

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-QSB/A**

(Mark one)

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.

**For the quarterly period ended September 30, 2006**

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE EXCHANGE ACT

Commission File Number: 021-64091

**NEPTUNE INDUSTRIES, INC.**

(Exact name of small business issuer in its charter)

Florida 65-0838060  
(State or other jurisdiction of (IRS Employer Identification Number)  
Incorporation or Organization)

21218 St. Andrews Boulevard  
Suite 645  
Boca Raton, FL 33433  
(Address of principal executive offices)

(561)-482-6408  
(Issuer's telephone number)

Securities registered under Section 12(b) of the Act: NONE  
Securities registered under Section 12(g) of the Act: COMMON STOCK

Check whether the issuer (1) filed all reports required to be filed by Sections 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares outstanding of each of the issuer's class of common equity, as of November 1, 2006 was 11,349,269 shares

Transitional Small Business Disclosure Format (check one): Yes\_\_\_; No\_X\_

FORM 10-QSB  
NEPTUNE INDUSTRIES, INC.  
PERIOD ENDED SEPTEMBER 30, 2006  
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Part I. FINANCIAL INFORMATION  
Item 1. FINANCIAL STATEMENTS

NEPTUNE INDUSTRIES, INC.  
AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

<TABLE>  
<CAPTION>

	September 30, 2006 (unaudited)
	-----
<S>	<C>
ASSETS	
Current Assets	
Cash	\$ 163,567
Accounts receivable, less allowance for doubtful accounts of \$ 0	69,958
Inventory	434,817
Prepaid expenses	553
Deposit on equipment	5,000
Deferred costs	30,735
Security deposits	13,880
Deferred tax asset of \$530,410 valuation allowance of \$530,410	-
	-----
Total Current Assets	718,510
Property and equipment, net of Accumulated depreciation of \$373,344	416,142
	-----
Total Assets	\$ 1,134,652
	=====
LIABILITIES AND DEFICIENCY IN ASSETS	
Liabilities	
Current Liabilities	
Accounts payable	\$ 95,713
Accrued and other current liabilities	521,812
Payroll liabilities	12,058
Current portion of long-term debt	2,924
Convertible notes payable	520,000
Notes payable-officers	89,888
Convertible Notes-Officers	17,500
	-----
Total Current Liabilities	1,259,895
Long-term liabilities	
Convertible debentures	\$ 500,000
Deferred compensation-stock options	194,292
	-----
Total Long-Term Liabilities	694,292
Total Liabilities	1,954,187
COMMITMENTS AND CONTINGENCIES	
(NOTES 2, 4, 5, 7 AND 8)	

Stockholders' Equity (Deficiency in assets)	
Preferred stock, \$.001 par value, 5,000,000 shares authorized 1,500,000 Class A convertible preferred shares issued and outstanding	1,500
3,500,000 Class B convertible preferred shares issued and outstanding	3,500
Common Stock, \$.001 par value 100,000,000 shares authorized, 11,349,269 shares issued and outstanding	11,349
Additional paid-In capital	4,433,900
Accumulated deficit	(5,269,784)
	-----
Total Deficiency in assets	(819,535)
	-----
Total Liabilities and Deficiency in assets	\$ 1,134,652
	=====

</TABLE>

See accompanying notes.

NEPTUNE INDUSTRIES, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

<TABLE>

<CAPTION>

	For the three months ended September 30,	
	2006	2005
	-----	-----
<S>	<C>	<C>
Revenues:		
Sales	\$ 255,877	\$ 96,143
Cost of Sales	332,400	152,552
	-----	-----
Gross loss	(76,523)	(54,409)
	-----	-----
Expenses:		
Advertising and marketing	-	151
Automobile and truck expense	6,154	8,115
Depreciation	357	1,265
Insurance	7,811	6,556
Office	824	1,208
Officers salary, related taxes and benefits	79,844	114,573
Other operating expenses	6,403	9,774
Outside services	34,909	937
Professional fees	5,695	17,335
Public relations	10,873	6,850
Rent	-	1,025
Repairs	-	259
Stock-based compensation	194,292	-
Utilities	2,113	1,835
	-----	-----
Total expenses from operations	349,275	169,903
	-----	-----
Loss before interest, other income, expenses and income taxes	(425,798)	(224,512)
Interest income	1,785	-
Interest Expense	(59,185)	(9,023)
	-----	-----
Loss before income tax	(483,198)	(233,535)
Provision for income taxes	-	-
	-----	-----
Net loss	\$ (483,198)	\$ (233,535)
	=====	=====
Net loss per share(basic and diluted)	\$ (0.043)	\$ (0.022)
	=====	=====
Weighted average number of common shares outstanding (basic and diluted)	11,349,269	10,532,633
	=====	=====

</TABLE>

See accompanying notes.

NEPTUNE INDUSTRIES, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

<TABLE>  
<CAPTION>

	For the three months ended September 30,	
	2006	2005
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
<S>	<C>	<C>
Net loss	\$ (483,198)	\$ (233,535)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	17,227	8,301
Common stock issued for interest	-	13,203
Deferred compensation-stock options	194,292	-
(Increase) decrease in assets:		
Accounts receivable	(1,538)	57,346
Deferred costs	(1,624)	
Inventory	63,670	(71,557)
Deposits	(2,500)	(2,500)
Prepaid expenses	553	-
Increase (decrease) in liabilities:		
Accounts payable	(42,610)	27,434
Accrued and other current liabilities	120,793	56,691
Current portion of long-term debt	734	-
Payroll liabilities	12,058	-
	-----	-----
Net cash used by operating activities	(122,141)	(144,617)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Notes receivable	-	5,000
	-----	-----
Net cash provided (used) by investing activities	-	5,000
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from convertible notes	-	125,000
Other	9,770	-
	-----	-----
Net cash provided by financing activities	9,770	125,000
	-----	-----
Net increase (decrease) in cash and equivalents	(112,371)	(14,617)
Cash and equivalents-beginning	275,938	144,004
	-----	-----
Cash and equivalents-ending	\$ 163,567	\$ 129,387
	=====	=====
See accompanying notes		

SUPPLEMENTAL DISCLOSURES

Cash paid during the quarter for:

Interest

\$ 59,185 \$ 8,978

Income taxes

\$ - \$ -

=====

</TABLE>

See accompanying notes.

NEPTUNE INDUSTRIES INC.  
AND SUBSIDIARIES  
STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIENCY IN ASSETS)  
QUARTER ENDED SEPTEMBER 30, 2006 (Unaudited)

<TABLE>

<CAPTION>

							Total
	Common Shares	Stock Amount	Preferred Shares	Stock Amount	Paid-In Capital	Accumulated Deficit	Stockholders Equity (Deficiency) in Assets
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, June 30, 2003	4,771,960	\$ 4,772	-	\$ -	\$ 1,870,908	\$(1,889,141)	(13,461)
Shares issued in connection with note payable	33,333	33	-	-	5,967	-	6,000
Shares issued for cash	794,103	794	-	-	379,206	-	380,000
Net loss for the year ended	-	-	-	-	-	(778,253)	(778,253)
Balance, June 30, 2004	5,599,396	5,599	-	-	2,256,081	(2,667,394)	(405,714)
Shares issued for Cash	1,666,667	1,667	-	-	748,333	-	750,000
Shares issued in exchange for services	85,756	86	-	-	25,641	-	25,727
Shares issued for interest expense	4,167	4	-	-	1,246	-	1,250
Shares issued in relation to convertible notes	207,064	207	-	-	128,293	-	128,500
Shares issued to officers for accrued compensation and interest	2,500,000	2,500	5,000,000	5,000	956,243	-	963,743
Shares issued in connection with merger	469,583	470	-	-	(470)	-	-
Net loss for the year ended	-	-	-	-	-	(819,279)	819,279
Balance 6/30/2005	10,532,633	\$10,533	5,000,000	\$5,000	\$ 4,115,367	\$(3,486,673)	\$644,227
Shares issued for conversion of debt	236,406	236	-	-	157,967	-	158,203
Shares issued for services	400,000	400	-	-	42,600	-	43,000
Shares issued as Incentive	180,000	180	-	-	-	-	180
Shares issued for rounding on reverse	230	-	-	-	-	-	-
Net loss for the year ended	-	-	-	-	-	(1,044,421)	(1,044,421)
Balance 6/30/2006	11,349,269	\$11,349	5,000,000	\$5,000	\$ 4,433,899	\$(4,786,586)	\$(336,337)
Net loss for the Quarter ended	-	-	-	-	-	(483,198)	(483,198)
Balance 9/30/2006	11,349,269	\$11,349	5,000,000	\$5,000	\$ 4,433,899	\$(5,269,784)	\$(819,535)

</TABLE>

See accompanying notes

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR  
THE THREE MONTHS ENDING SEPTEMBER 30, 2006 and 2005  
(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Organization and nature of operations

Neptune Industries, Inc. (the Company) is a Florida corporation which conducts business from its headquarters in Boca Raton, Florida. The Company was incorporated on May 8, 1998 and in February 2004, changed its name from Neptune Aquaculture, Inc. to Neptune Industries, Inc. Since then, the main activities of the Company have been devoted to raising capital; implementing its business plan; commencing operations through its subsidiary, Blue Heron Aqua Farms, LLC; developing, testing and patenting (pending) the Aqua-Sphere and Aqua-Cell (formerly known as S.A.F.E. ) technologies; and completing the food science bio-technology research to discover a suitable protein substitute for fish meal in animal diets.

In June 2001, the Company acquired the operating rights to a 48 acre established fish farm in Florida City, Florida to be operated as Blue Heron Aqua Farms, LLC. The farm maintains a 47,000,000 gallon per day water usage permit and a twenty year lease from South Florida Water Management District. This site has become the cornerstone of the South Florida operations of the Company with its extensive infrastructure and future potential for hatchery facilities for fingerling production.

Common shares of the Company, are listed on the OTC Bulletin Board and continue to be listed on the OTC Pink Sheets under the trading symbol NPDI.

Basis of Presentation

The consolidated financial statements include the accounts of Neptune Industries, Inc. and its wholly-owned subsidiaries, Aqua Biologics, Inc. (corporate name changed from Aquaculture Specialties, Inc. in June, 2006) and Exotic Reef Technologies, Inc., and its majority owned subsidiary, Blue Heron Aqua Farm, LLC (Blue Heron). All inter-company balances and transactions have been eliminated at consolidation.

Cash and Cash Equivalents

The company considers all highly liquid investments with a maturity date of three months or less at the time of purchase to be cash equivalents.

Property and Equipment

Property and equipment consists of equipment, leasehold improvements, office furniture and vehicles which are stated at cost. Depreciation is based on the estimated useful lives of the assets, ranging from five years to fifteen years, using the straight-line method. Expenditures for maintenance and repairs are charged to expense as incurred. Major improvements are capitalized. Gains and losses on disposition of property and equipment are included in income as realized.

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR  
THE THREE MONTHS ENDING SEPTEMBER 30, 2006 and 2005  
(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

Revenue Recognition

Sales revenue is recognized upon the shipment of merchandise to customers. Allowances for sales returns are recorded as a component of net sales in the period the allowances are recognized.

Income Taxes

Income taxes are computed under the provisions of the Financial Accounting Standards Board (FASB) Statement No. 109 (SFAS 109), Accounting for Income Taxes. SFAS 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of the difference in events that have been recognized in the financial statements of the Company compared to the tax returns.

Advertising and marketing costs

Advertising and marketing costs are expensed as incurred. Advertising and marketing expense was \$0 and \$151 for the quarters ending September 30, 2006 and 2005 respectively.

Fair Value of Financial Instruments

Financial instruments, including cash, receivables, accounts payable, and notes payable are carried at amounts which reasonably approximate their fair value due to the short-term nature of these amounts or due to variable rates of interest which are consistent with market rates.

Concentrations of Credit Risk and Economic Dependence

Financial instruments, which potentially subject the Company to a concentration of credit risk, are cash and cash equivalents and accounts receivable. The Company currently maintains its day-to-day operating cash balances at a single financial institution. At times, cash balances may be in excess of the FDIC insurance limits. At September 30, 2006, the Company had no cash on deposit exceeding the insured limit. The Company operates domestically and internationally. Consequently, the ability of the Company to collect the amounts due from customers may be affected by economic fluctuations in each geographic location of the customers of the Company.

Recently Issued Accounting Pronouncements

In November 2004, the FASB issued Statement No. 151, Inventory Costs, (SFAS 151) to amend the guidance in Chapter 4, Inventory Pricing, of FASB Accounting Research Bulletin (ARB) No. 43, Restatement and Revision of Accounting Research Bulletins, which will become effective for the Company in fiscal year 2006. Statement 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR  
THE THREE MONTHS ENDING SEPTEMBER 30, 2006 and 2005  
(Unaudited)

NOTE 1. SUMMARY OF SIGNIFCANT ACCOUNTING PRINCIPLES(continued)

material (spoilage). The Statement requires that those items be recognized as current-period charges. Additionally, Statement 151 requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. Management believes that the adoption of SFAS 151 will not affect the financial position or results of operations of the Company.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets (SFAS 153), an amendment to Opinion No. 29 Accounting for Nonmonetary Transactions. Statement No. 153 eliminates certain differences in the Guidance in Opinion No. 29 as compared to the guidance contained in standards issued by the International Accounting Standards Board. The amendment to Opinion No. 29 eliminates the fair value exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Such an exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in periods beginning after December 16, 2004. Management does not expect adoption of SFAS No. 153 to have a material impact on the financial statements of the Company.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) Share-Based Payments (SFAS No. 123R), which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The new standard will be effective for the Company in the first interim or annual reporting period beginning after December 15, 2005. The Company has adopted this standard effective July 1, 2006 and has reported \$194,292.50 in stock option compensation for stock options granted effective July 1, 2006.

In July, 2006, the Financial Accounting Standards Board issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes- An Interpretation of FASB Statement No. 109. (FIN 48). Fin 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109-Accounting for Income Taxes. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for fiscal

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR  
THE THREE MONTHS ENDING SEPTEMBER 30, 2006 and 2005  
(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

years beginning after December 15, 2006. We will adopt FIN 48 in the first quarter of 2007. We do not believe the effect of adopting FIN 48 will have a material impact on our financial statements.

Net Loss Per Share

Basic net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share takes into consideration shares of common stock outstanding (computed under basic loss per share) and potentially dilutive shares of common stock. In periods where losses are reported, the weighted average number of common shares outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive.

Long-Lived and Disposal of Assets

The Company follows FASB Statement No. 144 (SFAS 144), Accounting for the Impairment of Long-Lived Assets. SFAS 144 requires that long-lived assets to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of, if any, are reported at the lower of carrying amount or fair value less cost to sell.

Stock Compensation for Services Rendered

The Company has issued restricted shares of common stock to non-employees in exchange for services rendered. Common stock issued to non-employees for services received are based upon the fair value of the services or equity instruments issued, whichever is more reliably determined.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market. The inventory consists of seafood, feed, chemicals, and overhead costs, such as utilities. Overhead is allocated to inventory based on the number of pounds of fish included in ending inventory.

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR  
THE THREE MONTHS ENDING SEPTEMBER 30, 2006 and 2005 (Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

Inventory at September 30, 2006 and 2005 consisted of the following:

	2006	2005
Seafood	\$ 95,198	\$ 108,446
Feed	129,835	154,344
Chemicals	90,981	98,711
Overhead	118,803	118,490
	-----	-----
	\$ 434,817	\$ 479,991
	=====	=====Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts in the financial statements. Actual results could differ from those estimates and assumptions. Management believes that all necessary adjustments have been made to the financial statements to make the financial statements accurate and in conformity with generally accepted accounting principles.

NOTE 2. GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company's financial position and operating results raise substantial doubt about the Company's ability to continue as a going concern, as reflected by the accumulated deficit of \$5,269,784 and recurring gross and net losses. The ability of the Company to continue as a going concern is dependent upon expanding operations, increasing sales and obtaining additional capital and financing. Managements plan in this regard is to secure additional funds through future equity financings. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2006	September 30, 2005
	-----	-----
<S>	<C>	<C>
Vehicles	\$ 17,578	\$ 17,578
Computer and office equipment	7,713	7,713
Equipment	629,518	628,018
Leasehold improvements	139,734	126,657
	-----	-----
	794,543	779,966
Accumulated depreciation	(373,344)	(218,643)
	-----	-----
Property and equipment, net	\$ 416,142	\$ 561,323
	=====	=====

</TABLE>

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR  
THE THREE MONTHS ENDING SEPTEMBER 30, 2006 and 2005  
(Unaudited)

NOTE 3. PROPERTY AND EQUIPMENT (continued)

Total depreciation expense for the quarters ended September 30, 2006 and 2005, amounted to \$17,227 and \$8,301, respectively. Of these amounts, \$16,870 and \$7,036 are included in cost of sales and \$357 and \$1,265 are included in expenses for the periods ended September 30, 2006 and 2005, respectively.

NOTE 4. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other liabilities consisted of the following:

<TABLE>

<CAPTION>

	September 30.	
	2006	2005
	-----	-----
<S>	<C>	<C>
Accrued payroll - officers	\$ 319,172	\$ 113,837
Accrued interest - officers	43,788	19,836
Accrued interest - others	100,352	14,452
Accrued consulting	58,500	-
	-----	-----
	\$ 521,812	\$ 168,125
	=====	=====

</TABLE>

NOTE 5 ACCRUED OFFICERS COMPENSATION AND INTEREST

Effective February 8, 2000, the Company entered into five-year employment Agreements (the Agreements) with two key members of management. These agreements have been renewed automatically for additional five year terms. The Agreements also state that the two key members of management are entitled to and automatically receive a cost of living adjustment calculated in proportion to the upward change in the consumer price index U.S. Average All Items (1967=100), published by the U.S. Department of Labor.

Pursuant to these employment agreements, the Company accrued a total of \$319,672 and \$113,837 through the quarters ended September 30, 2006 and 2005, respectively. Cash compensation actually paid was \$88,553 and \$93,186 for the quarters ended September 30, 2006 and 2005, respectively.

The Company contracted with CF Consulting LLC to provide Chief Financial Officer services beginning in February 2005 at a monthly fee of \$2,000 for an initial six month period and thereafter at \$2,500 per month. CF Consulting also received 100,000 (pre 1 for 6 reverse split) restricted shares of common stock for prior services due of \$5,000. A new agreement was entered into with CF Consulting LLC effective March 31, 2006, under which CF Consulting will provide CFO and General Counsel services to the Company in return for monthly compensation of \$5,500 for six months commencing April 1, 2006, \$6,000 for

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR  
THE THREE MONTHS ENDING SEPTEMBER 30, 2006 and 2005  
(Unaudited)

NOTE 5. ACCRUED OFFICERS COMPENSATION AND INTEREST (Continued)

the next six months and \$6,500 for the next six months of the 18 month term of the agreement. CF Consulting also received 250,000 shares of stock, valued at \$15,000 based on the lack of tradability of the shares and other factors. A total of \$58,500 has been accrued as due under the agreements with CF Consulting, LLC as of September 30, 2006. Our Chief Financial Officer, Robert Hipple, is also a managing director of CF Consulting.

NOTE 6. RELATED PARTY TRANSACTIONS

Notes Payable Officers

During the fiscal year ended June 30, 2002, the Company entered into an agreement to retire the outstanding preferred stock with Messrs Papadoyianis and Cherch in exchange for \$100,000. The Company paid \$30,000 and the remaining \$70,000 was converted to a note payable accruing interest at a rate of 8%. Accrued interest on this note was later converted to preferred stock. On February 7, 2006, the Board of Directors resolved to repay the notes outstanding to Messrs. Papadoyianis and Cherch through the issuance of new notes, which were made retroactive to January 1, 2006, bear interest at the rate of 15% per annum, and include one warrant for every dollar outstanding, or 70,000 total warrants. Each warrant to purchase one share of common stock is at a price of \$0.30 per share for a period of three years. The new notes are in the amount of \$44,944 each, and included repayment of principal of \$35,000 and accrued interest of \$9,944 each.

NOTE 7. NOTES PAYABLE

On June 21, 2005, the Company executed a \$100,000 Subordinated Convertible Bridge Note payable to an existing shareholder in the Company, due on October 21, 2005, with interest accrued at a rate of 10% per annum. This note included 50,000 warrants to purchase shares of Common stock at an exercise price of \$0.50 per share for a period of three years from the date of the note. The principal and interest may be converted to units at any time during the note at a price of \$0.50 per unit, each unit consisting of one share of stock and a half warrant. Each full warrant is redeemable for one share of common stock at a price of \$0.75 for a period of three years. On October 21, 2005, this note was extended for an additional five months until March 31, 2006 with interest accrued at a rate of 10% per annum. This extension included 50,000 warrants to purchase shares of Common stock at an exercise price of \$0.30 per share for a period of three years from the date of the extension. Extension, conversion or repayment of this note is currently under negotiation and the note, while past maturity, has not been declared in

default. The Company has been waiting for the results of its currently pending offering of convertible debenture note commenced in April, 2006 to complete these negotiations.

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR  
THE THREE MONTHS ENDING SEPTEMBER 30, 2006 and 2005 (Unaudited)

NOTE 7. NOTES PAYABLE (Continued)

On September 12, 2005, the Company executed a \$40,000 Subordinated Convertible Bridge Note payable to an existing shareholder in the Company, due on January 12, 2006, with interest accrued at a rate of 10% per annum. This note included 20,000 warrants to purchase shares of Common stock at an exercise price of \$0.50 per share for a period of three years from the date of the note. The principal and interest may be converted to units at any time during the note, at a price of \$0.50 per unit, each unit consisting of one share of common stock and half warrant. Each full warrant is redeemable for one share of common stock at a price of \$0.75 for a period of three years. Extension, conversion or repayment of this note is currently under negotiation and the note, while past maturity, has not been declared in default. The Company has been waiting for the results of its currently pending offering of convertible debenture note commenced in April 2006 to complete these negotiations.

On September 23, 2005, the Company executed a \$10,000 Subordinated Convertible Bridge Note payable to an existing shareholder in the Company, due on December 23, 2005, with interest accrued at a rate of 10% per annum. This note has subsequently been extended until it can be repaid, and repayment is expected to be made from the proceeds of the pending offering of convertible debenture notes commenced in April 2006. This note included 5,000 warrants to purchase shares of Common stock at an exercise price of \$0.50 per share for a period of three years from the date of the note. The principal and interest may be converted to units at any time during the note, at a price of \$0.50 per unit, each unit consisting of one share of common stock and a half warrant. Each full warrant is redeemable for one share of common stock at a price of \$0.75 for a period of three years.

On September 23, 2005, the Company executed a \$50,000 Subordinated Convertible Bridge Note payable to an existing shareholder in the Company, due on March 23, 2006, with interest accrued at a rate of 10% per annum. This note included 25,000 warrants to purchase shares of Common stock at an exercise price of \$0.50 per share for a period of three years from the date of the note. As further incentive for entering the note, the lender received 20,000 shares of restricted common stock. The principal and interest may be converted to units at any time during the note, at a price of \$0.50 per unit, each unit consisting of one share of common stock and a half warrant. Each full warrant is redeemable for one share of common stock at a price of \$0.75 for a period of three years. Extension, conversion or repayment of this note is currently under negotiation and the note, while past maturity, has not been declared in default. The Company has been waiting for the results of its currently pending offering of convertible debenture note commenced in April 2006 to complete these negotiations.

On September 30, 2005, the Company executed a \$25,000 Subordinated Convertible Bridge Note payable to an existing shareholder in the Company, due on January 30, 2006, with interest accrued at a rate of 10% per annum. This note included 12,500 warrants to purchase shares of Common stock at an exercise price of \$0.50 per share for a period of three years from the date

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NOTE 7. NOTES PAYABLE (Continued)

of the note. The principal and interest may be converted to units at any time during the note, at a price of \$0.50 per unit, each unit consisting of one share of common stock and a half warrant. Each full warrant is redeemable for one share of common stock at a price of \$0.75 for a period of three years. Extension, conversion or repayment of this note is currently under negotiation and the note, while past maturity, has not been declared in default. The Company has been waiting for the results of its currently pending offering of convertible debenture note commenced in April 2006 to complete these negotiations.

On November 14, 2005, the Company executed a \$25,000 Subordinated Convertible Bridge Note payable to an existing shareholder in the Company, due on March 12, 2006, with interest accrued at a rate of 10% per annum. This note included 12,500 warrants to purchase shares of Common stock at an exercise price of \$0.50 per share for a period of three years from the date of the note. As further incentive for entering the note, the lender received 25,000 shares of restricted common stock. The principal and interest may be converted to units at any time during the note, at a price of \$0.50 per unit, each unit consisting of one share of common stock and a half warrant. Each full warrant is redeemable for one share of common stock at a price of \$0.75 for a period of three years. Extension, conversion or repayment of this note is currently under negotiation and the note, while past maturity, has not been declared in default. The Company has been waiting for the results of its currently pending offering of convertible debenture note commenced in April 2006 to complete these negotiations.

On January 4, 2006, the Company executed a \$35,000 Subordinated Convertible Bridge Note payable to an existing shareholder in the Company, due on April 4, 2006, with interest accrued at a rate of 10% per annum. This note included 17,500 warrants to purchase shares of Common stock at an exercise price of \$0.30 per share for a period of three years from the date of the note. As further incentive for entering the note, the lender received 35,000 shares of restricted common stock. The principal and interest may be converted to units at any time during the note, at a price of \$0.50 per unit, each unit consisting of one share of common stock and a half warrant. Each full warrant is redeemable for one share of common stock at a price of \$0.75 for a period of three years. Extension, conversion or repayment of this note is currently under negotiation and the note, while past maturity, has not been declared in default. The Company has been waiting for the results of its currently pending offering of convertible debenture note commenced in April 2006 to complete these negotiations.

On January 18, 2006, the Company executed a \$100,000 Subordinated Convertible Bridge Note payable to an existing shareholder in the Company, due on July 18, 2006, with interest accrued at a rate of 15% per annum. This note included 100,000 warrants to purchase shares of Common stock at an exercise price of \$0.30 per share for a period of three years from the date of the note. As further incentive for entering the note, the lender received 100,000 shares of restricted common stock. The principal and interest may be

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NOTE 7. NOTES PAYABLE (Continued)

converted to units at any time during the note, at a price of \$0.50 per unit, each unit consisting of one share of common stock and a half warrant. Each full warrant is redeemable for one share of common stock at a price of \$0.75 for a period of three years.

On February 26, 2006, the Company executed a \$50,000 Subordinated Convertible Bridge Note payable to an existing shareholder in the Company, due on August 26, 2006, with interest accrued at a rate of 15% per annum. This note included 50,000 warrants to purchase shares of Common stock at an exercise price of \$0.30 per share for a period of three years from the date of the note. The principal and interest may be converted to units at any time during the note, at a price of \$0.50 per unit, each unit consisting of one share of common stock and a half warrant. Each full warrant is redeemable for one share of common stock at a price of \$0.75 for a period of three years of common stock is at a price of \$0.75 per share for a period of three years.

On April 5, 2006, the Company executed a \$10,000 Subordinated Convertible Note payable to our COO, Sal Cherch, and due on the first monies received from the proceeds of the current Offering, with interest accrued at a rate of 15% per annum. The note includes 10,000 warrants. Each warrant is redeemable for one share of common stock at a price of \$0.30 share for a period of three years. The principal and interest may be converted to units at any time during the note, at a price of \$0.50 per unit, each unit consisting of one share of common stock and a half warrant. Each full warrant is redeemable for one share of common stock at a price of \$0.75 for a period of three years.

On April 20, 2006, the Company executed a \$7,500 Subordinated Convertible Note payable to our COO, Sal Cherch, and due on the first monies received from the proceeds of the current Offering, with interest accrued at a rate of 15% per annum. The note includes 7,500 warrants. Each warrant is redeemable for one share of common stock at a price of \$0.30 share for a period of three years. The principal and interest may be converted to units at any time during the note, at a price of \$0.50 per unit, each unit consisting of one share of common stock and a half warrant. Each full warrant is redeemable for one share of common stock at a price of \$0.75 for a period of three years.

In May, 2006, the Company issued a total of \$500,000 in two year debenture bonds as part of the private offering of up to \$2,000,000 in debentures bonds commenced in April 2006. See, Note 11, Private Offering.

NOTE 8. COMMITMENTS

The Company previously entered into an employment agreement, with its aquaculture facilities manager, through October 31, 2005, that provided for a minimum annual salary of \$35,000. In July 2005, the employment agreement was renewed, effective November 1, 2005, for another four years through October

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NOTE 8. COMMITMENTS (Continued)

31, 2009, and provides for a minimum annual salary of \$42,500. At that time, Mr. Joubert was also promoted to Vice President of Operations.

In January, 2006, the Company entered into a financial public relations agreement with H.L. Lanzet, Inc. to provide services to the Company for a period of six months. In March 2006, the Company advised Lanzet that it was not satisfied with the services provided and that the Company was terminating the agreement. On August 29, 2006, the Company and Lanzet entered into an agreement to resolve any claimed compensation due under the agreement by issuing warrants to purchase 300,000 shares of common stock of the Company for a period of three years from August 29, 2006 at a warrant exercise price of \$0.60 per share. One half of the warrants are immediately exercisable and the other one-half may be exercised beginning one year after the date of issue. The warrants also carry a piggy-back registration provision, in the event that the Company undertakes a registration of its common shares.

Also in March 2005, the Company retained the services of The Eversull Group, Inc., an investor relations company. The one year agreement beginning April 1, 2005, provided for payment of \$2,000 per month, and 250,000 shares (41,667 shares post-reduction) of restricted common stock, valued at \$12,500. This agreement has been terminated, and an accrued amount of \$18,000 as of December 31, 2005, previously included in accounts payable has been eliminated.

On March 31, 2006, the Company entered into a new consulting agreement with CF Consulting, Inc. for contractual Chief Financial Officer and corporate counsel services at an annual remuneration of \$66,000 per annum in the first year and \$78,000 in the second year of the contract, plus 250,000 restricted common shares, valued at \$15,000.

NOTE 9. STOCKHOLDERS' EQUITY

On June 6, 2005, the Board of Directors approved a 2005 Class A Preferred Stock Award of 1,500,000 shares to Messrs Papadoyianis and Cherch (750,000 shares each) in exchange for the retirement of \$408,121 in long-term liabilities of the Company for accrued salaries and interest owed to them.

Pursuant to the certificate of designations establishing the Series A preferred stock, each share of the 1,500,000 shares of currently issued and outstanding Series A preferred stock may be converted into 1.6667 fully paid and non-assessable shares of our common stock, or a total of 2,500,000 common shares. On all matters submitted to a vote of the holders of the common stock, including the election of directors, a holder of shares of the preferred stock is entitled to the number of votes on such matters equal to the number of shares of the preferred stock into which the preferred shares may then be converted. Therefore, the holders of the Class A preferred shares have the power to vote 2,500,000 shares on a par with the common stock.

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NOTE 9. STOCKHOLDERS' EQUITY (continued)

Also on June 6, 2005, the Board of Directors approved a 2005 Class B Preferred Stock Award of 3,500,000 shares to Messrs Papadoyianis and Cherch (1,750,000 shares each) for the retirement of \$175,444 in long-term liabilities to the Company, representing accrued salaries and interest. Pursuant to the certificate of designations establishing Series B preferred stock, each share of the 3,500,000 shares of currently issued and outstanding Series B preferred stock may be converted into 3,500,000 fully paid and non-assessable shares of our common stock. On all matters submitted to a vote of the holders of the common stock, including the election of directors, a holder of shares of the preferred stock is entitled to the number of votes on such matters equal to the number of shares of the preferred stock held by such holder. Therefore, the holders of the Class B preferred shares will have the power to vote 3,500,000 shares on a par with the common stock.

No common shares of the Company were issued during the quarter ended September 30, 2006.

Stock Options.

On March 31, 2006, the Board of Directors approved the grant of non-qualified stock options under the Neptune Industries, Inc. 2004 Long-Term Incentive Plan for officers, directors, employees of the Company and its subsidiary, effective July 1, 2006, as follows:

To each independent (non-management) director: 5,000 shares for each full year of service at the end of each fiscal year (June 30), as follows:

James M. Harvey	17,500 shares
Don Tewksbury	40,000 shares
Gregory A. Lewbart	40,000 shares

To the following officers and employees:

Ernest Papadoyianis	500,000 shares
Xavier T. Cherch	500,000 shares
Robert Hipple (to CF Consulting)	250,000 shares
Michael Joubert	15,000 shares

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1,362,500 shares

All of the stock options are for a period of ten years and carry an exercise price of \$0.3133 per share, based on the average closing price of the Company common stock for the 20 trading days prior to the grant of the option. The options became effective at July 1, 2006, at which time, the trading price of the common shares was \$0.30.

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NOTE 9. STOCKHOLDERS' EQUITY (continued)

The Company applied the reporting requirements of SFAS No. 123, Accounting for Stock-Based Compensation using the Black-Scholes Model for valuing stock options. We applied a stock price of \$0.30 per share, the market price on the date the options became effective, an option strike price of \$0.3133 per share, a 10 year maturity for the options, a risk free interest rate of 5 percent, and a volatility factor of 20 percent. This resulted in a valuation for each option at \$0.1426 per share, or a total value of \$194,292.50 for the 1,362,500 options granted.

NOTE 10. MAJOR CUSTOMERS

Revenues from two customers comprised approximately 86 percent of revenues during the period ended September 30, 2006, compared to the same two customers comprising 69 percent for the prior period ending September 30, 2005.

NOTE 11. PRIVATE OFFERING

On April 18, 2006, the Company engaged Dawson James Securities, Inc. of Boca Raton, Florida, to assist in the private placement of up to 2,000 units, made up of a convertible debenture and a common stock warrant, for a total of \$2 million. Dawson James Securities will receive a fee equal to ten percent of the amount raised in the offering and an unaccountable expense allowance of three percent of the amount raised. In addition, Dawson James will receive warrants to acquire common shares on each closing of the sale of the Units in the offering equal to twenty percent (20%) of the Units sold in the Offering. These warrants will be exercisable at any time during the five (5) years from the date of the closing at an exercise price equal to \$.50 per share for the warrants based on the original sale of unit, and \$.30 per share for the warrants based on conversion of the Debentures to common stock.

Each of the Units to be offered (individually a Unit, and collectively the Units) consists of (i) a \$1,000.00 Convertible Debenture (the Debenture) with a 24% coupon, payable in kind with common stock, and (ii) one thousand redeemable common stock purchase warrants ("Warrant"). Each Warrant entitles the holder to purchase one share of Common Stock at an exercise price of \$0.50 per share over a term of five years from the initial closing date of the Offering. The Warrants are redeemable by the Company upon 30 days written notice at a purchase price of \$0.01 per Warrant, subject to our common stock having a closing bid price of at least \$1.25 per share for a period of ten (10) consecutive trading days. The term of each Debenture is for 24 months from the date of issue. During the term, holders of the Debenture may convert their note to common stock at a price of \$0.30 per share. The 24% PIK (Paid in Kind) Coupon is to be paid out on a quarterly basis in cash or stock, at the Company election. If the Company elects to pay in common stock, the market price valuation will be established by the average closing bid price of the common stock for the last twenty (20) trading days of the calendar quarter for which the interest due is being paid in common stock (the Average Closing Price). The right of the Company to make any interest

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NOTE 11. PRIVATE OFFERING (Continued)

payment in shares of common stock on a particular date is subject to the satisfaction (or waiver by the Holder) of the following additional conditions on such date: (1) there is then an effective registration statement covering the common shares to be issued on such date, for which no stop order is in effect; (2) no defined event of default exists on such date; (3) the Average Closing Price is equal to or greater than \$.15 per share (as appropriately adjusted for any stock split, stock dividend or other similar corporate action); and (4) the Company has sufficient authorized but un-issued shares of common stock to provide for the issuance of the interest shares to the Holders of the Debentures.

The offering is being made only to accredited investors and each investor will receive a Registration Rights Agreement at closing under which the Company undertakes to file a registration statement for the conversion shares and the shares underlying the Warrants within 60 days, and to maintain the effectiveness of that registration statement thereafter. Any offer or sale of a Unit, if made, will be made only pursuant to the private offering memorandum prepared by the Company, and only to accredited investors. There can be no assurance that the offering will be successful, or that the Company will be able to raise the additional capital needed to continue and expand its operations.

Under the terms of the offering, proceeds of the sale of the debenture notes will be deposited in an escrow account at Sterling Bank, Inc. in Lantana, Florida under an escrow agreement which provides for the first release of funds when the offering minimum of \$500,000 for 50 units of the offering have been subscribed, with subsequent releases on a weekly basis. On May 10, 2006, the initial release of funds was made under the terms of the escrow agreement and the Company has received \$437,000 in proceeds from the offering, net of commissions and expenses, as follows:

Principal amount	Commissions	Expense allowance	Net proceeds	Warrants
\$ 500,000	\$ 50,000	\$ 13,000	\$ 437,000	50,000

During the quarter ended September 30, 2006, an additional \$30,000 in principal amount of the bonds was subscribed for, and the Company anticipates placing the remaining \$1,470,000 in principal amount of the bonds during the quarter ended December 31, 2006.

Item 2. Management Discussion and Analysis or Plan of Operation.

FORWARD LOOKING STATEMENTS

In connection with, and because we desire to take advantage of, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward looking statements in the previous discussion and elsewhere in this report and in any other statement made by, or on behalf of our Company, whether or not in future filings with the Securities and Exchange Commission. Forward looking statements are statements not based on Historical information and which relate to future operations, strategies, financial results or other developments. Forward looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward looking statements made by, or on behalf of, our Company. We disclaim any obligation to update forward looking statements.

Neptune Industries, Inc., was incorporated in the State of Florida on May 8, 1998. We operate on a June 30, 2005 fiscal year. Our common shares are traded on the Pink Sheets and on the OTC Bulletin Board under the symbol NPDI. Since our inception, we have been engaged in aquaculture (fish farming) through our subsidiary, Blue Heron Aqua Farms, LLC, in Florida City, Florida and in the development of new technologies for aquaculture and related marine

uses. On June 9, 2005, we merged with Move Films, Inc., a Texas corporation, with the Company as the surviving entity. As a result of that merger, we succeeded to the filing and reporting obligations of Move Films, Inc. under Section 12(g) of the Securities Exchange Act of 1934.

Our mission is to become a leading supplier of sustainable seafood products through the development of a vertically integrated production and distribution enterprise, encompassing fish farms, processing facilities, wholesale distribution, and value-added product lines. The catalyst to our business model is the patent-pending S.A.F.E.) technology, renamed as the Aqua-Sphere in year ended June 30, 2006, which provides a highly efficient, environmentally friendly solution to current seafood production requirements, while opening up new areas of the world to commercial farming. The Company has already received interest from around the world to license, purchase, and distribute the technology. Licensing, sales and joint venture activities will further expedite and enhance our business model. The final strategic phase of our mission involves the utilization of our publicly traded vehicle to conduct a roll-up of the highly fragmented aquaculture and distribution industries. The acquisition of other seafood related businesses should allow us to expand, diversify, and integrate our technology in the most efficient manner.

The founders of the Company, Messrs. Ernest D. Papadoyianis and Xavier T. (Sal) Cherch began designing and testing what today is known as the Aqua-Sphere System over 9 years ago. The Aqua-Sphere System is designed to address and resolve the concerns of environmentalists. Today, through a contractual arrangement, Neptune itself has spent over 7 years and more than three million dollars in completing the development of the Aqua-Sphere System, perfecting production methods, performing market analyses, acquiring lease

sites, and creating a cornerstone production facility through its subsidiary, Blue Heron Aqua Farms, LLC (Blue Heron) Blue Heron operates a forty eight acre fish farm in Florida City, Florida that incorporates a one-of-a-kind flow-through environment which is virtually extinct in the U.S. today. In October, 2004, the Company completed a state of the art nursery expansion in order to increase production capacity of its sashimi quality hybrid striped bass (branded as Everglades Striped Bass) by over 25%. The market for all seafood, particularly fresh farm-raised product, has grown to tremendous proportions, warranting immediate and extensive expansion of production and diversification to other popular species. With only four acres of the 48 acre site under production at this time, the Company has the capability of producing close to two million pounds of fish per year from this site alone when the site is fully developed.

Management focused its efforts on further research and development of the various components of the Aqua-Sphere system technology, while fine tuning production methods for use in quarry lake aqua-farms. Among the many technological developments tested during this period was a solar powered programmable, automated, feeding system which allows controlled amounts of feed to be fed at specific times of the day. This insures a more rapid growth rate, with less waste. Through the development and operation of three previous pilot farms, Neptune improved its technology, and production techniques to effectuate the efficient and economical production of seafood in large, open bodies of water. The applications now extend to an open worldwide market. In addition, we successfully raised and marketed three commercially viable species (hybrid striped bass, redbfish and tilapia). Our farms purchase fingerling fish, raise the product to market size (1.25 to 2+ pounds), and then harvest and distribute it to wholesalers, processors, market chains, etc. throughout the U.S., Canada, and the Caribbean. Management believes that our unique, low-cost production strategy, technology, and existing distribution through independent wholesalers and distributors allow us to bring our products to market faster and cheaper than the competition.

#### DEVELOPMENT STRATEGY

With a strong distribution network for our fresh farm raised seafood products throughout the United States, Canada and the Caribbean, we are now focused on a three phase expansion program at our Florida City site in order to meet market demand. In addition, we have moved into the final stages of preparation for the commercial production of the Aqua-Sphere System. We also plan to integrate our operations by locating and attempting to acquire our own distribution network, as well as processing capabilities and nursery operations to raise and control our own fingerling production.

#### Farming Operations

We are poised to expand our facilities, diversify our production, and vertically integrate our operations. We are planning to increase capacity to produce over two million pounds of hybrid striped bass, redbfish, tilapia, Nile perch and other species; operate the only hybrid striped bass nursery in South Florida; and then utilize our effluent wastewater to produce a diversity of hydroponic vegetables and herbs. The combination of our commercial aquaculture expertise, management and technology, teamed with the expansive forty eight

acre fish farm facility, have created one of the premier commercial aquaculture operations on the East Coast and perhaps the U.S.

In addition to the Florida City site, we have identified and have had preliminary discussions for lease options on a number of prime quarry lake sites in South Florida. Historically, management has focused its production and technology on developing these vast man-made impoundments which are abundant in South Florida and offer tremendous opportunity for development. Quarry sites will be developed utilizing the Aqua-Sphere System technology which was designed and engineered from years of practical experience in commercial production in South Florida quarries. Quarry lake development presents an ideal opportunity to establish multiple farm locations with minimal capital outlay.

#### Technology

The Aqua-Sphere System incorporates many features which make it suitable for all parts of the world. The Company continues to be deluged with inquiries. The Aqua-Sphere System is a floating, articulating, patent pending containment system which utilizes alternative energy to power many of its components. The system can be utilized as a stand alone single tank (an Aqua-Cell) in a variety of sizes or several Aqua-Cells can be interconnected into pods to create the Aqua-Sphere. In a pod configuration, each Aqua-Cell is connected to another via an underwater conveyance pipe. This allows the operator to move fish from Aqua-Cell to Aqua-Cell without removing them from the water, or handling. Therefore, an Aqua-Sphere system actually becomes a self-contained nursery and grow-out area. An automated solar powered feeding system and a revolutionary waste collection system insure rapid growth without contamination of surrounding waters. Since each Aqua-Cell has solid sides, predators cannot get in, crops cannot escape, and in the event of contamination of surrounding waters, the crops can be isolated and protected.

#### Other Areas of Development

Our future development plans expand far beyond our South Florida production base. Management has identified several acquisition candidates that would allow immediate production benefit and secure the hybrid striped bass hatchery operations. The Company also intends to diversify its operations to include marine products such as baitfish for the multi-million dollar sport fishing market; production of hydroponic herbs and vegetables; wholesale distribution and live delivery (hybrid striped bass and tilapia) to the Asian and Latin markets; value added products; and franchise/joint venturing of our Aqua-Sphere technology. Whether land or lake based operations, the Company's strategic South Florida location with its twelve month growing season, tremendous local market, and a select niche market for live products, provides a significant advantage over competitors. A focus on products limited in the wild, or by seasonality, further increases market value and demand.

In late July, 2005, we entered into an arrangement with The Redland Company, Inc. of Homestead, Florida to utilize Redlands 38 acre quarry lake site for testing of the Aqua-Sphere prototype. This site is close to our current Florida City operations and provides an ideal environment for these final tests. In addition to testing our own technology, we will also be selecting and testing several other products which will be used in conjunction with it.

Site preparation is fully underway with excavation, new electricity, fencing, and storage units nearing completion. The new prototype tank has been delivered, and will be assembled and launched as soon as the security fencing has been completed. Hurricane Wilma on October 24, 2005, caused significant delays in the availability of both labor and materials for all contractor jobs.

#### Risk Factors.

The Company has identified certain risk factors connected with its operations and an investment in the Company, which are listed in detail under Risk Factors in the Form 10-KSB filed by the Company for the fiscal year ended June 30, 2006.

#### Comparison of Operating Results

Gross revenues for the quarters ended September 30, 2006 and 2005 were \$255,877 and \$96,143, respectively, resulting from the increased capacity of the farm. Cost of sales for the same periods were \$332,400 and \$152,552, resulting in gross loss of \$(76,523) and \$(54,409), respectively. A major portion of the increased Gross Loss for the quarter ended September 30, 2006 resulted from reclassifying operating expenses such as depreciation and certain employee salaries to cost of goods sold. A reallocation of these same expenses to cost of salaries in the quarter ended September 30, 2005 would have resulted in a larger gross loss for the earlier quarter.

Operating expenses for the quarters ended September 30, 2006 and 2005 were \$154,983 and \$215,660, respectively, before taking into account the compensation element of stock options granted in the quarter ended September 30, 2006 valued at \$194,292.50, resulting in net losses of \$288,906 for the quarter ended September 30, 2006 compared to \$233,535 for the quarter ended September 30, 2005. Total losses for the quarter ended September 30, 2006 were \$483,198.

#### Item 3. Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer (the Certifying Officers) are responsible for establishing and maintaining disclosure controls and procedures and internal controls and procedures for financial reporting for the Company. The Certifying Officers have designed such disclosure controls and procedures and internal controls and procedures for financial reporting to ensure that material information is made known to them, particularly during the period in which this report was prepared. The Certifying Officers have evaluated the effectiveness of our disclosure controls and procedures and internal controls and procedures for financial reporting as of June 30, 2005, and believe that our disclosure controls and procedures and internal controls and procedures for financial reporting are effective based on the required evaluation. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

## PART II -- OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

There are no legal proceedings against the Company and the Company is unaware of such proceedings contemplated against it.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company did not issue any equity securities during the quarter ended September 20, 2006.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

Amended Form 10-QSB/A

On November 20, 2006, the Company filed its Form 10-QSB for the quarter ended September 30, 2006, pursuant to an extension notice on Form 12b-25 filed on November 14, 2006. The extension of the filing date was required because the Company's accountants, Dohan and Company, CPAs, PA, of Miami, Florida, were unable to complete their review of the Form 10-QSB in a timely manner. The Company had previously complained to Dohan & Company regarding its lack of responsiveness and lack of attention to the Company's account, which had resulted in previous extensions and late filings by the Company, including the Form 10-KSB for the fiscal year ended June 30, 2006, which was filed on the SEC EDGAR system on October 13, 2006, the extended due date, after the 5:00 PM filing deadline, due solely to additional, non-material changes first requested by Dohan & Company late on the afternoon of October 13, 2006, after previous requests for changes, also received by the Company on October 13, 2006 had been incorporated into the final filing. The review of the Form 10-KSB and the audit of the Company's financial statements for the fiscal year had been delayed for nearly six weeks, because the audit partner on the Company's account had taken extended maternity leave, which was concealed from the Company despite repeated calls and e-mail communications to the audit partner, with no response. Eventually, the Company was advised that the audit partner familiar with the Company account would not be available, that the audit would be managed by a junior accountant with no experience in or knowledge of the Company account, and that an extension of the time to file the 10-KSB would be required. After repeated requests for a status report on the audit and review, the Company finally received its first communication with requested changes to the Form 10-KSB and the financial statements at the end of the first week of October, 2006. The Company made all of the requested changes and provided all of the additional information promptly, but new and different changes were requested the following week, most of which were non-material changes to grammar, punctuation, style and formatting. On October 13, 2006, the extended due date for the Form 10-KSB, the Company received additional non-material changes, which it made and returned to the auditors with the understanding that the Form 10-KSB was then ready to be filed. The Company completed the EDGAR conversion for filing and was ready to file when Dohan & Company send a new demand for additional non-material changes late on the afternoon of October 13 2006. By the time these changes were incorporated and EDGARized, the Company was unable to file the Form 10-KSB electronically by the 5:00 PM SEC cut-off. The Form 10-KSB was filed at 5:06 PM on October 13, 2006, but was reported on the SEC EDGAR web site as filed on Monday October 16, 2006, which resulted in

a notice from the NASD OTC Compliance Unit that the Company was not in compliance with its timely filing obligations.

On November 20, 2006, the Company filed its Form 10-QSB on a timely basis, again pursuant to a Form 12b-25 extension request by Dohan and Company, because the auditor again was unable to complete its review on a timely basis. After completing a number of changes requested by the auditors to the Form 10-QSB, and providing extensive information and documentation which had already been reviewed and covered in Dohan and Company's audit of the June 30, 2006 fiscal year, filed three weeks earlier, the Company on November 20, 2006, the extended due date, received one more set of requested changes, which it made and returned to the auditors for their final review, with the message that the Company intended to file this final reviewed version of the 10-QSB that day on a timely basis, unless there were still more, as yet undisclosed, changes that had not already been communicated on a timely basis. The Company then filed the Form 10-QSB as indicated on a timely basis on November 20, 2006 after receiving no further comments from the auditors. Later on November 20, 2006, after the Form 10-QSB had been filed and after the EDGAR filing deadline had passed, Dohan and Company sent an e-mail to the Company advising that it might still have further comments. Approximately two weeks later, the Company received additional suggested changes to the Form 10-QSB, none of a material nature and nearly all involving formatting (capitalizing of certain items on the cover page and revising the entries on the Table of Contents), adding of commas to certain parts of the text, suggesting style changes to certain text language, and similar items. The only numerical items involved the change of several entries by a one dollar amount to reflect rounding differences, and the change in the number of shares of common stock outstanding from 11,349,051 to 11,349,269, to reflect the issue of 218 shares as a result of rounding in the reverse split which occurred during the last fiscal year. This difference of 218 shares had been correctly reported in the Form 10-KSB for June 30, 2006, and no additional shares were issued during the quarter ended September 30, 2006, as already indicated in this report. Many of the items which Dohan and Company later suggested be changed in the Form 10-QSB had, in fact, already been changed as a result of the earlier review requests, and it appears that Dohan and Company was reviewing an earlier version of the Form 10-QSB which it had already reviewed, rather than the last reviewed version as filed.

This Form 10-QSB/A incorporates all of the new, post-filing changes suggested by Dohan and Company which had not already been included in the original filing, except for non-material changes in the wording of certain footnotes, which is neither material nor necessary. For example, Dohan and Company requested that the language in Note 1 on Page F-9 be changed from: "We will adopt FIN 48 in the first quarter of 2007" to: "FIN 48 will be adopted in the first quarter of 2007." All of the requested footnote changes are of the same level of immateriality and have not been changed.

#### Disagreement with Auditors

As a result of the continued problems and lack of response from Dohan and Company; the constant, last minute immaterial changes demanded; the unexplained several week delay after the original filing date for this Form 10-QSB before the next set of suggested changes was sent; the continued inability of the Company to contact the audit partner on the account, despite repeated calls and e-mails; and the other concerns noted above, the Company began to consider changing auditors to an audit firm which had the experienced personnel available

to carry out the audit and review work on a timely and responsive basis. On December 29, 2006, the Company received a letter in the mail from Dohan and Company dated December 22, 2006, advising that Dohan and Company had 'unexpectedly' found that the Company had filed its Form 10-QSB on a timely basis on November 20, 2006 without its 'concurrence and final review', despite the fact that Dohan and Company had been advised that the Company would be filing on November 20, 2006 on a timely basis with all of the review changes communicated by Dohan and Company as of that date. As noted, the Form 10-QSB as filed contained all of the changes requested in Dohan and Company's review which had been communicated as of the filing date. Although there had been no conversations between Dohan and Company and the Company since the timely filing of the reviewed Form 10-QSB on November 20, 2006, and the audit partner at Dohan and Company had failed or refused to return many calls and communications from the Company after that date, the letter dated December 22, 2006 advised that Dohan and Company no longer wished to serve as the Company's auditors and would be advising the SEC accordingly.

While the Company is quite satisfied with the termination of the relationship, which it was already in the process of doing itself, for the reasons summarized above, the termination of the audit relationship is an item required to be disclosed in a Form 8-K filing, under Item 4.01, Changes in Registrant's Certifying Accountant, within four business days of that event. However, since the Company is disclosing the same information in this Form 10-QSB/A filed within that same period, a separate Form 8-K filing is not required to be filed to disclose the same information.

Item 4.01(a) of Form 8-K requires the Company to disclose the information required by Item 304(a)(1) and Item 304(a)(3) of Regulation S-B with regard to the change of auditor. That information follows:

Item 304(a)(1):

(i) The former accountant, Dohan and Company, resigned as auditors for the Company by letter dated December 22, 2006, received by mail on December 29, 2006. A copy of the letter dated December 22, 2006 is attached as Exhibit 5.1.

(ii) The former principal auditor's report on the financial statements for the past two fiscal years ended June 30 do not contain an adverse opinion or disclaimer of opinion, and was not modified as to uncertainty, audit scope, or accounting principles.

(iii) The decision to change auditors was not yet recommended or approved by the Board of Directors of the Company, but was an item to be included in the agenda of the next meeting, after the Annual Meeting of Shareholders.

(iv)(A) There were no disagreements with the former accountants, whether or not resolved, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the former accountants' satisfaction, would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report.

(B) The former accountant has not advised the Company that:

(1) internal controls necessary to develop reliable financial statements did not exist, or

- (2) information has come to the attention of the former accountant which made the accountant unwilling to rely on management's representations or unwilling to be associated with the financial statements prepared by management, or
- (3) the scope of the audit should be expanded significantly, or information has come to the accountant's attention that the accountant has concluded will, or if further investigated might, materially impact the fairness or reliability of a previously issued audit report or the underlying financial statements, or the financial statements issued or to be issued covering the fiscal period(s) subsequent to the most recent audited financial statements (including information that might preclude the issuance of an unqualified audit report, and the issue was not resolved to the accountant's satisfaction prior to its resignation or dismissal.

(C) There are no disagreements or events in Dohan and Company's letter dated December 22, 2006 identified above in response to paragraph (a)(1)(iv) of Item 304 of Regulation S-B. The areas of disagreement indicated in the letter, and the response of the Company are as follows:

1. The Form 10-QSB for the quarter ended September 30, 2006, was filed allegedly without the former accountant's final review and concurrence.

The former accountant fully reviewed and commented extensively on the Form 10-QSB for the indicated quarter, including numerous inquiries for documents and explanations of matters already fully reviewed and included in the audited financial statements for the fiscal year ended June 30, 2006, which was completed by the former accountants on October 13, 2006. When the Company advised the former accountants of this apparent lapse in the accountant's internal controls and procedures, the former accountants had no explanation or response and instead insisted that the same material be provided again. The Company received three or more separate revision requests to the draft Form 10-QSB from the former accountants, all of which changes were made. The final draft of the Form 10-QSB, including the former accountant's requested changes, was then returned to the accountants on November 20, 2006 with the advice that all of the changes requested had been made and that the Company would be filing the Form 10-QSB by 5:00 PM that day to avoid another late filing. The Form 10-QSB was then filed shortly before 5:00 PM on November 20, 2006 as advised, the Company having heard nothing further from the former accountants. After the close of the SEC EDGAR filing period, and after the filing of the Form 10-QSB containing all of the requested review changes of the former accountants, the Company received an e-mail from the junior accountant at the former accountants' office on November 20, 2006, advising that the review partner might have additional comments. No further comments or communications were received from the former accounts, despite inquiries from the Company, until December 3, 2006, when a facsimile was received with a number of additional requested changes to the Form 10-QSB, as filed. On review of these changes, it appeared that many of the newly requested changes had already been made as a result of earlier review requests, and that the remaining requested changes were largely immaterial, unnecessary and unwarranted.

When the Form 10-QSB was filed on November 20, 2006, the Company believed that all of the review changes requested by the former accountants had been made, and the accountants were aware that the Company would be filing the final version returned to the accountants on November 20, 2006, to avoid another

late filing caused by the former accountants' internal control, performance and other issues. As to the claim that the Form 10-QSB was filed without their review, it should be noted that the former accountants sent an invoice along with their letter dated December 22, 2006, containing the following language:

In connection with Form 10Q, SEC required review  
of quarterly report, for the period ended  
September 30, 2006.

2. The Form 10-QSB as filed by the Company, contained "numerous errors and deficiencies".

The final Form 10-QSB contained no material errors or deficiencies, and included all of the changes requested by the former accountants as of the date of filing. The so-called errors and deficiencies now referred to were all issues of punctuation, grammar, rounding, and similar matters. Each of the specific errors listed in the Letter of December 22, 2006 is addressed below. The Company is not aware of any matters of disagreement other than the specific items listed in the December 22, 2006 letter and dealt with below.

a. "The cover page has numerous minor technical errors, but more importantly, the shares are not in agreement with the financial statements and the wrong box is checked for current/late reports."

The alleged "technical errors" on the cover page are immaterial, since the Form 10-QSB is merely a guide for the preparation of the report and not a blank form to be filled out. General Instruction C of Form 10-QSB. Despite this, this first line of "errors and deficiencies" included such items as:

"Form 10-QSB" on the cover page should be "FORM 10-QSB".

"Mark one" on the cover page should be "Mark One".

"State or Jurisdiction of Incorporation or Organization" on the cover page should be "State or other jurisdiction of incorporation or organization"

"I.R.S." on the cover page should be "IRS"

"issuer" on the cover page should be "registrant"

The remainder of these "minor technical errors" on the cover page are of similar lack of consequence and materiality.

The shares of common stock outstanding shown on the cover page was 11,349,051 shares, while the remainder of the report and the financial statements reflected the correct number as 11,349,269, a difference of 218 shares. These 218 shares were explained in the Form 10-KSB as issued by the transfer agent as the resulting of rounding up shares as a result of the reverse split of the Company common shares in the prior fiscal year. The correct number outstanding of 11,349,269 was reported on the Form 10-KSB and the Form 10-QSB for the quarter ended September 30, 2006, as filed on November 20, 2006, reported that no shares were issued during the quarter. This minor difference of 218 shares (0.00192 percent) had not yet been corrected on the Company's own share records maintained independently of the transfer agent, and also was not noted by the former accountant's in their multiple reviews and comments on the Form 10-QSB, as filed on November 20, 2006. The first note of this minor difference was made on December 3, 2006, nearly two weeks after the timely filing. This minor difference is not considered material, but has been corrected on this amended report.

The wrong box is not checked on the cover page, as the Form 10-QSB was filed on a current basis on November 20, 2006, despite the former accountant's lack of attention to the Company's account.

b. "The Table of Contents is incomplete."

The Table of Contents included in the Form 10-QSB as filed was complete and accurate. However, in the additional suggested changes first sent two weeks after the Report was timely filed, the former accountants suggested that the phrase "FINANCIAL INFORMATION" be added after PART I, presumably because the "guide copy" of Form 10-QSB provided by the SEC does so. Similarly, the December 3, 2006 comments by the former accountants suggest that "OTHER INFORMATION" be added after PART II, and that "AND REPORTS ON FORM 8-K" be omitted, again presumably because the SEC guide form does so. None of these suggested changes are material, but all have been included in the Form 10-QSB/A.

c. "The balance sheet wording and format (CAPS, etc) require additional changes."

The only changes to the balance sheets as reported in the Form 10-QSB as filed on November 20, 2006, suggested by the former accountants and referred to in the letter dated December 22, 2006 were not material, did not affect the accuracy of financial statements and were limited to the following:

The phrase "FINANCIAL INFORMATION" should be added after PART I at the top of the balance sheet.

The phrase "FINANCIAL INFORMATION" at the top of the balance sheet after Item 1 should be changed to "FINANCIAL STATEMENTS".

The second and later words in a descriptive line in the financial statements should not be capitalized. For example, "Accounts Receivable" should be "Accounts receivable"

The phrase "less allowance for doubtful accounts of 0" should be added after "Accounts receivable" in the balance sheet.

The word "accumulated" should be added to "net of depreciation" after Property and equipment on the balance sheet.

Liabilities and Stockholders' Equity on the balance sheet should be changed to "Liabilities and Deficiency in Assets" in the three places it appears on the balance sheet.

Although these suggested changes were not included in all of the prior review changes requested by the former accountants, nor in any of the prior Forms 10-QSB or Form 10-KSB filings by the Company after review by the former accountants, and the changes are not material, these changes have been incorporated into the amended Form 10-QSB/A.

d. "The statements of operations reports incorrect net loss per share and weighted shares, along with incorrect wording and minor mathematical error(s).

The net loss per share reported on the Form 10-QSB as filed was \$(0.038) as

a result of earlier corrections by the former accountants. The correct figure is \$0.043), a difference of \$(0.005) per share. While not considered material, the corrected figure is included in this amended Form 10-SB/A. The number of shares outstanding also has been corrected to 11,349,269, for the reasons already noted.

The incorrect wording change suggested was to change "Stock Options" to "Stock based compensation", which has been done in this amended Form 10-QSB/A, although not material and not suggested in the review as of November 20, 2006 by the former accountants.

The only "minor mathematical errors" on the statement of operations was the suggested change of \$(425,797) to \$(425,798), a number resulting from rounding.

e. "The statement of cash flows incorrectly reports stock options as a cash item, and contains minor formatting issues".

The "minor formatting issues" referred to are the former accountants' suggestion that the second and later words in a descriptive line in the should not be capitalized. While not material, these changes have been incorporated into this amended Form 10-QSB/A.

The statement of cash flows correctly reflects the required adjustment for the non-cash compensation resulting from the issuance of incentive stock options by the Company, the current value of which is reflected as a current expense in the net loss for the quarter, as required. If this item were not adjusted for in the cash flow statements as the former accountants suggest, then the cash flows would be incorrect by the amount of this non-cash item. On inquiry of the reasons for this suggestion when it was first raised by the former accountants before the timely filing of the Form 10-QSB by the Company, the former accountants were unable to provide any reasons for their erroneous suggestions, so the change was not made. This item is also included in the cash flow analysis in this amended Form 10-QSB/A, but has been moved to "Adjustments to reconcile net loss to net cash used by operating activities".

f. "The footnotes contain sufficient minor formatting issues that we do not want to be associated with."

The nature of this alleged dispute is more than a little mystifying, and on its face, is certainly not a material item. The approximately 10 pages of footnotes included as part of the Company's financial statements had a total of 17 suggested changes in the comments made by the former accountants on December 3, 2006, two weeks after the Form 10-QSB had been filed. Of these 17 suggested changes, three involved adding a dash (-) between associated words; ten involved the suggested additions of a period or a comma or an apostrophe; one involved double underlining of a set of final numbers; and the remainder involved suggested revisions to wording, such as changing "We will adopt FIN 48 in the first quarter of 2007" to: "FIN 48 will be adopted in the first quarter of 2007." None of these suggested footnote changes are material or necessary, and none have been made in this amended Form 10-QSB/A.

g. "Amounts included in the body of the report do not necessarily agree with amounts reported in the financial statements".

The sole number which the former accountants suggested were not "not

necessarily" in agreement with the financial statements was the operating expenses reported for the quarter ended September 30, 2006 under Comparison of Operating Results on page 6 of the Form 10-QSB as filed on November 20, 2006. The number reported on that Form 10-QSB was \$154,982. The accountant's comments of December 3, 2006 suggest that this number should be \$154,983, a difference of \$1.00, resulting from rounding. It should be noted, however, that the former accountants' suggested changes of December 3, 2006 were based on an earlier version of the final Form 10-QSB as filed, and the reported figure of \$154,982 was a result of an earlier change requested by the former accountants. Apparently, they are unable to keep track of what they have already done.

h. "We believe the report date to be incorrect."

The report date of the Form 10-QSB filed by the Company on November 20, 2006 was November 20, 2006, the date it was signed on behalf of the Company and the date it was filed. The date is correct.

D. Neither the Board of Directors nor a committee of the Board of Directors has yet discussed the former accountants' letter, its contents, or their termination of the audit relationship. The letter was received on December 29, 2006 just before the New Years' holiday weekend.

E. The Company will authorize the former accountant to respond fully to any inquiries of the Company's new auditors, when a new auditor has been selected and approved by the Board of Directors.

Item 304(a)(2).

The Company has not yet engaged a new accountant, and will report the required information on a timely basis when it has done so.

Item 304(a)(3).

The former accountant has already provided a letter, a copy of which has been sent to the SEC by the former accountant, and is attached to this Form 10-QSB/A report as Exhibit 5.1.

Item 304(b).

The items of "disagreements" with the former accountants, none of which are within the disagreements or events listed in paragraphs (b)(1) through (b)(3), have already been summarized and refuted above. None of these claimed disagreements are material and none have any material affect on the Company's financial statements as reported. None of the conditions listed in paragraphs (b)(1) through (b)(3), exist.

The former accountants also claim in their letter of December 22, 2006, that the Company had not paid certain past due balances as agreed, which is not correct. All past due balances had been paid by the Company as agreed, except for late charges which the senior partners of Dohan and Company waived completely as part of the former accountants' review.

The Company had already initiated a search for a new accountant prior to the receipt of the former accountants' letter on December 29, 2006. The Company expects to make a selection of a new accountant shortly and submit the new

accountant as well as the former accountants' letter of December 22, 2006 for review and approval, and will then complete the reports required by Item 3.04 of Regulation S-B. The Company also is reviewing the possibility of filing a complaint with the Public Company Accounting Oversight Board and with the Florida CPA Board based on the lack of attention, lack of internal controls and other inappropriate conduct of the former accountants.

ITEM 6. EXHIBITS

(a) Exhibits required by Item 601 of Regulation S-B

- 5.1 Letter from Dohan and Company dated December 22, 2006, received December 29, 2006.
- 1.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act

(b) Reports on Form 8-K

No reports on Form 8-K were made during the quarter ending September 30, 2006.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: January 2, 2007

NEPTUNE INDUSTRIES, INC.

By: /s/ Ernest Papadoyianis

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Ernest Papadoyianis  
CEO, President and Director



# Dohan and Company

**Certified Public Accountants**

A Professional Association

7700 North Kendall Drive, 200  
Miami, Florida 33156-7578  
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December 22, 2006

Ernest Papadoyianis, CEO

Neptune Industries, Inc.

21218 St. Andrews Boulevard

Suite 645

Boca Raton, FL 33433

Dear Mr. Papadoyianis,

Unexpectedly, we found that you have filed your Form 10-QSB for the period ended September 30, 2006, with the Securities and Exchange Commission, without our concurrence and final review. In fact, as we previously notified you, your Form 10-QSB contained numerous errors and deficiencies. Certain, but not all, of the items brought to your attention include the following:

1. The cover page has numerous minor technical errors, but more importantly, the shares are not in agreement with the financial statements and the wrong box is checked re: current/late reports.
2. The Table of Contents is incomplete.
3. The balance sheet wording and format (CAPS, etc.) require additional changes.
4. The statement of operations reports incorrect net loss per share and weighted average shares, along with incorrect wording and minor mathematical error(s).
5. The statement of cash flows incorrectly reports stock options as a cash item, and contains minor formatting issues.
6. The footnotes contain sufficient minor formatting issues that we do not want to be associated with.
7. Amounts included in the body of the report do not necessarily agree with amounts reported in the financial statements.
8. We believe the report date to be incorrect.

In addition to the above you had promised partial payment of the past due balances immediately, with the balance to shortly follow. You have not delivered any such payments to us since you promised them.

As a result of your actions, we can no longer continue to serve on this engagement and will so notify the SEC immediately that we are declining to serve any further as principal accountants for Neptune Industries, Inc.

Attached is our final invoice and statement. Please remit promptly.

Sincerely,

  
/s/ Irene S. Salum, CPA

Irene S. Salum, CPA

Assurance Department Director

cc: United States Securities and Exchange Commission

