



August 10, 2009

Dear Valued Shareholder,

Thank you for your support of Cyclone Power Technologies. In the first half of 2009, we made great strides in our business and technological development which we would like to share with you today.

From a business standpoint, we generated \$95,000 in revenue so far in 2009 not inclusive of \$200,000 of deferred revenue from non-refundable development fees that we will recognize upon the delivery of prototype engines to our licensees. We incurred \$1.1 million in operating losses since January; however, a substantial portion of this (\$300,000) was from the issuance of restricted stock to our employees, consultants and other professionals in lieu of cash – which we consider a very positive sign of support from these extremely talented and dedicated people.

We ended the six month period in a much better cash position than we started, with over \$211,000 in the bank at June 30 and total current assets of \$280,000, as compared with \$1,000 of cash and \$106,000 of total current assets at the end of 2008. This increase resulted in part from the receipt of cash from new license agreements (which we categorized as deferred revenue) and the sale of \$750,000 of restricted, non-trading common stock. You can find additional financial information in our Quarterly Report for the period ended June 30, 2009 filed with www.pinksheets.com.

Our future business footing looks strong, as we signed two important license agreements in the quarter ended June 30, and a third license after the end of the period. The two agreements completed in the quarter – [Renovalia Energy](#) of Spain for solar thermal engines, and [Waste Heat Resources](#) of New Hampshire for engines used in industrial heat recovery power systems – have already generated \$150,000 operating cash for the company and, in the case of WHR, have allowed our licensee to line up over \$3.1 million in project installations pending the delivery of our prototype engines.

The latest license we signed, with Phoenix Power Group LLC, covers electric power generators that run on waste oil fuels, such as used automotive motor oil. Phoenix is an affiliate of [Atlantic Systems Group](#), of Harrisonburg, VA, which is in the business of designing and building automotive oil change and service facilities throughout the U.S. Under its license, Phoenix will pay us \$400,000 in license and development fees over the next nine to 12 months, \$150,000 of which we received after the end of the quarter, and then on-going royalties on each Cyclone Engine produced. Phoenix has agreed to pay minimum royalties over the life of the agreement in an amount exceeding \$4 million in order to maintain its rights.

Phoenix Power has also brought to this deal an exclusive license with Mr. Terry Bassett, who holds two U.S. patents, with international patent applications pending, for the total system package of generating electric power from waste oil using an external combustion engine. Additionally, Phoenix Power's equity partners include Hansom James Capital, whose principals founded Tennessee-based AIMS Logistics, Inc. in 1994, which, when it sold to U.S. Bancorp in 2007, employed over 300 people

internationally and processed approximately \$5 billion annually in freight payables on behalf of clients that included Honeywell International, General Electric, and Nortel Networks. We feel highly confident that Phoenix Power has the skills and resources to bring its power systems to market within a reasonable period of time, and we look forward to working with them on this exciting and meaningful project.

Under our agreement with [Raytheon Company](#), we are finalizing fuel efficiency and power output tests utilizing our Mark II engine under the load of a dynamometer. We expect to have results completed for Raytheon's review in this current quarter, at which time we expect to proceed into Phase Two of our development agreement.

We have also completed the first phase of the [DARPA](#)-sponsored EATR project for [Robotic Technologies](#) – the “vegetarian” robot that you may have seen featured recently on [Fox News](#), [Popular Science](#), [Scientific American](#), [Discover Magazine](#) and [Wired](#). In this phase, we have successfully generated steam from a biomass furnace sufficient to run our Waste Heat Engine, and are now coupling the heat system with the engine. We expect to conduct durability tests and possibly deliver the total system package to our client this quarter.

In the past few months we have made great strides in the development of our engines, specifically:

Mark V (95HP) Engine: We have accelerated engineering (including dedicating more personnel and resources) on this engine, which will be relevant for our Waste Heat Resources, Phoenix Power and, possibly, Raytheon agreements. We are nearly complete with the mechanical engineering of the engine, have ordered 10 more engine blocks for prototype production, and expect to start running the engine under self-combusted heat in the next few months.

Waste Heat Engine: As previously reported, we have begun durability testing of this highly versatile engine, which we are using for the DARPA-sponsored EATR project, small-scale cogeneration and distributed solar thermal applications. Advancements we have made to the WHE have increased the power output and projected longevity of the engine, which, when we are done in the next few months, will be ready for commercial production.

Mark II (18HP) Engine: We are nearing completion of the first generation of this workhorse, water-cooled engine, and our power output and efficiency test results have exceeded our previous calculations. Under the load of a dynamometer, we have generated up to 20HP of mechanical power and reached thermal efficiencies over 30%. These are very encouraging results.

Genie (80W) Engine: We have made key advancements to the man-portable 80W Genie Engine -- which has been commissioned by the British Military to recharge batteries in the field -- including making it more compact, more durable and longer lasting.

Everyday we are learning, improving and working closer towards achieving our vision of making the Cyclone Engine a major contributor to our nation's energy independence and our planet's environmental sustainability. Once again we thank you for having faith in our technology and our team, and we look forward to our future together.

Sincerely,



Harry Schoell, CEO & Director