

AXIAL VECTOR ENGINE CORP  
Form 10QSB  
November 14, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**FORM 10-QSB**

Quarterly Report pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934

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

Transition Report pursuant to 13 or 15(d) of the  
Securities Exchange Act of 1934

For the transition period \_\_\_\_\_  
to \_\_\_\_\_

Commission File Number: **000-49698**

**Axial Vector Engine Corporation**

(Exact name of small business issuer as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or  
organization)

**20-3362479**

(IRS Employer Identification No.)

**One World Trade Center**

**121 S.W. Salmon Street, Portland, Oregon 97204**

(Address of principal executive offices)

**503-471-1348**

(Issuer's telephone number)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days  Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
**36,094,096 common shares as of September 29, 2006.**

Transitional Small Business Disclosure Format (check one): Yes  No



**TABLE OF CONTENTS**

Page

**PART I - FINANCIAL INFORMATION**

<u>Item 1.</u>	<u>Financial Statements</u>	<u>3</u>
<u>Item 2.</u>	<u>Plan of Operation</u>	<u>4</u>
<u>Item 3.</u>	<u>Controls and Procedures</u>	<u>16</u>

**PART II - OTHER INFORMATION**

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>18</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>18</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>19</u>
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	<u>19</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>19</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>19</u>

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Our unaudited consolidated financial statements included in this Form 10-QSB are as follows:

- F-1 Consolidated Balance Sheet as of September 30, 2006 (Unaudited) and September 30, 2005 (Restated);
- F-2 Consolidated Statements of Operations for the three months ended September 30, 2006 and 2005 (Restated) with Cumulative Totals Since Inception (Unaudited);
- F-3 Consolidated Statement of Changes in Stockholders' Equity for the three months ended September 30, 2006;
- F-4 Consolidated Statements of Cash Flows for the three months ended September 30, 2006 and 2005 (Restated) with Cumulative Totals Since Inception (Unaudited); and
- F-5 Notes to Consolidated Financial Statements.

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the SEC instructions to Form 10-QSB. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended September 30, 2006 are not necessarily indicative of the results that can be expected for the full year.

**AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY  
(FORMERLY AERO MARINE ENGINE, INC.)  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED BALANCE SHEETS  
SEPTEMBER 30, 2006 AND 2005 (Restated)  
(Unaudited)**

	September 30, 2006	September 30, 2005 (Restated) Note 2
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 291,859	\$ 162,015
Deposit	22,670	22,670
Subscription receivable	53,000	-
Prepaid expenses	15,000	22,330
<b>Total Current Assets</b>	<b>382,529</b>	<b>207,015</b>
Property and equipment, net (Note 5)	72,537	39,161
Due from shareholder (Note 13)	10,000	
Intangible assets- patents, net (Note 6)	243,324	217,544
<b>TOTAL ASSETS</b>	<b>\$ 708,390</b>	<b>\$ 463,720</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 594,828	\$ 104,866
Payroll tax liabilities	26,971	-
Current portion of note payable (Note 6)	1,245,000	995,000
Contingent share-based payment (Note 7)	-	-
Liability for stock to be issued (Note 8)	393,326	695,362
Share-based fee liability- warrants (Note 9)	2,084,884	6,504,250
Share-based fee liability- options (Note 10)	2,856,220	3,559,128
	5,615,400	8,762,780

Share-based compensation liability- options (Note 11)		
Accrued interest - shareholder loan (Note 13)	77,297	42,171
Due to related company (Note 12)	301,339	301,339
<b>Total Current Liabilities</b>	<b>13,195,265</b>	<b>20,964,896</b>
Due to shareholder (Note 13)	917,030	387,683
<b>Total Liabilities</b>	<b>14,112,295</b>	<b>21,352,579</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock, \$.001 par value; 100,000,000 shares authorized no shares issued and outstanding	-	-
Common stock, \$.001 par value; 100,000,000 shares authorized 36,094,096 and 34,657,010 shares issued and outstanding (Note 14)	36,094	34,657
Additional paid-in capital	23,239,905	21,998,233
Prepaid share-based fees (Note 15)	(2,306,950)	(2,900,702)
Prepaid share-based compensation (Note 15)	(352,625)	(1,003,625)
Beneficial reduction of share-based liability (Note 16)	13,528,016	-
Deficit accumulated during the development stage	(47,548,345)	(39,017,422)
<b>Total Stockholders' Deficit</b>	<b>(13,403,905)</b>	<b>(20,888,859)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
	\$ 708,390	\$ 463,720

The accompanying notes are an integral part of these consolidated financial statements.

**AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY  
(FORMERLY AERO MARINE ENGINE, INC.)  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (Restated)  
(WITH CUMULATIVE TOTALS SINCE INCEPTION)  
(Unaudited)**

	<b>For the Three Months Ended September 30, 2006</b>	<b>For the Three Months Ended September 30, 2005 (Restated) Note 2</b>	<b>Cumulative Totals December 30, 2002 through September 30, 2006</b>
<b>SALES</b>	\$ -	\$ -	\$ -
<b>COST OF SALES</b>	-	-	-
<b>GROSS PROFIT</b>	-	-	-