



May 17, 2010

Dear Friends of Cyclone,

Greetings from South Florida! I would like to share with you some of the financial and operational highlights from the first three months of 2010, as detailed in our Quarterly Report filed with the OTC Markets.

Financial Development

In the first three months of 2010, we generated \$104,900 of revenue compared to \$44,938 for the same period in 2009, an increase of 133% primarily due to the delivery in March 2010 of our **biomass-to-power** engine system to Robotic Technologies under a **U.S. Department of Defense** sponsored project.

We incurred operating expenses for the first quarter of 2010 of \$434,837 as compared to \$417,424 for the same period in 2009. This increase is primarily due to having more engineers on staff as we grow our operations, and paying higher professional services in connection with the filing of **audited financial statements** with our 2009 Annual Report. Partially offsetting these expenses in 2010 were reduced R&D costs of \$91,316 (39%), which reflects in part the assignment of resources from research to the production of deliverable inventory as certain of our engine prototypes near completion. Overall, however, net loss for the recent quarter was \$393,901 as compared to a net loss of \$402,948 for the same period in 2009.

We ended the first quarter with cash of \$123,000 and total current assets of \$365,000. In the period, we sold 1,303,905 shares of common stock for \$115,211, 19,000 shares of Series A Preferred Stock for \$95,000, and issued for services 869,200 shares of restricted common stock and 450,000 common stock options valued at \$89,722. As we have said before, we believe that the continued interest among our key employees and contractors to receive stock and stock options in lieu of some or all of their cash compensation demonstrates an unwavering commitment to the completion of our technological development and the success of our company.

Since the end of the first quarter, we have strengthened our cash position by over \$285,000 through the sale of approximately 48,000 additional shares of Series A Preferred Stock and receipt of \$44,900 in design, consulting and testing fees, partially from continued services performed for **Raytheon Company**.

You can find our full financial statements with footnotes in our Quarterly Report for the period ended March 31, 2010, filed with www.otcmartets.com.

Engine Projects and Technological Development

Waste Energy Recovery: In the first quarter of 2010, we strengthened our commitment to the technological and strategic development of the waste energy recovery side of our business. We see the use of waste energy resources such as **used motor oils** and **exhausted heat** from industrial processes to run our engines as representing a greatly underserved market with incredible importance for the future of our nation's energy policy and our planet's environmental sustainability. The **U.S. Department of Energy** has estimated that the efficient **recycling** of energy such as used oil and waste heat over the next 20 years can help reduce our national dependence on petroleum imports, spark billions of dollars in private investments, and create up to **one million jobs** in the U.S.

In connection with these opportunities, we continue to advance the development of our Mark V engine for use with waste oil fuels. This project is being funded by [Phoenix Power Group](#) under our license signed with them in mid-2009. Phoenix has also recently brought to the table [Clean Burn Energy Systems](#), which is the leading manufacturer and distributor of waste oil heaters in the world. Working together on development, marketing, sales and installations, we see huge potential for Cyclone Engines to be the power source for electric generators running on waste oil fuels, which the EPA considers an important **renewable energy** source.

In April we completed the baseline Waste Heat Engine (WHE-25) to be delivered to [Bent Glass Design](#), Inc. of Hatboro, PA – which will power a system that will produce up to 10kW of electricity from the heat exhausted from their furnaces. We are now testing a newly-designed heat exchanger that will more efficiently convert heat from their exhaust stacks to our engines' working fluid. We are also in discussions with several other beta sites to test our waste heat recovery systems once our initial unit is installed at Bent Glass. We will conduct these projects through our subsidiary company, Cyclone-WHE LLC, which was formed with the expectation of generating revenue from the sale and installation of complete waste heat recovery systems (i.e., not through licensing revenue, as is Cyclone's business model).

Military: In the first quarter of 2010, we delivered our **biomass-to-power** system to our client [Robotic Technology](#) 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; however, we believe that there are vast commercial opportunities for Cyclone's biomass-to-power system beyond military purposes. We also continued to perform testing and design services for **Raytheon Integrated Defense Systems**, a business of [Raytheon Company](#), and we are in discussions with them regarding the next phases of a collaborative project slated for late 2010.

Solar: Our solar thermal engine being developed for [Renovalia Energy](#) is progressing well and performance testing has commenced as of the date of this letter. We expect to provide results and pre-production design drawings to our licensee shortly.

Land Steam Record: As development of our Mark V engine progresses, so does our project with the [U.S. Land Steam Record](#) team, which plans to use this engine to power the fastest steam vehicle on earth. If you have not already seen it, please check out the story that the [Discovery Channel](#) recently featured on this project, which has already attracted some interesting contacts and potential sponsors (Daily Planet, Ep. 168, May 11, 2010).

The first quarter of 2010 was a great start as we strive to advance our technological development, register our common stock with the Securities Exchange Commission, and close major agreements with partners like Raytheon. 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,

A handwritten signature in black ink, appearing to read "Harry Schoell". The signature is written in a cursive style with a large, stylized initial 'H'.

Harry Schoell, CEO & Director