MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2009

August 28, 2009 / *The following Discussion and Analysis should be read in conjunction with the unaudited interim financial statements and related notes for the six months ended June 30, 2009, and the audited financial statements for the year ended December 31, 2008, the accompanying notes, and management's discussion and analysis for the year then ended. The unaudited interim financial statements for the six months ended June 30, 2009 and the audited financial statements for the year ended December 31, 2008 have been prepared in accordance with Canadian generally accepted accounting principles. Additional information about Napier Environmental Technologies Inc. ("**Napier**" or the **"Company"**) 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, 2009, we recorded a net loss of $217,894 ($0.00 per common share) as compared to a net loss of $347,804 ($0.00 per common share) for the same period in 2008. For the six months ended June 30, 2008 we recorded a net loss of $455,023 ($0.00 per common share) as compared to a net loss of $649,841 (($0.01) per common share) for the same period in 2008.

The decrease in the loss for the six months ended June 30, 2009 as compared to the same period in 2008 was the result of the repayment of debt resulting in a significant reduction in interest and finance costs. Repayment of debt was achieved pursuant to the sale of intellectual property ("IP") to Freeworld Coatings Global (Pty) Ltd. ("Freeworld") more fully described below.

On July 29, 2008 the Company completed the sale of its IP to Freeworld together with an option granting Freeworld the rights to the North American sales, marketing and manufacturing operations of the Company, for aggregate consideration of $5,150,000. To date $4,900,000 has been received and the balance of $250,000 is being held in escrow, to be released in 2010, subject to certain indemnifications made to the purchaser. The Company is not aware of any potential indemnification claims which would reduce the future payments to be received from the escrow account. The balance of the proceeds being held in escrow is recorded on the balance sheet as funds held in trust.

On April 1, 2009, Napier was notified by Freeworld of their intention to exercise their option to acquire the North American operations of Napier. On July 31, 2009, Napier has completed the previously announced transaction with Freeworld whereby Freeworld has acquired the North American ("NAFTA") business of Napier, including the worldwide rights to Napier's wide range of products utilizing environmentally advanced technology. The product lines include coating removal and wood restoration products for both the industrial/commercial market and the consumer/retail market.

In connection with the completion of this transaction, Napier will receive $1,375,000 for goodwill, $55,000 for production machinery and $550,000, subject to actual count, for inventory. An inventory count has been performed and a final inventory valuation of $625,411, subject to certain adjustments, has been agreed. Advance payments of $602,000 were received as at June 30, 2009. Subsequent to June 30 further proceeds were received for a total to date of $1,930,411. It is anticipated that the balance of the proceeds of $125,000, representing the balance of goodwill, will be paid to Napier in September.

Upon closing of this transaction for the NAFTA business, the company will cease manufacturing, leaving Napier with a responsibility to Freeworld for certain transitional services which are expected to be completed by September 30, 2009. In addition to the proceeds from this transaction, Napier will retain all other net assets and the licensing arrangement for the IP with a major paint manufacturer for the North American market, the licensing agreement has a term through to February 28, 2019.

Sales

Sales for the six months ended June 30, 2009 totaled $1,033,485 as compared to $1,143,780 for the same period in 2008. The decrease of $110,295 resulted from the combination of a number of factors varying from external forces such as economy, foreign exchange, weather and changes in our methods of distribution. It is important to note that despite a decrease in overall sales, we earned royalty revenue during the period which has no associated costs.

Cost of Sales

Cost of sales for the six months ended June 30, 2009 was $990,884 (95.9% of sales) compared to $1,069,605 (93.5% of sales) for the same period in 2008. The decrease in cost of sales of 7.4% is due to the corresponding decrease in sales during the period of 9.6%. 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 lower percentage of decrease in the cost of sales. This phenomenon is being curtailed due to the management of overall fixed costs.

Expenses

General and administrative expenses decreased to $307,834 for the six months ended June 30, 2009 as compared to $450,531 for the same period in 2008, a decrease of $142,697. The decrease in costs is primarily attributable to the reduction in professional fees, insurance and director fees.

Selling and marketing expenses for the six months ended June 30, 2009 were $193,702 as compared to $149,456 for the same period in 2008. Selling and marketing expenses increased when compared to the comparative period primarily as a result of an overall increase of expenses within the sales and marketing area.

Research and development costs for the six months ended June 30, 2009 decreased to $95,369 as compared to $88,434 for the same period in 2008. Research and development costs are important to maintaining product quality and integrity.

Interest and finance costs decreased from $47,273 to $207,984 for the six months ended June 30, 2009 as compared to the same period in 2008. The decrease of $160,711 is primarily the result of repayment of $3,300,000 of loans payable and long term debt during the period from July to December 2008.

Foreign exchange loss for the six months ended June 30, 2009 increased to $10,719 as compare to $1,008 for the same period in 2008 is primarily due to the fluctuations of the US dollar.

Summary of Quarterly Results

The following table sets forth selected financial information for each of our last eight quarters. The table has been derived from our unaudited interim 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 2009	March 31 2009	Dec 31 2008	Sept 30 2008	June 30 2008	March 31 2008	Dec 31 2007	Sept 30 2007
Sales	764	269	279	643	746	398	177	721
Operating income (loss) before other items	(316)	(286)	(322)	(1,335)	(486)	(336)	(633)	(475)
Net income (loss)	(218)	(237)	(279)	3891	(348)	(302)	(757)	(478)
Earnings (loss) per share,								
Basic	(0.002)	(0.002)	(0.002)	0.030	(0.003)	(0.002)	(0.006)	(0.004)
Fully diluted	(0.002)	(0.002)	(0.002)	0.030	(0.003)	(0.002)	(0.006)	(0.004)

Liquidity and Capital Resources

At June 30, 2009, our cash on hand was $407,497 together with Funds held in trust of $500,000 to be released in 2009 and 2010, as compared to $196,234 with Funds held in trust of $500,000 at December 31, 2008.

At June 30, 2009, we had accounts receivable of $466,445 as compared to $150,548 at December 31, 2008.

Transactions with Related Parties

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

Pursuant to the Management Services Agreement, effective September 1, 2005, we reimburse I.C.T.C. for certain costs incurred on Napier’s behalf. We pay a variable monthly amount to I.C.T.C. under this agreement based on the actual costs incurred by I.C.T.C. For the six months ended June 30, 2009, Napier incurred costs of $14,774 (2008 recovery: $34,173) through this agreement for services performed for I.C.T.C. 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.

Effective July 1, 2006, the Company’s chairman accepted a revised compensation agreement resulting in nominal 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. The Company has been notified by it’s Chairman that, due to the future prospects of the Company, no further accrual would be necessary beyond February 28, 2009 for the balance of 2009. The Company accrued $1,042,271 related to this bonus as at June 30, 2009 (June 30, 2008: nil).

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 $600,000 is outstanding at June 30, 2009, and revolving loans of which $500,000 is outstanding at June 30, 2009. 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 accrued to these companies in respect of these loans during the six months ended June 30, 2009 was $47,273 (June 30, 2008: $207,984).

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 2,000,000 Common Shares at $0.04 per share, expiring between Aug 29, 2010 and May 31, 2012.

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 of those large customers. 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 has 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 June 30, 2009, the lenders acknowledge that the margin requirements required under these loans were not met.

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed January 1, 2011 as the date IFRS will replace current Canadian generally accepted accounting principles ("Canadian GAAP") for publicly accountable enterprises. This will result in the Company reporting under IFRS starting with the interim period ending March 31, 2011, with restatement for comparative purposes of amounts reported under Canadian GAAP.

The conversion to IFRS will likely impact the Company's statement of financial position and results of operations. To transition to IFRS, changes may be required to the Company's information technology and data systems, internal control over financial reporting, disclosure controls and procedures, financial reporting expertise and training requirements, and business activities, such as compensation programs, debt covenants and other contractual arrangements.

The Company will be establishing a project team to manage the conversion process and, complete a high-level impact assessment to identify key areas that will be affected by the conversion. The Company will continuously monitor changes in IFRS leading up to the changeover date, and will update its conversion plan as required.

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, the non-payment of the balance of funds owing to Napier representing a portion of goodwill, 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 being available, the potential dilution to shareholders, the historical lack of dividend payments, competition, dependence on key personnel, the influence of economic conditions, dependence on key customers and licensees, weather, seasonality, raw materials, the retail industry, foreign exchange rate fluctuations and conflicts of interest. 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
August 28, 2009