

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2005**

November 9, 2005 / *The following Discussion and Analysis should be read in conjunction with the unaudited interim consolidated financial statements and related notes for the three and nine month periods ended September 30, 2005, and the audited consolidated financial statements for the year ended December 31, 2004, the accompanying notes, and management's discussion and analysis for the year then ended. The unaudited interim financial statements for the three and nine month periods ended September 30, 2005 and the audited consolidated financial statements for the year ended December 31, 2004 have been prepared in accordance with Canadian generally accepted accounting principles. Additional information about Napier Environmental Technologies Inc. ("Napier"), including Napier's Annual Information Form, dated August 26, 2005, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. All dollar amounts, unless otherwise specified, are expressed in Canadian dollars. This MD&A has been prepared by management and reviewed by Napier's Board of Directors.*

Results of Operations

Overview

For the three months ended September 30, 2005, we recorded net income of \$434,641 (\$0.01 per common share) as compared to a net loss of \$696,205 (\$0.01 per common share) for the same period in 2004. For the nine months ended September 30, 2005, we recorded net income of \$260,318 (\$0.01 per common share) as compared to a net loss of \$1,078,903 (\$0.02 per common share) for the same period in 2004.

The significant change in the results of operations and the posting of net income for the three and nine months ended September 30, 2005 as compared to the losses in the same periods in 2004, is attributable to the gain recognized on the settlement of debt through the acceptance of our proposal to creditors under the Bankruptcy and Insolvency Act. The amount of this gain for the three months ended September 30, 2005 is \$1,170,658 net of restructuring costs of \$715,011 (nine months ended September 31, 2005 - \$881,752 net of restructuring costs of \$1,003,917). We do not expect similar gains in the future.

Sales

Sales for the three and nine months ended September 30, 2005 totaled \$896,833 and \$3,774,064 respectively as compared to \$1,673,352 and \$5,860,463 for the same periods in 2004. The decrease in overall sales is attributable to the changes in operations required while we sought the courts acceptance of our proposal to creditors. In an attempt to conserve cash we reorganized our sales force, refocused on specific customers in specific regions and did not extend credit terms to customers during this period. These actions were taken to minimize the potential risks to creditors during this period of uncertainty, but in turn had a negative impact on our overall sales.

Going forward we are now able to service a wider range of customers and have the working capital necessary to offer credit terms to our customers.

Cost of Sales

Cost of sales for the three months ended September 30, 2005 was \$834,859 (93.1% of sales) compared to \$1,233,580 (73.7% of sales) for the same period in 2004. For the nine months ended September 30, 2005, cost of sales was \$2,452,359 (65.0% of sales) compared to \$3,679,242 (62.8% of sales) for the same period in 2004. The significant increase in cost of sales, as a percentage of sales are attributable to reduced production that resulted from restructuring. This decreased level of production absorbed our fixed costs during the third quarter resulting in

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

an abnormally low gross margin on sales during that period. We expect this percentage to improve as production increases and steps are taken towards reducing the overall level of fixed costs.

Expenses

General and administrative expenses increased to \$529,214 for the three months ended September 30, 2005 as compared to \$303,018 for the same period in 2004, an increase of \$226,196. For the nine months ended September 30, 2005 we incurred general and administrative expenses of \$1,020,521 as compared to \$1,082,532 for the same period in 2004, a decrease of \$62,011. We are working to reduce expenses, operating in the most efficient way possible, however, some expenses increased as they related to legal, professional fees, and travel costs surrounding the organizational changes we are currently experiencing. General and administrative costs for the three months ended September 30, 2005 also includes the costs related to the management services agreement now in place and is further discussed in the related party transactions section of this discussion. This agreement is the primary method we are using to reduce our overall operating costs. Certain of the costs for preparing and entering into this agreement are included in the general administrative costs of the third quarter. We incurred certain legal and consulting costs to deal with outstanding compliance and corporate governance issued that were not maintained up to date during the restructuring period. These are non-recurring costs. Lastly, the three and nine months ended September 30, 2005 include fees paid to our non-executive members of the board of directors for their services

Selling expenses for the three months ended September 30, 2005 were \$143,362 as compared to \$580,904 for the same period in 2004 and \$478,260 for the nine months ended September 30, 2005 as compared to \$1,879,567 for the same period in 2004. The decreases of \$437,542 and \$1,401,307 for the respective three and nine month periods were the result of our corporate restructuring and the reduction of our sales force. The restructuring also reduced the costs driven by the number of sales people employed such as travel, entertainment and communications costs. We also reduced the overall advertising and promotional costs in order to conserve cash during this period. The reduction in sales described above also reduced the overall level of sales driven commissions paid to the sales force, that are included in selling expenses.

Research and development costs for the three and nine months ended September 30, 2005 were \$21,159 and \$148,797, respectively. This compares to \$54,111 for the three months ended September 30, 2004 and \$169,939 for the nine months ended September 30, 2004. Our emphasis on research and development has not changed through the process of proposal to creditors for restructuring. Research and development expenditures have remained constant, in order to maintain product quality and integrity and ensure that all concepts in our product pipeline remain active.

Interest and finance costs decreased to \$91,950 during the three months ended September 30, 2005 as compared to \$168,331 during the same period in 2004. The year to date interest and finance expense of \$278,461 is also lower than the comparable period where costs totaled \$326,965. Interest and finance costs were exceptionally high during 2004 as we factored increasingly larger balances of accounts receivable during that period. During the first two quarters of 2005, the balances of accounts receivable being factored were lower and in the third quarter, there were no accounts receivable being factored resulting in lower interest and finance costs.

Other expenses totaled \$12,306 and \$17,100 for the respective three and nine months ended September 30, 2005 as compared to other income \$30,148 and \$3,992 for the respective three and nine months ended September 30, 2004. Other income (expenses) consists almost entirely of foreign exchange and is dependent on the fluctuations of various foreign currencies.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

Summary of Quarterly Results

The following table sets forth selected consolidated financial information for each of our last eight quarters. The table has been derived from our unaudited interim consolidated financial statements for those periods and is stated in thousands of dollars except for the earnings (loss) per share figures. These results are not necessarily indicative of results for future periods and should not be used or relied upon to predict our future performance.

(in thousands Cdn\$ except per share data)

	Sept 30 2005	June 30 2005	Mar 31 2005	Dec 31 2004	Sept 30 2004	June 30 2004	Mar 31 2004	Dec 31 2003
Sales	897	1,249	1,628	814	1,673	2,586	1,601	1,049
Operating income (loss)	(724)	(5)	125	(1,405)	(667)	(163)	(448)	(781)
Net income (loss) for the period	435	(293)	118	(1,217)	(696)	(81)	(240)	(854)
Earnings (loss) per share, Basic and fully-diluted	0.01	(0.01)	0.00	(0.03)	(0.01)	0.00	(0.01)	(0.02)

The foregoing analysis highlights the impact of the restructuring process on sales, specifically during the periods that are traditionally slow, the third and fourth quarter. The resultant operating loss is an improvement relative to sales reflecting the actions taken by management to reduce operating costs. The net income in the current period is the result of the gain on settlement of debt described above.

Liquidity and Capital Resources

At September 30, 2005, our cash on hand was \$278,660 as compared to \$73,163 at December 31, 2004. The increase in cash was the result of the realization of accounts receivable and credit terms being restored by our vendors.

At September 30, 2005, we had accounts receivable of \$447,981 as compared to \$362,710 at December 31, 2004. The increase is the result of the cyclical nature of our business, with increased sales in the summer months and slower winter months; accordingly, the December accounts receivable were lower.

As part of the negotiated restructuring of debt, we have access to an additional \$2,000,000 through a revolving working capital loan, subject to certain conditions and covenants pursuant to the loan agreements. Additional funds advanced through this working capital loan will bear interest at prime plus 2%. The revolving loans have a 364-day term and are renewable for successive 364-day extensions at least 90 days prior to the expiry of the applicable term expiry dates and subject to the consent of the lenders.

Transactions with Related Parties

We have entered into a management services agreement (the "Management Services Agreement") and a sublease (the "Sublease") with I.C.T.C. Holdings Corporation ("I.C.T.C."), a company that is controlled by Anthony Traub, Napier's Chairman, CFO and Corporate Secretary, and Steve Balmer, Napier's President and Chief Operating Officer.

Pursuant to the Management Services Agreement, effective September 1, 2005, we reimburse I.C.T.C. for certain costs incurred on Napier's behalf. We pay a variable monthly amount to I.C.T.C. under this agreement based on the actual costs incurred by I.C.T.C.

The Sublease with I.C.T.C. is for approximately half of the premises at 720 Eaton Way, Delta, British Columbia. The Sublease commenced on November 1, 2005 and is based on half of Napier's lease commitment. As part of this transaction, Napier will be responsible for I.C.T.C.'s moving costs and the costs associated with subleasing its former location, in addition to the monthly lease cost until such a sublease is established.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

Anthony Traub also controls 6408753 Canada Corporation and Steve Balmer also controls 6408788 Canada Corp., the companies that have collectively completed two separate financing transactions consisting of term loans totaling \$1,500,000 and revolving loans up to the aggregate amount of \$3,500,000. The initial advances of these financing transactions were made on July 14, 2005 in the aggregate amount of \$3,000,000 and were used to pay fees and costs related to the loan transactions and satisfy all amounts owing by Napier to its secured, preferred, unsecured and post filing creditors as of July 14, 2005 as approved by the Supreme Court of British Columbia in Bankruptcy.

Outstanding Share Data

There are currently 47,768,042 common shares (the “**Common Shares**”) of Napier issued and outstanding. In addition, there are currently options outstanding to purchase 3,452,000 Common Shares at prices between \$0.04 and \$1.10 per share, expiring between November 22, 2005 and August 30, 2010, and warrants outstanding to purchase 82,153,700 Common Shares at \$0.01 per share at any time up to August 31, 2010.

Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that we 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 to be reasonable under the existing circumstances. New events or additional information may result in the revision of these estimates over time. Significant accounting policies are described in Note 2 of the annual audited financial statements. The following discussion outlines what we believe to be the most critical accounting policies involving the use of significant estimates and assumptions.

Accounts Receivable, Allowance for Doubtful Accounts and Product Returns

The allowance for doubtful accounts is based on historical trends. We regularly review the age of the accounts receivable in detail by customer and follow up on delinquent accounts directly with the customer. Based on discussions with the customer, independent credit reports and past collection history, we 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 Napier to a greater exposure to 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 not be collectable.

The provision for product returns is estimated based on historic experience for particular products and customers taking into account, among other things, obsolescence, age and demand. The product return provision at the end of the period takes into account new accounting recommendations described in “Accounting Policy Change” 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 with comparable assets, technological obsolescence and asset utilization. If our estimates of useful lives of assets are incorrect, we could experience increased or decreased charges to depreciation and amortization in the future.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

Income Taxes

We follow 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 basis. 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.

The determination of the income tax assets and liabilities is an inherently complex process requiring the interpretation of continually changing regulations and making certain judgments. While income tax filings are subject to audits and reassessments, we believe the tax assets have been adequately provided. However, changes in the interpretations or judgments may result in increases or decreases to Napier's future income tax asset.

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.

Accounting Policy Change

Revenue Recognition

We follow 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 cancelable, the sales price can only be determined and therefore revenue can only 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. We are therefore required to provide an estimate for the value of future returns. We have recorded an allowance for product returns as outlined above.

Risk Factors

Significant risks and uncertainties that face our business are common to other manufacturers operating in an international economy in the industrial and consumer sectors. We 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 our day to day operations. To minimize some of these risks going forward, we continue to nurture relationships with key customers and suppliers. Open, honest and straightforward communication has retained their loyalty and continued commitment to Napier. Our business is seasonal with the third and fourth quarters delivering a lower level of sales than the first and second quarters. . Efforts to offset this seasonality are underway by targeting less seasonal businesses. We expect that the results for the remainder of 2005 will continue to reflect this seasonality. On July 14, 2005, subsequent to the end of the second quarter, we successfully renegotiated Napier's unsecured debt obligations. While the reduction of its unsecured debt obligations and additional financing should assist us in the future, our continued existence is dependent upon Napier's ability to restore and maintain profitable operations and to receive continued support from our lenders.

Our risk factors are discussed in detail in the “Management’s Discussion and Analysis” section of our 2004 annual financial statements and in our Annual Information Form dated August 26, 2005 and remain substantially unchanged. Both of these documents are available at www.sedar.com.

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995. In certain cases, forward-looking statements can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”. Forward-looking statements involve known and unknown risks and uncertainties and other factors which may cause the actual results, performance and achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to the going concern status of Napier, historical losses and cash flows, the future need for capital and the uncertainty of additional financing, the possible de-listing from the Toronto Stock Exchange, dilution to shareholders, the volatility of the market price of the common shares, dividend policy, competition, dependence on key personnel, dependence of key customers, weather, seasonality and economic cycles, raw materials, the retail industry, exchange rate fluctuations and conflicts of interest. For further details regarding such risk factors, see the section entitled “Description of the Business – Risk Factors” in our Annual Information Form dated August 26, 2005 and filed with the British Columbia and Ontario securities commissions and the Toronto Stock Exchange, which can be found on SEDAR at www.sedar.com. Although Napier has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

“Steve Balmer”

Steve Balmer
President and Chief Operating Officer
November 9, 2005