

**NAPIER ENVIRONMENTAL
TECHNOLOGIES INC.**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

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

	September 30 2007	December 31 2006
ASSETS		
Current		
Cash	\$ 4,309	\$ 19,571
Accounts receivable	337,631	185,374
Inventory (Note 4)	536,378	607,250
Prepaid expenses	23,563	28,409
	901,881	840,604
Deferred leasehold inducements (Note 3)	217,090	286,869
Deferred financing costs	367,500	462,000
Property, plant and equipment (Note 5)	254,699	326,596
	\$ 1,741,170	\$ 1,916,069
LIABILITIES		
Current		
Loans payable (Note 6)	\$ 3,500,000	\$ 3,300,000
Accounts payable	1,060,144	401,769
Current portion of long term debt (Note 7)	300,000	300,000
	4,860,144	4,001,769
Long term debt (Note 7)	600,000	900,000
	5,460,144	4,901,769
SHAREHOLDERS' DEFICIENCY		
Capital stock (Note 8)	24,819,578	24,093,809
Contributed surplus (Note 8)	392,434	691,774
Deficit	(28,930,986)	(27,771,283)
	(3,718,974)	(2,985,700)
	\$ 1,741,170	\$ 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 Sept 30		Nine month period ended Sept 30	
	2007	2006	2007	2006
Sales	\$ 720,823	\$ 742,925	\$ 2,381,643	\$ 2,533,335
Cost of sales (Note 4)	646,556	602,173	1,904,485	1,961,029
Gross profit	74,267	140,752	477,158	572,306
	10.3%	18.9%	20.0%	22.6%
Expenses				
General and administrative (Schedule)	205,602	228,383	663,482	943,057
Selling and marketing (Schedule)	205,405	228,603	601,206	671,285
Interest and financing costs (Note 3)	101,507	-	292,733	67,140
Research and development	36,812	37,153	112,629	114,163
Amortization of deferred financing costs	31,500	31,500	94,500	94,500
	580,826	525,639	1,764,550	1,890,145
Operating loss	(506,559)	(384,887)	(1,287,392)	(1,317,839)
Other items				
Foreign exchange loss	(14,928)	(214)	(39,648)	(10,584)
Royalty and other income	11,638	-	167,337	-
Gain on disposal of capital assets	-	-	-	663
	(3,290)	(214)	127,689	(9,922)
Net loss for the period	(509,849)	(385,101)	(1,159,703)	(1,327,761)
Deficit at beginning of the period	(28,421,137)	(26,814,775)	(27,771,283)	(25,872,115)
Deficit at end of the period	\$ (28,930,986)	\$ (27,199,876)	\$ (28,930,986)	\$ (27,199,876)
Weighted average shares outstanding	129,921,742	53,572,380	120,893,863	49,724,082
Net loss per share, basic and fully-diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.03)

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

	Three month period ended Sept 30		Nine month period ended Sept 30	
	2007	2006	2007	2006
Operating activities				
Net loss for the period	\$ (509,849)	\$ (385,101)	\$ (1,159,703)	\$ (1,327,761)
Items not involving cash				
Depreciation and amortization	24,437	30,070	72,106	93,144
Amortization of deferred leasehold inducements	23,259	24,701	69,779	74,993
Amortization of deferred financing costs	31,500	31,500	94,500	94,500
Stock based compensation	5,807	3,625	15,661	10,010
	(424,846)	(295,205)	(907,657)	(1,055,114)
Change in non-cash operating working capital				
Accounts receivable	368,459	226,282	(152,257)	(33,154)
Inventory	74,094	(38,856)	70,872	21,069
Prepaid expenses	2,488	(4,791)	4,846	17,573
Accounts payable	(46,851)	(62,613)	658,375	(233,166)
Deferred revenue	-	-	-	(33,250)
	398,190	120,022	581,836	(260,928)
	(26,656)	(175,183)	(325,821)	(1,316,042)
Financing activities				
Proceeds from loans payable and long term debt	-	200,000	300,000	1,400,000
Repayment of loans payable and long term debt	-	(400,000)	(400,000)	(400,000)
Proceeds on issuance of share capital	-	410,768	410,769	410,768
	-	210,768	310,769	1,410,768
Investing activities				
Purchase of property, plant and equipment	-	(3,657)	(210)	(20,498)
Proceeds on disposal of property, plant and equipment	-	-	-	1,750
	-	(3,657)	(210)	(18,748)
Change in cash during the period	(26,656)	31,928	(15,262)	75,978
Cash at beginning of the period	30,965	54,463	19,571	10,413
Cash at the end of the period	\$ 4,309	\$ 86,391	\$ 4,309	\$ 86,391
Supplemental information				
Interest paid	\$ 101,507	\$ 784	\$ 292,733	\$ 66,900

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 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
SEPTEMBER 30, 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 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.

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 and nine month periods ended September 30, 2007 are not necessarily indicative of the results for the full year.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(UNAUDITED – Prepared by Management)

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 and nine months ended September 30, 2007 was \$101,507 and \$292,733 respectively.

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 cost, for personnel expenditures incurred on the Company’s behalf. During the three and nine month periods ended September 30, 2007, the Company incurred costs of \$39,511 (2006: \$51,650) and \$130,997 (2006: \$147,342) respectively, related to the management services agreement. These payments and advances 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 September 30, 2007 the unamortized portion of these deferred leasehold improvements is \$217,090. 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 entitled bonus and in the event of a change of control or a sale of assets in excess of 50% of the book value or fair market value of the consolidated assets. 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 has been accrued in these financial statements.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(UNAUDITED – Prepared by Management)

4. INVENTORY

Inventory is comprised of:

	September 30, 2007		December 31, 2006	
Raw materials	\$	397,919	\$	374,250
Finished goods		138,459		233,000
	\$	536,378	\$	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 the Company experiences a decline in production.

5. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2007			December 31, 2006	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	
Machinery and equipment	\$ 1,033,471	\$ 909,652	\$ 123,819	\$	160,662
Furniture and fixtures	213,837	160,475	53,362		65,500
Leasehold improvements	277,544	200,026	77,518		100,434
	\$ 1,524,852	\$ 1,270,153	\$ 254,699	\$	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.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(UNAUDITED – Prepared by Management)

6. LOANS PAYABLE (Continued)

At the time of advancement and at September 30, 2007, the lenders and the Company acknowledge that the Company did not meet the margin requirements required under these loans and accordingly, these loans are repayable upon demand. Strict compliance was waived by the lender in connection with the period ended September 30, 2007.

7. LONG TERM DEBT

Long term debt consists of two term loans, each in the amount of \$450,000 (2006: \$600,000) 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.

8. CAPITAL STOCK

a) Authorized

Unlimited common shares

b) Issued

	September 30, 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 September 30, 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
SEPTEMBER 30, 2007
(UNAUDITED – Prepared by Management)

8. 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 recent 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 or 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 September 30, 2007:

	<u>September 30, 2007</u>		December 31, 2006	
	Number	Weighted average price	Number	Weighted average price
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	(105,000)	(0.27)	(596,000)	(0.28)
Outstanding, end of period	<u>3,090,000</u>	<u>\$0.06</u>	3,095,000	\$0.07
Exercisable, end of period	<u>2,070,000</u>	<u>\$0.06</u>	1,755,000	\$0.07
Options reserved for issuance, under stock option plan	<u>1,530,000</u>		<u>1,525,000</u>	

The following table summarizes information about stock options outstanding at September 30, 2007:

Range of exercise prices	Number of options	Weighted average remaining contractual life	Weighted average exercise price
\$0.04 - \$0.12	2,900,000	3.1 years	\$0.05
\$0.15 - \$0.28	190,000	1.2 years	\$0.25
	<u>3,090,000</u>	<u>3.0 years</u>	<u>\$0.06</u>

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(UNAUDITED – Prepared by Management)

8. CAPITAL STOCK (Continued)

d) Stock based compensation

During the period, the Company recorded stock based compensation expense, with a corresponding credit to contributed surplus of \$15,661 relating to the stock options that vested during the period.

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	\$ 0.07	\$ 0.08

e) Warrants

	<u>September 30, 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	-	41,076,850

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.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(UNAUDITED – Prepared by Management)

8. CAPITAL STOCK (Continued)

e) Warrants (Continued)

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>

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

GENERAL AND ADMINISTRATIVE	Three Month Period ended Sept 30		Nine Month Period ended Sept 30	
	2007	2006	2007	2006
Salaries and wages	\$ 68,162	\$ 72,284	\$ 233,103	\$ 402,059
Insurance	32,710	34,130	98,131	104,149
Professional fees	14,248	17,768	62,778	83,517
Occupancy	19,606	17,235	62,022	57,821
Office	14,020	27,573	59,760	84,033
Regulatory, filing and investor relations	9,733	9,984	38,536	47,898
Director fees	14,250	9,983	38,250	43,151
Travel	15,828	12,379	18,323	44,077
Telecommunications	3,123	9,233	13,789	19,465
Consulting	-	-	-	2,138
Amortization	13,922	17,814	38,790	54,749
	\$ 205,602	\$ 228,383	\$ 663,482	\$ 943,057

SELLING AND MARKETING	2007		2006	
	2007	2006	2007	2006
Commissions	\$ 90,491	\$ 10,980	191,135	\$ 31,943
Consulting	44,672	52,297	149,807	151,109
Salaries and wages	39,946	96,793	148,623	258,493
Marketing	23,786	42,446	90,300	122,479
Travel and entertainment	5,095	22,018	15,035	97,814
Communications and other	1,415	4,069	6,306	8,808
Bad debts (recovery)	-	-	-	639
	\$ 205,405	\$ 228,603	\$ 601,206	\$ 671,285