



one planet one engine™

Cyclone Power Technologies Progress Report for Shareholders

April 5, 2010

Dear Friends of Cyclone,

Warm greetings from South Florida! We had a remarkable 2009 from many perspectives - from the advancement of our engine technology, to the signing of several important license and development agreements, to the maturing of our business model and corporate infrastructure. 2009 was truly a year of tremendous growth, the highlights of which I would like to share with you today.

Financial Milestones

Concurrently with this letter, we have filed for the first time **audited financial statements** for the periods ended December 31, 2008 and 2009, in compliance with GAAP and accounting regulations of the **Securities and Exchange Commission**. We knew from the beginning that this audit would consume time and money, but we made the commitment to you, our shareholders, because we knew it was the right thing for our company's future. We believe that this audit constitutes a critical first step towards Cyclone becoming a fully reporting registrant under the federal securities laws and, ultimately, moving our common stock to a **national exchange**. That is our intention and we will continue to work towards that goal in 2010.

Based upon our audited financials, we generated \$64,000 of revenue in 2009, not inclusive of \$525,000 of deferred revenue and deposits from non-refundable license and development fees that we will recognize upon the delivery of prototype engines to our customers. We incurred \$2.48 million in operating losses in 2009; however, a substantial portion of this constituted expenses and investments in the research & development of our technology (\$1.1 million) and the issuance of restricted stock to our employees, consultants and other professionals in lieu of cash (\$894,000), which we consider a positive sign of support from these extremely talented and dedicated people.

During the year we also spent \$125,000 on the filing of patents worldwide, for which we received our third issued patent in the U.S. and eighth internationally, including one covering the entire European Economic Union.

We ended the year with a limited cash balance and total current assets of \$176,000; however since the end of the year, we have received an additional \$135,000 in license and development fees and approximately \$250,000 from the sale of restricted stock. We believe that we have cash and current cash commitments from our several agreements to operate through the end of 2010 if not longer. Success in securing additional contracts and funding, for which we are cautiously optimistic, would allow us to expand operations by hiring additional engineering and mechanical personnel, increasing our in-house machining/prototyping capabilities, and taking on new revenue-producing projects for our technology.

You can find our audited financial statements in our Annual Report, as filed with [OTC Markets](#).

Government/Military Projects

Raytheon: In 2009 we successfully completed our Independent Research and Development (IRAD) contract with **Raytheon Integrated Defense Systems**, a business of [Raytheon Company](#), and we are in discussions with this \$23 billion technology contractor regarding the next phases of a collaborative project slated for late 2010.

DARPA / RTI: In the first quarter of 2010, we delivered our **biomass-to-power system** to our client [Robotic Technologies Inc.](#), which commissioned the system pursuant to its Phase II SBIR project sponsored by the Defense Advanced Research Projects Agency ([DARPA](#)), an agency of the U.S. Department of Defense. RTI is building the EATR - an autonomous robotic platform for long-range reconnaissance.

Advent: We have assisted our licensee, Advent, in numerous RFP and proposal presentations for the U.S and European defense sectors, several of which look promising in 2010. We have also been working with Advent's customer, MEO Products, to provide a model 80W man-portable gen-set (the GENIE) in the second quarter of 2010.

Renewable Energy Projects

Waste Energy: With respect to waste energy recovery, we have started one very interesting project and are nearing completion of another, both of which have great growth potential. In July we signed a license agreement with [Phoenix Power Group](#) for electric power generators that run on waste oil fuels, such as used automotive motor oil, which the EPA considers an important renewable energy source. And in April, after various delays over the last year, we expect to deliver a waste heat recovery unit to [Bent Glass Design, Inc.](#) of Hatboro, PA - a system that will produce up to 10kW of electricity from the heat exhausted from their furnaces.

Bent Glass will constitute our initial **waste heat recovery** installation; however, we are currently analyzing several other beta sites, and see great potential moving forward in this enormous, underserved market. Along those lines, we are working with associates in Washington D.C. to support tax credit legislation for heat recovery systems like ours, and have contracted through our subsidiary company - Cyclone-WHE, Inc. - the operating, marketing and project financing expertise of our licensee Phoenix Power. Also, to further centralize our operations in this field, we terminated our license agreement with Waste Heat Resources LLC in March, but have extended offers to its talented management to come aboard with us at C-WHE.

Solar: In 2009, we also jumped into the **solar thermal industry** when we signed a license with [Renovalia Energy](#), S.A., of Spain. Renovalia is one of the leading renewable energy companies in the world with over 500 MW of alternative power currently in its portfolio. We shipped them an

alpha test engine (the Solar 1) in October, and are working on getting final design plans to Renovalia later this month for them to commence building prototypes.

Biomass: In addition to completing our biomass-to-power system for RTI, in December 2009 we signed a license with Great Wall Alternative Power Systems of Beijing, China for them to build prototypes of these portable power plants, and ultimately, to manufacture and distribute them solely within China. GWAPS is contractually obligated to provide intellectual property protection for Cyclone's technology in China, including retaining professionals to monitor and, if necessary, prosecute patent infringement cases. We see GWAPS as a strong partner and vigilant watchdog for us in a potentially huge market.

Equipment and Automotive Projects

Lawn Mowers: We have temporarily put on-hold the lawn mower project under our license with Revgine Inc., which was not able to compile the technical team and resources to complete their prototype engine. We are evaluating our options with Revgine, as we focus our resources where we believe they will yield the highest return for our shareholders.

Land Steam Record: In 2009 we also formed an alliance with the [U.S. Land Steam Record team](#), which hopes to use a Cyclone Mark V engine to power the fastest steam vehicle on earth. This engine, which was named Popular Science's 2008 **Invention of the Year**, will not only be the power plant for the record attempt, but will ultimately be capable of being placed into commercial vehicles in the not too distant future. In furtherance of this, we hope to release to the public performance test results from the dynamometer bench later this quarter.

We hope you agree that the growth we made in 2009 as a publicly-traded company, an operating business, and an R&D pioneer has been monumental. We see 2010 as an even more impressive year as we strive to register our stock with the Securities Exchange Commission, close major agreements with partners like Raytheon, and complete and deliver prototype engines to our customers. We are very thankful for your support along this journey, and are confident that together we can build a company that will make a meaningful impact on our world.

Sincerely,

Harry Schoell, CEO & Director

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