NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
INTERIM CONSOLIDATED BALANCE SHEETS
(UNAUDITED - Prepared by Management)

	June 30 2006	December 31 2005
ASSETS		
Current		
Cash	**$ 54,463**	$ 10,413
Accounts receivable	**567,977**	308,541
Inventory (Note 4)	**670,553**	730,478
Prepaid expenses	**19,640**	42,004
	1,312,633	1,091,436
Deferred leasehold inducements (Note 3)	**353,153**	403,445
Deferred financing costs (Note 9(f))	**525,000**	588,000
Property, plant and equipment (Note 5)	**375,732**	423,712
	$ 2,566,518	$ 2,506,593
LIABILITIES		
Current		
Loans payable (Note 6)	**$ 3,000,000**	$ 1,800,000
Accounts payable	**531,672**	702,225
Current portion of long term debt (Note 8)	**300,000**	300,000
Deferred revenue (Note 7)	**-**	33,250
	3,831,672	2,835,475
Long Term Debt (Note 8)	**1,200,000**	1,200,000
	5,031,672	4,035,475
SHAREHOLDERS' DEFICIENCY		
Capital stock (Note 9(b))	**23,368,041**	23,368,041
Contributed surplus	**981,580**	975,195
Deficit	**(26,814,775)**	(25,872,118)
	(2,465,154)	(1,528,882)
	$ 2,566,518	$ 2,506,593

Continuing Operations (Note 1)

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(UNAUDITED - Prepared by Management)

	Three month period ended June 30		Six month period ended June 30	
	2006	2005	**2006**	2005
Sales	**$ 985,770**	$ 1,249,073	**$ 1,790,410**	$ 2,877,231
Cost of sales (Note 4)	**754,456**	725,044	**1,359,537**	1,617,500
Gross margin	**231,314**	524,029	**430,873**	1,259,731
	23.5%	42.0%	**24.1%**	43.8%
Expenses				
General and administrative (Schedule)	**369,120**	427,822	**714,674**	780,213
Selling and marketing (Schedule)	**270,646**	177,793	**442,683**	334,898
Research and development	**39,290**	78,589	**77,010**	127,638
Interest and financing costs (Note 3)	**1,038**	134,350	**67,140**	186,511
Amortization of deferred financing costs	**31,500**	-	**63,000**	-
	711,594	818,554	**1,364,507**	1,429,260
Operating loss	**(480,280)**	(294,525)	**(933,634)**	(169,529)
Other items				
Foreign exchange gain (loss)	**(6,039)**	1,368	**(10,370)**	(4,794)
Gain on disposal of capital assets	**-**	-	**1,347**	-
	(6,039)	1,368	**(9,023)**	(4,794)
Net loss for the period	**(486,319)**	(293,157)	**(942,657)**	(174,323)
Deficit at beginning of the period	**(26,328,456)**	(25,259,247)	**(25,872,118)**	(25,378,081)
Deficit at end of the period	**$ (26,814,775)**	$ (25,552,404)	**$ (26,814,775)**	$ (25,552,404)
Weighted average shares outstanding	**47,768,042**	47,768,042	**47,768,042**	47,768,042
Net loss per share, basic and fully-diluted	**$ (0.01)**	**$ (0.01)**	**$ (0.02)**	**$ (0.00)**

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED - Prepared by Management)

	Three month period ended June 30		Six month period ended June 30	
	2006	2005	**2006**	2005
Operating activities				
Net loss for the period	**$ (486,319)**	$ (293,157)	**$ (942,657)**	$ (174,323)
Items not involving cash				
Depreciation and amortization	**30,223**	37,104	**62,411**	76,719
Amortization of deferred leasehold inducements	**24,701**	-	**50,292**	-
Amortization of deferred financing costs	**31,500**	-	**63,000**	-
Stock based compensation	**3,488**	3,207	**6,385**	6,412
	(396,407)	(252,846)	**(760,569)**	(91,192)
Change in non-cash operating working capital				
Accounts receivable	**(101,712)**	(4,160)	**(259,436)**	(604,375)
Inventory	**96,955**	(386,934)	**59,925**	(206,569)
Prepaid expenses	**15,990**	22,034	**22,364**	(9,066)
Accounts payable	**96,796**	691,729	**(170,553)**	1,021,352
Deferred revenue	**-**	-	**(33,250)**	-
	108,029	322,669	**(380,950)**	201,342
	(288,378)	69,823	**(1,141,519)**	110,150
Financing activities				
Proceeds from loans	**300,000**	2,439	**1,200,000**	(48,620)
Investing activities				
Purchase of property, plant and equipment	**(1,766)**	-	**(16,181)**	-
Proceeds on disposal of property, plant and equipment	**-**	-	**1,750**	-
	(1,766)	-	**(14,431)**	-
Change in cash during the period	**9,856**	72,262	**44,050**	61,530
Cash at beginning of the period	**44,607**	62,431	**10,413**	73,163
Cash at the end of the period	**$ 54,463**	$ 134,693	**$ 54,463**	$ 134,693
Supplemental information				
Interest paid (Note 3)	**$ -**	$ 56,150	**$ 66,116**	$ 81,081

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006
(UNAUDITED – Prepared by Management)

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.

1. CONTINUING OPERATIONS

The Company is governed by the *Business Corporations Act* (British Columbia) and is primarily involved in the manufacture and distribution of a wide range of products created through environmentally advanced technology. These product lines include coating removal and wood restoration products.

The interim consolidated financial statements of the Company have been prepared on the basis of accounting principles applicable to a going concern. While the Company renegotiated its unsecured debt obligations and obtained additional financing during 2005 it still has operating losses, negative working capital and shareholder's deficiency and its ability to continue as a going concern remains dependant on the continued cooperation of its lenders. Management has implemented initiatives aimed at financial stability, sales and marketing and the control of fixed costs.

If the going concern assumption were not appropriate for these interim consolidated financial statements, adjustments would be necessary to the carrying values of assets and liabilities and the reported net income and the balance sheet classifications used.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the footnotes and disclosures required by Canadian generally accepted accounting principles for annual financial statements.

These unaudited interim consolidated financial statements reflect the same significant accounting policies described in the Company's annual consolidated financial statements for the year ended December 31, 2005, and should be read in conjunction with these statements.

It is management's opinion that the unaudited interim consolidated financial statements reflect all adjustments (consisting of normal and recurring accruals) and reclassifications necessary to present fairly the Company's financial position, results of operations and cash flows.

The results of operations for the three and six month periods ended June 30, 2006 are not necessarily indicative of the results for the full year.

3. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2005 the Company obtained financing, described in notes 6 and 8, from companies controlled by directors and officers of the Company. The lenders waived the interest payable on these loans for the three months ended June 30, 2006. Total interest paid on these loans for the six months ended June 30, 2006 was $65,596.

On September 1, 2005, the Company entered into a management services agreement with I.C.T.C. Holdings Corporation ("I.C.T.C."), a company that is controlled in common with the related parties described in the preceding paragraph. Pursuant to the agreement, the Company reimburses I.C.T.C., at their cost, for personnel expenditures incurred on the Company's behalf. During the three and six month periods ended June 30, 2006, the Company incurred costs of $51,531 and $95,692 respectively, related to the management services agreement. These transactions are in the normal course of operations.

On October 31, 2005 the Company entered into a sublease agreement whereby half of the Company's premises have been subleased to I.C.T.C until July 30, 2007. As a condition of this agreement, during the year ended December 31, 2005, the Company incurred $419,913 for leasehold inducements related to I.C.T.C.'s relocation costs and costs associated with the cancellation of I.C.T.C's existing lease. The Company amortized $24,701 of deferred leasehold inducements in each of the three and six month periods ended June, 30, 2006. Should the Company and I.C.T.C. decide not to exercise the option to extend the lease to January 31, 2010 the unamortized balance of the leasehold inducements will be repaid by I.C.T.C.

4. INVENTORY

Inventory is comprised of:

	June 30, 2006	December 31, 2005
Raw materials	**$ 317,603**	$ 411,682
Finished goods	**352,950**	318,796
	$ 670,553	$ 730,478

Finished goods inventory contains an allocation of fixed operating costs based on the standard costing method of accounting for inventory and determination of cost of sales. Unallocated fixed operating costs are charged to cost of sales as they occur. As a result, the quarterly gross profit and related gross profit percentage, as it relates to sales, will vary based on the level of production in that quarter. Therefore, due to the cyclical nature of the Company's business, this results in lower gross margins during periods where production is lower.

5. PROPERTY, PLANT AND EQUIPMENT

			June 30, 2006	December 31, 2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Machinery and equipment	$ 1,030,253	$ 843,222	$ 187,031	$ 210,691
Furniture and fixtures	213,034	140,045	72,989	82,031
Leasehold improvements	277,544	161,832	115,712	130,990
	$ 1,520,831	$ 1,145,099	$ 375,732	$ 423,712

6. LOANS PAYABLE

Loans payable consist of two loan facilities, each to a maximum of $1,750,000 from each of 6408753 Canada Corporation and 6408788 Canada Corp. (see Note 3) secured as outlined in Note 8. The term of each loan is 364 days and is renewable for successive 364-day terms by giving notice to the lenders and obtaining their consent, at least 90 days prior to the expiry. Interest is payable on the last day of each month at a rate of prime plus 2%.

These loans are subject to the following margins: (i) 50% of the aggregate amount of eligible inventory minus the aggregate amount of accounts payable plus (ii) 75% of the aggregate amount of eligible accounts receivable.

At the time of advancement and at June 30, 2006, the lenders and the Company acknowledge that the Company did not meet the margin requirements required under these loans. Strict compliance was waived by the lender in connection with the period ended June 30, 2006.

7. 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 five years. The Company received a $33,250 initial payment on this royalty.

During the six months ended June 30, 2006, it was determined that the purchaser of this formula will not be selling the product. The initial royalty payment of $33,250 is not refundable and is therefore included in sales for the six months ended June 30, 2006.

8. LONG TERM DEBT

Long term debt consists of two term loans, each in the amount of $750,000 payable to 6408753 Canada Corporation and 6408788 Canada Corp. (see Note 3). The term of each loan is five years and interest is payable monthly at a rate of prime plus 2%. Annual principal repayments of $300,000 in aggregate are required on each of the anniversary dates of the loans until maturity on July 14, 2010. As a condition of these loans, share purchase warrants were issued to the lenders on August 30, 2005 (Note 9). Long term debt and the loans payable (Note 6) are secured by a general security agreement and an assignment of general insurance.

9. CAPITAL STOCK

a) Authorized
145,635,962 common shares

b) Issued

	Number of Shares	$
June 30, 2006 and December 31, 2005	47,768,042	23,368,041

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 5 years from the date of grant or an alternate period as determined by the Board and within 30 days of termination of employment. Options normally vest over a period of five years.

9. CAPITAL STOCK (Continued)

c) Stock options (Continued)

The following table summarizes the status and changes in stock options outstanding at June 30, 2006:

	June 30, 2006		December 31, 2005	
	Number	**Weighted average price**	Number	Weighted average price
Outstanding, beginning of period	**3,391,000**	**$0.08**	1,788,000	$0.44
Granted	**200,000**	**0.11**	2,900,000	0.04
Cancelled / expired	**(53,000)**	**(0.68)**	(1,297,000)	(0.49)
Outstanding, end of period	**3,538,000**	**0.07**	3,391,000	0.08
Exercisable, end of period	**1,738,000**	**$0.09**	1,791,000	$0.12
Options reserved for issuance, under stock option plan	**1,082,000**		1,229,000	

The following table summarizes information about stock options outstanding at June 30, 2006:

Range of exercise prices	Number of options	Weighted average remaining contractual life	Weighted average exercise price
$0.04 - $0.12	3,000,000	4.2 years	$0.05
$0.15 - $0.40	538,000	1.4 years	$0.23
	3,538,000	4.0 years	$0.07

d) Stock based compensation

During the three and six month periods ended June 30, 2006, the Company recorded compensation expense, with a corresponding credit to contributed surplus of $3,488 and $6,385 respectively, relating to the stock options that vested during the period. Total fair value of the stock options granted during the three and six month periods ended June 30, 2006 was $8,294 and $17,705 respectively.

9. CAPITAL STOCK (Continued)

e) Stock based compensation (Continued)

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

	June 30, 2006	December 31, 2005
Dividend yield	**0%**	0%
Expected volatility	**131 to 115%**	108 - 111%
Expected life	**5 yrs**	3 - 5 yrs
Risk free rate of return	**4.75 to 5.13%**	4.25%
Weighted average fair value of options granted	**$ 0.07**	$ 0.03

f) Warrants

	June 30, 2006	December 31, 2005
Outstanding, beginning of period	**82,153,700**	2,987,120
Issued	**-**	82,153,700
Expired	**-**	(2,987,120)
Outstanding, end of period	**82,153,700**	82,153,700

As a condition of obtaining the loans described in Note 6 and 8, the Company granted the lenders warrants entitling the lenders to purchase, from treasury, up to 30% each of the common shares of the Company, calculated on a fully-diluted basis, upon payment of $0.01 per share at any time up to August 31, 2010. During the year ended December 31, 2005 the company recorded $630,000 of deferred financing charges with a corresponding increase to contributed surplus related to the fair value of these warrant. This deferred financing cost is being amortized over the 60 month life of the warrants.

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

	June 30, 2006	December 31, 2005
Dividend yield	-	0%
Expected volatility	-	102%
Expected life	-	5 yrs
Risk free rate of return	-	3.8%

10. 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.

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	**2006**	2005
Sales by region				
Canadian	**$ 542,568**	$ 625,615	**$ 730,210**	$ 917,676
U.S. and International	**443,202**	623,458	**1,060,200**	1,959,555
	$ 985,770	$ 1,249,073	**$ 1,790,410**	$ 2,877,231
Sales by sector				
Consumer	**$ 722,964**	$ 833,638	**$ 1,328,701**	$ 2,105,550
Industrial	**262,806**	415,435	**461,709**	771,681
	$ 985,770	$ 1,249,073	**$ 1,790,410**	$ 2,877,231

11. COMPARATIVE FIGURES

Certain of the prior period comparative figures have been reclassified to conform to the current period presentation.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
INTERIM CONSOLIDATED SCHEDULES
(UNAUDITED- Prepared by Management)

GENERAL AND ADMINISTRATIVE

	Three Month Period ended June 30		Six Month Period ended June 30	
	2006	2005	**2006**	2005
		(Note 11)		(Note 11)
Salaries and wages	**$ 165,803**	$ 79,865	**$ 329,775**	$ 167,218
Professional fees	**45,080**	127,542	**65,749**	204,412
Insurance	**34,131**	17,598	**70,019**	73,157
Office	**32,284**	23,416	**56,460**	39,388
Regulatory and filing fees	**22,099**	4,773	**37,914**	6,930
Occupancy	**17,765**	13,508	**40,586**	27,750
Director fees	**16,584**	19,500	**33,168**	40,500
Travel	**13,651**	5,292	**31,698**	5,651
Telecommunications	**5,342**	4,597	**10,232**	8,810
Consulting	**-**	109,439	**2,138**	160,498
Amortization	**16,381**	22,292	**36,935**	45,899
	$ 369,120	$ 427,822	**$ 714,674**	$ 780,213

SELLING AND MARKETING

	2006	2005	**2006**	2005
		(Note 11)		(Note 11)
Salaries and wages	**$ 146,014**	$ 111,992	**$ 246,282**	$ 206,095
Marketing	**53,898**	30,352	**80,034**	60,211
Travel and entertainment	**43,904**	23,529	**75,796**	45,981
Commissions	**14,936**	11,085	**20,963**	20,747
Consulting	**8,505**	513	**14,230**	7,646
Communications and other	**2,984**	8,841	**4,739**	13,483
Bad debt expense (recovery)	**405**	(8,519)	**639**	(19,265)
	$ 270,646	$ 177,793	**$ 442,683**	$ 334,898