products and customers taking into account amount other things, obsolescence, age and demand. Over the past two years, product returns have represented about 0.5% of sales. The products return provision at the end of the quarter is 1.0% of sales. This increase in estimate at the end of the quarter takes into account new accounting recommendations described in accounting policy changes below. If the estimate for product returns is understated, this could result in a charge to future earnings should the actual experience for returns be greater than estimated.

Property, Plant and Equipment/Depreciation and Amortization

The estimated useful lives of assets are determined based on historical experience for comparable assets, technological obsolescence and asset utilization. If the company's estimated useful lives of assets were incorrect, the company could experience increased or decreased charges to depreciation and amortization in the future.

Income taxes

The company follows the liability method of accounting for income taxes whereby future income taxes are recognized based on the differences between the carrying amounts of assets and liabilities reported in the financial statements and their respective tax bases. Future income tax assets are comprised of temporary differences between the carrying amount and the tax basis of assets and liabilities as well as tax losses carried forward. In valuing the future income tax assets, consideration is given to the timing of reversal of the temporary differences, the tax rate enacted for the reversal period and the results of future operations. The value of future tax assets is based on the likelihood of realization of future taxable income against which the tax losses can be applied. Based on our loss history we do not have at this time, reasonable assurance of sufficient taxable income and a valuation allowance has been made equal to the full value of the future income tax assets.

The determination of the income tax assets and liabilities is an inherently complex process requiring management to interpret continually changing regulations and to make certain judgements. While income tax filings are subject to audits and reassessments, management believes the tax assets have been adequately provided. However, changes in the interpretations or judgements may result in increase or decrease in the Company's future income tax asset in the future.

Accounting policy change

Revenue Recognition

The company follows the new accounting recommendations for revenue recognition. Under the new guidelines reasonable assurance regarding the measurement of the consideration for the sale of goods must exist. This measurement is to take into account the extent to which goods may be returned or sales may be cancelled. If a contract is cancellable, the sales price can only be determined and therefore revenue can be recognized at the time the cancellation expires. If the sales transaction allows product to be returned then there is not reasonable assurance that the sales consideration is fixed and therefore the revenue should not be recorded. At the time of the sale, management is therefore required to provide an estimate for the value of future returns. The company has recorded an allowance for product returns as outlined above.

Liquidity and Capital Resources

As of March 31, 2004, the company's working capital included cash and cash equivalents of approximately \$0.1 million and a current ratio of 1.0:1. This ratio reflects the new financing arrangements completed on January 29, 2004. Proceeds from this financing were used for working capital purposes and primarily to bring major supplier accounts current.

The financing arrangement with an asset based lender provided three financing facilities. There is a \$2.0 million factoring facility, a \$1.0 million operating loan and a \$48,375 term loan. At March 31, 2004 the company had advances outstanding of over \$0.7 million against about \$1.0 million in accounts receivable and had drawn down about \$0.4 million of the operating loan based on the inventory levels. At the end of the quarter, the company was in compliance with all of their financial covenants.

These facilities represent a substantial increase in financial capability in that available credit has increased from \$750,000 US or approximately, \$1.0 million to \$3.1 million dollars. This year, we expect to utilize the full factoring facility and about one half of the operating loan. Our challenge continues to be to have adequate working capital to balance meeting supplier obligations as they become due with funding required to grow the business. Adequacy of working capital is directly tied to our sales level. If sales targets are not achieved, it will be necessary to focus on further cost containment and to obtain additional financing. The company is assessing additional financing for growth and to build brand awareness.

Initiatives and Progress

Optimize Distribution Channels

Our focus in 2004 is to significantly increase our product presence and availability in North America and worldwide. Distribution channels are deeper due to marketing and distribution agreements signed in the last year with the 3 largest global coatings manufacturers. We are in the process of building on these agreements by increasing the product offerings for both private label and our own brands. A major North American paint manufacturer which distributes our products through major distribution centers in the US, will be adding our products to a number of smaller distribution outlets through-out North America and overseas, as the season progresses and demand increases. In April we signed a Netherlands distribution agreement and others are in progress. As we go forward with these "primer and coatings category captains" we seek to make further inroads in the mass retail market through cooperative arrangements utilizing their extensive distribution channels.

In commercial aviation, the company has begun and will continue to develop significant relationships with commercial airlines and military in North America, Europe, South America and the Middle and Far East.

Sales orders have been received from Europe, the Middle East as well as the USA. Approval of our products by all major aircraft manufacturers is key to sales growth. To this end, along with our partner, we are improving our technology to work in concert with the latest and most advanced aviation coating systems and composite materials. In this way, our technology remains on the cutting edge to support and meet the needs of our ultimate customer- the plane manufacturer.

Our overall objective is for our technology to be the “surface preparation solution”. By building brand awareness for our products and company at every opportunity, this will be achieved. Our current and future global distribution channels and networks give Napier the opportunity to train and educate knowledgeable and respected people from across the paint and coatings industry in the benefits of our technology and products. They in turn educate contractors, dealers and consumers to adopt new and safer methods of surface preparation. Product acceptance, familiarity and endorsement are growing as more industry insiders and employees of our international distributors are trained and educated. With this rise in familiarity, we are fielding an increasing number of enquiries from other distributors and manufacturers worldwide.

As demand for our products increases, we are being accepted into other regional distribution channels, which supply our products to independent dealers, regional home improvement centres and contractors.

Grow Consumer/Retail Sales

To grow consumer sales, we are focused on increasing our product presence with paint stores, independent dealers and regional hardware and home improvement centres across North America. This will be achieved in part by broadening the range of products carried and acceptance into their central distribution. Early in the quarter, a major Canadian mass retailer accepted our products into central distribution across Canada, which enables cost effective distribution to their chain of over 500 stores.

Restructuring the consumer sales team and adding 7 new independent representatives across the US also enhanced our consumer distribution network. Independent distributors who inventory our products in the US inventory enable these new “reps” to have goods shipped and available to customers, almost immediately.

Our products were featured and discussed twice so far this year on episodes of “This Old House” and “Ask This Old House”. Brand awareness was also enhanced through the efforts of our Public Relations consultants. They launched a creative product and corporate information campaign to make industry publication producers and the media across North America aware of the use and benefits of our products, and in fact actually test them from the comfort of their office. As a result our RemovALL products were recently featured in an edition of Paint Magazine, an industry standard. Endorsements such as these and credible testimonial evidence on the effectiveness of our products serves to add a new level of credibility with retail buyers. In certain instances we purchased advertising in key publications and as demand for product increases we will increase our commitment to advertising.

The new “RemovALL” line embraces the very best of all our technologies and spans the spectrum of surface preparation products. The line provides consumers with “one stop shopping” for any surface preparation need with products that are not only effective, safe and simple to use but will not destroy our environment. We intend to use the product “pull” created by this line, to gain increased acceptance into the mass retail market and to encourage vendor consolidation within our product category. Our ultimate objective is to have a RemovALL planogram in all stores much like paint is merchandized today. An increasing number of retailers and distributors have advised interest in allocating shelf space to the line. Marketing and sales efforts will continue throughout the year, as many of these products are not seasonal in nature.

Management Outlook

Our outlook for the remainder of the year continues to be optimistic. Industrial US and export sales are tracking about 40% higher or well ahead of last year. The US economy is improving and a number of government projects put on hold are advancing this year. These include major projects to strip lead paint from water towers and airport hangers. Our partners and distributors are reordering which is very encouraging and the true indicator of ongoing success and sales growth. Our partnership in the aviation sector has met all expectations and a number of initiatives are underway to continue the growth in this sector. We are looking at a number of new private label arrangements with significant restoration contractors who are quickly becoming more familiar with our products. If these trends continue we will have a year of solid industrial sales growth.

Demand for the products on the consumer side of the business has, to some extent fallen short of expectations and last year in Canada. This is partially due to the extended Spring Booking Program and to a longer process to examine the new "RemovALL" line by all regional and mass retailers. Our focus for the remainder of the year will be to:

- work with regional and independent hardware and home improvement centres to stock and merchandize the new RemovALL line, in addition to our existing Biowash products in some instances;
- continue discussions and negotiations with our major distribution partners to assist us to gain acceptance and meet the service demands of the retail buyers;
- Advertise and increase public awareness of our products through effective media relations; and
- continue to build the network of independent representatives to create product pull at the store level.

Rapid growth in consumer sales needs to be driven by creating "product pull" through increased brand awareness and in some instances outright purchase of shelf space. At this time we are considering a number of initiatives to acquire shelf space through merchandizing partnerships. Additional financing may be required to fund these initiatives.

Our objective for the year is to achieve positive cash flow through growth in sales. Building brand awareness, deepening our distribution network, and expanding the depth of products carried by individual customers will achieve this growth. Our rate of success in sales growth will determine whether we will accomplish all of our objectives this year. Experience tells us there will be hurdles or obstacles and usual business risks such as last year's unfavourable foreign exchange movement, to overcome in the remainder of 2004. The most important is to ensure that we have sufficient working capital to meet our operating needs. If we achieve our sales targets for this year, our new financing is adequate. If we don't meet our target, further financing or a review of other strategic alternatives will be required.

Governance and Management

On February 1, 2004, Napier appointed Janice Comeau as Chief Financial Officer. Janice's appointment follows Jim Grinnell stepping down as Chief Financial Officer. Brad Aelicks resigned as a director of the company on February 3, 2004.

Risk Factors and Financial Management

While the Company presently has sufficient immediate working capital, the Company must diligently monitor the make-up of working capital to ensure that cash is available when needed. Working capital adequacy is dependent on sales and therefore a significant sales shortfall is one of the most critical business risks faced by the Company. Management believes that the strong customer relationships in place form a foundation for sales however, risks inherent to the business as outlined below could result in sales shortfalls. If sales targets are not achieved, additional financing will be required. In light of the changing financial markets there is no assurance that will equity subscriptions be possible at times required or desired by the company.

To the extent that we are able, we have factored a stronger Canadian dollar into pricing for US customers. The company is exposed to foreign exchange risk to the extent we have not been successful in obtaining price increases for US customers. With our new factoring facility, advances for US and export sales are made in US dollars therefore eliminating the foreign exchange risk for amounts collected.

Other significant risks and uncertainties that face the company are common to other manufacturers operating in an international economy in the industrial and consumer sectors. The company must deal with business risks associated with product infringement, technological change, increased market penetration into established supply lines, locating and penetrating new markets, foreign currency fluctuations, unavailable raw materials, and economic conditions affecting large or potential customers and suppliers, to name a few of the normal but significant factors affecting the company's day to day business. To minimize some of these risks going forward, we continue to nurture our relationships with key customers and suppliers. Open, honest and straightforward communication has retained their loyalty and continued commitment to Napier. Management continually addresses the above business risks in a methodical and rational manner.

In 2004 we will face the risks associated with a new product launch. It is difficult to accurately predict the level of sales this line will generate in the year, as we have limited capital to launch the new products and to create the advertising pull required to rapidly gain acceptance.

Our business is seasonal with the first and last quarters delivering a lower level of sales than the second and third. Efforts to offset this seasonality are underway by targeting less seasonal business such as the consumer "RemovALL Line" and sales to the aviation sector. Export sales south of the equator, will allow us to take advantage of peak seasons opposite to those north of the equator. We expect that the results for 2004 will reflect this seasonality to a lesser extent.

This MD&A contains forward looking statements that are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in our forward looking statements. Factors that could cause actual results to differ materially include: rapid technological and/or market changes in the industry; the ability to maintain and grow successful third party and customer relationships; to improve current products and develop new products; and to adequately protect the company's proprietary rights and other factors described in the company's regulatory filings. Although we believe the expectations reflected in our forward looking statements are reasonable, individual results may vary, and we cannot guarantee future results, levels of activity, performance or achievements.

This MD&A has been prepared by management and reviewed by the company's Board of Directors.

"Signed"

B. Frank Dixon
President and Chief Executive Officer

May 12, 2004

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED - Prepared by Management)

	March 31 2004	December 31 2003
Current		
Cash and cash equivalents	\$ 112,777	\$ 96,217
Accounts receivable (Note 3)	1,265,320	342,178
Inventory (Note 4)	1,606,669	1,438,734
Prepaid expenses	201,029	157,120
	3,185,795	2,034,249
Investments (Note 5)	-	17,655
Capital assets (Note 6)	596,508	639,951
Deferred charges (Note 7)	51,662	51,549
	\$ 3,833,965	\$ 2,743,404
LIABILITIES		
Current		
Accounts payable	\$ 1,903,234	\$ 1,794,502
Loan Payable (Note 3)	723,775	-
Operating loan (Note 8)	397,793	-
Term loan (Note 8)	48,375	-
Deferred revenue (Note 9)	33,250	-
Current portion of long term debt	69,323	69,989
	3,175,750	1,864,491
Long term debt (Note 10)	27,611	44,979
Convertible debenture (Note 11)	326,695	337,440
	3,530,056	2,246,910
SHAREHOLDERS' EQUITY		
Capital stock (Note 12)	23,368,041	23,343,041
Convertible debenture (Note 11)	165,015	173,700
Contributed surplus (Note 12)	92,334	61,309
Deficit	(23,321,481)	(23,081,556)
	303,909	496,494
	\$ 3,833,965	\$ 2,743,404

Approved by the Directors

signed: B. Frank Dixon

signed: Peter Jeffrey

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(UNAUDITED - Prepared by Management)**

	Three month period ended March 31	
	2004	2003
Sales	\$ 1,601,281	\$ 1,526,961
Cost of sales	917,302	863,839
Gross profit	683,979	663,122
	42.7%	43.4%
Expenses		
Selling and marketing (Schedule)	644,023	579,052
General and administrative (Schedule)	377,790	342,134
Research and product development	53,700	51,497
	1,075,513	972,683
Operating loss before the undernoted	(391,534)	(309,561)
Other items		
Interest expense	(56,441)	(16,113)
Equity loss in investment	(17,655)	(27,000)
Gain on sale of investment	60,000	-
Gain on disposal of capital assets	159,991	50
Foreign exchange gain (loss), interest and other income	5,714	(25,751)
	151,609	(68,814)
Net loss for the period	(239,925)	(378,375)
Deficit at beginning of the period	(23,081,556)	(21,281,529)
Deficit at end of the period	\$ (23,321,481)	\$ (21,659,904)
Weighted average shares outstanding	47,683,598	47,628,042
Loss per share, basic and fully diluted	\$ (0.01)	\$ (0.01)

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED - Prepared by Management)**

	Three month period ended March 31	
	2004	2003
Operating activities		
Net loss for the period	\$ (239,925)	\$ (378,375)
Items not involving cash		
Depreciation and amortization	42,396	42,044
Accretion of convertible debenture	5,570	-
Stock based compensation	31,025	-
Equity loss in investment	17,655	27,000
Gain on sale of investment	(60,000)	-
Gain on disposal of capital assets	(159,991)	(50)
	(363,270)	(309,381)
Change in non-cash operating working capital		
Accounts receivable	(923,142)	(422,512)
Inventory	(167,935)	(309,495)
Prepaid expenses	(43,909)	3,677
Accounts payable	108,732	665,392
Deferred Revenue	33,250	-
	(993,004)	(62,938)
	(1,356,274)	(372,319)
Financing activities		
Bank indebtedness	-	144,773
Proceeds from loan payable	723,775	-
Proceeds on term loan	48,375	-
Proceeds from operating loan, net	396,968	-
Repayment of long-term debt	(18,034)	(18,979)
	1,151,084	125,794
Investing activities		
Purchase of capital assets	-	(32,793)
Proceeds on disposal of capital assets	161,750	50
Proceeds on sale of investment	60,000	-
	221,750	(32,743)
Change in cash during the period	16,560	(279,268)
Cash and cash equivalents at beginning of the period	96,217	285,097
Cash and cash equivalents at end of the period	\$ 112,777	\$ 5,829
Supplemental information		
Interest paid	\$ 26,022	\$ 16,113

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of the comparative figures in these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2004

(UNAUDITED – Prepared by Management)

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 positive 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. New financing arrangements were completed in the quarter 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. 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. BASIS OF PRESENTATION

These interim consolidated financial statements should be read in conjunction with the financial statements for the Company's most recently completed fiscal year ended December 31, 2003. They do not include all disclosures required in annual financial statements but rather are prepared in accordance with recommendations for interim financial statements in conformity with Canadian generally accepted accounting principles. They have been prepared using the same accounting policies and methods as those used in the December 31, 2003 annual accounts. Certain of the comparative figures have been reclassified to conform to the current period's presentation.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2004 (UNAUDITED – Prepared by Management)

2. BASIS OF PRESENTATION (continued)

The preparation of interim 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.

The company's business has historically been seasonal, with the lowest volumes of business experienced in the first and fourth quarters and the highest volumes in the second and third quarters. There is no reason to expect a change in this pattern during the current year.

3. ACCOUNTS RECEIVABLE

On January 29, 2004 the company entered into a factoring agreement under which 80% of invoices from approved customers will be advanced to the company. Advances will be made up to a maximum of \$2.0 million, on a recourse basis, at a minimum discount rate on the gross invoice of 0.9% or 0.06% per day that the amount is outstanding. This agreement can be terminated on 30 days notice by either party. As of March 31, 2004, the company had received advances against about \$1.0 million in invoice value.

This agreement replaced a revolving arrangement to sell eligible receivables with a major financial institution.

4. INVENTORY

Inventory is comprised of:

	March 31 2004	December 31 2003
Raw materials	\$ 439,648	\$ 592,295
Finished goods	1,167,021	846,439
	\$ 1,606,669	\$ 1,438,734

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2004 (UNAUDITED – Prepared by Management)

5. INVESTMENTS

	March 31 2004	December 31 2003
Investment in Ecoprogress, beginning of the period	\$ 17,655	\$ 111,585
Equity share of losses	(17,655)	(93,930)
Sale of Ecoprogress	-	-
Investment in Ecoprogress, end of the period	\$ -	\$ 17,655

On March 31, 2004, the company sold 100% of its investment in Consolidated Ecoprogress Technology Inc. (“Ecoprogress”) for proceeds of \$60,000.

In 2003 the investment in Radical Elastomers Inc. was written off and in January of 2004, Radical Elastomers Inc, filed for bankruptcy.

6. CAPITAL ASSETS

	March 31 2004		December 31 2003	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Machinery and equipment	\$ 930,563	\$ 656,237	\$ 274,326	\$317,769
Furniture and fixtures	211,300	81,218	130,082	130,082
Leasehold improvements	277,544	85,444	192,100	192,100
	\$ 1,419,407	\$ 822,899	\$ 596,508	\$ 639,951

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2004 (UNAUDITED – Prepared by Management)

7. DEFERRED CHARGES

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

	March 31 2004		December 31 2003	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Deferred Financing charges	\$ 61,609	\$ (9,947)	\$ 51,662	\$51,549

8. OPERATING AND TERM LOANS

	March 31 2004	December 31 2003	
Operating loan	\$ 397,793	\$	-
Term loan	48,375		-
	\$ 446,168	\$	-

The operating loan is authorized up to \$1.0 million, repayable on demand and secured by eligible inventory. Funding is based on 75% of the net orderly liquidation value and interest is payable on a monthly basis at a rate of 2% per month. The company expects to draw down about one half of this facility in 2004.

The term loan of \$48,375 is repayable at \$1,209 per month plus interest at 2% per month and secured by capital assets. The term loan is repayable by January 31, 2005. Principle payments commenced in April 2004.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2004 (UNAUDITED – Prepared by Management)

9. DEFERRED REVENUE

On March 30, 2004, the Company sold a formula for a non strategic product for proceeds of \$166,250 and a 5% royalty based on sales over the next 5 years. The company received a \$33,250 initial payment on this royalty that will be recognized as revenue when the royalty is earned.

10. LONG TERM DEBT

	<u>March 31</u> <u>2004</u>	<u>December 31</u> <u>2003</u>
Capital lease obligations repayable in aggregate monthly instalments of \$7,123 including interest averaging 11.19% per annum due until January, 2005.	\$ 96,934	\$ 114,968
Less current portion	<u>69,323</u>	<u>69,989</u>
	<u>\$ 27,611</u>	<u>\$ 44,979</u>

Principal repayments required are as follows: 2004 - \$51,956; 2005 - \$44,979.

11. CONVERTIBLE DEBENTURE

On February 11, 2004 the company issued 100,000 common shares and 50,000 warrants on the conversion of \$25,000 of the convertible debenture. On conversion the equity component was reduced by \$8,685 and the liability component was reduced by \$16,315.

During the quarter, the liability component was accreted by \$5,570.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2004 (UNAUDITED – Prepared by Management)

12. CAPITAL STOCK

a) Authorized
145,635,962 common shares

b) Issued

	<u>Number of shares</u>	<u>\$</u>
Balance, December 31, 2003	47,668,042	23,343,041
Issued on conversion of debentures	100,000	25,000
Balance, March 31, 2004	<u>47,768,042</u>	<u>23,368,041</u>

During the quarter, the company issued 100,000 common shares on conversion of \$25,000 of the convertible debentures (Note 11).

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
MARCH 31, 2004
(UNAUDITED – Prepared by Management)**

12. CAPITAL STOCK (continued)

c) Stock options (continued)

	Number	Weighted average price
Outstanding, December 31, 2003	2,735,000	\$0.49
Granted	871,000	0.13
Cancelled/expired	(1,012,000)	0.39
March 31, 2004	<u>2,594,000</u>	<u>0.41</u>
Exercisable, at March 31, 2004	<u>2,002,333</u>	<u>\$0.49</u>
Options reserved for issuance under stock option plan	<u>2,026,000</u>	

The following table summarizes information about stock options outstanding at March 31, 2004:

Range of exercise prices	Number of options	Weighted average remaining contractual life	Weighted average exercise price
Vested			
\$.12 - \$.28	1,351,333	3.7 years	\$0.20
\$.40	95,000	2.9 years	\$0.40
\$.85 - \$1.15	456,000	1.0 years	\$1.00
\$2.18	100,000	6.1 years	\$2.18
	<u>2,002,333</u>	<u>3.0 years</u>	<u>\$0.49</u>
Non-vested			
\$.12 - \$.28	591,667	4.8 years	\$0.14
	<u>2,594,000</u>	<u>3.1 years</u>	<u>\$0.41</u>

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2004 (UNAUDITED – Prepared by Management)

12. CAPITAL STOCK (continued)

d) Stock-based compensation

The company uses the fair value based method of accounting for stock-based compensation. During the quarter the company issued 871,000 options with a fair value of \$77,134. The company recognizes compensation expense over the vesting period of the options and has recorded \$31,025 in the quarter with the balance to be recognized over the average remaining 18 months.

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

Dividend yield	0%
Expected volatility	79%
Expected life	5 yrs
Risk free rate of return	3.7%
Weighted average fair value of options granted	<u>\$ 0.08</u>

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. Pro forma compensation expense for 2004 and 2003 relate 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>Quarter ended</u> <u>March 31, 2004</u>	3 months ended March 31, 2003
Net loss, as reported	\$ (239,925)	\$ (378,375)
Additional compensation expense	(8,662)	(17,325)
Net loss, pro forma	<u>\$ (248,587)</u>	<u>\$ (361,050)</u>
Loss per share, as reported	\$ -	\$ (0.01)
Loss per share, pro forma	<u>\$ -</u>	<u>\$ (0.01)</u>

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2004 (UNAUDITED – Prepared by Management)

12. CAPITAL STOCK (continued)

e) Warrants

During the quarter, the company issued 50,000 warrants on conversion of \$25,000 of convertible debentures (Note 11).

Outstanding, December 31, 2003	2,937,120
Issued on conversion of debentures	50,000
Outstanding, March 31, 2004	<u>2,987,120</u>

At March 31, 2004, 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 70,000 warrants are exercisable at \$0.40 per share until June 12, 2004 and then \$0.50 per share until June 12, 2005.

13. 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.

	March 31	March 31
	2004	2003
	3 months	3 months
Sales by region		
Canadian	\$ 431,662	\$ 596,292
International	1,169,619	930,669
Total Sales	<u>\$ 1,601,281</u>	<u>\$ 1,526,961</u>
Sales by sector		
Consumer	\$ 811,000	\$ 848,000
Industrial	790,281	678,961
	<u>\$ 1,601,281</u>	<u>\$ 1,526,961</u>

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

INTERIM CONSOLIDATED SCHEDULES (UNAUDITED- Prepared by Management)

SELLING AND MARKETING EXPENSES

	Three Month Period ended March 31	
	2004	2003
Salaries and wages	\$ 238,976	\$ 262,095
Travel and entertainment	122,413	105,606
Commissions	55,786	59,155
Advertising	67,759	39,323
Promotional materials	48,010	39,698
Consulting	38,709	30,592
Communications and other	52,990	26,657
Stock option Benefit	11,966	-
Retail service fee and other	7,414	15,926
	\$ 644,023	\$ 579,052

GENERAL AND ADMINISTRATIVE EXPENSES

	Three Month Period ended March 31	
	2004	2003
Salaries and wages	\$ 145,958	\$ 173,046
Insurance	58,692	50,643
Consulting	49,305	1,877
Professional fees	25,808	18,526
Office	17,751	21,872
Stock option benefit	14,387	-
Regulatory and filing fees	12,445	5,470
Occupancy	10,497	31,045
Travel and corporate relations	10,181	5,996
Telecommunications	5,616	6,882
Amortization	27,150	26,777
	\$ 377,790	\$ 342,134