

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

FORM 10-QSB

(Mark one)

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

For the quarterly period ended March 31, 2007

☐ 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 the issuer's common equity, as of May 1, 2007 was 12,699,269 shares

Transitional Small Business Disclosure Format (check one): Yes___; No_X_

FORM 10-QSB
NEPTUNE INDUSTRIES, INC.
PERIOD ENDED MARCH 31, 2007
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Part I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

NEPTUNE INDUSTRIES, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

March 31, 2007
(unaudited)

ASSETS

Current Assets

Cash and equivalents	\$ 1,470,681
Accounts receivable, less allowance for doubtful accounts of \$ 0	75,953
Inventory	403,932
Prepaid expenses	8,657
Deposit on equipment	15,000
Deferred costs	30,203
Security deposits	17,194
Deferred tax asset of \$1,196,832 valuation allowance of \$1,196,832	-

Total Current Assets 2,021,620

Property and equipment, net of
accumulated depreciation of \$412,897 388,084

Total Assets \$ 2,409,704

LIABILITIES AND DEFICIENCY IN ASSETS

Liabilities

Current Liabilities

Accounts payable	\$ 50,595
Accrued and other current liabilities	733,423
Current portion of long-term debt	1,490
Convertible notes payable	285,000
Notes payable-officers	89,888
Convertible notes-officers	17,500

Total Current Liabilities 1,177,896

Long-term liabilities

Convertible notes	229,213
Convertible debentures	2,388,000
Deferred compensation-stock options	194,293

Total Long-Term Liabilities 2,811,506

Total Liabilities 3,989,402

COMMITMENTS AND CONTINGENCIES

-

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, 12,699,269 shares issued and outstanding	12,699
Additional paid-In capital	4,802,450
Accumulated deficit	(6,399,847)

Total Deficiency in assets	(1,579,698)

Total Liabilities and Deficiency in assets	\$ 2,409,704
	=====

See accompanying notes.

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

	For the three months ended March 31,	
	2007	2006
	-----	-----
Revenues:		
Sales	\$ 203,379	\$ 124,918
Cost of sales	224,742	275,877
	-----	-----
Gross loss	(21,363)	(150,959)
	-----	-----
Expenses:		
Advertising and marketing	-	30
Automobile and truck expense	2,524	9,081
Depreciation	64	943
Insurance	2,711	13,192
Office	2,104	1,811
Officers salary, related taxes and benefits	92,364	80,525
Other operating expenses	225,867	20,572
Outside services	401,912	33,822
Professional fees	4,350	525
Public relations	16,100	-
Rent	-	413
Repairs	-	393
Utilities	3,343	2,029
	-----	-----
Total expenses from operations	751,339	163,336
	-----	-----
Loss before interest, other income, expenses and income taxes	(772,702)	(314,295)
Other income	751	-
Interest expense	(81,480)	(24,536)
	-----	-----
Loss before income tax	(853,431)	(338,831)
Provision for income taxes	-	-
	-----	-----
Net loss	\$ (853,431)	\$ (338,831)
	=====	=====
Net loss per share(basic and diluted)	\$ (0.069)	\$ (0.032)
	=====	=====
Weighted average number of common shares outstanding (basic and diluted)	12,335,936	10,532,633
	=====	=====

See accompanying notes.

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

	For the nine months ended March 31,	
	2007	2006
	-----	-----
Revenues:		
Sales	\$ 671,559	\$ 295,732
Cost of Sales	841,038	639,707
	-----	-----
Gross loss	(169,479)	(343,975)
	-----	-----
Expenses:		
Advertising and marketing	-	(30)
Automobile and truck expense	12,768	26,027
Depreciation	484	3,472
Insurance	21,714	34,564
Office	4,578	4,244
Officers salary, related taxes and benefits	261,879	240,830
Other operating expenses	277,640	81,310
Outside services	459,692	3,334
Professional fees	20,696	28,059
Public relations	40,473	14,702
Rent	-	1,949
Repairs	-	652
Stock-based compensation	194,292	-
Utilities	7,437	6,439
	-----	-----
Total expenses from operations	1,301,653	445,552
	-----	-----
Loss before interest, other income, expenses and income taxes	(1,471,132)	(789,527)
Interest income	2,961	-
Insurance reimbursement	75,171	-
Other income	-	4,834
Interest expense	(223,148)	(48,224)
	-----	-----
Loss before income tax	(1,616,148)	(832,917)
Provision for income taxes	-	-
	-----	-----
Net loss	\$(1,616,148)	\$(832,917)
	=====	=====
Net loss per share(basic and diluted)	\$ (0.138)	\$ (0.080)
	=====	=====
Weighted average number of common shares outstanding (basic and diluted)	11,678,158	10,355,261
	=====	=====

See accompanying notes.

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

	For the nine months ended March 31,	
	2007	2006
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(1,616,148)	\$ (832,917)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	51,095	53,162
Deferred compensation-stock options	194,293	-
Issue of common stock for services	370,000	38,847
(Increase) decrease in assets:		
Accounts receivable	(7,533)	2,060
Deferred costs	(1,624)	-
Inventory	94,556	(3,055)
Deposits	(15,814)	(2,500)
Prepaid expenses	(7,552)	1,922
Increase (decrease) in liabilities:		
Accounts payable	(81,124)	102,630
Accrued and other current liabilities	367,404	57,153
	-----	-----
Net cash used by operating activities	(652,447)	(582,698)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment	(5,810)	(14,577)
Notes receivable	-	5,000
	-----	-----
Net cash used by investing activities	(5,810)	(9,577)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debenture bonds and notes	1,888,000	345,000
Pay-off of notes	(35,000)	(25,000)
Sale of common stock	-	146,382
	-----	-----
Net cash provided by financing activities	1,853,000	466,382
	-----	-----
Net increase (decrease) in cash and equivalents	1,194,743	(125,893)
Cash and equivalents-beginning	275,938	144,004
	-----	-----
Cash and equivalents-ending	\$1,470,681	\$ 18,111
	=====	=====
SUPPLEMENTAL DISCLOSURES		
Cash paid quarter for:		
Interest	\$ 44,604	\$ 24,536
Income taxes	\$ -	\$ -
	=====	=====

See accompanying notes.

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDING MARCH 31, 2007
(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 Financial Statement 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 (99+%) subsidiary, Blue Heron Aqua Farm, LLC (Blue Heron). All inter-company balances and transactions have been eliminated at consolidation.

The accompanying consolidated financial statements are un-audited and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-QSB. Accordingly, certain information and footnote disclosures normally included in audited financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for a full year. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements that were included in the Form 10-KSB filed by the Company for the year ended June 30, 2006, with the Securities and Exchange Commission.

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDING MARCH 31, 2007
(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

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.

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.

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. The Company has not experienced any

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDING MARCH 31, 2007
(Unaudited)

NOTE 1. SUMMARY OF SIGNIFCANT ACCOUNTING PRINCIPLES (continued)

losses on such accounts and does not believe it is exposed to any significant risk on cash and equivalents. The Company operates both 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.

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 account 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.

Inventory at March 31, 2007 consisted of the following:

Seafood	\$	94,083	
Feed		113,153	
Chemicals		83,049	
Overhead		113,167	
Boxes		480	

	\$	403,932	F-8

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDING MARCH 31, 2007
(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

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. For the Company, the accounting estimates requiring the most difficult and sensitive judgments of management including inventory valuation, recognition and measurement of income tax assets and liabilities, and accounting for stock-based compensation.

Recent Accounting Pronouncement

In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109. FIN 48 prescribes a comprehensive financial statement model of how a company should recognize, measure, present, and disclose uncertain tax positions that the company has taken or expects to take in its income tax returns. FIN 48 requires that only income tax benefits that meet the more likely than not recognition threshold be recognized or continue to be recognized on the effective date. Initial de-recognition of amounts would be reported as a cumulative effect of a change in accounting principle. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on the financial statements of the Company.

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements, which establishes a framework for reporting fair value and expands disclosure about fair value measurements. FAS 157 is effective for the 2008 fiscal year of the Company. The Company is currently evaluating the impact of this standard on its financial statements.

In February 2007, the FASB issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement 115. FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting FAS 159 on its financial statements.

Reclassifications.

Certain prior period amounts have been reclassified to conform to the current period presentation.

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

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDING MARCH 31, 2007
(Unaudited)

Note 2 GOING CONCERN (continued)

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 \$6,399,847 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. Management's 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. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other liabilities consisted of the following at March 31, 2007:

Accrued payroll - officers	\$ 387,324
Accrued interest - officers	68,485
Accrued interest - others	198,115
Accrued consulting	79,500

	\$ 733,424
	=====

NOTE 4 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 \$387,324 through the quarter ended March 31, 2007. Cash compensation actually paid was \$57,200 for the quarter ended March 31, 2007.

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 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 \$79,500 has been accrued as due under the agreements with CF Consulting, LLC as of March 31, 2007. Our Chief Financial Officer, Robert Hipple, is also a managing director of CF Consulting.

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDING MARCH 31, 2007
(Unaudited)

NOTE 5. 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. A total of \$8,428 in interest has been accrued on each of these notes as of March 31, 2007 and is included in accrued current liabilities.

NOTE 6. NOTES PAYABLE

On March 28, 2007, the Company paid off a convertible promissory note in the amount of \$25,000 issued July 28, 2004, plus accrued interest of \$6,664. Also on March 28, 2007, the Company paid off a second convertible promissory note in the amount of \$10,000 issued September 23, 2005, plus accrued interest of \$1,504.

On March 28, 2007, the Company issued a total of \$1,650,000 in two year debenture bonds as part of the private offering of up to \$2,000,000 in debenture bonds commenced in April 2006. As a result, the total amount raised in the offering was \$2,388,000. See, Note 9, Private Offering.

NOTE 7. 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.

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDING MARCH 31, 2007
(Unaudited)

NOTE 7. 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.

A total of 1,450,000 common shares of the Company were issued during the quarter ended March 31, 2007 and 100,000 shares were cancelled, resulting in a net new issue of 1,350,000 common shares. This total included 1,200,000 common shares issued to Dawson James Securities under a one-year consulting agreement commencing May 1, 2006, issued at the market value of the shares on the issue dates, and 250,000 shares issued to American Capital Ventures for investor relations services, also issued at the market price. A total of \$280,000 in consulting expense has been charged in the quarter as a result of the shares issued to Dawson James, and \$90,000 as consulting expense for the shares issued to American Capital Ventures.

NOTE 8. MAJOR CUSTOMERS

Revenues from two customers comprised approximately 70 percent of revenues during the period ended March 31, 2007 compared to the same two customers comprising 69 percent for the annual period ending December 31, 2006.

NOTE 9. 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

NEPTUNE INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDING MARCH 31, 2007
(Unaudited)

NOTE 10. PRIVATE OFFERING (continued)

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 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 proceeds from the offering, net of commissions and expenses, was as follows:

Principal amount	Commissions	Expense allowance	Net proceeds	Warrants
\$2,388,000	\$238,800	\$ 71,640	\$2,077,560	238,800

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.

We were incorporated in the State of Florida on May 8, 1998. We operate on a June 30, 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.

In late July, 2005, we entered into an arrangement with The Redland Company, Inc. of Homestead, Florida to utilize a 38 acre quarry lake site for testing of the Aqua-Sphere prototype. This site is close to our current 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 completed. The new prototype tank has been delivered, assembled and launched and tests of the prototype are well underway.

On September 27, 2006, the Company filed a Provisional Process Patent on the Production and Processing of Select Insects into Protein Meal for Fish and Animal Diets. This patent and research was born out of the tremendous need for replacement of fish meal in fish and other livestock diets worldwide. Fish meal has gone up in price considerably over the last year and the wild species targeted for fish meal production are growing scarcer over time. In January, CEO, Ernest Papadoyianis, and COO, Sal Cherch, were invited to Mississippi State University to meet with members of its Entomology Department to discuss research activities for the Company. Mississippi State is a world leader in insect rearing methodology and has been instrumental in developing facilities, diets, and rearing methods for facilities worldwide. The Company commenced its first phase of research and testing with Mississippi State in the third quarter of 2007, ending March 31, 2007.

Acquisition Plans

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 a hybrid striped bass hatchery operation. 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.

The Company also has identified and has begun acquisition discussions with a number of acquisition candidates which will allow the Company to expand its business plan to develop an operating model which utilizes waste and by-products from one operation as fuel or feed for other parts of the business model, with the goal of minimizing or eliminating all adverse environmental impacts from the Company's operations. These targets include hatchery operations, processing and distribution operations, larger aqua-farms, and operations in other natural and organic food products. The goal of the Company is to grow to become a manufacturer, processor and distributor of organic and natural seafood and other food and nutritional products using processes that eliminate or at least minimize any adverse effect on the environment by controlling waste and discharge from its operations.

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 March 31, 2007 and 2006 were \$203,379 and \$124,918, respectively, resulting from the increased capacity of the farm. Cost of sales for the same periods were \$224,742 and \$275,877, resulting in gross loss of \$(21,363) and \$(150,959), respectively. Operating expenses for the quarters ended March 31, 2007 and 2006 were \$772,702 and \$163,336, resulting in net losses of \$(853,431) for the quarter ended March 31, 2007 compared to \$(338,831) for the quarter ended March 31, 2006. Total losses for the year to date ended March 31, 2007 were \$(1,616,148) compared to a loss for the nine months ended March 31, 2006 of \$(832,917). However, the loss for the nine months ended March 31, 2006 included the one-time expense charge of \$194,292 as the present value of stock options granted effective July 1, 2006, under current accounting rules, non-recurring expenses relating to the private offering of \$525,528 and investor relations fees paid in stock of \$80,000.

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, 2006 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

A total of 1,450,000 common shares of the Company were issued during the quarter ended March 31, 2007. This total included 1,200,000 common shares issued to Dawson James Securities under a one-year consulting agreement commencing May 1, 2006, issued at the market value of the shares on the issue dates, and 250,000 shares issued to American Capital Ventures for investor relations services, also issued at the market price. A total of \$280,000 in consulting expense has been charged in the quarter as a result of the shares issued to Dawson James, and \$90,000 as consulting expense for the shares issued to American Capital Ventures.

In addition, 100,000 shares of common stock which had been issued as partial compensation under a consulting agreement with JANA Corporation were cancelled as a result of the termination of the consulting agreement.

As a result of these changes, a total of 12,699,269 common shares were outstanding at the end of the quarter ended March 31, 2007.

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

Not applicable.

ITEM 6. EXHIBITS

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

- 31.1 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

On February 6, 2007, the Company filed a report on Form 8-K disclosing that Berman, Hopkins, Wright & Laham CPAs and Associates, LLC had been retained as the independent certifying auditors for the Company.

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: May 14, 2007

NEPTUNE INDUSTRIES, INC.

By: /s/ Ernest Papadoyianis

Ernest Papadoyianis
CEO, President and Director