



August 18, 2011

Dear Friends of Cyclone,

Greetings from South Florida! Over the last few months, we have made great strides in the development of our business and technology. I would like to share with you some of these highlights, which are further detailed in our Quarterly Report filed with the OTC Markets today.

Business and Technology Updates

In July, our licensee Advent Power Systems was awarded a \$1.4 million contract from the **U.S. Army - Tank Command (TACOM)** to develop a compact 10kW auxiliary power unit (APU). The system is needed to increase operating efficiencies and decrease fuel usage of the Abrams M1 Main Battle Tank, the Stryker Armored Vehicle and the Bradley Fighting Vehicle. Within the next 12 months, we expect to deliver the first prototype engine systems, and Cyclone will receive funding of approximately \$700,000 during this period. TACOM has also requested, as part of its statement of work, a production cost schedule for up to 10,000 engines annually. If this contract were to progress to that stage of commercialization, it could represent a significant ongoing revenue opportunity for Cyclone.

In June, we signed a Letter of Intent with **Combilift**, a global equipment manufacturing company based in Ireland, to license Mark V engines to operate Combilift's hydraulic lift equipment. We expect this license to be signed in the third quarter, with anticipated development funding payable to Cyclone of \$400,000 over the next 12 months.

And as previously reported, in April we received a purchase order for multiple Mark V engines from **Raytheon Company** worth \$400,000. We are progressing well to meet our goal of delivering these engines in the fourth quarter, and have begun to receive payments for our work.

Between these three most recent projects, we have approximately \$1.5 million in current backlog orders for development engines; plus we have an additional \$750,000 in backlog from previous contracts. All these engines are deliverable within the next 12 months. As a result of these current and new contracts, we have signed a lease to expand our facility by an additional 2,000 s.f. (30% increase), and are in the process of hiring more engineers and mechanics/technicians.

Our commercialization schedule with the WHE-25 engine, as being manufactured by TopLine Energy Systems (an affiliated company of global manufacturing leader **TopLine Automotive Engineering**) is also proceeding as planned. We have completed the first production prototypes, in part for Phoenix Power's waste oil power generators, and are moving into testing this month. If this process continues to go well, we could have WHE products in the market by the first half of 2012. With respect to this, we are planning to add a new, rugged TopLine-produced WHE engine to our waste heat recovery beta at Bent Glass Design soon.

Lastly, as we announced on Facebook, we decided to postpone until October our trip to Bonneville to attempt a land speed record for steam powered vehicles. We felt that it was in the best interest of the team, the company and our shareholders to spend more time testing the LSR car, while also focusing resources on our customers and ongoing contracts, including Raytheon, the U.S. Army, Phoenix Power, Renovalia and Bent Glass.

With regard to road testing the LSR car, we are excited to report that we have been invited by **NASA** to run at the **Kennedy Space Center** on the Space Shuttle landing strip. Bringing our engine and car to the home of some of the most incredible technology over the last century is an amazing opportunity. We may also be able to set an unofficial speed record just a few miles from the site of the original 1906 steam record in Ormond Beach, FL. As a date firms up, we'll let you know. But please follow us on www.Facebook.com/CyclonePowerTechnologies for the latest news about this and other exciting developments.

Financial Recap

We ended the quarter with \$595,000 in current assets (inclusive of cash), up almost 150% from the beginning of the year. We did not book any revenue in the quarter; however, as of June 30 we had over \$750,000 in deferred revenue on our balance sheet from pre-paid contracts that get classified as revenue when we ship engines and other deliverables, expected over the next three to 12 months. We also anticipate receiving payments this quarter from our Raytheon purchase order, the U.S. Army contract through Advent, and an upcoming license agreement with Combilift.

Our operating expenses for the quarter were \$849,000, an 18% increase over the previous year period. Our operations have grown significantly during this time, including adding more technical personnel, and greater accounting and legal expenses in connection with our goal to become an SEC reporting company. Also, these expenses include \$270,000 in Research & Development, and approximately \$480,000 of non-cash expenses. A large portion of those non-cash expenses included approximately 1.2 million shares of restricted common stock and 720,000 common stock options collectively valued at approximately \$300,000. 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 a strong commitment to the success of our company.

We expect the revenue from the contracts discussed above (Raytheon, U.S. Army and Combilift) to cover about half of our needed funding over the next year. We will, therefore, need additional funds from the sale of debt and equity securities. We have also prepared and filed with the Securities and Exchange Commission as of July 1, a Form 10 registration to become a fully-reporting registrant with the SEC. We believe that this action will allow us to move our common stock to a more stable market exchange soon. Our goal is to provide greater transparency to our financial operations and attract long term, synergistic investors, institutions and partners who can help take our Company to the next level.

You can find our full financial statements with footnotes in our Quarterly Report for the period ended June 30, 2011, filed with www.otcmarkets.com.

The growth we have seen in our technology, business position and operational structure over the last few months is truly inspiring. We continue to stay focused on completing our engine development, building the foundations required to launch these products and starting to generate consistent revenue. In these efforts, we thank you all for your support. We are very confident in the future of our company and the ability of our people and technology to accomplish truly great things.

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, Chairman & CEO

Safe Harbor Statement

Certain statements in this release may contain forward-looking information within the meaning of Rule 175 under the Securities Act of 1933 and Rule 3b-6 under the Securities Exchange Act of 1934, and are subject to the safe harbor created by those rules. All statements, other than statements of fact, included in this release, including, without limitation, statements regarding potential future plans and objectives of the company, are forward-looking statements that involve risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. The company cautions that these forward-looking statements are further qualified by other factors. The company undertakes no obligation to publicly update or revise any statements in this release, whether as a result of new information, future events or otherwise.