AXIAL VECTOR ENGINE CORP
Form 10QSB
May 23, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

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

For the quarterly period ended: March 31, 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	**20-3362479**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

One World Trade Center
121 S.W. Salmon Street, Suite 1100
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 [X] Yes [ ] No

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 34,554,771 common shares as of March 31, 2006.

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

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

F-1	Condensed Consolidated Balance Sheet at March 31, 2006 (Unaudited);
F-2	Condensed Consolidated Statements of Operations for the nine and three months ended March 31, 2006 and 2005 with Cumulative Totals Since Inception (Unaudited);
F-3	Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2006 and 2005 with Cumulative Totals Since Inception (Unaudited);
F-5	Notes to Condensed Consolidated Financial Statements

These unaudited 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 March 31, 2006 are not necessarily indicative of the results that can be expected for the full year ending June 30, 2005.

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY KNOWN AS AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY) CONDENSED
CONSOLIDATED BALANCE SHEET
MARCH 31, 2006 (UNAUDITED)

ASSETS

		2005
Current Assets:		
Cash and cash equivalents	$	179
Deposit		22,670
Prepaid expenses		272,710
Total Current Assets		295,559
Property and equipment, net		38,011
Other Assets:		
Deferred financing costs		1,725,000
Intangible assets, net		243,324
Total Other Assets		1,968,324
TOTAL ASSETS	$	2,301,894
LIABILITIES AND STOCKHOLDERS' DEFICIT		
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	$	1,141,259
Notes payable		3,245,000
Due to related company		301,339
Total Current Liabilities		4,687,598
Long Term Liabilities:		
Due to shareholders		294,794
Total Long Term Liabilities		294,794
Total Liabilities		4,982,392
STOCKHOLDERS' DEFICIT		
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		
34,554,771 shares issued and outstanding		34,554
Additional paid-in capital		20,410,846
Deficit accumulated during the development stage		(23,125,898)

Total Stockholders' Deficit		(2,680,498)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	2,301,894

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

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY KNOWN AS AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE AND THREE MONTHS ENDED MARCH 31, 2006 AND 2005 (UNAUDITED)
WITH CUMULATIVE TOTALS SINCE INCEPTION

	NINE MONTHS ENDED MARCH 31		THREE MONTHS ENDED MARCH 31		CUMULATIVE TOTALS DECEMBER 30, 2002 through MARCH 31, 2006
	2006	2005	2006	2005	2006
OPERATING REVENUES					
Sales	$ -	$ -	$ -	$ -	$ -
COST OF SALES	-	-	-	-	-
GROSS PROFIT	-	-	-	-	-
OPERATING EXPENSES					
Compensation expense	258,149	-	150,129	-	3,004,615
Professional and consulting fees	1,465,526	259,064	806,647	85,014	7,182,657
Advertising and promotions	116,438	16,584	-	16,584	325,515
Rent	15,715	-	7,347	-	59,891
Bad debt - subscriptions receivable	888,109	-	888,109	-	888,109
Impairment of property and equipment	-	-	-	-	107,964
Impairment of goodwill and intangibles	-	812,500	-	-	4,563,847
Write-off of inventory	-		-	-	266,519
Research and development	3,052,788		813,577	-	5,383,948
General and administrative expenses	433,361	72,734	162,847	32,222	1,241,975
Depreciation and amortization	5,767	885	2,133	598	46,461
Total Operating Expenses	6,235,853	1,161,767	2,830,789	134,418	23,071,501
NET LOSS BEFORE OTHER INCOME (EXPENSES) AND PROVISION FOR INCOME TAXES	(6,235,853)	(1,161,767)	(2,830,789)	(134,418)	(23,071,501)
OTHER INCOME (EXPENSES)					
Interest income	71	-	-	-	7,749
Interest expense	(45,016)	(5,387)	(15,866)	(2,036)	(62,146)

Total Other Income (Expenses)		(44,945)		(5,387)		(15,866)		(2,036)	(54,397)
NET LOSS BEFORE PROVISION FOR INCOME TAXES		(6,280,798)		(1,167,154)		(2,846,655)		(136,454)	(23,125,898)
Provision for income taxes		-		-		-		-	-
NET LOSS	$	(6,280,798)	$	(1,167,154)	$	(2,846,655)	$	(136,454)	$ (23,125,898)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		22,533,824		22,496,919		34,113,656		28,394,722	
NET LOSS PER COMMON SHARE OUTSTANDING	$	(0.28)	$	(0.05)	$	(0.08)	$	(0.00)	

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

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY KNOWN AS AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE AND THREE MONTHS ENDED MARCH 31, 2006 AND 2005 (UNAUDITED)
(WITH CUMULATIVE TOTALS SINCE INCEPTION)

	NINE MONTHS ENDED MARCH 31		THREE MONTHS ENDED MARCH 31		CUMULATIVE TOTALS DECEMBER 30, 2002 THROUGH March 31, 2006
	2006	**2005**	**2006**	**2005**	
CASH FLOWS FROM OPERATING ACTIVITIES					
Net loss	$ (6,280,798)	$ (1,167,154)	$ (2,846,655)	$ (948,954)	$ (23,125,898)
Adjustments to reconcile net loss to net cash used in operating activities					
Common stock issued for services	665,450	109,000	135,850	-	4,816,989
Warrants issued for services	150,000	-	150,000	-	150,000
Common stock issued as compensation	-	-	-	-	1,200,000
Options issued for services	22,750	-	-	-	2,069,961
Options issued as compensation	-	-	-	-	1,102,750
Depreciation and amortization	5,767	885	2,133	598	46,461
Impairment of property and equipment	-	-	-	-	107,964
Impairment of goodwill and intangibles	-	812,500	-	812,500	4,563,847
Impairment of inventory	-	-	-	(3,351)	266,519
Bad debt - subscription receivable	888,109	-	888,109	-	888,109
Changes in assets and liabilities					
Increase in prepaid expenses and other current assets	(250,379)	-	183,162	-	(272,110)
Increase in accounts payable and accrued expenses	1,009,840	5,387	431,845	(2,992,964)	1,197,565
Increase in payroll liabilities	-	-	(11,823)	-	-

Total adjustments	2,491,537	927,772	1,779,276	(2,183,217)	16,138,055
Net cash (used in) operating activities	(3,789,261)	(239,382)	(1,067,379)	(3,132,171)	(6,987,843)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of business	-	-	-	-	(1,018,814)
Acquisitions of intangible assets	(179,574)	-	-	-	(243,324)
Acquisitions of fixed assets	(22,637)	(3,021,465)	(3,065)	(9,722)	(72,400)
Net cash (used in) investing activities	(202,211)	(3,021,465)	(3,065)	(9,722)	(1,334,538)
CASH FLOWS FROM FINANCING ACTIVITIES					
Issuance of stock through the excersise of options	114,390	-	64,311	-	114,390
Proceeds from the sale of stock	365,993	300	365,993	300	2,014,041
Proceeds from notes payable, net	250,000	2,995,000	250,000	2,995,000	250,000
Proceeds from Standby Equity Distribution Agreement	3,600,000	-	250,000	-	4,000,000
Liability for stock to be issued	(400,000)	-	-	-	337,095
Repayment of loan	-	-	-	-	(5,000)
Advances from shareholders	250,000	301,941	250,000	177,218	1,950,711
Payments to shareholders	(186,092)	-	(153,527)	-	(640,016)
Payments to related company	(10,000)	-	-	-	(13,000)
Advances from (payments to) related company	-	(3,000)	-	(3,000)	314,339
Net cash provided by financing activities	3,984,291	3,294,241	1,026,777	3,169,518	8,322,560
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,181)	33,394	(43,667)	27,625	179
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	7,360	-	43,846	5,769	-
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 179	$ 33,394	$ 179	$ 33,394	$ 179

SUPPLEMENTAL CASH FLOW INFORMATION										
Cash paid during the period for interest	$	-	$	-	$	-	$	-	$	190
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION										
Common stock issued for services	$	665,450	$	109,000	$	97,850	$	109,000	$	4,816,989
Common stock issued as compensation	$	-	$	-	$	38,000	$	-	$	-
Common stock issued for related-party debt repayment	$	1,015,890	$	-	$	1,015,890	$	-	$	1,015,890
Common stock issued for bad debt - subscription receivable	$	888,109	$	-	$	888,109	$	-	$	888,109
Warrants issued for services	$	150,000	$	-	$	150,000	$	-	$	150,000
Impairment of property and equipment	$	-	$	-	$	-	$	-	$	107,964
Impairment of goodwill and intangibles	$	-	$	812,500	$	-	$	812,500	$	1,513,847
Impairment of inventory	$	-	$	-	$	-	$	-	$	266,519
Conversion of payables to equity	$	53,250	$	-	$	-	$	-	$	170,285

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

F - 3

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION

The condensed consolidated unaudited interim financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The condensed consolidated financial statements and notes are presented as permitted on Form 10-QSB and do not contain information included in the Company's annual statements and notes. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the June 30, 2005 audited financial statements and the accompanying notes thereto. While management believes the procedures followed in preparing these condensed financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist, and procedures that will be accomplished by the Company later in the year.

These condensed consolidated unaudited financial statements reflect all adjustments, including normal recurring adjustments which, in the opinion of management, are necessary to present fairly the operations and cash flows for the periods presented.

Princeton Ventures, Inc. (the "Company") was incorporated in the State of Nevada on May 10, 2001. The Company had not commenced operations. On May 30, 2003, the Company exchanged 37,994,923 shares of its common stock for all of the issued and outstanding shares of Aero Marine Engine Corp. ("Aero"). Aero was formed on March 30, 2002. Aero had no operations and was formed to acquire the assets of Dyna-Cam Engine Corporation. The Company changed its name from Princeton Ventures, Inc. to Aero Marine Engine, Inc.

At the time that the transaction was agreed to, the Company had 20,337,860 common shares issued and outstanding. In contemplation of the transaction with Aero, the Company's two primary shareholders cancelled 9,337,860 shares of the Company's common stock held by them, leaving 11,000,000 shares issued and outstanding. As a result of the acquisition of Aero, there were 48,994,923 common shares outstanding, and the former Aero stockholders held approximately 78% of the

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

Company's voting stock. For financial accounting purposes, the acquisition was a reverse acquisition of the Company by Aero, under the purchase method of accounting, and was treated as a recapitalization with Aero as the acquirer. Accordingly, the historical financial statements have been restated after giving effect to the May 30, 2003, acquisition of the Company. The financial statements have been prepared to give retroactive effect to December 30, 2002, the date of inception of Aero, of the reverse acquisition completed on May 30, 2003, and represent the operations of Aero. Consistent with reverse acquisition accounting: (i) all of Aero's assets, liabilities, and accumulated deficit, are reflected at their combined historical cost (as the accounting acquirer) and (ii) the preexisting outstanding shares of the Company (the accounting acquiree) are reflected at their net asset value as if issued on May 30, 2003.

Additionally, on June 30, 2003, the Company acquired the operating assets of Dyna-Cam Engine Corp. ("Dyna-Cam"). Dyna-Cam was a development stage enterprise developing a unique, axial cam-drive, free piston, internal combustion engine. Dyna-Cam intended to produce and sell the engine primarily for aircraft and marine applications. Dyna-Cam had not generated significant revenues at the time of the Company's acquisition.

The Company, under its new management, has raised over $1,200,000 in cash to affect the development of the Axial Vector Engine “E” (Electronic). Management believes that significant capital is required to adequately develop the Axial Vector Engine “E” engine and begin operations. For the nine months ended March 31, 2006, shareholders of the Company have advanced a net of $493,404 to assist in funding the operations.

The Company will require additional capital. Although the current majority stockholders of the Company, as well as an affiliate, have made verbal commitments with no guarantees to continue to fund the development and sales and marketing efforts of the Company, if alternate financing cannot be obtained. There can be no assurance that any new capital would be available to the Company or that adequate funds for the Company's operations, whether from the Company's revenues, financial markets, or other arrangements will be available when needed or on terms

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED

satisfactory to the Company. The failure of the Company to obtain adequate additional financing will require the Company to delay, curtail or scale back some or all of its research and development programs, sales, marketing efforts and manufacturing operations.

On May 19, 2005, the Company announced that it had changed its name to Axial Vector Engine Corporation ("Axial"). Management believes the new name will more accurately describe the Company's mission. The Company's stock symbol changed to AXVC.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consists principally of currency on hand, demand deposits at commercial banks, and liquid investment funds having an original maturity of three months or less at the time of purchase.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash equivalents and accounts receivable.

The Company's policy is to review the amount of credit exposure to any one financial institution and place investments with financial institutions evaluated as being creditworthy. In the ordinary course of business, the Company has bank deposits that may exceed federally insured limits. As of March 31, 2006, the Company was not in excess of the $100,000 insured limit.

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Dyna-Cam, Aero Marine Engine Corp. All significant inter-company accounts and transactions are eliminated.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, three to seven years. Reviews are regularly performed to determine whether facts and circumstances exist that indicate the carrying amount of assets may not be recoverable or the useful life is shorter than originally estimated. The Company assesses the recoverability of its property and equipment by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

If assets are determined to be recoverable, but the useful lives are shorter than originally estimated, the net book value of the assets is depreciated over the newly determined remaining useful lives. When equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in operations.

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts for the nine months ended March 31, 2005 have been reclassified to conform to the presentation of the March 31, 2006 amounts. The reclassifications have no effect on net loss for the nine months ended March 31, 2005.

Income Taxes

The Company has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. The Statement requires an asset and liability approach for financial accounting and reporting of income taxes, and the recognition of deferred tax assets and liabilities for the temporary differences between the financial reporting bases and tax bases of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

Advertising

The Company's policy is to expense the costs of advertising and marketing as they are incurred. Advertising expense for the nine months ended March 31, 2006 and 2005 was $116,438 and $16,584, respectively.

Research and Development

Research and development costs are expensed as incurred.

Intangible Assets

During the nine months ended March 31, 2006, the Company incurred costs of $243,324 in applying and registering of patents. These patents are currently pending. Due to the nature of the patents, the Company anticipates receiving confirmation on their applications in an expedited fashion.

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Start-up Costs

In accordance with the American Institute of Certified Public Accountants Statement of Position 98-5, *"Reporting on the costs of Start-up Activities"*, the Company expenses all costs incurred in connection with the start-up and organization of the Company.

Stock-Based Compensation

Employee stock awards under the Company's compensation plans are accounted for in accordance with Accounting Principles Board Opinion No. 25 ("APB 25"), *"Accounting for Stock Issued to Employees"*, and related interpretations. The Company provides the disclosure requirements of Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS 123"), and related interpretations. Stock-based awards to non-employees are accounted for under the provisions of SFAS 123 and has adopted the enhanced disclosure provisions of SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123".

The Company measures compensation expense for its employee stock-based compensation using the intrinsic-value method. Under the intrinsic-

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(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 2- <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (CONTINUED)

<u>Stock-Based Compensation</u> (Continued)

value method of accounting for stock-based compensation, when the exercise price of options granted to employees is less than the estimated fair value of the underlying stock on the date of grant, deferred compensation is recognized and is amortized to compensation expense over the applicable vesting period. In each of the periods presented, the vesting period was the period in which the options were granted.

The Company measures compensation expense for its non-employee stock-based compensation under the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 96-18, "*Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring or in Conjunction with Selling*, *Goods or Services*". The fair value of the option issued is used to measure the transaction, as this is more reliable than the fair value of the services received. The fair value is measured at the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. The fair value of the equity instrument is charged directly to compensation expense and additional paid-in capital.

<u>Common Stock Issued for Other Than Cash</u>

Services purchased and other transactions settled in the Company's common stock are recorded at the estimated fair value of the stock issued if that value is more readily determinable than the fair value of the consideration received.

<u>(Loss) Per Share of Common Stock</u>

,Historical net income (loss) per common share is computed using the weighted average number of common shares outstanding. Diluted earnings per share (EPS) include additional dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants. Common stock equivalents are not included in the computation of diluted earnings per share when the Company reports a loss because to do so would be antidilutive for the periods presented.

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED

(Loss) Per Share of Common Stock (Continued)

The following is a reconciliation of the computation for basic and diluted EPS:

	March 31, 2006	2005
Net Income (Loss)	$ (6,280,798)	$ (1,167,154)
Weighted-average common shares outstanding (Basic)	22,533,824	22,496,919
Weighted-average common stock equivalents:		
Stock options and warrants	-	-
Weighted-average common shares outstanding (Diluted)	22,533,824	22,496,919

Options and warrants outstanding to purchase stock were not included in the computation of diluted EPS because inclusion would have been antidilutive. As of March 31, 2006 there were 196,986 options and 200,005 warrants available. The warrants include options to purchase 2,805,000 shares. As of March 31, 2005, there were no outstanding options or warrants available.

Fair Value of Financial Instruments

The carrying amount reported in the balance sheets for cash and cash equivalents and liability for stock to be issued approximate fair value because of the immediate or short-term maturity of these financial instruments.

Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") published Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment ("SFAS 123R"). SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions

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(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (Continued)

within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS 123R are effective for small business issuers as of the first interim period that begins after December 15, 2005. Accordingly, the Company will implement the revised standard January 1, 2006. Currently, the Company accounts for its share-based payment transactions under the provisions of APB 25, which does not necessarily require the recognition of compensation cost in the financial statements (note 3(d)). Management is assessing the implications of this revised standard, which may materially impact the Company's results of operations commencing January 1, 2006 and thereafter.

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 151, “Inventory Costs.” SFAS No. 151 requires abnormal amounts of inventory costs related to idle facility, freight handling and wasted material expenses to be recognized as current period charges. Additionally, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The standard is effective for fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 did not have a material impact on the Company’s financial position or results of operations.

In December 2004, FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Non-monetary Assets, an amendment of APB Opinion No. 29, Accounting for Non-monetary Transactions (" SFAS 153"). This statement amends APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. Under SFAS 153, if a non-monetary exchange of similar productive assets meets a commercial-substance criterion and fair value is determinable, the transaction must be accounted for at fair value resulting in recognition of any gain or loss. SFAS 153 is effective for non-monetary transactions in fiscal periods that begin after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (Continued)

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 replaces Accounting Principles Board ("APB") Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including the cumulative effect of changing to the new accounting principle in net income in the period of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material impact on the Company's financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140." SFAS No. 155 resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets," and permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. The Company is currently evaluating the effect the adoption of SFAS No. 155 will have on its financial position or results of operations.

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (Continued)

In March 2006, the FASB issued SFAS No. 156, “Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140.” SFAS No. 156 requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract under a transfer of the servicer’s financial assets that meets the requirements for sale accounting, a transfer of the servicer’s financial assets to a qualified special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale or trading securities in accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities” and an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. Additionally, SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, permits an entity to choose either the use of an amortization or fair value method for subsequent measurements, permits at initial adoption a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights and requires separate presentation of servicing assets and liabilities subsequently measured at fair value and additional disclosures for all separately recognized servicing assets and liabilities. SFAS No. 156 is effective for transactions entered into after the beginning of the first fiscal year that begins after September 15, 2006. The Company is currently evaluating the effect the adoption of SFAS No. 156 will have on its financial position or results of operations.

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 3- PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31, 2006.

Computer	$ 26,572
Equipment and machinery	13,274
Office equipment	5,786
	45,632
Less: accumulated depreciation	(7,621)
	$ 38,011

Depreciation expense for the nine months ended March 31, 2006 was $5,767.

NOTE 4- DEFERRED FINANCING COSTS

In March 2006, the Company entered into a bond finance agreement with Wiser Financial Services (see note 6). Deferred financing costs in the amount of $1,725,000 comprise of a warrant issued for 500,000 shares, which will be amortized over two years.

NOTE 5- RELATED PARTY TRANSACTIONS

A related party, whose ownership is also a director and officer of the Company, provided office space to the Company at no charge, and funded payroll, moving and other general expenses. As of March 31, 2006, the Company incurred and accrued $301,339, in liabilities to this entity. The advances and funding are based on verbal commitments with no guarantees of future advances or funding. No advances or payments were made during the three months ended March 31, 2006 and the Company made payments of $3,000 during the three months ended March 31, 2005.

NOTE 6- DUE TO SHAREHOLDERS

Certain shareholders of the Company have advanced funds to the Company to cover cash flow deficiencies. These advances have no stated repayment terms and bear interest at 5% with interest payable annually.

NOTE 7- NOTES PAYABLE

Note payable to Transporter Inc. commencing August 2004 for the purchase of exclusive rights to certain video-conferencing technology. The Company is currently in litigation with Transporter Inc. regarding the technology for which the note was issued. The Company has defaulted on this note and this note is due in full. See Note 11 regarding the litigation of this matter.

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 7- NOTES PAYABLE (CONTINUED)

Note payable to Twilight Bay, LLC commencing January 2006 for working capital needs. The note is due in one year and carries a stated interest rate of two percent.

On March 26, 2006, the Company entered into a bond finance agreement with Wiser Financial Services. The Company can borrow up to $5,000,000 anytime during a two-year period at a stated interest rate of 10.25%. All amounts are due at the end of the two-year period. The Company granted Wiser Financial Services a non-cancelable warrant to purchase 500,000 shares of the Company's common restricted stock at $5.00 with the added condition that the warrant is non-dilutible during the two-year term of the agreement. As of March 31, 2006 the Company has drawn down no funds from this note.

NOTE 8- PROVISION FOR INCOME TAXES

Deferred income taxes will be determined using the liability method for the temporary differences between the financial reporting basis and income tax basis of the Company's assets and liabilities. Deferred income taxes will be measured based on the tax rates expected to be in effect when the temporary differences are included in the Company's tax return. Deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

At March 31, 2006, deferred tax assets consist of the following:

		2006
Deferred tax assets	$	7,863,000
Less: valuation allowance		(7,863,000)
Net deferred assets	$	-0-

At March 31, 2006, the Company had federal net operating loss carry forwards in the approximate amounts of $23,126,000 available to offset future taxable income through 2026. The Company established valuation allowances equal to the full amount of the deferred tax assets due to the uncertainty of the utilization of the operating losses in future periods.

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
MARCH 31, 2006 AND 2005
(UNAUDITED)

NOTE 9- STANDBY EQUITY DISTRIBUTION AGREEMENT

On April 25, 2005, the Company entered into a Standby Equity Distribution Agreement ("Agreement") with Alliance Capital Management. Under the agreement, the Company may issue and sell to Alliance Capital Management common stock for a total purchase price of up to $4.0 million. The purchase price for the first payment is 200,000 shares. The remaining purchase price for the shares is equal to 75% of the market price, which is determined as the lowest volume weighted average price of the common stock during the ten trading days following the notice date. This calculation is mandated by the Agreement. As of March 31, 2006, the Company has sold stock and received a total of $4,000,000 under this agreement. Related to this agreement, Alliance Capital Management received, as additional consideration, one (1) warrant to purchase two million shares of common stock at a fixed rate of $4.00 per share for a period of two years.

NOTE 10- STOCKHOLDERS' EQUITY (DEFICIT)

The Company has 100,000,000 shares of common stock authorized, par value $.001. As of March 31, 2006, the Company has 33,713,166 shares of common stock issued and outstanding.

The Company issued 37,994,923 shares of its common stock in connection with the acquisition of Aero Marine Engine Corp. Under reverse acquisition accounting, these shares are reflected as issued on the date of inception and valued at the book value of the net assets of as of the date of the transaction.

Aero was incorporated in contemplation of the reverse acquisition of the Company as well as the Dyna-Cam acquisition. A total of 38,994,923 common shares were issued in the reverse merger transaction. However, 1,000,000 of those shares were designated for the Dyna-Cam acquisition. (See Subsequent Event Footnote.) The Company raised $1,218,598 as part of its initial capitalization. This capital was raised among four individuals in contemplation of their receiving the 37,994,923 shares of the Company's common stock in connection with the acquisition of Aero Marine Engine Corp. The value of the 1,000,000 shares issued in connection with the Dyna-Cam purchase was determined to be $0.032 per

AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY