NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2007

August 14, 2007 / *The following Discussion and Analysis should be read in conjunction with the unaudited interim consolidated financial statements and related notes for the three and six months ended June 30, 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 and six months ended June 30, 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 June 30, 2007, we recorded a net loss of $119,363 ($0.00 per common share) as compared to a net loss of $486,319 ($0.01 per common share) for the same period in 2006. For the six months ended June 30, 2007 we recorded a net loss of $649,854 ($0.01 per common share) as compared to a net loss of $942,657 ($0.02 per common share) for the same period in 2006.

The decrease in the loss for the three and six months ended June 30, 2007 as compared to the same period in 2006 was the result of the increased sales experienced in the second quarter of 2007.

Sales

Sales for the three months ended June 30, 2007 totaled $1,183,325 as compared to $985,770 and for the same period in 2006. The increase in sales, for the three months ended June 30, 2007 as compared to the same period last year of $197,555 is attributable to increased order activity from our customer base as our customers show a continuously increasing level of confidence in our ability to produce and deliver effective product. Sales for the six months ended June 30, 2007 totaled $1,660,820 as compared to $1,790,410 for the same period in 2006.

We believe that sales should continue to increase and 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 and six month periods ended June 30, 2007 was $839,245 (70.9% of sales) and $1,257,929 (75.7% of sales). Cost of sales for the comparative three and six month periods in 2006 were a respective $754,456 (76.5% of sales) and $1,359,537 (75.9% of sales). The decrease in cost of sales, as a percentage of sales is attributable to increased production in the second quarter that was required to meet the demand for product. This increased level of production improved the absorption of fixed costs resulting in larger gross margins on sales during that period. We expect this percentage to continue to improve in future years as production increases and continued steps are taken towards reducing the overall level of fixed costs. Further, we anticipate that increased volumes will allow us to further reduce cost of sales as we achieve economies of scale in our production process.

Expenses

General and administrative expenses decreased to $255,612 for the three months ended June 30, 2007 as compared to $369,120 for the same period in 2006, a decrease of $113,508. This decrease is primarily attributable to the reduction in salaries and wages and related travel costs. Other general and administrative costs remained relatively constant over the comparative period; however we continue to work hard at ensuring we operate in the most efficient manner possible. General and administrative costs for the six months ended June 30, 2007 totaled $457,880 as compared to $714,674 for the same period in 2006. Similarly, the decrease in costs for the six month period is also primarily attributable to the reduction in salaries and wages and the related travel costs. General and administrative costs for the six months ended June 30, 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 arrangement is one of the primary methods of minimizing our overall operating costs.

Selling and marketing expenses for the three months and six months ended June 30, 2007 were $172,565 and $395,801 as compared to $270,646 and $442,683 for the same periods in 2006. The decrease of $98,081 for the three month period ended June 30, 2007 and $46,882 for the six month period ended June 30, 2007 is a result of sales service agreement entered into and described in the related party transaction section.

Interest and finance costs increased from $1,038 to $92,966 for the three months ended June 30, 2007 as compared to the same period in 2006. The increase of $91,928 is entirely attributable to the fact that interest was waived by our lenders in the period ended June 30, 2006.

Research and development costs for the three months ended June 30, 2007 remained relatively constant at $38,561 as compared to $39,290 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 three month period ended June 30, 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)

	June 30 2007	March 31 2007	Dec 31 2006	Sept 30 2006	June 30 2006	March 31 2006	Dec 31 2005	Sept 30 2005
Sales	1,183	477	321	743	986	805	415	897
Operating income (loss) before other items	(247)	(534)	(583)	(385)	(480)	(453)	(743)	(724)
Royalty and other income	156	-	-	-	-	-	-	-
Net income (loss)	(119)	(530)	(571)	(385)	(486)	(456)	(754)	435
Earnings (loss) per share,								
Basic	(0.001)	(0.005)	(0.006)	(0.007)	(0.010)	(0.010)	(0.016)	0.009
Fully diluted	(0.001)	(0.005)	(0.006)	(0.007)	(0.010)	(0.010)	(0.016)	0.006

Liquidity and Capital Resources

At June 30, 2007, our cash on hand was $30,965 as compared to $19,571 at December 31, 2006.

At June 30, 2007, we had accounts receivable of $706,090 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 and six months ended June 30, 2007, we had paid I.C.T.C. a total of $45,784 and $91,486 respectively (2006: $51,531 and $95,692) 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 charged by these companies in respect of these loans during the three and six months ended June 30, 2007 was $92,966 and $191,226 respectively (2006: $nil and $66,116). Interest was waived by the lenders in the months of March to December, 2006.

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
August 14, 2007