

**NAPIER ENVIRONMENTAL
TECHNOLOGIES INC.**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

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

	March 31 2008	December 31 2007 (Note 11)
ASSETS		
Current		
Cash	\$ 150,418	\$ 4,413
Accounts receivable	242,160	240,990
Inventory (Note 4)	617,970	437,613
Prepaid expenses	13,087	36,093
	1,023,635	719,109
Deferred leasehold inducements	170,571	193,830
Property, plant and equipment (Note 5)	206,618	230,443
	\$ 1,400,824	\$ 1,143,382
LIABILITIES		
Current		
Loans payable (Note 6)	\$ 4,151,302	\$ 3,851,302
Accounts payable	1,047,609	1,027,968
Current portion of long term debt (Note 8)	300,000	300,000
Deposit received (Note 7)	250,000	-
Deferred revenue (Note 8)	105,383	116,904
	5,854,294	5,296,174
Deferred revenue	82,639	84,723
Long term debt (Note 9)	600,000	600,000
	6,536,933	5,980,897
SHAREHOLDERS' DEFICIENCY		
Capital stock (Note 10)	24,819,578	24,819,578
Contributed surplus (Note 10)	401,684	398,241
Deficit	(30,357,371)	(30,055,334)
	(5,136,109)	(4,837,515)
	\$ 1,400,824	\$ 1,143,382

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

	Three month period ended March 31	
	2008	2007
Sales	\$ 398,115	\$ 477,495
Cost of sales (Note 4)	356,256	418,684
Gross profit	41,859	58,811
	10.51%	12.32%
Expenses		
General and administrative (Schedule)	152,312	202,268
Interest and finance costs	107,942	98,260
Selling and marketing (Schedule)	71,162	223,236
Research and development	46,539	37,256
Amortization of deferred financing costs	-	31,500
Operating loss	377,955	592,520
	(336,096)	(533,709)
Other items		
Royalty and other income	32,084	-
Foreign exchange gain	1,975	3,218
	34,059	3,218
Net loss for the period	(302,037)	(530,491)
Deficit at beginning of the period	(30,055,334)	(27,771,283)
Deficit at end of the year	\$ (30,357,371)	\$ (28,301,774)
Weighted average shares outstanding:	129,921,742	102,537,175
Loss per share	\$ (0.00)	\$ (0.01)

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

	Three month period ended March 31	
	2008	2007
Operating activities		
Net loss for the year	\$ (302,037)	\$ (530,491)
Items not involving cash		
Depreciation and amortization	23,825	13,168
Amortization of deferred leasehold inducements	23,259	23,260
Amortization of deferred financings costs	-	31,500
Stock based compensation	3,443	4,047
	(251,510)	(458,516)
Change in non-cash operating working capital		
Accounts receivable	(1,170)	(154,802)
Inventory	(180,357)	6,709
Prepaid expenses	23,006	(4,343)
Accounts payable	19,641	274,883
Deposit received	250,000	-
Deferred revenue	(13,605)	146,250
	97,515	268,697
	(153,995)	(189,819)
Financing activities		
Proceeds from loans payable and long term debt	300,000	300,000
Repayment of loans payable and long term debt	-	(400,000)
Proceeds on issuance of share capital	-	410,769
	300,000	310,769
Investing activities		
Purchase of property, plant and equipment	-	(210)
	-	(210)
Change in cash during the period	146,005	120,740
Cash at beginning of the period	4,413	19,571
Cash at end of the period	\$ 150,418	\$ 140,311
Supplemental information		
Interest paid	\$ -	\$ -

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(UNAUDITED – Prepared by Management)

REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of the comparative figures in these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(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 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 interim consolidated financial statements, adjustments would be necessary to the carrying values of assets and liabilities and the reported net income and the balance sheet classifications used.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the footnotes and disclosures required by Canadian generally accepted accounting principles for annual financial statements.

These unaudited interim consolidated financial statements reflect the same significant accounting policies described in the Company's annual consolidated financial statements for the year ended December 31, 2007, and should be read in conjunction with these statements.

It is management's opinion that the unaudited interim consolidated financial statements reflect all adjustments (consisting of normal and recurring accruals) and reclassifications necessary to present fairly the Company's financial position, results of operations and cash flows.

The results of operations for the three month period ended March 31, 2008 are not necessarily indicative of the results for the full year.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
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3. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2005 the Company obtained financing, described in notes 6 and 9, from companies controlled by directors and officers of the Company. Total interest accrued on these loans for the three months ended March 31, 2008 was \$107,942.

On September 1, 2005, the Company entered into a management services agreement with I.C.T.C. Holdings Corporation (“I.C.T.C.”), a company that is controlled in common with the related parties described in the preceding paragraph. Pursuant to the agreement, the Company reimburses I.C.T.C., at their cost, for personnel expenditures incurred on the Company’s behalf. During the three months ended March 31, 2008, the Company earned a recovery of \$16,063 related to the management services agreement. These transactions are in the normal course of operations.

On October 31, 2005 the Company entered into a sublease agreement whereby half of the Company’s premises have been subleased to I.C.T.C until July 31, 2007. As a condition of this agreement, during the year ended December 31, 2005, the Company incurred \$395,413 for leasehold inducements related to I.C.T.C.’s relocation costs and costs associated with the cancellation of I.C.T.C.’s existing lease. As at March 31, 2008 the unamortized portion of these deferred leasehold improvements is \$224,843. This sublease has been extended to January 31, 2010.

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

The Company entered into a Sales Service Agreement on January 9, 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. There were no fees earned during the three months ended March 31, 2008. There are fees of \$227,627 accrued and payable to I.C.T.C. relating to services performed under this agreement during the year ended December 31, 2007.

Included in accounts payable at March 31, 2008 is \$651,302 due to related parties.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(UNAUDITED – Prepared by Management)

4. INVENTORY

Inventory is comprised of:

	March 31, 2008	December 31, 2007
Raw materials	\$ 438,285	\$ 316,815
Finished goods	179,685	120,798
	\$ 617,970	\$ 437,613

Finished goods inventory contains an allocation of fixed operating costs based on the standard costing method of accounting for inventory and determination of cost of sales. Unallocated fixed operating costs are charged to cost of sales as they occur. As a result, the quarterly gross profit and related gross profit percentage, as it relates to sales, will vary based on the level of production in that quarter. Therefore, due to the cyclical nature of the Company's business, this results in lower gross margins during periods where production is lower.

5. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2008		December 31, 2007	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Machinery and equipment	\$ 1,033,471	\$ 934,663	\$ 98,808	\$ 111,110
Furniture and fixtures	213,837	168,267	45,570	49,454
Leasehold improvements	277,544	215,304	62,240	69,879
	\$ 1,524,852	\$ 1,318,234	\$ 206,618	\$ 230,443

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 9. The term of each loan is 364 days and is renewable for successive 364-day terms by giving notice to the lenders and obtaining their consent, at least 90 days prior to the expiry. Interest is payable on the last day of each month at a rate of prime plus 2%.

These loans are subject to the following margins: (i) 50% of the aggregate amount of eligible inventory minus the aggregate amount of accounts payable plus (ii) 75% of the aggregate amount of eligible accounts receivable.

At the time of advancement and at March 31, 2008, the lenders and the Company acknowledge that the Company did not meet the margin requirements required under these loans. Strict compliance was waived by the lender in connection with the period ended March 31, 2008.

Under this existing loan facility, additional loans were made totalling \$651,302 at March 31, 2008

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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7. DEPOSIT RECEIVED

The Company has received a deposit of \$250,000 towards the sale of intellectual property for certain territories, for which it signed a term sheet dated March 12, 2008. The completion is subject to definitive agreements and various approvals and consents typical for this type of transaction.

8. DEFERRED REVENUE

On February 5, 2007, the Company entered into a Letter of Intent with a major paint manufacturer to licence the manufacturing and distribution of specific products in return for guaranteed minimum royalty payments of U.S. \$500,000 per year for a 12 year term. The Company is in the process of entering into a definitive agreement based on the letter of intent. The minimum royalty payments are expected to commence in 2009.

During the year ended December 31, 2007, in accordance with this licensing agreement, the Company received the first royalty payment of \$146,250 (US\$125,000) and a payments totalling of \$104,250 (US\$100,000) as confirmation of the Licensing Agreement. The first royalty payment will be recognized as revenue during the year ended December 31, 2008. At March 31, 2008 \$105,383 remains deferred. The confirmation payment will be recognized equally over the term of the agreement. At March 31, 2008, \$188,022 remained deferred.

9. LONG TERM DEBT

Long term debt consists of two term loans, each in the amount of \$300,000 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 10). Long term debt and the loans payable (Note 6) are secured by a general security agreement and an assignment of general insurance.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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10. CAPITAL STOCK

a) Authorized

Unlimited common shares

b) Issued

	March 31, 2008		December 31, 2007	
	Number of shares	\$	Number of shares	\$
Beginning of the period	129,921,742	24,819,578	88,844,892	24,093,809
Issued on exercise of warrants			41,076,850	410,769
Financing costs related to warrants exercised				315,000
End of the period	129,921,742	24,819,578	129,921,742	24,819,578

c) Stock options

Under the terms of the Company's incentive stock option plan, options are granted to employees and directors upon approval by the Board of Directors and the exercise price of each option is determined by reference to the market price of the Company's stock. Options are normally exercisable within 5 years from the date of grant or an alternate period as determined by the Board and within 30 days of termination of employment. Options normally vest over a period of five years.

The following table summarizes the status and changes in stock options outstanding at March 31, 2008:

	March 31, 2008		December 31, 2007	
	Number	Weighted average price	Number	Weighted average price
Outstanding, beginning of period	2,213,000	0.05	3,095,000	\$0.07
Granted			100,000	0.08
Cancelled / expired			(982,000)	(0.11)
Outstanding, end of period	2,213,000	0.05	2,213,000	0.05
Exercisable, end of period	1,710,400	\$0.04	1,667,800	\$0.04
Options reserved for issuance, under stock option plan	2,407,000		2,407,000	

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10. CAPITAL STOCK (Continued)

The following table summarizes information about stock options outstanding at March 31, 2008:

Range of exercise prices	Number of options	Weighted average remaining contractual life	Weighted average exercise price
\$0.04 - \$0.12	2,200,000	2.6 years	\$0.05
\$0.15	13,000	0.8 years	\$0.15
	2,213,000	2.6 years	\$0.05

During the period, the Company recorded stock based compensation expense, with a corresponding credit to contributed surplus of \$3,443 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:

	2008	2007
Dividend yield	0%	0%
Expected volatility	132%	132%
Expected life	5 yrs	5 yrs
Risk free rate of return	4.50%	4.50%
Weighted average fair value of options granted	\$0.07	\$0.07

d) Warrants

	March 31, 2008	December 31, 2007
Outstanding, beginning of period	-	41,076,850
Exercised	-	(41,076,850)
Outstanding, end of period	-	-

As a condition of obtaining the loans described in Note 6 and 9, 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.

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

11. COMPARATIVE FIGURES

Certain of the prior period's figures have been reclassified to conform to the current period's presentation.

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

Three month period ended March 31

GENERAL AND ADMINISTRATIVE

	2008	2007
Salaries and wages	\$ 44,563	\$ 73,952
Insurance	27,751	32,710
Professional fees	19,648	19,439
Director fees	11,500	12,000
Occupancy	10,236	23,974
Office	9,468	20,811
Travel	7,503	1,412
Regulatory, filing and investor relations	4,417	5,860
Telecommunications	3,567	5,654
Amortization	13,659	6,456
	\$ 152,312	\$ 202,268

SELLING AND MARKETING

	2008	2007
Salaries and wages	\$ 34,223	\$ 66,346
Consulting	12,648	54,087
Travel and entertainment	8,946	9,090
Marketing	8,228	25,623
Commissions	6,284	64,952
Communications and other	833	3,138
	\$ 71,162	\$ 223,236