

CYCLONE POWER TECHNOLOGIES, INC.

(a development stage company)

BALANCE SHEET

(unaudited)

	9/30/07	(Restated) 7/2/07
<u>ASSETS</u>		
Cash and Cash Equivalents		
Cash in Bank	\$ 18,014	-
Prepaid Expenses	-	2,932
Accounts Receivable (see note 3)	95,000	95,000
Total Current Assets	<u>113,014</u>	<u>97,932</u>
Property and Equipment, net (see note 4)	<u>11,410</u>	<u>100,000</u>
Other Assets		
Patents, Trademarks and Copyrights, net (see note 5)	224,007	191,314
Total Other Assets	<u>224,007</u>	<u>191,314</u>
TOTAL ASSETS	<u>\$ 348,431</u>	<u>\$ 389,246</u>
<u>LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIENCY)</u>		
Current Liabilities		
Accounts Payable and Accrued Expenses	159,499	183,192
Convertible Note Payable (see note 6)	44,275	62,275
Notes Payable - Related Parties (see note 7)	433,622	380,008
Accrued Salaries (see note 8)	34,064	-
Total Liabilities	<u>671,460</u>	<u>625,475</u>
Equity		
Common Stock (par value \$.0001; 1,000,000,000 shares authorized; 61,497,528 shares issued and outstanding)	6,150	25
Preferred Stock A (par value \$.0001; 500,000 shares authorized; issued and outstanding) (see note 9)	50	50
Preferred Stock B (par value \$.0001; 500,000 shares authorized; 1,000 shares issued and outstanding) (see note 9)	-	-
Additional Paid in Capital	722,581	411,443
Accumulated Deficit	<u>(1,051,810)</u>	<u>(647,747)</u>
Total Stockholders' Equity (Deficiency)	<u>(323,029)</u>	<u>(236,229)</u>
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY / (DEFICIENCY)	<u>\$ 348,431</u>	<u>\$ 389,246</u>

see accompanying notes to the financial statements

Cyclone Power Technologies, Inc.

(a development stage company)

Income Statement

For the three months ended September 30, 2007

Income

License Fees	\$	-
Consulting, Design & Other		<u>1,000</u>
Total Income	\$	<u>1,000</u>

Expense

Advertising and Promotion		37,703
Depreciation and Amortization		3,359
General and Administrative		75,368
Research and Development		62,543
Salaries and Benefits		<u>200,077</u>
Total Expense		<u>379,050</u>
Net Ordinary Income (Loss)		<u>(378,050)</u>

Other Income/Expense

Other Income / (Expense)		(11,554)
Interest Expenses		<u>(14,459)</u>
Total Other Income (Expense)		<u>(26,013)</u>
Net Income	\$	<u>(404,063)</u>

Loss Per Common Share - Basic	\$	<u>(0.01)</u>
Loss Per Common Share - Diluted	\$	<u>(0.00)</u>

Shares Used in Computing Loss Per Common Share		
Basic		<u>58,490,994</u>
Diluted		<u>107,403,211</u>

see accompanying notes to the financial statements

CYCLONE POWER TECHNOLOGIES, INC.

(a development stage company)

STATEMENT OF CASH FLOWS

For the Three Months Ended September 30, 2007

(Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income (Loss)	\$ (404,063)
Adjustments to Reconcile Income (Loss) to Net Cash Provided (Used) for Operating Activities:	
Depreciation Expense	550
Amortization Expense	2,809
Payment of Expense by Related Party	139,879
Changes in Assets and Liabilities:	
Decrease in Prepaid Expenses	2,932
Decrease in Accounts Payable & Accruals	(23,693)
Increase in Deferred Salaries	<u>34,064</u>
Net Cash Used In Operations	<u>(247,522)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of Fixed Assets	(11,960)
Proceeds from sale of Software	100,000
Net Adjustment Attributed to Corp. Reorganization	24,263
Increase in Patent Asset	<u>(35,502)</u>
Net Cash Provided in Investing Activities:	<u>76,801</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of common stock	275,000
Repayment of Related Party Loans	<u>(86,265)</u>
Net Cash Provided in Financing Activities:	<u>188,735</u>

Net Change in Cash 18,014

Beginning Cash -

Ending Cash \$ 18,014**SCHEDULE OF NONCASH ACTIVITIES:**

Issuance of common stock for services	\$ 24,040
Convertible Note partially converted for common stock	\$ 18,000

SUPPLEMENTAL CASH FLOW INFORMATION

Interest Expense Paid	\$ -
Income Taxes Paid	\$ -

CYCLONE POWER TECHNOLOGIES, INC.

(a development stage company)

STATEMENT OF STOCKHOLDERS' EQUITY

For the Three Months Ended September 30, 2007

(Unaudited)

	Common Stock	Preferred A Stock	Preferred B Stock	Additional Paid-In Capital	Retained Earnings (Deficit)
Balance at July 2, 2007	\$ 25	\$ -	\$ -	\$ 411,711	\$ (647,747)
Issuance of restricted shares to partners of Cyclone LLLP Stock	3,300	-	-	(3,300)	-
Issuance of shares (subject to leak-out agreement) to pre-acquisition Mgmt./Promoters of Coastal	2,175	-	-	(2,175)	-
Issuance of Preferred A to partners of Cyclone LLLP	-	50	-	(50)	-
Issuance of Preferred B to Senior management of Cyclone	-	-	0	(0)	-
Board of directors resolution effective July 31, 2007 to change authorized shares of Common Stock from 2,500,000,000 to 1,000,000,000	-	-	-	-	-
Issuance of restricted shares per agreement with Mgmt./Promoters of Coastal	10	-	-	199,990	-
Issuance of restricted shares to holders of convertible note	600	-	-	17,400	-
Issuance of restricted shares under Regulation S to foreign investors	20	-	-	74,980	-
Issuance of restricted shares for legal services rendered	15	-	-	14,985	-
Issuance of restricted shares for investment banking services	5	-	-	9,040	-
Net Loss for the Quarter Ended September 30, 2007	-	-	-	-	(404,063)
Balance at September 30, 2007	\$ 6,150	\$ 50	\$ 0	\$ 722,581	\$ (1,051,810)

see accompanying notes to the financial statements

CYCLONE POWER TECHNOLOGIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION AND OPERATIONS

Cyclone Power Technologies, Inc. (the "Company") is the successor entity to the business of Cyclone Technologies LLLP (the "LLL"), a limited liability limited partnership formed in Florida in June 2004. The LLLP was the developer and patent holder of the Cyclone Engine Technology.

Prior to July 2, 2007, the Company was a California corporation named Coastal Technologies, Inc., engaged in the business of medical software development. In June 2007, the Company re-domiciled to the state of Florida (from California) and changed its name to Cyclone Power Technologies, Inc.

On July 2, 2007, the Company acquired all of the assets and liabilities of the LLLP in exchange for 33,000,000 restricted shares of common stock and 501,000 shares of preferred stock (the "Acquisition"). Concurrently with the Acquisition, the management of the LLLP took control of the Board of Directors of the Company, and the assets of the Company related to its medical software business were spun-off to an entity controlled by the previous management of the Company.

The Company is a developmental stage company whose business is to develop, commercialize and market licenses for its Cyclone Engine Technology. From inception through September 30, 2007, the Company has earned insignificant revenues.

B. BASIS OF ACCOUNTING

The Company utilizes the accrual method of accounting, whereby revenue is recognized when earned and expenses when incurred.

C. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

D. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand; cash in banks and any highly liquid investments with maturity of three months or less at the time of purchase. The Company and its subsidiaries maintain cash and cash equivalent balances at several financial institutions, which are insured by the Federal Deposit Insurance Corporation up to \$100,000.

E. ACCOUNTS RECEIVABLE

Accounts receivable consist of fees payable under license agreements due from licensees.

F. INCOME TAXES

In February 1992, the Financial Accounting Standards Board issued Statement on Financial Accounting Standards 109 of "Accounting for Income Taxes." Under Statement 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

CYCLONE POWER TECHNOLOGIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. REVENUE RECOGNITION

Revenue for license fees is recognized upon the execution of license agreement for the amount of the license fee. License fees are generally due upon the execution of the license agreement. Revenue from royalty payments are estimated and accrued as earned. Any adjustments between actual royalty payments and estimates are made to current operations in the period they are determined.

NOTE 2 – COMPUTATION OF EARNINGS PER SHARE

The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per share computation as required by SFAS No. 128, "Earnings Per Share." Basic earnings per share is computed based on the weighted average number of shares outstanding during the period. Diluted earnings per share include the weighted average common shares outstanding for the period plus dilutive potential common shares. Common stock equivalents are excluded from diluted earnings per share calculations if their effect would be anti-dilutive.

Numerator:	
Net Loss	<u>(\$404,063)</u>
Denominator	
Basic	
Weighted Average Number of Common Shares – Basic	<u>58,490,994</u>
Diluted	
Weighted Average Number of Common Shares – Basic	58,490,994
Potential common stock arising from convertible preferred stock and a convertible note	<u>48,912,217</u>
Weighted Average Number of Common Shares – Diluted	<u>107,403,211</u>
Loss per Common Share – Basic	<u>(\$0.01)</u>
Loss per Common Share – Diluted	<u>(\$0.00)</u>

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of amount due for license agreement with a company to produce small engines for military use. The licensee must pay the \$95,000 by September 2008 per the terms of the license agreement.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Display Equipment Used in Trade Shows	\$3,378
Computer Hardware and Software	<u>8,582</u>
TOTAL	\$11,960
Less Accumulated Depreciation	<u>(550)</u>
TOTAL	<u>\$11,410</u>

CYCLONE POWER TECHNOLOGIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007

NOTE 5 – PATENTS AND TRADEMARKS AND COPYRIGHTS

The Cyclone Engine is currently protected under U.S. Patent #7,080,512, with patents pending for the engine internationally. Earlier in 2007, the Company filed U.S. patent applications for the 11 major engine components, and completed the Patent Cooperation Treaty (PCT) filing for worldwide patent protection on all those components. This brings a total of 48 patents pending in the US and internationally on the engine and its components.

Patents, trademarks and copyrights consist of legal fees paid to file and perfect these claims. Patents, trademarks and copyrights are amortized over the life of the intellectual property which is 20 years. Amortization for the quarter ended September 30, 2007 was \$2,809.

NOTE 6 – CONVERTIBLE NOTE PAYABLE

The convertible note payable for \$62,275 dated June 1, 2005, with a 6% annual interest rate, payable on demand, was transferred to the Company on July 2, 2007 as part of the Asset Acquisition whereby the Company acquired all the assets and liabilities of the LLLP. The Company requested the note holders to convert \$18,000 of the note into 6,000,000 restricted common shares of the Company (\$0.003/share), and a Note Conversion and Settlement Agreement was executed on July 17, 2007.

Pursuant to the Settlement Agreement, on July 17, 2007, note holders converted \$1,500 of the note in exchange for 500,000 restricted common shares of the Company. On August 15, 2007, note holders converted \$16,500 of the note into 5,500,000 restricted common shares of the Company. The restrictive legends have since been removed from these shares pursuant to Rule 144(k). The balance of the Convertible Note may be converted by the note holders upon the following schedule: \$9,000 in June 2008, \$9,000 in June 2009, and the balance in June 2010, unless the Company chooses to pay-off the balance before such dates or allow early conversion. Accrued interest as of September 30, 2007 on the note was \$8,080.

NOTE 7 – RELATED PARTY TRANSACTIONS

A. RELATED PARTY NOTES PAYABLE

Related party notes consist of \$18,490 due to the VP of Sales and \$415,343 due to Schoell Marine. The VP of Sales note accrues interest at 6% annually and is expected to be repaid in 2008 when the company begins to generate cash flow from operations.

Schoell Marine is owned by Harry Schoell who is the inventor of the Cyclone Engine and Chief Executive Officer of the Company. This note consists of services and salaries incurred by Schoell Marine on behalf of the LLLP and Company. Schoell Marine also owns the building that is leased to the Company. The Schoell Marine note bears an interest rate of 6% and repayments occur as cash flow of the Company permit. During the three months ended September 30, 2007, the Company incurred \$5,306 in interest charges and repaid \$86,265 on the most recent charges to this note.

B. LEASE ON WAREHOUSE

The Company leases its 6,000 square foot warehouse and office facility located at 601 NE 26th Court in Pompano Beach, Florida. The informal lease between the Company and Schoell Marine provides for the Company to pay rent equal to the monthly mortgage payment on the building plus property taxes, rent, utilities and sales tax due on rent. For the three months ended September 30, 2007, the rent expense was \$18,000 or \$6,000 per month.

CYCLONE POWER TECHNOLOGIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007

NOTE 8 – ACCRUED SALARIES

Deferred salaries consist of three months of salary for the Chief Operating Officer. By agreement, the Chief Operating Officers' salary is deferred until 2009 when the Company is expected to have sufficient cash flows from operations to pay this expense. Chief Operating Officers' salary from July 2007 through December 2008 is expected to be repaid evenly over twelve months beginning in January 2009.

NOTE 9 – PREFERRED STOCK

Issued and outstanding preferred stock consists of 500,000 Series A Convertible Preferred ("Preferred A") shares and 1,000 Series B Preferred ("Preferred B") shares. Preferred A shares are convertible after December 2008 or at such time that the Company raises an aggregate of \$5,000,000 in equity or debt financing, into a number of common shares that, when combined with the number of common shares that the Preferred A holders held as of July 2, 2007, equal sixty percent (60%) of the then total issued and outstanding common shares. The Preferred A holders are the original equity holders of the LLLP. The conversion of the Preferred A shares will have the effect of diluting all other common stock shareholders. Preferred B shares are super-majority voting shares held by senior management, that allow the holders to cast 51% of the eligible votes in matters brought before the shareholders of the Company. Preferred B shares are not convertible into common stock.

NOTE 9 – CAPITAL TRANSACTIONS

As noted above in Footnote 1A, the Company is in a development stage and will not produce significant revenues until the technology has reached a point where licenses can be sold to companies that can utilize the Cyclone Engine Technology to produce marketable products. Until this time, the Company relies on capital raised through loans, Regulation D private placements, and Regulation S transactions (stock sold to foreign investors) to fund operations.