NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2008

August 12, 2008 / *The following Discussion and Analysis should be read in conjunction with the unaudited interim consolidated financial statements and related notes for the three and six months ended June 30, 2008, and the audited consolidated financial statements for the year ended December 31, 2007, the accompanying notes, and management's discussion and analysis for the year then ended. The unaudited interim financial statements for the three and six months ended June 30, 2008 and the audited consolidated financial statements for the year ended December 31, 2007 have been prepared in accordance with Canadian generally accepted accounting principles. Additional information about Napier Environmental Technologies Inc. ("**Napier**" or the **"Company"**), including Napier's Annual Information Form, dated March 25, 2008, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. All dollar amounts, unless otherwise specified, are expressed in Canadian dollars. This MD&A has been prepared by management and reviewed by Napier's Board of Directors.*

Results of Operations

Overview

For the three months ended June 30, 2008, we recorded a net loss of $347,804 ($0.00 per common share) as compared to a net loss of $87,863 ($0.00 per common share) for the same period in 2007. For the six months ended June 30, 2008 we recorded a net loss of $649,841 ($0.01 per common share) as compared to a net loss of $586,854 ($0.01 per common share) for the same period in 2007.

The increase in the loss for the three and six months ended June 30, 2008 as compared to the same period in 2007 was the result of the decreased sales experienced in the second quarter of 2008.

Sales

Sales for the three months ended June 30, 2008 totaled $745,665 as compared to $1,183,325 and for the same period in 2007. The decrease in sales, for the three months ended June 30, 2008 as compared to the same period last year of $437,660 resulted from the combination of a number of factors varying from external forces such as foreign exchange, weather and a downturn in the US economy. It is important to note that despite a decrease in overall sales, we earned royalty revenue during the year which has no associated costs.

Cost of Sales

Cost of sales for the three and six month periods ended June 30, 2008 was $713,349 (95.7% of sales) and $1,069,605 (93.5% of sales). Cost of sales for the comparative three and six month periods in 2007 were a respective $839,245 (70.9% of sales) and $1,257,929 (75.7% of sales). The decrease in cost of sales of 15.0% for the three month periods ended June 30, 2008 is consistent with the corresponding decrease in sales during the period of 37.0%. As expected, the decreased level of production requires a higher absorption of fixed costs resulting in a lower gross margin percentage, as evidenced by the slightly lower percentage of decrease in the cost of sales. This phenomenon has been curtailed significantly due to the management of overall fixed costs.

Expenses

General and administrative expenses increased to $298,219 for the three months ended June 30, 2008 as compared to $255,612 for the same period in 2007, an increase of $42,607. Included in general and administrative costs are Professional fees which have increased from $29,091 to $107,795. We continue to work toward reducing overall expenses. General and administrative costs for the six months ended June 30, 2008 totaled $450,531 as compared to $457,880 for the same period in 2007. The decrease in costs for the six month period is primarily attributable to the reduction in salaries and wages and the related office costs.

Selling and marketing expenses for the three months and six months ended June 30, 2008 were $78,294 and $149,456 as compared to $172,565 and $395,801 for the same periods in 2007. The decrease of $94,271 for the three month period ended June 30, 2008 and $246,345 for the six month period ended June 30, 2008 is a result of an overall reduction of expenses within the sales and marketing area.

Interest and finance costs increased from $92,966 to $100,042 for the three months ended June 30, 2008 as compared to the same period in 2007. The increase of $7,076 is entirely attributable to the increase in loan advances and average outstanding balances over the comparative period.

Research and development costs for the three months ended June 30, 2008 increased to $41,895 as compared to $38,561 for the same period in 2007. Research and development costs are important to maintaining product quality and integrity.

Summary of Quarterly Results

The following table sets forth selected consolidated financial information for each of our last eight quarters. The table has been derived from our unaudited interim consolidated financial statements for those periods and is stated in thousands of dollars except for the earnings (loss) per share figures. These results are not necessarily indicative of results for future periods and should not be used or relied upon to predict our future performance.

(in thousands $ except per share data)

	June 30 2008	March 31 2008	Dec 31 2007	Sept 30 2007	June 30 2007	March 31 2007	Dec 31 2006	Sept 30 2006
Sales	746	398	177	721	1,183	477	321	743
Operating income (loss) before								
other items	(486)	(336)	(633)	(475)	(216)	(503)	(552)	(354)
Net income (loss)	(348)	(302)	(757)	(478)	(88)	(499)	(540)	(354)
Earnings (loss) per share,								
Basic	(0.003)	(0.002)	(0.006)	(0.004)	(0.001)	(0.005)	(0.005)	(0.004)
Fully diluted	(0.003)	(0.002)	(0.006)	(0.004)	(0.001)	(0.005)	(0.005)	(0.004)

Liquidity and Capital Resources

At June 30, 2008, our cash on hand was $41,090 as compared to $4,413 at December 31, 2007.

At June 30, 2008, we had accounts receivable of $379,236 as compared to $240,990 at December 31, 2007. The increase is the result of the cyclical nature of our business, with increasing sales peaking in the summer months; accordingly, the December accounts receivable were lower.

Transactions with Related Parties

We have entered into a management services agreement (the "Management Services Agreement") and a sublease (the "Sublease") with I.C.T.C. Holdings Corporation ("I.C.T.C."), a company that is controlled by Anthony Traub, Napier's Chairman, CFO and Secretary, and Steve Balmer, Napier's President and Chief Operating Officer.

Pursuant to the Management Services Agreement, effective September 1, 2005, we reimburse or charge I.C.T.C. for certain costs incurred. We pay or receive a variable monthly amount under this agreement based on the actual costs incurred. For the three and six months ended June 30, 2008, Napier experienced a recovery through this agreement for services performed for I.C.T.C. in the amount of $18,110 and $34,173 respectively (2007 charge: $45,784 and $91,486) 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. The sublease is in effect until the end of Napier's lease commitment with its landlord, January 31, 2010.

Anthony Traub controls 6408753 Canada Corporation and Steve Balmer controls 6408788 Canada Corp., the companies that have collectively completed two separate financing transactions consisting of term loans totaling $1,500,000 and revolving loans up to the aggregate amount of $3,500,000. Total interest charged by these companies in respect of these loans during the three and six months ended June 30, 2008 was $100,042 and $207,984 respectively (2007: $92,966 and $191,226).

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 2,013,000 Common Shares at prices between $0.04 and $0.15 per share, expiring between February 2, 2009 and November 6, 2010.

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. The product return provision at the end of the period takes into account new accounting recommendations described in "Accounting Policy Change" below. If the estimate for product returns is understated, this could result in a charge to future earnings should the actual experience for returns be greater than estimated.

Property, Plant and Equipment/Depreciation and Amortization

The estimated useful lives of assets are determined based on historical experience with comparable assets, technological obsolescence and asset utilization. If our estimates of useful lives of assets are incorrect, we could experience increased or decreased charges to depreciation and amortization in the future.

Income Taxes

We follow the liability method of accounting for income taxes whereby future income taxes are recognized based on the differences between the carrying amounts of assets and liabilities reported in the financial statements and their respective tax basis. Future income tax assets are comprised of temporary differences between the carrying amount and the tax basis of assets and liabilities as well as tax losses carried forward. In valuing the future income tax assets, consideration is given to the timing of reversal of the temporary differences, the tax rate enacted for the reversal period and the results of future operations. The value of future tax assets is based on the likelihood of realization of future taxable income against which the tax losses can be applied.

The determination of the income tax assets and liabilities is an inherently complex process requiring the interpretation of continually changing regulations and making certain judgments. While income tax filings are subject to audits and reassessments, we believe the tax assets have been adequately provided. However, changes in the interpretations or judgments may result in increases or decreases to Napier's future income tax asset.

Based on our loss history, we do not have, at this time, reasonable assurance of sufficient taxable income and a valuation allowance has been made equal to the full value of the future income tax assets.

Risk Factors

Significant risks and uncertainties that face our business are common to other manufacturers operating in an international economy in the industrial and consumer sectors. We must deal with business risks associated with product infringement, technological change, increased market penetration into established supply lines, locating and penetrating new markets, foreign currency fluctuations, unavailable raw materials, and economic conditions affecting large or potential customers and suppliers, to name a few of the normal but significant factors affecting our day to day operations. To minimize some of these risks going forward, we continue to nurture relationships with key customers and suppliers. Open, honest and straightforward communication has retained their loyalty and continued commitment to Napier. Our business is seasonal with the third and fourth quarters delivering a lower level of sales than the first and second quarters. Efforts to offset this seasonality are underway by targeting less seasonal businesses. On July 14, 2005, we successfully renegotiated Napier's unsecured debt obligations. While the reduction of its unsecured debt obligations and additional financing should assist us in the future, our continued existence is dependent upon Napier's ability to restore and maintain profitable operations and to receive continued support from our lenders.

Our risk factors are discussed in detail in the "Management's Discussion and Analysis" section of our 2007 annual financial statements and in our Annual Information Form dated March 25, 2008 and remain substantially unchanged. Both of these documents are available at www.sedar.com.

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains forward looking statements that are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in Napier's forward-looking statements. Such factors include, among others, Freeworld decide that they are not able to use the IP, make no further payments and forfeit the IP, risks related to future sales, the going concern status of Napier, historical losses and cash flow, the future need for capital and uncertainty of additional financing being available, the potential dilution to shareholders, the historical lack of dividend payments, competition, dependence on key personnel, dependence on key customers, weather, seasonality and economic cycles, the availability of raw materials, the retail industry and the influence of economic conditions and consumer behavior, 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 Napier's annual information form dated March 25, 2008 and filed with the British Columbia and Ontario securities commissions 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 not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

"Steve Balmer"

Steve Balmer
President and Chief Operating Officer
August 12, 2008