CONSOLIDATED FINANCIAL STATEMENTS
AND MANAGEMENT'S DISCUSSION AND ANALYSIS

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

December 31, 2007

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007

Napier Environmental Technologies Inc. (the "**Company**" or "**Napier**") is a manufacturer and distributor of highly effective, safe and environmentally friendly chemicals for stripping paints and coatings, surface preparation, as well as a complete line of wood restoration and protective products. These products are cost effective, safe and easy to use, and are formulated and designed to be environmentally benign, which is important given today's environmental awareness. We distribute products both domestically and internationally through a network of distribution channels in the "Industrial" as well as "Consumer" markets.

Primary industrial uses for our products are paint stripping, concrete etching, rust or adhesive removal, asbestos removal and containment, and lead abatement. The products are applied to a range of surfaces including metal, concrete, and wood. Typical surface preparation applications include aircraft, industrial plants, ships, bridges, storage tanks, oil refineries, railcars, concrete floors, and buildings. In the industry there is limited reliance on a particular market sector due to the diversity of product application. Market demand for the products is highly project driven. As well, most applications occur outdoors, so weather plays a major factor. Napier products have not yet been introduced and adopted for all possible applications.

Consumer uses for the products are a large part of our business. The products and uses are similar to industrial uses with the main difference being a smaller scale project. We have been successful in this market segment through our private label business with some of the world's largest paint and coatings producers who have recognized our unique formulas and have leveraged their respective distribution abilities to position many of our products onto major retailers' shelves. Additionally, Napier has a successful retail network, distributing wood renovation products including; cleaners, surface preparation products and a variety of coatings products. More recently, we have undertaken initiatives to form licensing agreements, which will allow our products to service customers we would otherwise be unable to service because of volume and distribution requirements.

Competitive alternatives to our product offerings include products that are not environmentally benign and other surface preparation methods including sand blasting. In the wood coatings sector of the business, there are a number of competitive products. No one competitor offers the same broad range of products or has the same level of global product acceptance. Competitors tend to be found on a regional or national level and in some instances are tied to one market sector. Our competitive advantage is that our products are environmentally benign, cost effective, safe and easy to use. A number of products are patented and supported by our Research and Development expertise.

Shareholder value for this industry is generated through global distribution, product diversity and acceptance. Our vision is to be the global leader in environmentally friendly "green" surface preparation, wood restoration, lawn and garden and home cleaning products. Our people, distribution channels, product profitability, product development, brand awareness, infrastructure and working capital will drive performance. We continue to optimize our capabilities and resources in each of these areas.

This Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2007 has been prepared to give shareholders and other stakeholders an assessment of what the Company achieved last year as well as an indication of initiatives underway and planned for this year to improve shareholder value. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto for the years ending December 31, 2007 and December 31, 2006.

Disclosure Controls and Internal Controls over Financial Reporting

Pursuant to Multilateral Instrument 52-109 *Certification of Disclosures in Issuers' Annual and Interim Filings*, management has evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2007 and found them to meet required standards. Management has determined that there have been no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

Overview

The year ended December 31, 2007 was a challenging one for Napier. The focus was the continued rebuilding of relationships with customers with the ultimate goal of increasing sales.

Results of Operations

For the year ended December 31, 2007, we recorded a net loss of $1,822,051 ($0.01 per common share) as compared to a net loss of $1,899,165 ($0.03 per common share) for the year ended December 31, 2006. While sales were 10.4% lower than the comparative period in 2006, we managed to reduce the overall loss by further controlling costs as well as the development of a stream of royalty income resulting from our licensing arrangement.

We recorded a net loss of $662,348 during the last three months of 2007 as compared to a loss of $571,404 during the last three months of 2006. With the fourth quarter being the industry's slowest period of the year, our loss is traditionally larger in this period compared to the first three quarters of the year.

Sales

Sales for the year ended December 31, 2007 totaled $2,558,686 as compared to $2,855,074 for the year ended December 31, 2006. The decrease in overall sales of 10.4% resulted from the combination of a number of factors varying from external forces such as foreign exchange, weather and changes in our methods of distribution. In one particular case we shifted the supply of one of our larger customers to a distribution agreement that allows us to take a passive approach by shipping to distribution centers as opposed to shipping to stores directly. It is important to note that despite a decrease in overall sales, we earned royalty revenue during the year which has no related costs associated with it.

We recorded sales of $177,043 during the last three months of 2007 as compared to $321,739 for the last three months of 2006. The decrease of $144,696 is the result of a number of factors noted above, with the biggest impact being our method of distribution to one of largest customers that impacted overall revenues as well as the timing of sales.

Cost of Sales

Cost of sales for the year ended December 31, 2007 was $2,234,696 (87.34% of sales) compared to $2,378,773 (83.32% of sales) for the year ended December 31, 2006. The decreased gross margin earned in the year ended December 31, 2007, as compared to the year ended December 31, 2006, is a result of a combination of two key factors. First, the lower volume results in lower gross margins as the absorption of overhead rate of overhead costs changes. Second, our change in distribution method results in lower gross margins on certain products, however the passive approach results in a higher contribution margin from the same sale, despite the lower gross margin.

The impact of this lower level of production was particularly obvious in the fourth quarter, where the cost of sales, which included an allocation of fixed overhead, exceeded the sales for the same period. We recorded cost of sales totaling $330,211 in the fourth quarter resulting in a gross margin of $(153,168) as compared to cost of sales and a gross margin of $417,744 and $(96,005) respectively, for the three months ended December 31, 2006.

Expenses

General and administrative expenses were $860,799 for the year ended December 31, 2007 compared to $1,138,572 for the year ended December 31, 2006, a decrease of $277,773. This reduction is the result of our commitment to operating the business in the most efficient way possible.

General and administrative expenses for the three months ended December 31, 2007 totaled $197,317 as compared to $195,515 for the three months ended December 31, 2006. These costs remained relatively constant in the fourth quarter, year over year.

Selling expenses for the year ended December 31, 2007 were $740,396 as compared to $894,674 for the year ended December 31, 2006. The decrease of $154,278 was the result of our sales service agreement which allowed us to benefit from the resources of I.C.T.C. Holdings Corporation (described under transactions with related parties) by having them represent our products for a result based commission.

Selling expenses for the three months ended December 31, 2007 were $139,190 as compared to $223,389 for the three months ended December 31, 2006. The decrease of $84,199 is the result of the sales service agreement noted above.

Interest and finance costs increased to $398,946 during the year ended December 31, 2007 as compared to $66,184 during the year ended December 31, 2006. The increase of $332,762 is the result of interest being waived by our lenders beginning in April of 2006 through to December 31, 2006. This waiver did not continue in 2007.

Interest and finance costs for the three months ended December 31, 2007 were $106,213 as compared to $nil for the three months ended December 31, 2006. As noted above, the change in interest cost is related to the interest being waived by our lenders during the last three quarters of the prior year.

Research and development costs for the year ended December 31, 2007 were consistent at $150,420 compared to $151,437 for the year ended December 31, 2006. Our emphasis on research and development has not changed. Research and development expenditures have remained constant, in order to maintain product quality and integrity and ensure that our product development remains current.

Research and development costs for the three months ended December 31, 2007 were $37,791 as compared to $37,274 for the three months ended December 31, 2006.

Foreign exchange loss totaled $60,199 for the year ended December 31, 2007 as compared to $6,172 for the year ended December 31, 2006. The Company's foreign exchange loss is primarily due to the fluctuations of the US dollar. In particular, we saw a fairly dramatic shift in the US dollar immediately before the start of the fourth quarter of 2007. The impact of this shift was realized in the fourth quarter.

Selected Financial Information

The following financial information has been prepared in accordance with the Canadian generally accepted accounting principles. It should be read in conjunction with the audited consolidated financial statements of the Company, the notes thereto and the Auditors' Report thereon for the years ended December 31, 2007, 2006 and 2005 respectively.

The following table sets forth selected consolidated financial information for each of the three most recently completed years ended December 31 (audited; in thousands of dollars, except the loss per share figures):

	December 31		
	2007	**2006**	**2005**
Sales…………………………………...................	2,558	2,855	4,189
Gross profit…………………………….….............	324	476	1,213
Loss before other items……………………………………………….	(1,827)	(1,901)	(1,347)
Royalty and other income……………………….	65	-	-
Net loss……………………………………………..	(1,822)	(1,899)	(494)
Loss per share, basic and fully-diluted……………………….	(0.01)	(0.03)	(0.01)
Total assets…………………………………………	1,143	1,916	2,507
Long-term financial liabilities……………………..	685	900	1,200

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)

	Dec 31 2007	Sept 30 2007	June 30 2007	March 31 2007	Dec 31 2006	Sept 30 2006	June 30 2006	March 31 2006
Sales	177	721	1,183	477	321	743	986	805
Operating income (loss) before other items	(539)	(507)	(247)	(534)	(583)	(385)	(480)	(453)
Net income (loss)	(663)	(510)	(119)	(530)	(571)	(385)	(486)	(456)
Earnings (loss) per share, Basic	(0.004)	(0.004)	(0.001)	(0.005)	(0.006)	(0.007)	(0.010)	(0.010)
Fully diluted	(0.004)	(0.004)	(0.001)	(0.005)	(0.006)	(0.007)	(0.010)	(0.010)

Liquidity and Capital Resources

At December 31, 2007, our cash on hand was $4,413 as compared to $19,571 at December 31, 2006.

At December 31, 2007, we had accounts receivable of $240,990 as compared to $185,374 at December 31, 2006. This increase of $55,616 is due to the inclusion of royalty fees receivable which total USD$75,000, representing part of the up front technology transfer fees related to our licensing agreement.

Transactions with Related Parties

We have entered into a management services agreement (the "Management Services Agreement"), a sublease (the "Sublease") and a Sales Services Agreement (the Sales Services Agreement") 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. At December 31, 2007, we paid I.C.T.C. a total of $167,230 (2006: $187,307) 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.

Pursuant to the Sales Services agreement, effective January 9, 2007 we pay a commission to I.C.T.C. based on successful sales to its retail customers which is managed by the I.C.T.C. Sales and Marketing Staff. Total commissions for the year amounted to $227,627.

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, of which $900,000 is outstanding at December 31, 2006, and revolving loans of which $3,851,382 is outstanding at December 31, 2006. The initial advances of these financing transactions were made on July 14, 2005 in the aggregate amount of $3,000,000 and were used to pay fees and costs related to the loan transactions and satisfy all amounts owing by Napier to its secured, preferred, unsecured and post filing creditors as of July 14, 2005 as approved by the Supreme Court of British Columbia in Bankruptcy. Total interest charged by these companies in respect of these loans was $398,946 (2005: $66,184). Interest on these loans was waived by the lenders for the last three quarters ended December 31, 2006.

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 2,213,000 Common Shares at prices between $0.04 and $0.15 per share, expiring between February 9, 2009 and November 15, 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 3 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. 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

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 as well as increasing costs, and economic conditions affecting existing and 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 continue by targeting less seasonal businesses, with a variety of products that Napier have available. On July 14, 2005, 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. At the time of advancement and at December 31, 2007, the lenders acknowledge that the margin requirements required under these loans were not met.

Our risk factors are discussed in detail in our Annual Information Form and remain substantially unchanged. This document is 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 possible de-listing from the Toronto Stock Exchange, dilution to shareholders, 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 as 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.

Additional Information

Additional information relating to the Company can be found on SEDAR at www.sedar.com.

This MD&A has been prepared by management and reviewed by the Company’s board of directors.

“Steve Balmer”

Steve Balmer
President and Chief Operating Officer
March 26, 2008

Deloitte.

Deloitte & Touche LLP
20316 - 56th Avenue
Suite 225
Langley BC V3A 3Y7
Canada

Tel: (604) 534-7477
Fax: (604) 534-4220
www.deloitte.ca

AUDITORS' REPORT

The Shareholders,
Napier Environmental Technologies Inc.

We have audited the consolidated balance sheets of Napier Environmental Technologies Inc. as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“DELOITTE & TOUCHE LLP”

Chartered Accountants
February 22, 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Napier Environmental Technologies Inc. are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management conforming to accounting principles generally accepted in Canada. These statements include some amounts that are based on best estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The company maintains a system of internal control, which provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained.

The Board of Directors carries out its responsibility for the financial statements principally through its Audit Committee, consisting of a majority of outside directors. The Audit Committee meets periodically with management, as well as the external auditors, to review the financial statements and to satisfy itself that each party is properly discharging its responsibilities.

The external auditors, Deloitte & Touche LLP, have been appointed by the shareholders to render their opinion on the financial statements. The auditors have full and free access to the Audit Committee and their report is included herein.

"Steve Balmer"
President and COO

"Anthony Traub"
Secretary and CFO

February 22, 2008

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS

December 31

	2007	2006
Assets		
Current		
Cash	**$ 4,413**	$ 19,571
Accounts receivable	**240,990**	185,374
Inventory (Note 5)	**437,613**	607,250
Prepaid expenses	**36,093**	28,409
	719,109	840,604
Deferred leasehold inducements (Note 4)	**193,830**	286,869
Deferred financing costs (Note 2)	**-**	462,000
Property and equipment (Note 6)	**230,443**	326,596
	$ 1,143,382	$ 1,916,069
Liabilities		
Current		
Loans payable (Note 7)	**$ 3,500,000**	$ 3,300,000
Accounts payable	**1,379,270**	401,769
Deferred revenue	**116,904**	-
Current portion of long term debt (Note 8)	**300,000**	300,000
	5,296,174	4,001,769
Deferred revenue	**84,723**	-
Long term debt (Note 8)	**600,000**	900,000
	5,980,897	4,901,769
Shareholders' deficiency		
Capital stock (Note 9)	**24,819,578**	24,093,809
Contributed surplus (Note 10)	**398,241**	691,774
Deficit	**(30,055,334)**	(27,771,283)
	(4,837,515)	(2,985,700)
	$ 1,143,382	$ 1,916,069

Continuing Operations (Note 1)
Approved by the Directors:

"David E. Lancaster"
David E. Lancaster

"Stephen C. Balmer"
Stephen C. Balmer

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

Years ended December 31

		2007		2006
Sales	**$**	**2,558,686**	$	2,855,074
Cost of sales		**2,234,696**		2,378,773
Gross profit		**323,990**		476,301
		12.66%		16.68%
Expenses				
General and administrative (Schedule)		**860,799**		1,138,572
Selling and marketing (Schedule)		**740,396**		894,674
Interest and financing costs		**398,946**		66,184
Research and development		**150,420**		151,437
Amortization of deferred financing costs		**-**		126,000
		2,150,561		2,376,867
Loss before other items		**(1,826,571)**		(1,900,566)
Other items				
Royalty and other income		**64,719**		-
Foreign exchange loss		**(60,199)**		(6,172)
Gain on disposal of capital assets		**-**		7,573
		4,520		1,401
Net loss and comprehensive loss for the year		**(1,822,051)**		(1,899,165)
Deficit at beginning of the year		**(27,771,283)**		(25,872,118)
Deferred financing costs (Note 2)		**(462,000)**		-
Deficit at end of the year	**$**	**(30,055,334)**	$	(27,771,283)
Weighted average shares outstanding		**123,169,383**		59,472,131
Net loss per share, basic and fully-diluted	**$**	**(0.01)**	$	(0.03)

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

		2007		2006
Operating activities				
Net loss for the year	$	(1,822,051)	$	(1,899,165)
Items not involving cash				
Depreciation and amortization		96,363		122,702
Amortization of deferred leasehold inducements		93,039		116,576
Amortization of deferred financing costs		-		126,000
Deferred revenue		201,627		(33,250)
Gain on disposal of capital assets		-		(7,573)
Stock based compensation		21,467		31,579
		(1,409,555)		(1,543,131)
Change in non-cash operating working capital				
Accounts receivable		(55,616)		123,167
Inventory		169,637		123,228
Prepaid expenses		(7,684)		13,595
Accounts payable		977,501		(300,456)
		1,083,838		(40,466)
		(325,717)		(1,583,597)
Financing activities				
Proceeds on issuance of share capital		410,769		410,768
Proceeds from loans payable and long term debt		300,000		1,600,000
Repayment of loans payable and long term debt		(400,000)		(400,000)
		310,769		1,610,768
Investing activities				
Purchase of property and equipment		(210)		(29,884)
Proceeds on disposal of property and equipment		-		11,871
		(210)		(18,013)
Change in cash during the year		(15,158)		9,158
Cash at beginning of the year		19,571		10,413
Cash at the end of the year	$	4,413	$	19,571
Supplemental information				
Interest paid	$	-	$	66,184

1. Continuing operations

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

The 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 the year ended December 31, 2005, it does not meet margin requirements required under these loans and has operating losses, negative working capital and shareholders' deficiency. The company's 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 consolidated financial statements, adjustments would be necessary to the carrying values of assets and liabilities, the reported net income and the balance sheet classifications used.

2. Change in accounting policies

Effective January 1, 2007, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3251: Equity; Section 1530: Comprehensive Income; and Section 3855: Financial Instruments - Recognition and Measurement, and Section 3861: Financial Instruments – Disclosure and Presentation, retroactively, without restatement. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition, measurement, presentation and disclosure of financial instruments. The adoption of this standard had no significant impact on net loss and net loss per share for the year ended December 31, 2007.

In accordance with Section 3855, the Company adopted a policy to expense debt financing fees as incurred resulting in an increase to opening deficit of $462,000 to eliminate the deferred financing costs that were capitalized and amortized under the Company's previous accounting policy.

3. Basis of presentation and significant accounting policies

Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. Inter-company balances and transactions are eliminated upon consolidation.

The company has concluded that no Variable Interest Entities ("VIEs") exist that are required to be consolidated in these financial statements. VIEs, which include special purpose entities, trusts, partnerships, and other legal structures, as defined in Accounting Guideline 15, "Consolidation of Variable Interest Entities", are entities where equity investors do not have the characteristics of a controlling financial interest or entities that do not have sufficient equity at risk to finance activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns.

3. Basis of presentation and significant accounting policies (continued)

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reporting period. These estimates specifically relate to allowance for doubtful customer accounts, inventory valuation, capital asset amortization policies, accrued liabilities and stock based compensation. Actual results could differ from those estimates.

Inventory

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value.

Property and equipment

Property and equipment are recorded at cost and the Company provides for amortization computed using the following methods and annual rates:

Machinery and equipment	5 – 10 years straight line
Furniture and fixtures	2 - 5 years straight line
Leasehold improvements	Straight line over lease term

Impairment of long-lived assets

The Company reviews the carrying amount of long-lived assets for impairment whenever events or changes or circumstances indicate that the carrying amount may not be recoverable or has been impaired. The determination of any impairment would be based on a comparison of estimated future cash anticipated to be generated during the remaining life of the asset to the net carrying value of the asset. If impairment is determined, assets held for use are written down to their fair values.

Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, goods are shipped, price is fixed and determinable, and collection is reasonably assured. Initial non-refundable licensing fees are deferred and recognized over the term of the licensing agreement. Royalty advances on licensing arrangements are deferred and recognized as the licensee sells the licensed product.

3. Basis of presentation and significant accounting policies (continued)

Income taxes

Income taxes are accounted for using the liability method whereby future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of tax losses that are likely to be realized. Future income tax assets and liabilities are measured using enacted and substantively enacted tax rates that are expected to be effective when recovered or settled. The net change in recorded future income tax assets and liabilities is recognized in income in the period in which the change occurs including any change in applicable future tax rates.

Debt financing costs

The company expenses debt financing costs when they are incurred.

Deferred leasehold inducements

Leasehold inducements related to the sublease outlined in Note 3 are deferred and amortized to rent expense over 51 months from the commencement date of the sublease. As at December 31, 2007 there are 25 months remaining in the amortization period.

Stock options

The Company uses the fair value based method of accounting for employee stock based compensation. The fair value based method requires the Company to estimate compensation costs on the date the options are granted, using an option-pricing model, and expense it as compensation over the vesting period.

Foreign currency translation

The functional currency of the Company's operations is the Canadian dollar. Transactions and account balances originally stated in currencies other than the Canadian dollar have been translated into Canadian dollars using the temporal method as follows:

- Revenue and expense items at the rate of exchange in effect on the dates they occur;
- Non-monetary assets and liabilities at historical exchange rates; and
- Monetary assets and liabilities at the exchange rate at the balance sheet dates.

Exchange gains and losses are included in the determination of income in the period in which they occur.

Loss per share

Loss per share is calculated based on the weighted average number of shares outstanding during the period. Potentially dilutive items are described in Note 8. Diluted loss per share is the same as basic loss per share as the exercise of options and warrants would reduce the loss per share.

3. Basis of presentation and significant accounting policies (continued)

Financial instruments

Fair value

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments.

The Company's financial assets and liabilities are generally classified and measured as follows:

Classification

Asset/liability	**Category**	**Measurement**
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable	Other liabilities	Amortized cost
Loans payable	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

The Company had no financial instruments classified as available-for-sale during the year ended December 31, 2007.

Changes in the fair value of the Company's cash are included in the consolidated statements of operations.

Interest rate risk

The loans payable and long-term debt fluctuates with prime and therefore the company is exposed to interest rate risk resulting in from fluctuations of prime.

Foreign exchange risk

The company has significant sales and purchases denominated in U.S. currencies and is therefore exposed to financial risk resulting from fluctuations in foreign exchange rates and the degree of volatility of these rates. The company does not use derivative financial instruments to reduce its exposure to rate changes.

4. Related party transactions

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 by 6408753 Canada Corporation and 6408788 Canada Corp . as described below. 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 year the company incurred costs of $167,230 (2006: $187,307) related to the management services agreement. These transactions are in the normal course of business.

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 January 31, 2010. As a condition of this agreement, 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.

During the year ended December 31, 2005 the Company obtained financing, described in notes 7 and 8, from 6408753 Canada Corporation and 6408788 Canada Corp., companies controlled by directors and officers of the Company. Total interest accrued during the year on these loans was $398,946 (2006: $66,184).

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. 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.

On January 9, 2007, the Company entered into a sales services agreement with I.C.T.C. Pursuant to the agreement, the company pays a commission to I.C.T.C. based on successful sales to its retail customer base that is managed by the I.C.T.C. Sales and Marketing staff. During the year the company incurred costs of $227,627 related to the sales services agreement. These transactions are in the normal course of business.

Included in accounts payable is $965,391 (2006 - $29,114) due to related parties.

5. Inventory

Inventory is comprised of:

		2007		2006
Raw materials	$	**316,815**	$	**374,250**
Finished goods		**120,798**		**233,000**
	$	**437,613**	$	**607,250**

6. Property and equipment

						2007
		Cost		Accumulated amortization		Net book value
Machinery and equipment	$	1,033,471	$	922,361	$	111,110
Furniture and fixtures		213,837		164,383		49,454
Leasehold improvements		277,544		207,665		69,879
	$	1,524,852	$	1,294,409	$	230,443

						2006
		Cost		Accumulated amortization		Net book value
Machinery and equipment	$	1,035,121	$	874,459	$	160,662
Furniture and fixtures		213,837		148,337		65,500
Leasehold improvements		277,544		177,110		100,434
	$	1,526,502	$	1,199,906	$	326,596

7. Loans payable

Loans payable consist of loan facilities, to a maximum of $1,750,000 from each of 6408753 Canada Corporation and 6408788 Canada Corp. (see Note 4) 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 December 31, 2007 and 2006, the lenders acknowledged 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 December 31, 2007.

8. Long term debt

Long term debt consists of term loans, originally in the amount of $750,000, of which $450,000 is outstanding at December 31, 2007, payable to each of 6408753 Canada Corporation and 6408788 Canada Corp. (see Note 4). The term of each loan was originally 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 7) are secured by a general security agreement and an assignment of general insurance.

9. Capital stock

Authorized:

Unlimited common shares

Issued:

	2007		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 excercised	**-**	**315,000**	-	315,000
End of the year	**129,921,742**	**24,819,578**	88,844,892	24,093,809

During the year ended December 31, 2006 the Company issued 41,076,850 common shares upon conversion of 41,076,850 warrants for proceeds of $410,768. During the year ended December 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.

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 December 31, 2007 and 2006:

	2007		2006	
	Number	**Weighted average price**	Number	Weighted average price
Outstanding, beginning of year	**3,095,000**	**$0.07**	**3,391,000**	**$0.12**
Granted	**100,000**	**0.08**	**300,000**	**0.09**
Cancelled / expired	**(982,000)**	**(0.11)**	**(596,000)**	**(0.28)**
Outstanding, end of year	**2,213,000**	**0.05**	**3,095,000**	**0.07**
Exercisable, end of year	**1,667,800**	**$0.04**	**1,755,000**	**$0.07**
Options reserved for issuance, under stock option plan	**2,407,000**		**1,525,000**	

9. Capital stock (continued)

Stock options (continued)

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

Range of exercise prices	Number of options	Weighted average remaining contractual life	Weighted average exercise price
$0.04 - $0.12	2,200,000	2.9 years	$0.05
$0.15	13,000	1.1 years	$0.15
	2,213,000	2.8 years	$0.05

Stock-based compensation

During the year the Company recorded compensation expense, with a corresponding credit to contributed surplus of $21,467 (2006 - $31,579) relating to the stock options that vested during the year. Total fair value of the 100,000 (2006 – 300,000) stock options granted during the year was $7,010 (2006 - $22,365).

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

	2007	2006
Dividend yield	**0%**	0%
Expected volatility	**132%**	115% - 131%
Expected life	**5 yrs**	5 yrs
Risk free rate of return	**4.0%**	4.75% - 5.13%
Weighted average fair value of options granted	**$0.07**	$0.08

Warrants

	2007	2006
Outstanding, beginning of year	**41,076,850**	**82,153,700**
Exercised	**(41,076,850)**	**(41,076,850)**
Outstanding, end of year	**-**	**41,076,850**

As a condition of obtaining the loans described in Note 6 and 7, 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 warrants.

During the year ended December 31, 2007, all outstanding warrants were exercised for proceeds of $410,769.

10. Contributed surplus

		2007		2006
Beginning of year	$	**691,774**	$	**975,195**
Stock based compensation		**21,467**		**31,579**
Warrants exercised		**(315,000)**		**(315,000)**
End of the year	$	**398,241**	$	**691,774**

11. Income taxes

The approximate tax effect of temporary differences and income tax loss carry-forwards that give rise to the Company's future income taxes are as follows:

		2007		2006
Capital assets	$	**1,760,000**	$	**1,736,000**
Other		**(66,000)**		**(210,000)**
Tax loss carryforwards		**4,332,000**		**3,960,000**
		6,026,000		**5,486,000**
Less valuation allowance		**6,026,000**		**5,486,000**
	$	**-**	$	**-**

The income tax recovery and change in valuation allowance differs from the amounts computed by applying Canadian statutory rates to net loss for the year before income taxes as follows:

		2007		2006
Income tax recovery at statutory rate of 34.12%	$	**(622,000)**	$	**(650,000)**
Amortization		**64,000**		**125,000**
Other		**3,000**		**46,000**
Valuation allowance		**555,000**		**479,000**
Income tax recovery	$	**-**	$	**-**

11. Income taxes (continued)

The Company has loss carry-forwards available for income tax purposes as follows:

Expiry date		Amount
December 31, 2008	$	**3,000,000**
December 31, 2009		**1,017,000**
December 31, 2010		**1,478,000**
December 31, 2014		**1,752,000**
December 31, 2015		**2,428,000**
December 31, 2026		**1,398,000**
December 31, 2027		**1,623,000**
	$	**12,696,000**

The Company has capital loss carry-forwards available for income tax purposes in the amount of $1,194,000 that do not expire.

12. Segmented information

The Company operates in one industry segment, which is the manufacture and distribution of coatings removal products and 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.

		2007		2006
Sales by region				
Canadian	$	**1,134,798**	$	**1,210,815**
U.S. and International		**1,423,888**		**1,644,259**
	$	**2,558,686**	$	**2,855,074**
Sales by sector				
Consumer	$	**2,156,415**	$	**2,183,743**
Industrial		**402,271**		**671,331**
	$	**2,558,686**	$	**2,855,074**

13. Commitments

The Company leases its premises under an operating lease. The aggregate minimum rental payments, including operating costs, remaining under this lease is approximately:

2008	$405,222
2009	413,540
2010	34,462

14. Recent accounting pronouncements

Section 1535, Capital disclosures

Section 1535, Capital Disclosures, applicable to interim and annual periods relating to fiscal years beginning on or after October 1, 2007, specifies disclosures of (1) information about the entity's objectives, policies, and processes for managing capital structure; (2) quantitative data about what the entity regards as capital; and (3) whether the entity has complied with externally imposed capital requirements and if it has not complied, the consequences of such non-compliance. The Company will adopt Section 1535 on January 1, 2008 and is currently evaluating the effect of adopting this standard.

Section 3031, Inventories

In June 2007 the CICA issued Handbook Section 3031, Inventories which provides additional guidance in the measurement and disclosure requirements for inventory. Section 3031 applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and will be adopted by the Company on January 1, 2008. The Company is evaluating the effects of adopting this standard.

Section 3862, Financial Instruments – Disclosure and Section 3863, Financial Instruments - Presentation

These new standards revise and enhance the disclosure requirements, and carry forward, substantially unchanged, the presentation requirements. These new standards emphasize the significance of financial instruments to the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how these risks are managed. These new standards are applicable to interim and annual periods relating to fiscal years beginning on or after October 1, 2007. The Company will adopt Section 3862 and Section 3863 on January 1, 2008 and is currently evaluating the effects of adopting these standards.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED SCHEDULES

Years ended December 31

	2007	2006
General and administrative		
Salaries and wages	**$ 294,267**	$ 470,156
Insurance	**127,286**	137,360
Professional fees	**88,861**	113,200
Occupancy	**86,293**	51,554
Office	**72,723**	103,216
Consulting and director fees	**52,250**	60,648
Regulatory, filing and investor relations	**45,141**	54,008
Travel	**24,139**	50,507
Telecommunications	**17,229**	25,210
Amortization	**52,610**	72,713
	$ 860,799	$ 1,138,572

	2007	2006
Selling and marketing		
Commissions	**$ 258,958**	$ 37,793
Management services and consulting	**188,428**	203,825
Salaries and wages	**182,758**	362,614
Marketing	**85,544**	150,741
Travel and entertainment	**17,152**	125,995
Communications and other	**7,556**	13,067
Bad debt expense	**-**	639
	$ 740,396	$ 894,674

CORPORATE INFORMATION

Board of Directors

Steve Balmer

Mr. Balmer has been President of Napier Environmental Technologies since July 14, 2005 and COO since September 14, 2005. Mr. Balmer is also President & COO of I.C.T.C. Holdings Corporation, which operates HERO Products, a producer and distributor of equipment for the paint and retail markets of the coatings industry. Mr. Balmer formerly held the position of President and Director of an International company selling equipment and chemicals to the global coatings industry.

Rick Duha*

Mr. Duha was appointed as a director of the Company on August 18, 2005. Mr. Duha is the Managing Director and principal of The Duha Group headquartered in Winnipeg, Canada. Mr. Duha is presently on the board of the Canadian Paint and Coatings Association, and sits on the board of advisors for a major private printing company in Manitoba.

David Lancaster*

Mr. Lancaster was appointed as a director of the Company on July 28, 2005. Mr. Lancaster is a Chartered Accountant and a partner of the accounting firm Lancaster & David, Chartered Accountants. Prior to the formation of Lancaster & David in 1998 he was a partner in the accounting firm Powell Street Lancaster, Chartered Accountants.

Marc Mercier

Mr. Mercier was appointed as a director of the Company on July 14, 2005. Mr. Mercier is a Partner in the Financial Services Group at the law firm of Cassels Brock & Blackwell LLP in Toronto, Ontario and has practiced law with Cassels Brock since June 2003 and prior to that with Fraser Milner Casgrain LLP since May 1991.

Doug Thiemann*

Dr. Thiemann was appointed as a director on September 29, 2005. From 1996 to 2007 he was the General Manager of Home Hardware's Paint and Home Products Division. Dr. Thiemann holds a Ph.D. in Organic Chemistry and has over 36 years of experience in the paint and coatings industry.

Anthony Traub

Mr. Traub has been Secretary and a director of the Company since July 14, 2005 and was appointed Chairman and CFO on September 14, 2005. Mr. Traub is the founder, Chairman and Chief Executive Officer of I.C.T.C. Holdings Corporation. Prior thereto, he was a Director and the Founding Partner of a fund manager with $4 billion under management, primarily in the income trust sector, trading on the TSX.

*Denotes audit committee member

Officers

Steve Balmer
President and COO

Anthony Traub
Chairman, Secretary and CFO

Carlos deMelo
Vice President, Customer Service

Drew Gagnier
Vice President, Marketing

Richard Skeats
Vice President, Finance

Robert Smart
Director, North American Sales

Head Office

Napier Environmental Technologies Inc.
720 Eaton Way
Delta, B.C. V3M 6J9
Canada

www.napiere.com

investor@napiere.com

Auditors

Deloitte & Touche LLP
Chartered Accountants

Banker

TD Canada Trust

Legal Counsel

Cassels Brock & Blackwell LLP

Stock Listing

Toronto Stock Exchange
Symbol "NIR"

Annual and Special Meeting

720 Eaton Way
Delta, B.C., Canada
Thursday, April 24, 2008
1:00 p.m. *(Pacific time)*