MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) has been prepared to give shareholders an assessment of not only what the Company has accomplished in the past fiscal period but also of what management initiatives have been taken to increase shareholder value for the future. All of the MD&A should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto for the fiscal periods ended December 31, 2000, July 31, 2000 and July 31, 1999.

Overview

Management and the Board of Directors have taken a number of steps in the past five months to enhance the Company's likelihood of significant success, the results of which should be seen over this next fiscal year: (i) the Board has added two new independent, experienced members to assist in the direction of management and during this same period there have been additions to senior management and some reorganization of existing senior staff; (ii) the Company has changed its fiscal year end to December 31 from July 31 so as to better track the seasonality of its business, align itself with the normal calendar year and to enable shareholders to more easily compare to other companies with December year ends; (iii) in the continuing efforts to merge its operations the Company has recently physically merged its two plants and offices into a single larger facility with greater productive capability. Management has invested in selling and marketing staff and activities throughout its seasonal low period so as to achieve significant growth in sales for fiscal 2001.

Overview of Financial Condition and Results of Operations

At December 31, 2000 the Company is financially healthy with a strong cash position ($4.3 million), working capital of $6 million and very little debt. Due to the seasonality of the company's business and a provision for bad debts of $600,000, sales for the five month period were limited to $1.9 million and the company incurred an operating loss of $2.2 million to December 31, 2000. The net loss for the period of $3.3 million, after amortization of goodwill ($1 million) compares to $2.6 million for July 31, 2000. In early 2001 management has taken steps to improve these operating results and grow both its industrial and retail business through the addition of senior sales staff and an experienced credit manager. With the addition of these

personnel, management is aiming for significant increases in sales for 2001 and expects to significantly reduce its bad debt experience.

The significant risks and uncertainties that face the Company are those common to other companies operating in the international economy in the industrial and retail sectors. The Company must deal with business risks associated with product patent infringement, technological change, market penetration into established supply lines, foreign currency transactions, economic conditions affecting large customers and potential customers, to name a few of the normal but significant factors affecting the Company's day to day business.

Management continually addresses the above business risks in a methodical and rational manner. Napier has patents registered or pending for all of its significant industrial products and defends those patents with the assistance of legal counsel. As well it continues its research and development activities for new product development and existing product enhancement as well as monitors any possible challenges to the Company's product advantages. To assist in market penetration Napier continues to add senior staff with appropriate experience and business contacts to established distributors in both the retail and industrial sectors. While significant economic conditions are outside of the influence of the Company, management continues to follow its strategy to gain further international exposure of its products to significant international industries. While based in Canada, Napier is fortunate that its exposure to foreign currency risk is largely covered by way of a revenue stream in US dollars that is in excess of its US dollar expenditure requirements. Accordingly no additional arrangements are necessary to further minimize currency risk. All of the above strategies are aimed at management improving the Company's operating results and financial position.

Liquidity and Capital Resources

The Company currently has sufficient cash resources and liquidity in its working capital to meet its needs in the near term. As of December 31, 2000, the Company's working capital was approximately $6 million, including cash and cash equivalents of $4.3 million. In past periods the Company has not been involved in any significant borrowing arrangements except for the utilization of capital leases to acquire certain operating equipment. To enhance the Company's overall financial position and improve the Company's overall weighted average cost of capital,

during 2001 the Company has taken steps to enter into additional capital lease arrangements in connection with it's the acquisition of production equipment. In addition the Company has commenced discussions with major Canadian banks regarding more traditional bank financing arrangements to cover working capital requirements during its planned growth period. Cash from operations are planned to be more than sufficient to eliminate any short term borrowings on such bank lines.

The Company's historical capital needs have been met by equity subscriptions (December 31, 2000 - $6.2 million; July 31, 2000 - $3.4 million; July 31, 1999 - $1.3 million). While the Company presently has sufficient working capital, in light of the always changing financial markets, there is no assurance that funding by equity subscriptions will be possible at times required or if desired by the Company.

Results of Operations

As mentioned above there are a number of factors that play into better understanding the results of operations for the past three fiscal periods as well as understanding what to expect in the future. The loss for the five month period ended December 31, 2000 was $3,313,183 as compared with a loss of $2,634,419 for the year ended July 31, 2000 and $1,185,197 for July 31, 1999. To properly compare the period to period results of operations one needs to take into account the significant changes in the Company over the entire period and the combined effect of the change in fiscal year end and the strong seasonality of the business.

In November 1999 the Company acquired the Biowash retail business and merged those operations effective December 1, 1999. Accordingly the results for July 31, 2000 include eight months of combined operations, including the new retail division, while the July 31, 1999 results are entirely from an early stage industrial division. The non-cash charges during the above periods total $3.2 million, principally from the amortization of goodwill arising on acquisition of Biowash.

Another factor is what is currently a highly seasonal business. In particular the retail business has a concentration in consumer and contractor home improvement products whose selling season is more concentrated in the period during March through September. The industrial division is also seasonal, but less dramatically so, due to outdoor weather conditions in the northern hemisphere. Management is looking to reduce the influence of weather conditions on the sales pattern by turning its attention to sales and distributor relationships in warmer climates.

The loss for the five month period ended December 31, 2000 includes amortization and other non-cash charges of $1.2 million. Goodwill is being amortized over five years which will result in annual charges of approximately $2.3 million per year for the next four years. The Company has a gross profit of 41% of sales which is a composite of both its industrial and retail sales. The industrial products command a higher profit margin (greater than 45%) while the retail division is subject to different competitive pressures in retailing through big box retailers in North America. Management has in early 2001 added senior staff on the industrial side of its business to aim to take advantage of these higher margins.

On the retail side of its business Napier has invested in additional permanent sales staff so as to get the dedicated efforts in selling to certain big box retailers. The Company expects to see the benefits of this investment in the coming season. The implication of these permanent staff additions is a disproportionate increase in the selling and marketing costs for the five months ended December 31, 2000 as compared to the year ended July 31, 2000. Management plans to continue this type of investment, particularly in its industrial and international operations , and expects to substantially grow both the retail and industrial sectors of its business for the coming year.

With the addition of an experienced credit manager in early 2001 the Company carried out a thorough review of its accounts receivable and has provided for its estimated losses on all accounts. The total charges for doubtful accounts was $600,000, representing allowances for largely prior period sales, which together with charges for the prior two fiscal years represents an experience rate of approximately 7% of total sales for the period of August 1998 to December 2000. With improved credit management and collections the Company expects to very significantly reduce its bad debts experience to less than 2%.

General and administrative costs have increased with the addition of staff and infrastructure in keeping with planned growth.

The Company's strategic investment in Consolidated Ecoprogress Technology Inc. has not advanced as quickly as originally anticipated however management representatives on the Board of Ecoprogress are satisfied with its progress and actively monitors that business.

Other than as discussed above, there have been no other unusual events or changes that have had a material impact on the Company.