



June 2, 2009

Dear Valued Shareholder,

Thank you for your support of Cyclone Power Technologies. In the first quarter of 2009 we saw encouraging progress from both a technological and business standpoint which we would like to share with you today.

On the technical front, we have made great strides in the development of our Waste Heat Engine, 80W Genie Engine, 18HP Mark II Engine, and 95HP Mark V Engine. We have run our engines (notably, the WHE and the Mark II) longer, under greater workloads and higher heat, and with better mechanical output than ever in the past. In the process of invention and discovery, it is sometimes difficult to explain to the public how important small advancements are to the goal of producing fully operational pre-production prototypes. Suffice it to say, however, that we are making these small but critical improvements every single day, and I am very pleased with our progress to date.

From a business standpoint, we incurred \$403,000 in operating losses in this quarter; however, we ended the period in a better cash position than we started, with over \$117,000 in the bank at March 31, and total current assets of \$203,000 as compared with \$106,000 of total current assets at the end of 2008. The increase in cash resulted in part from deferred revenue of \$25,000 from our agreement with Robotic Technologies, and an accounts receivable payment of \$58,000 from our license agreement with Advent Technologies. We also raised \$422,000 from the issuance of a little over 3.2 million shares of 144 restricted, non-trading common stock in the quarter. Additional financial information can be found in our Quarterly Report filed on [www.pinksheets.com](http://www.pinksheets.com).

Two material events occurred after the end of the fiscal quarter which have great potential for both our technology and our business. First was the signing of a License Agreement with Renovalia Energy SA of Madrid, Spain, for solar thermal engines. Second was the signing of another License Agreement with Waste Heat Resources, Inc., of Londonderry, NH, for waste heat recovery (cogeneration) engines. The consummation of these two licenses should provide Cyclone with considerable up-front fees over the next 12 months and strong positioning in the rapidly growing renewable power field.

Renovalia is one of the leading renewable energy companies in the world, with over 500 MW of alternative power currently in its portfolio and another 2000 MW planned. Renovalia developed the largest photovoltaic solar power farm in the world in Spain, producing almost 50 MW of electricity. More information can be found at [www.RenovaliaEnergy.es](http://www.RenovaliaEnergy.es).

Our license with Renovalia provides them with worldwide rights to manufacture and use Cyclone Engines with their solar thermal solutions. Currently, we are developing with Renovalia a compact heat-regenerative engine (called Cyclone Solar I) to be coupled with their concentrating systems. For this, Cyclone will initially receive \$550,000 in development fees over the following six to nine months as our work progresses (the first payment of \$150,000 was delivered in Q2), and then on-going royalties on each Cyclone Solar I engine produced by Renovalia.

While it is premature to forecast the royalty revenue which we could generate under this license, Renovalia has agreed to pay minimum royalties over the life of the agreement in an amount over \$3 million. We have also issued Renovalia a stock purchase warrant for \$2 million in restricted common stock, which vests upon the completion of the first Cyclone Solar I prototype by Renovalia and terminates 12 months thereafter. The warrant is exercisable at a premium of over 25% from recent market prices.

Waste Heat Resources is a newly-formed company comprised of several individuals with exceptional talent and considerable experience designing, developing and installing industrial automation and cogeneration projects. We have known Messrs. Marc Charbonneau, Matt Frazier and Carl Mueller for over a year now and have come to respect their abilities, dedication and follow-through. They are not a major enterprise – yet – but we have great faith that they will take our engines from prototype to production and installation quickly and successfully. More information about them can be found at [www.WasteHeatResources.com](http://www.WasteHeatResources.com).

Our license with Waste Heat Resources provides them with US and Canadian rights to utilize Cyclone Engines for industrial waste heat recovery and conversion to electric power. More specifically, they will assist us in modifying our 95HP Mark V Engine, originally designed for automotive uses, to run on heat harvested from industrial furnaces, foundries and other massive heat-producing (and wasting) equipment. For these rights Waste Heat Resources has committed to paying us \$500,000 in license fees over the next six to 12 months, and then on-going royalties based upon the total installation cost of their waste heat conversion projects. It is too early to forecast royalty revenue from such projects, but as an example, Waste Heat Resources is currently bidding on over \$4 million in cogeneration installations.

Combined, the Renovalia and Waste Heat Resources agreements are expected to provide Cyclone with a little over \$1 million in fees over the following 12 months. More importantly, however, these arrangements allow Cyclone to enter the solar and cogeneration markets with strong, dedicated partners during a period when all economic, political and social indicators point to the same conclusion – these types of renewal power solutions are critical to our future sustainability. We believe that what Cyclone can achieve through the application of its technology in the solar and cogeneration fields can make a material difference in the types of energy we consume and the rate at which we consume it in the coming years.

With respect to ongoing projects, here is our progress report:

- **Raytheon R&D Agreement:** With the first round of combustions tests completed, we are now working on efficiency and output tests utilizing our Mark II engine under the load of a dynamometer. We expect to have results completed for Raytheon's review by Q3 2009, which if acceptable, will allow us to proceed into Phase Two of our development agreement.
- **Bent Glass Installation:** Initial tests conducted in our facility of the Waste Heat Engine under the rigors of over 600°F required minor debugging in the valve mechanisms of the engine, which we believe we have corrected. We will be conducting additional heat and durability tests over the next 30 days with a new installation date scheduled for Q3 2009.
- **Robotic Technologies:** The DARPA-sponsored EATR project is progressing well as we improve the durability of the Waste Heat Engine and couple it with a portable biomass combustion chamber. We expect to conduct initial tests in Q3 2009.

- **Mark V Automotive Engine:** We are nearly complete with the mechanical engineering of this 95HP automotive engine, and expect to start running the engine under self-combusted heat this summer.
- **Advent Military License:** Our licensee, Advent Power, is making great headway in the US and European military markets which have expressed great interest in engines that alleviate logistical fuel supply issues. One such solution, the man-portable 80W Genie Engine made to recharge batteries in the field, is nearing prototype completion.
- **Lawn Mower License:** We have completed a propane-fueled combustion chamber for this engine and have been asked to assist our licensee in working through engine development revisions, which we expect to do during Q3 2009.

Once again we thank you for having faith in our technology and our team. The process of invention and discovery is not always a straight line forward – it requires patience and determination, both of which our Cyclone team has in abundance. We are dedicated to seeing this technology through to completion and realizing the rewards that you, our shareholders, deserve.

Sincerely,

A handwritten signature in cursive script, appearing to read "Harry Schoell".

Harry Schoell, CEO & Director