August 17, 2010

Dear Friends of Cyclone,

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

Financial Development

In the first half of 2010 we generated $104,900 of revenue compared to $94,938 for the same period in 2009, an increase of 10%, partially due to the delivery in 2010 of our **biomass-to-power** engine system to Robotic Technology under a **U.S. Department of Defense** sponsored project. We generated an additional $70,000 in cash flow during the recent three-month period; however, under GAAP rules until we deliver prototypes to our customers, these funds are accounted for as deferred revenue (a balance sheet item). At June 30, we had $595,000 in cumulative deferred revenue and an additional $117,475 in license deposits.

We incurred operating expenses for the first half of 2010 of $1,156,936 as compared to $1,164,209 for the same period in 2009. Despite 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, our overall R&D costs in the first half of 2010 were lower than in 2009. This change reflects the assignment of resources from research to the production of deliverable inventory as some of our engine prototypes near completion. Overall, however, net loss for the first six months of 2010 was $1,255,572 as compared to a slightly lower net loss of $1,127,345 for the same period in 2009.

We ended the second quarter of 2010 with cash of $102,590 and total current assets of $345,956. Other than debt owed to our officers and directors for deferred salary and loans provided to the Company, we have virtually no long-term debt – only $15,950 which is being converted to stock in the third quarter of 2010. We believe that this fact reduces the financial stress on the Company and allows us to operate leaner and without fear of defaulting on any unaffiliated third-party debt. Very few companies can say that in today's economy.

In the first half of 2010, we partially supported operations by selling 1,750,882 shares of common stock for $145,377, and 81,700 shares of Series A Preferred Stock for $407,600. We also issued for services 4,068,947 shares of restricted common stock, 2,500 shares of Series A Preferred Stock and 450,000 common stock options valued at $351,517 in total. 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.

We are still on track to file our initial registration statement with the Securities and Exchange Commission sometime in the second half of 2010. We are attempting to coordinate this filing with the raise of additional funds for the Company, which we hope to complete during the next quarter. In April we added Bruce Schames as our CFO who will, in addition to his normal duties, assist us in both this initial filing and future reporting requirements with the SEC. Bruce has been a licensed CPA since 1971; he has represented both public and private clients in his own practice since 2001, during which time he conducted SEC audits and assisted in the preparation and filing of Forms 10-K and 10-Q; and previously, he served as CFO for two Nasdaq-listed companies. We welcome Bruce aboard!

You can find our full financial statements with footnotes in our Quarterly Report for the period ended June 30, 2010, filed with www.otcmarkets.com.

Engine Projects and Technological Development

Waste Energy Recovery: In the second quarter of 2010, we completed the baseline Waste Heat Engine (WHE-25) and delivered a full waste heat recovery beta system to our customer, Bent Glass Design, Inc. This power system will produce up to 10kW of electricity from the heat exhausted from their furnaces. Right now installation is almost complete and we are working with PECO, the local electric utility, to process our **Net Metering** application before we flip the switch.

We are also in discussions with several other beta sites to test our waste heat recovery systems once our initial unit is proven at Bent Glass. We will conduct these projects through our consolidated subsidiary, **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). Christopher Nelson, our General Counsel, has been appointed as Managing Director of this subsidiary, and over the following months, will be building a team around him to pursue this very exciting and widely underserved market.

With respect to our WHE-25 engine, our licensee **Great Wall Alternative Power Systems Ltd.** has completed the first phase of its License Agreement involving the establishment of secure intellectual property protocols in China for our technology, and will now enter the production prototyping phase of the WHE-25 for multiple waste and **renewable energy** applications for the China market.

We also continue to advance the development of our flagship Mark V engine for use with **waste oil fuels**. Dynomometer testing of this engine to date has demonstrated excellent, albeit early, power and performance results. Engineering extrapolations based on the current engine configuration confirm output of approximately 55 hp at 1800rpm and over 100hp at 3600prm. This project is being funded in part by Phoenix Power Group, who has also teamed-up with Clean Burn Energy Systems, the leading manufacturer and distributor of waste oil heaters in the world, and several potential customers for these important renewable energy products.

Military: In the first half 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**. Similar to our waste energy projects noted above, we believe that there are vast commercial opportunities for Cyclone's biomass-to-power system beyond military purposes, and we are currently in discussions with several potential customers to develop biomass and combined heat & power (CHP) systems for the residential markets worldwide.

In the first half of 2010, we also continued to perform testing and design services for **Raytheon Integrated Defense Systems**, a business of Raytheon Company. We have two outstanding purchase orders from them for design and development services, and we continue our discussions regarding the next phases of a larger collaborative project slated to begin in late 2010.

Solar: Our **solar thermal engine** (S-1) being developed for Renovalia Energy is progressing well and performance testing has commenced during the second quarter of 2010. We are achieving power output in excess of what we originally calculated, and making excellent headway with increasing the durability of component parts. We anticipate phase 1 prototyping of this engine to be completed soon.

Land Steam Record: As development of our Mark V engine progresses (see above), 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. We will not make the August/September 2010 time trials in Bonneville, UT, but we are expecting to conduct unofficial tests in North Carolina in the Spring of 2011, and then attempt another official run in Bonneville next year.

Between our Mark V, S-1 and WHE-25 engines, we are very pleased with the overall development status of our technology. Many people do not realize that we have almost **1,000 hours of running** and testing our engines, have achieved verified **thermal efficiencies above 30%**, and are very close to putting the first of these engine models into **small-scale commercial production**.

During the first half of 2010 we made great strides in the advancement of our technology and business. We are very thankful for your support in helping make this happen. It is our goal to make a meaningful impact on our world by introducing an engine that challenges the way we currently produce power for electrical, automotive and other important everyday applications. By using pure **renewable biofuels**, waste heat and waste fuels, solar thermal heat and biomass all in Cyclone Engines, we feel the possibilities for our collective future are very bright.

Sincerely,

Harry Schoell, CEO & Director