

**NAPIER ENVIRONMENTAL
TECHNOLOGIES INC.**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

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

	March 31 2007	December 31 2006
ASSETS		
Current		
Cash	\$ 140,311	\$ 19,571
Accounts receivable	340,176	185,374
Inventory (Note 4)	600,541	607,250
Prepaid expenses	32,752	28,409
	1,113,780	840,604
Deferred leasehold inducements	263,609	286,869
Deferred financing costs	430,500	462,000
Property, plant and equipment (Note 5)	313,638	326,596
	\$ 2,121,527	\$ 1,916,069
LIABILITIES		
Current		
Loans payable (Note 6)	\$ 3,500,000	\$ 3,300,000
Accounts payable	676,652	401,769
Current portion of long term debt (Note 8)	300,000	300,000
Deferred revenue (Note 7)	146,250	-
	4,622,902	4,001,769
Long term debt (Note 8)	600,000	900,000
	5,222,902	4,901,769
SHAREHOLDERS' DEFICIENCY		
Capital stock (Note 9)	24,819,578	24,093,809
Contributed surplus (Note 9)	380,821	691,774
Deficit	(28,301,774)	(27,771,283)
	(3,101,375)	(2,985,700)
	\$ 2,121,527	\$ 1,916,069

Continuing Operations (Note 1)

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

	Three month period ended March 31	
	2007	2006
Sales	\$ 477,495	\$ 804,640
Cost of sales (Note 4)	418,684	605,081
Gross profit	58,811	199,559
	12.32%	24.80%
Expenses		
Selling and marketing (Schedule)	223,236	172,037
General and administrative (Schedule)	202,268	345,554
Interest and finance costs	98,260	66,102
Research and development	37,256	37,720
Amortization of deferred financing costs	31,500	31,500
	592,520	652,913
Operating loss	(533,709)	(453,354)
Other items		
Foreign exchange gain (loss)	3,218	(4,331)
Gain on sale of capital asset	-	1,347
	3,218	(2,984)
Net loss for the period	(530,491)	(456,338)
Deficit at beginning of the period	(27,771,283)	(25,872,118)
Deficit at end of the year	\$ (28,301,774)	\$ (26,328,456)
Weighted average shares outstanding:	102,537,175	47,768,042
Loss per share	\$ (0.01)	\$ (0.01)

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

	Three month period ended March 31	
	2007	2006
Operating activities		
Net loss for the year	\$ (530,491)	\$ (456,338)
Items not involving cash		
Depreciation and amortization	13,168	32,188
Amortization of deferred leasehold inducements	23,260	25,591
Amortization of deferred financings costs	31,500	31,500
Stock based compensation	4,047	2,897
	(458,516)	(364,162)
Change in non-cash operating working capital		
Accounts receivable	(154,802)	(157,724)
Inventory	6,709	(37,030)
Prepaid expenses	(4,343)	6,374
Accounts payable	274,883	(267,349)
Deferred revenue	146,250	(33,250)
	268,697	(488,979)
	(189,819)	(853,141)
Financing activities		
Proceeds from loans payable and long term debt	300,000	900,000
Repayment of loans payable and long term debt	(400,000)	-
Proceeds on issuance of share capital	410,769	-
	310,769	900,000
Investing activities		
Purchase of property, plant and equipment	(210)	(14,415)
Proceeds on disposal of property, plant and equipment	-	1,750
	(210)	(12,665)
Change in cash during the period	120,740	34,194
Cash at beginning of the period	19,571	10,413
Cash at end of the period	\$ 140,311	\$ 44,607
Supplemental information		
Interest paid	\$ 98,260	\$ 66,116

**NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(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.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(UNAUDITED – Prepared by Management)

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 in July 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 and support of its lenders, a return to positive cash flow from operations and the successful implementation of managements' initiatives for financial stability, sales and marketing and control of fixed expenditures.

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, 2006, 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 month period ended March 31, 2007 are not necessarily indicative of the results for the full year.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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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. Total interest accrued on these loans for the three months ended March 31, 2007 was \$98,260.

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 months ended March 31, 2007, the Company incurred costs of \$45,702 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 \$395,413 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. As at March 31, 2007 the unamortized portion of these deferred leasehold improvements is \$263,609. This sublease has been extended to January 31, 2010.

Effective July 1, 2006 the Company’s chairman accepted a revised compensation agreement resulting in nominal annual compensation in return for a bonus based on the net income of the Company. This bonus is cumulative and payable at the lesser of 75% of net income or the cumulative bonus entitlement. To the extent that the bonus is not paid on an annual basis, an additional 15% will be added to it and compounded annually. No amount related to this bonus is due and accordingly there has been no accrual in these financial statements.

The Company entered into a Sales Service Agreement on February 1, 2007 with I.C.T.C. Under the terms of this agreement, I.C.T.C. accepted the transfer of certain sales staff and their respective expenses in return for a sliding scale sales fee that will be determined at the end of the year. The company accrued an estimated fee payable of \$52,000 based on the year to date sales. This accrual is included in Sales and Marketing costs.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
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4. INVENTORY

Inventory is comprised of:

	March 31, 2007	December 31, 2006
Raw materials	\$ 418,369	\$ 374,250
Finished goods	182,172	233,000
	\$ 600,541	\$ 607,250

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

	March 31, 2007		December 31, 2006	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Machinery and equipment	\$ 1,033,471	\$ 877,922	\$ 155,549	\$ 160,662
Furniture and fixtures	213,837	151,090	62,747	65,500
Leasehold improvements	277,544	182,202	95,342	100,434
	\$ 1,524,852	\$ 1,211,214	\$ 313,638	\$ 326,596

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 March 31, 2007, 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 March 31, 2007.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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7. DEFERRED REVENUE

On February 5, 2007, the Company entered into a Letter of Intent with a major paint manufacturer to licence the manufacturing and distribution of specific products in return for guaranteed minimum royalty payments of U.S. \$500,000 per year for a 12 year term. The Company is in the process of entering into a definitive agreement based on the letter of intent.

On March 31, 2007, in accordance with this licensing agreement, the Company received the first royalty payment of \$146,250 (US\$125,000) and a payment of \$29,250 (US\$25,000) as confirmation of the Licensing Agreement. This amount will be recognized as revenue during the second quarter of 2007.

8. LONG TERM DEBT

Long term debt consists of two term loans, each in the amount of \$450,000 (2006: \$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

Unlimited common shares

b) Issued

	March 31, 2007		December 31, 2006	
	Number of shares	\$	Number of shares	\$
Beginning of the year	88,844,892	24,093,809	47,768,042	23,368,041
Issued on exercise				
of warrants	41,076,850	410,769	41,076,850	410,768
Financing costs related				
to warrants excersised		315,000		315,000
End of the year	129,921,742	24,819,578	88,844,892	24,093,809

During the period ended March 31, 2007 the Company issued 41,076,850 common shares upon conversion of 41,076,850 warrants for proceeds of \$410,769. Financing costs of \$315,000 related to warrants exercised have been reclassified from contributed surplus.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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9. CAPITAL STOCK (Continued)

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.

The following table summarizes the status and changes in stock options outstanding at March 31, 2007:

	<u>March 31, 2007</u>		<u>December 31, 2006</u>	
	<u>Number</u>	<u>Weighted average price</u>	<u>Number</u>	<u>Weighted average price</u>
Outstanding, beginning of period	3,095,000	0.07	3,391,000	\$0.12
Granted	100,000	0.08	300,000	0.09
Cancelled / expired	(25,000)	(0.40)	(596,000)	(0.28)
Outstanding, end of period	<u>3,170,000</u>	<u>0.06</u>	<u>3,095,000</u>	<u>0.07</u>
Exercisable, end of period	<u>1,830,000</u>	<u>\$0.07</u>	<u>1,755,000</u>	<u>\$0.07</u>
Options reserved for issuance, under stock option plan	<u>1,450,000</u>		<u>1,525,000</u>	

The following table summarizes information about stock options outstanding at March 31, 2007:

<u>exercise prices</u>	<u>options</u>	<u>contractual life</u>	<u>exercise price</u>
\$0.04 - \$0.12	2,900,000	3.6 years	\$0.05
\$0.15 - \$0.28	270,000	1.3 years	\$0.25
	<u>3,170,000</u>	<u>3.4 years</u>	<u>\$0.06</u>

During the period, the Company recorded stock based compensation expense, with a corresponding credit to contributed surplus of \$5,807 relating to the stock options that vested during the period. Total fair value of the 100,000 stock options granted during the period was \$6,660.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
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9. CAPITAL STOCK (Continued)

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

	<u>2007</u>	<u>2006</u>
Dividend yield	0%	0%
Expected volatility	132%	115% -131%
Expected life	5 yrs	5 yrs
Risk free rate of return	4.50%	4.75% -5.13%
Weighted average fair value of options granted	<u>\$0.07</u>	<u>\$0.08</u>

d) Warrants

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Outstanding, beginning of period	41,076,850	82,153,700
Issued	-	-
Exercised	(41,076,850)	(41,076,850)
Expired	-	-
Outstanding, end of period	<u>-</u>	<u>41,076,850</u>

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.

During the period ended March 31, 2007 the Company recorded \$nil of deferred financing charges.

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

	<u>2005</u>
Dividend yield	0%
Expected volatility	102%
Expected life	5 yrs
Risk free rate of return	<u>3.8%</u>

10. 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)

	Three month period ended March 31	
GENERAL AND ADMINISTRATIVE	2007	2006
		(Note 10)
Salaries and wages	\$ 70,136	\$ 164,116
Insurance	32,710	35,888
Office	24,627	24,037
Occupancy	23,974	22,821
Professional fees	19,439	22,488
Director fees	12,000	16,584
Regulatory, filing and investor relations	5,860	13,991
Telecommunications	5,654	4,890
Travel	1,412	18,047
Consulting	-	2,138
Amortization	6,456	20,554
	\$ 202,268	\$ 345,554
SELLING AND MARKETING	2007	2006
		(Note 10)
Salaries and wages	\$ 66,346	\$ 58,878
Commissions	64,952	6,027
Consulting	54,087	47,286
Marketing	25,623	25,965
Travel and entertainment	9,090	31,892
Communications and other	3,138	1,755
Bad debt expense (recovery)	-	234
	\$ 223,236	\$ 172,037