

CYCLONE POWER TECHNOLOGIES INC.

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December 31, 2007

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Cyclone Power Technologies Inc.  
Balance Sheets  
December 31, 2007 and 2006  
(unaudited)

	December 31, 2007	December 31, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 25,863	\$ 19,445
Accounts receivable	165,000	0
Other receivables	-	10,754
Total current assets	<u>190,863</u>	<u>30,199</u>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture, fixtures, and equipment	18,230	-
Less: Accumulated depreciation	<u>(3,453)</u>	<u>-</u>
Total property and equipment	<u>14,777</u>	<u>-</u>
<b>OTHER ASSETS</b>		
Patents, Trademarks and Copyrights-(net of accumulated amortization of \$ 7,740 and \$ 0 at December 31, 2007 and December 31, 2006 respectively)	<u>224,802</u>	<u>152,722</u>
Total other assets	<u>224,802</u>	<u>152,722</u>
Total Assets	<u><u>\$ 430,442</u></u>	<u><u>\$ 182,921</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	221,454	-
Notes and loans payable	69,080	168,322
Accounts and loans payable-related party	<u>542,796</u>	<u>510,387</u>
Total current liabilities	<u>833,330</u>	<u>678,709</u>
Total liabilities	<u>833,330</u>	<u>678,709</u>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Preferred Stock A, \$.0001 par value, 500,000 shares authorized, 500,000 shares issued and outstanding	50	-
Preferred Stock B, \$.0001 par value, 500,000 shares authorized, 1,000 shares issued and outstanding	-	-
Common stock, \$.0001 par value, 1,000,000,000 shares authorized; 61,648,436 and 0 shares issued and outstanding at December 31, 2007 and December 31, 2006, respectively	6,165	-
Additional paid-in capital	2,616,230	1,140,745
Accumulated (deficit)	<u>(3,025,333)</u>	<u>(1,636,533)</u>
Total stockholders' equity (deficit)	<u>(402,888)</u>	<u>(495,788)</u>
Total Liabilities and Stockholders' Equity (Deficit)	<u><u>\$ 430,442</u></u>	<u><u>\$ 182,921</u></u>

The accompanying notes are an integral part of the financial statements

Cyclone Power Technologies Inc.  
Statements of Operations  
For the years ended December 31, 2007 and 2006  
(unaudited)

	2007	2006
REVENUES		
Licensing Fees & Development	\$ 202,000	\$ 5,000
Total Revenues	<u>202,000</u>	<u>5,000</u>
OPERATING EXPENSES		
Advertising and Promotion	73,055	29,234
General and Administrative	674,774	174,923
Research and Development	814,685	741,206
Total operating expenses	<u>1,562,514</u>	<u>945,363</u>
Operating income (loss)	<u>(1,360,514)</u>	<u>(940,363)</u>
OTHER INCOME (EXPENSE)		
Other Income /(Expense)	(1,214)	4,639
Interest expense	<u>(27,072)</u>	<u>(3,867)</u>
Total other income (expense)	<u>(28,286)</u>	<u>772</u>
Loss before provision for income taxes	(1,388,800)	(939,591)
Provision for Income taxes	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ (1,388,800)</u>	<u>\$ (939,591)</u>
Net income (loss) per common share, basic	<u>\$ (0.02)</u>	<u>N/A</u>
Weighted average number of common shares outstanding	<u>59,994,261</u>	<u>N/A</u>

The accompanying notes are an integral part of the financial statements

Cyclone Power Technologies Inc.  
Statement of Stockholders' Equity (Deficit)  
December 31 2007  
(unaudited)

	<u>Preferred Stock A</u>		<u>Preferred Stock B</u>		<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Value</u>	<u>Shares</u>	<u>Value</u>	<u>Shares</u>	<u>Value</u>	<u>Paid In</u>	<u>Deficit</u>	<u>Stockholders</u>
							<u>Capital</u>		<u>Equity</u>
									<u>(Deficit)</u>
Balance at July 2, 2007-Pre Merger		\$ -		\$ -	249,861	\$ 25	\$ 1,140,745	\$ (1,636,533)	\$ (495,763)
Issuance of restricted shares to partners of Cyclone Technologies LLLP					33,000,000	3,300	1,165,507	-	1,168,807
Issuance of shares to holders of convertible note (subject to leak out agreement)					21,750,000	2,175	32,760	-	34,935
Issuance of Preferred A shares to partners of Cyclone Technologies LLLP	500,000	50	-	-	-	-	(50)	-	0
Issuance of Preferred B shares to senior management of Cyclone Technologies LLLP	-	-	1,000	-	-	-			0
Sale of restricted shares per agreement with management/promoters of Coastal Technologies					100,000	10	199,990		200,000
Issuance of shares for conversion of convertible notes					6,000,000	600	17,400		18,000
Sale of restricted shares under Regulation S to foreign investors					201,908	20	52,980		53,000
Issuance of restricted shares for investment banking services					46,667	5	928		933
Issuance of restricted shares for legal services					300,000	30	5,970		6,000
Net (loss) Dec.31 2007								(1,388,800)	(1,388,800)
BALANCE, December 31, 2007	500,000	\$ 50	1,000	\$ -	61,648,436	\$ 6,165	\$ 2,616,230	\$ (3,025,333)	\$ (402,888)

The accompanying notes are an integral part of the financial statements

Cyclone Power Technologies Inc.  
Statements of Cash Flows  
For the years Ended December 31, 2007 and 2006  
(unaudited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,388,800)	\$ (939,591)
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Depreciation & Amortization	11,193	-
Expenses paid by related party	-	817,500
Issuance of restricted common stock for services	6,933	-
Reallocation of partners' capital accounts related to reverse merger and issuance of restricted common stock	1,103,742	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(165,000)	-
(Increase) decrease in prepaid & other assets	10,754	35,032
Increase (decrease) in accounts payable and accrued expenses	221,454	(208,800)
Net cash provided (used) by operating activities	(199,724)	(295,859)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Machinery and Equipment	(18,230)	-
Expenditures incurred for Patents	(79,842)	(128,656)
Net cash provided (used) by investing activities	(98,072)	(128,656)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds pursuant to Acquisition Agreement	100,000	-
Proceeds from Partners of LLLP	-	250,000
Proceeds from restricted shares under-Reg S	53,000	
Proceeds from promoters of Coastal Technologies	200,000	
Increase (decrease) in loans-net	(81,242)	103,648
Increase in related party loans-net	32,456	5,387
Net cash provided (used) by financing activities	304,214	359,035
Net increase (decrease) in cash	6,418	(65,480)
CASH and equivalents, beginning of period	19,445	84,925
CASH and equivalents, end of period	\$ 25,863	\$ 19,445
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Payment of taxes in cash	\$ -	\$ -
Payment of interest in cash	\$ -	\$ -
NON CASH DISCLOSURES:		
Issuance of 33,000,000 restricted shares to partners of predecessor entity prior to merger	\$ 3,300	\$ -
Conversion of note payable with 6,000,000 shares of common stock	18,000	-
Expenses paid with 346,667 shares of restricted common stock	6,933	-
Issuances of 21,750,000 shares of common stock to holders of convertible notes	34,935	-

The accompanying notes are an integral part of the financial statements

**CYCLONE POWER TECHNOLOGIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2007

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. ORGANIZATION AND OPERATIONS**

Cyclone Power Technologies, Inc. (the "Company") is the successor entity to the business of Cyclone Technologies LLLP (the "LLL"), a limited liability limited partnership formed in Florida in June 2004. The LLL was the developer and patent holder of the Cyclone Engine Technology.

Prior to July 2, 2007, the Company was a California corporation named Coastal Technologies, Inc., engaged in the business of medical software development. In June 2007, the Company re-domiciled to the state of Florida (from California) and changed its name to Cyclone Power Technologies, Inc.

On July 2, 2007, the Company acquired all of the assets and liabilities of the LLL in exchange for 33,000,000 restricted shares of common stock and 501,000 shares of preferred stock (the "Acquisition"). Concurrently with the Acquisition, the management of the LLL took control of the Board of Directors of the Company, and the assets of the Company related to its medical software business were spun-off to an entity controlled by the previous management of the Company.

The Company is a research and development company whose sole purpose is to develop, commercialize and market licenses for its Cyclone Engine Technology. From inception through December 31, 2007, the Company has earned insignificant revenues.

**B. ACQUISITION**

On July 2, 2007, the Company acquired all of the assets and liabilities of the LLL in exchange for common and preferred stock. In accordance with generally accepted accounting principles, and to provide the reader with a better understanding of the business of Cyclone, the ongoing entity, the operations of the LLL for 2006 and the first 6 months of 2007 (thru July 2, 2007) were combined in a proforma manner to reflect a seamless entity for the whole two-year period. However, the partners' capital accounts in the LLL were taken out and replaced by the capital stock and related accounts of the Company.

**C. BASIS OF ACCOUNTING**

The Company utilizes the accrual method of accounting, whereby revenue is recognized when earned and expenses when incurred.

**D. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**E. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash on hand, cash in banks and any highly liquid investments with maturity of three months or less at the time of purchase. The Company maintains cash and cash equivalent balances at several financial institutions, which are insured by the Federal Deposit Insurance Corporation up to \$100,000.

**F. ACCOUNTS RECEIVABLE**

Accounts receivable consist of fees under license agreements and development agreement due from licensees.

**CYCLONE POWER TECHNOLOGIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2007

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. INCOME TAXES**

In February 1992, the Financial Accounting Standards Board issued Statement on Financial Accounting Standards 109 of "Accounting for Income Taxes." Under Statement 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

**H. REVENUE RECOGNITION**

Revenue for license fees is recognized upon the execution of license agreement for the amount of the license fee. License fees are generally due upon the execution of the license agreement. Revenue from royalty payments are estimated and accrued as earned. Any adjustments between actual royalty payments and estimates are made to current operations in the period they are determined.

**NOTE 2 – COMPUTATION OF EARNINGS PER SHARE**

Net income per share is computed by dividing the net income by the weighted average number of common shares outstanding during the period. Net income per share, diluted, is not presented as the preferred stock could have a dilutive effect.

**NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of amounts due under two license agreements, one to produce engines for military and postal department use, the other to develop small engines for lawn and garden equipment.

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2007 consists of the following:

Display Equipment Used in Trade Shows	\$9,648
Computer Hardware and Software	<u>8,582</u>
TOTAL	\$18,230
Less Accumulated Depreciation	<u>(3,453)</u>
TOTAL	<u>\$14,777</u>

**CYCLONE POWER TECHNOLOGIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 5 – PATENTS AND TRADEMARKS AND COPYRIGHTS**

The Cyclone Engine is currently protected under U.S. Patent # 7,080,512, with patents pending for the engine internationally. Earlier in 2007, the Company filed U.S. patent applications for the 11 major engine components, and completed the Patent Cooperation Treaty (PCT) filing for worldwide patent protection on all those components. This brings a total of 48 patents pending in the US and internationally on the engine and its components.

Patents, trademarks and copyrights consist of legal fees paid to file and perfect these claims. Patents, trademarks and copyrights are amortized over the life of the intellectual property which is 20 years. Amortization for the years ended December 31, 2007 and 2006 was \$ 7,740, and 0, respectively.

**NOTE 6 – CONVERTIBLE NOTE PAYABLE**

The convertible note payable for \$62,275, with a 6% annual interest rate, payable on demand, was transferred to the Company on July 2, 2007 as part of the Asset Acquisition whereby the Company acquired all the assets and liabilities of the LLLP. The Company requested the note holders to convert \$18,000 of the note into 6,000,000 restricted common shares of the Company (\$0.003/share), and a Note Conversion and Settlement Agreement was executed on July 17, 2007.

Pursuant to the settlement agreement, on July 17, 2007, note holders converted \$1,500 of the note balance in exchange for 500,000 restricted shares of the Company. On August 15, 2007, note holders converted \$16,500 of the note into 5,500,000 restricted shares of the Company. The balance of the Convertible Note may be converted by the note holders upon the following schedule: \$9,000 in June 2008, \$9,000 in June 2009, and the balance in June 2010, unless the Company chooses to pay-off the balance before such dates. Interest expense for the years ended December 31, 2007 and 2006 was \$ 27,072 and \$ 3,867, respectively.

**NOTE 7 – RELATED PARTY TRANSACTIONS**

**A. RELATED PARTY NOTES PAYABLE**

Related party notes consist of \$18,490 due to the VP of Sales and \$415,343 due to Schoell Marine. The VP of Sales note accrues interest at 6% annually and is expected to be repaid in 2008 when the company begins to generate cash flow from operations.

Schoell Marine is owned by Harry Schoell who is the inventor of the Cyclone Engine and Chief Executive Officer of the Company. This note consists of services and salaries incurred by Schoell Marine on behalf of the Company. Schoell Marine also owns the building that is leased to the Company. The Schoell Marine note bears an interest rate of 6% and repayments occur as cash flow of the Company permit. During the three months ended September 30, 2007, the Company incurred \$5,306 in interest charges and repaid \$86,265 on the most recent charges to this note.

**B. LEASE ON WAREHOUSE**

The Company leases its 6,000 square foot warehouse and office facility located at 601 NE 26<sup>th</sup> Court in Pompano Beach, Florida. The informal lease between the Company and Schoell Marine provides for the Company to pay rent equal to the monthly mortgage payment on the building plus property taxes, rent, utilities and sales tax due on rent. For the year ended December 31, 2007 occupancy costs were \$ 36,000 commencing in July 2007.



**CYCLONE POWER TECHNOLOGIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2007

**NOTE 8 – ACCRUED SALARIES**

Deferred salaries consist of salary for the Chief Operating Officer. By agreement, the Chief Operating Officers' salary is deferred until 2009 when the Company is expected to have sufficient cash flows from operations to pay this expense. Chief Operating Officers' salary from July 2007 through December 2008 is expected to be repaid evenly over twelve months beginning in January 2009.

**NOTE 9 – PREFERRED STOCK**

Preferred stock consists of 500,000 Series A Convertible Preferred ("Series A") and 1,000 Series B Preferred ("Series B") shares. Series A shares are convertible after December 2008 or at such time that the Company raises an aggregate of \$5,000,000 in equity or debt financing, into a number of common shares that, when combined with the number of common shares that the Series A holders held as of July 2, 2007, equal sixty percent (60%) of the then total issued and outstanding common shares. The Series A holders are the original equity holders of the LLLP. The conversion of the Series A shares will have the effect of diluting all other common stock shareholders.

Series B shares are super-majority voting shares of the Company and are held by senior management.

**NOTE 10 – CAPITAL TRANSACTIONS**

As noted above in Footnote 1A, the Company is a research and development company and will not produce significant revenues until the technology has reached a point where licenses can be sold to companies that can utilize the Cyclone Engine Technology to produce marketable products. Until this time, the Company primarily relies on capital raised through loans, private placement memorandums and Regulation S transactions (stock sold to foreign investors) to fund operations. See statement of Stockholders equity (deficit) for details of capital transactions.