NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2007**

May 15, 2007 / *The following Discussion and Analysis should be read in conjunction with the unaudited interim consolidated financial statements and related notes for the three months ended March 31, 2007, and the audited consolidated financial statements for the year ended December 31, 2006, the accompanying notes, and management's discussion and analysis for the year then ended. The unaudited interim financial statements for the three months ended March 31, 2007 and the audited consolidated financial statements for the year ended December 31, 2006 have been prepared in accordance with Canadian generally accepted accounting principles. Additional information about Napier Environmental Technologies Inc. ("**Napier**" or the **"Company"**), including Napier's Annual Information Form, dated March 28, 2007, 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 March 31, 2007 we recorded a net loss of $530,491 ($0.01 per common share) as compared to net loss of $456,338 ($0.01 per common share) for the same period in 2006.

The increase in the loss for the three months ended March 31, 2007 as compared to the same period in 2006 was the result of the decrease in sales. Reduced expenditures for the same period curtailed the impact on the net loss.

We continue to work toward developing new business and working with the existing customers on increasing the level of sales.

Sales

Sales for the three months ended March 31, 2007 totaled $477,495 as compared to $804,640 for the same period in 2006. The decrease of $327,415 is attributable to the slow start experienced for the 2007 buying season.

We continue to believe that sales should be restored to levels that would have a positive impact on Napier's net income in the future.

Cost of Sales

Cost of sales for the three months ended March 31, 2007 was $418,684 (87.68% of sales) compared to $605,081 (75.20% of sales) for the same period in 2006. The increase in cost of sales, as a percentage of sales is attributable to reduced production during the period. This decreased level of production absorbed our fixed costs resulting in lower gross margins 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 decreased to $202,268 for the three months ended March 31, 2007 as compared to $345,554 for the same period in 2006, a decrease of $143,286. This decrease is primarily attributable to the reduction in salaries and wages. Other general and administrative costs remained relatively constant over the comparative period, however we continue to work toward reducing overall expenses and operating in the most efficient manner possible. General and administrative costs for the three months ended March 31, 2006 and 2007 also includes the costs related to the management services agreement in place and is further discussed in the related party transactions section of this discussion. This agreement is one of the primary methods of reducing our overall operating costs.

Selling and marketing expenses for the three months ended March 31, 2007 were $223,236 as compared to $172,037 for the same period in 2006. Selling and marketing expenses increased during the comparative period as we continue to work hard at getting to the customer and toward increasing sales and general awareness of our Company and its products. In particular, our commission expense increased as we entered into an arrangement with I.C.T.C. Holdings Corporation whereby their sales forces would sell the Napier product line. As part of this agreement, Napier will pay a tiered commission based on the sales to retail customers. Details are provided in the related party transaction section.

Interest and finance costs increased from $66,102 to $98,260 for the three months ended March 31, 2007 as compared to the same period in 2006. The increase of $32,158 is entirely attributable to the increase in loan advances and average outstanding balance over the comparative period.

Research and development costs for the three months ended March 31, 2007 remained relatively constant at $37,256 as compared to $37,720 for the same period in 2006. Research and development costs are important to maintaining product quality and integrity.

Amortization of deferred financings costs for the period ended March 31, 2007 totaled $31,500, consistent with the same period in 2006. These costs relate to the warrants issued to the lenders as part of the restructuring process and are based on the calculated costs of $630,000 amortized over the estimated life of 60 months.

**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 $ except per share data)

| | March 31 2007 | Dec 31 2006 | Sept 30 2006 | June 30 2006 | March 31 2006 | Dec 31 2005 | Sept 30 2005 | June 30 2005 |
|---|---|---|---|---|---|---|---|---|
| Sales | 477 | 321 | 743 | 986 | 805 | 415 | 897 | 1,249 |
| Operating income (loss) before other items | (534) | (583) | (385) | (480) | (453) | (743) | (724) | (295) |
| Net income (loss) | (530) | (571) | (385) | (486) | (456) | (754) | 435 | (293) |
| Earnings (loss) per share, | | | | | | | | |
| Basic | (0.005) | (0.006) | (0.007) | (0.010) | (0.010) | (0.016) | 0.009 | (0.006) |
| Fully diluted | (0.005) | (0.006) | (0.007) | (0.010) | (0.010) | (0.016) | 0.006 | (0.006) |

**Liquidity and Capital Resources**

At March 31, 2007, our cash on hand was $140,311 as compared to $44,607 at December 31, 2006. The increase in cash was the result of the receipt of royalties at the end of the three month period. The royalties have been recorded as deferred revenue and will be recognized over the three month period ending June 30, 2007.

At March 31, 2007, we had accounts receivable of $340,176 as compared to $185,374 at December 31, 2006. The increase is the result of the cyclical nature of our business, with increasing sales peaking in the summer months; accordingly, the December accounts receivable were lower.

**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 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. For the three months ended March 31, 2007, we had paid I.C.T.C. a total of $45,702 (2006: $44,161) for services under this agreement.

The Sublease with I.C.T.C. is for half of the premises at 720 Eaton Way, Delta, British Columbia. The Sublease commenced on November 1, 2005 and is based on half of the financial exposure of Napier under its lease commitment.

Anthony Traub controls 6408753 Canada Corporation and Steve Balmer 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. Total interest paid to these companies in respect of these loans during the three months ended March 31, 2007 was $98,260 (2006: 65,596).

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 based on the year to date sales.

**Outstanding Share Data**

There are currently 129,921,742 common shares (the "**Common Shares**") of Napier issued and outstanding. In addition, there are currently options outstanding to purchase 3,170,000 Common Shares at prices between $0.04 and $0.28 per share, expiring between July 28, 2007 and March 3, 2011.

**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.

*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.

**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. 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 2006 annual financial statements and in our Annual Information Form dated March 28, 2007 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 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 March 28, 2007 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
May 15, 2007