ANNUAL REPORT

PERIOD ENDED DECEMBER 31, 2008

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SECTION ONE: ISSUER'S INITIAL DISCLOSURE OBLIGATIONS

PART A **General Company Information**

Item I **The exact name of the issuer and its predecessor (if any)**

Cyclone Power Technologies, Inc.

Formerly: Coastal Technologies, Inc. until 7-07
Formerly: SmartData, Inc. until 11-05
Formerly: Netcoast Communications, Inc. until 10-04

Item II **The address of the issuer's principal executive offices**

601 NE 26th Court
Pompano Beach, FL 33064
Tel: 954-943-8721
Fax: 954-788-6565
www.cyclonepower.com

Investor Relations:
Frankie Fruge
frankie@cyclonepower.com

Item III **The state and date of the issuer's incorporation or organization**

Issuer was re-incorporated in Florida in June 2007
Previously, the Issuer was incorporated in California in 1971

PART B **Share Structure**

Item IV **The exact title and class of securities outstanding:** The Company has the following securities outstanding:

Common Stock (CUSIP: 23254W104, Pink Sheets: CYPW)
Series A Convertible Preferred Stock
Series B Preferred Stock

Item V Par value and description of the security

A. Par Value or State Value

Common Stock - $.0001 par value
Series A Convertible Preferred Stock - $.0001 par value
Series B Preferred Stock - $.0001 par value

The Company has 1 billion Common shares authorized and 1 million total Preferred shares authorized.

B. Common and Preferred Stock

The Company's Common Stock has no special dividend, voting or preemptive rights. Holders of Common Stock are entitled to one vote per share.

The Company's Preferred Stock is currently designated into two series: Series A Convertible Preferred Stock ("Series A Preferred"), and Series B Preferred Stock ("Series B Preferred").

The Series A Preferred has been issued to management and the original 22 partners of the Company's predecessor in interest Cyclone Technologies LLLP (the "LLLP") in proportion to their LLLP equity holdings as of the date of the Acquisition (see Item VIII below). The Series A Preferred is designed to be anti-dilutive stock whereby, in the instance the Company raises $5 million in aggregate financing, the holders thereof may as a group convert their holdings of Series A Preferred into the Company's Common Stock in an amount that would return them to their Common Stock holdings as of the date of the Acquisition (60% of the total issued and outstanding). The Series A Preferred may also be converted by the holders at any time after December 2008 at the same conversion rate. Should the Series A be converted, other shareholders will experience dilution of their share holdings. In the instance of a liquidating event – winding-up, merger or acquisition of the Company, the shares of Series A Preferred will convert to Common Stock on a one-for-one basis.

The Series B Preferred is held by the Company's executive management and founders – Mr. Schoell and Ms. Fruge. The Series B Preferred is a super-majority stock, whereby its holders collectively will be able to cast votes equal to 51% of all shares of

Common Stock issued and outstanding and able to vote in matters brought before the shareholders of the Company. The Series B Preferred, in essence, provides the Company's executive management with control over the voting matters brought before the shareholders of the Company, and could serve to delay, defer or prevent a change in control of the Company. In the instance of a liquidating event – winding-up, merger or acquisition of the Company, the shares of Series B Preferred will convert to Common Stock on a one-for-one basis.

Item VI The number of shares or total amount of the securities outstanding for each class of securities outstanding:

COMMON STOCK

	FYE 2008	FYE 2007
# of Shares Authorized	1,000,000,000	1,000,000,000
# of Shares Outstanding	83,016,048	61,648,436
Freely Tradable	30,653,471	27,999,841
# of Beneficial Shareholders	2,031	1,226
Total # of Shareholders of Record	2,505	1,592

SERIES A CONVERTIBLE PREFERRED STOCK

	FYE 2008	FYE 2007
# of Shares Authorized	1,000,000 (1)	1,000,000(1)
# of Shares Outstanding	500,000	500,000
Freely Tradable	0	0
# of Beneficial Shareholders	22	22
Total # of Shareholders of Record	22	22

(1) Includes all preferred stock authorized, regardless of series or class.

SERIES B PREFERRED STOCK

	FYE 2008	FYE 2007
# of Shares Authorized	1,000,000(1)	1,000,000(1)
# of Shares Outstanding	1,000	1,000
Freely Tradable	0	0
# of Beneficial Shareholders	2	2
Total # of Shareholders of Record	2	2

(1) Includes all preferred stock authorized, regardless of series or class.

PART C Business Information

Item VII The name and address of the transfer agent

The Issuer's SEC registered transfer agent is:
Transfer Online
317 SW Alder Street
2nd Floor
Portland, OR 97204
Its regulatory authority is the Securities Exchange Commission

Item VIII The nature of the issuer's business

A. Business Development. For purposes of this Item VIII A., and unless otherwise specifically stated, disclosure is being made as to Cyclone Power Technologies Inc., and prior to July 2, 2007, Cyclone Technologies LLLP (collectively, "Cyclone" or the "Company"); and the Company's business of engine technology research and development. As used in this Section, "the Issuer" shall refer to the business entity which existed prior to its acquisition of Cyclone.

1. The form of organization of the issuer: The Company is a Florida corporation. Prior to July 2, 2007, the Company was a Florida limited liability limited partnership.

2. The year that the issuer was organized: The Company was originally organized in 2004.

3. **The Company's/issuer's fiscal year end date**: December 31.

4. **Whether the issuer has been in bankruptcy, receivership or any similar proceeding**: Neither the Company nor the Issuer have ever been in bankruptcy, receivership or any similar proceeding.

5. **Any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets:** On July 2, 2007, the Issuer (then called Coastal Technologies, Inc.) completed an acquisition (the "Acquisition") of all of the assets and liabilities of Cyclone Technologies LLLP, a Florida limited liability limited partnership (the "LLLP"). Prior to the Acquisition, the LLLP held the patent, trade secrets and other intellectual property that is now the Company's business to develop, protect and commercialize.

6. **Any default of the terms of any note, loan, lease, or other indebtedness of financing arrangement requiring the issuer to make payments:** The Company has had none and, to the knowledge of management, neither had the Issuer prior to the Acquisition.

7. **Any change of control:** In connection with the Acquisition, the original partners of the LLLP (the "Original Partners") received 33,000,000 shares of restricted Common Stock of the Issuer, equal to approximately 60% of the total issued and outstanding shares of Common Stock of the Issuer on the date of closing. The Original Partners also received 500,000 shares of Series A Convertible Preferred Stock. Additionally, two of the LLLP's founders and executive management received 1,000 shares of Series B Preferred Stock (see description of these securities in PART B above).

   Also as part of the Acquisition, the Company's previous management and directors, comprised of James DiPrima and Robin Moody, resigned and placed in control of the Company, Mr. Harry Schoell as sole Director and CEO, and Ms. Frankie Fruge as COO, the previous executive management and founders of the LLLP.

8. **Any increase in 10% or more of the same class of outstanding equity securities:**

   As described in Item VIII A. 7 above, in connection with the Acquisition, the Issuer issued 33,000,000 restricted shares of its Common Stock,

equal to approximately 60% of the total issued and outstanding Common Stock on the date of closing (July 2, 2007).

On July 1, 2007, the Issuer (then called Coastal Technologies) issued 21,750,000 shares of Common Stock, equal to approximately 39.5% of the total issued and outstanding Common Stock as of July 2, 2007 (the closing date of the Acquisition), to holders of convertible notes in the total principal and interest amount of $34,935.07.

On May 24, 2007, the Issuer issued to Messrs. DiPrima and Moody, then the sole executive management of the Issuer, a total of 471,303,400 shares of restricted Common Stock in lieu of salaries and other compensation, equal to approximately 23% of the total issued and outstanding Common Stock immediately prior to issuance.

On May 11, 2007, the Issuer issued 216,181,900 shares of Common Stock, equal to approximately 13% of the total issued and outstanding Common Stock immediately prior to the issuance, to holders of convertible notes in the total principal and interest amount of $17,700.

On May 4, 2007, the Issuer issued 197,091,800 shares of Common Stock, equal to approximately 13% of the total issued and outstanding Common Stock immediately prior to the issuance, to holders of convertible notes in the total principal and interest amount of $10,272.23.

On April 30, 2007, the Issuer issued 197,091,800 shares of Common Stock, equal to approximately 16% of the total issued and outstanding Common Stock immediately prior to the issuance, to holders of convertible notes in the total principal and interest amount of $10,272.23.

On February 16, 2007, the Issuer issued to Messrs. DiPrima and Moody, then the sole executive management of the Issuer, a total of 103,000,000 shares of restricted Common Stock in lieu of expenses paid on behalf of the Issuer, equal to approximately 10% of the total issued and outstanding Common Stock immediately prior to issuance.

On January 22, 2007, the Issuer issued 113,636,363 shares of Common Stock, equal to approximately 17% of the total issued and outstanding Common Stock immediately prior to issuance, in connection with a 504 stock offering

On January 5, 2007, the Issuer issued 80,000,000 shares of Common Stock, equal to approximately 14% of the total issued and outstanding Common Stock immediately prior to issuance, in connection with a 504 stock offering

On October 19, 2006, the Issuer issued to Messrs. DiPrima and Moody, then the sole executive management of the Issuer, a total of 12,000,000 shares of restricted Common Stock in lieu of salary and other compensation, equal to approximately 48% of the total issued and outstanding Common Stock immediately prior to issuance.

9. **Any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization:** Prior to the Acquisition described above, the Issuer's previous management completed a 10,000:1 reverse split of its Common Stock, effective June 30, 2007.

Immediately subsequent to the Acquisition, the Company spun-off assets related to its business of billing software and systems used in medical offices. This sale was made to Hamlet Group, Inc., a Florida company established by the former management of the Issuer specifically to acquire and utilize such assets. The purchase price paid for these assets was $100,000.

On October 24, 2006, the Issuer completed a 19:1 forward stock split.

10. **Any delisting of the issuer's securities by any securities exchange or NASDAQ or deletion from the OTC Bulletin Board:** None

11. **Any current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material adverse effect on the issuer's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator.** The Company is currently negotiating a settlement with Dr. Steven Belovich in connection with a failed merger that took place in October 2004 between the Issuer (then called Netcoast Communications Inc., and under the previous management of James DiPrima and Robin Moody) and Dr. Belovich's company (Smartdata Inc.). The settlement may involve the delivery of shares of common stock of the Company to Dr. Belovich and possibly

cash; however, at this time, management does not believe that this will have a material adverse effect on the Company's business, financial condition or operations. Additionally, the Company has the right of indemnification from Messrs. DiPrima and Moody with respect to all costs, expenses and damages sustained from its defense or prosecution of this matter.

B. **Business of Issuer** For purposes of this Item VIII B., and unless otherwise specifically stated, disclosure is being made as to Cyclone Power Technologies Inc., and prior to July 2, 2007, Cyclone Technologies LLLP (collectively, "Cyclone" or the "Company"); and the Company's business of engine technology research and development. As used in this Section, "the Issuer" shall refer to the business entity which existed prior to its acquisition of Cyclone.

1. **The issuer's primary and secondary SIC Codes:** The Company's primary SIC Code is 8731 - Commercial physical research. The Company does not use a secondary SIC code.

2. **If the issuer has never conducted operations, is in the development stage, or is currently conducting operations:** The Company is a research and development company. Although the Company has generated some revenue in the form of advance royalties and development fees, and is a fully-operating entity, it has not yet achieved consistent or material revenue.

3. **Whether the issuer is or has at any time been a "shell company":** No.

4. **The names of any parent, subsidiary, or affiliate of the issuer:** The Company has no parents or affiliates. The Company formed on January 11, 2009, Cyclone-WHE, Inc., a 100% owned subsidiary and operating division of the Company. The business of Cyclone-WHE is to manufacture and market the Company's waste heat engine products. Currently, this division has no revenue or separate operations, and any expenses of this division have been included in the Company's financial statement.

5. **The effect of existing or probable governmental regulations on the business.** The Company is not aware of any governmental regulations that adversely affect its business. Certain federal and state environmental

regulations, such as those pertaining to the emissions of gas and diesel powered internal combustion engines in the United States, have the effect of creating a greater urgency for the Company's technology, and are thereby beneficial to the Company's future prospects, but do not have a direct effect on the manners and methods its uses in it business operations. The Company spends a material portion of investment funds and revenue on U.S. and foreign patent filings. These expenditures are itemized in the Company's financial statements.

6. **An estimate of the amount spent during each of the last two fiscal years on research and development activities, and, if applicable, the extent to which the cost of such activities is borne directly by customers:** As a technology research and development company, much of the Company's annual expenses are dedicated towards R&D, including labor costs, material costs, tooling and equipment and other expenses required to run the Company's business. The Company estimates that its R&D expenditures for 2008 were $1,090,911, and for 2007 were $814,685.

   The Company actively pursues Development and Design Agreements with customers, whereby the Company will develop an engine or product for this customer at the customer's full or partial expense. Sometimes these arrangements are part of a more expansive License Agreement. The Company currently has three such R&D-type agreements in place – one with the Raytheon Company, one with Robotic Technologies, and another with Advent Power Technologies. The Company believes at this time, approximately 20% of its R&D operations are borne by its customers, a percentage it strives to increase in the future.

7. Costs and effects of compliance with environmental laws: The Company is not aware of any environmental laws that directly adversely affect its business at the present time and in its current state of development. Certain federal and state environmental regulations, such as those pertaining to the emissions of gas and diesel powered internal combustion engines in the United States, have the effect of creating a greater urgency for the Company's technology, and are thereby beneficial to the Company's future prospects, but do not have a direct effect on the manners and methods its uses in it business operations.

8. The total number of employees and number of full-time employees: As of December 31, 2008, the Company had nine full-time employees.

Item IX The nature of products or services offered: For purposes of this Item IX, and unless otherwise specifically stated, disclosure is being made as to Cyclone Power Technologies Inc., and prior to July 2, 2007, Cyclone Technologies LLLP (collectively, "Cyclone" or the "Company"); and the Company's business of engine technology research and development. As used in the Section, "the Issuer" shall refer to the business entity which existed prior to its acquisition of Cyclone.

A. Principal products or services, and their markets: The Company holds U.S. patent #7,080,512, other U.S. and international patents and patent applications, and exclusive commercial rights to the Schoell Cycle Engine, an external combustion, heat-regenerative engine capable of running on virtually any fuel source with fewer emissions, and being placed in virtually any commercial engine application. The Company has branded and trademarked this engine the "Cyclone Engine."

The Company's business objective is to market, through sale and/or licensing arrangements, the technology of the Cyclone Engine to large-scale manufacturers. Such transfers are expected to result in lump sum payments and/or royalty payment streams to the Company. The target market for these transfers could be a single manufacturing concern with a multi-tiered worldwide market, a number of manufacturers within geographically specified territories, or manufacturers of engines in a specific field of use, such as large and small scale electrical generator manufacturers, agricultural machinery manufacturers, construction machinery manufacturers, or international automobile and truck manufacturers. The Company does not at this time expect to manufacture its own engines for commercial usage.

The Cyclone Engine has been designed to solve limitations inherent in internal combustion ("I/C") engines. The limitation of meeting environmental emissions regulations is the predominant concern of the manufacturers of diesel and gasoline fueled I/C engines. Fuel efficiency, dependency on oil, power/weight ratio (compactness), complexity, and cost of manufacture are also of concern.

The Company believes that its external combustion, heat regenerative Cyclone Engine, when compared with I/C gasoline or diesel engines, is:

- More environmentally friendly;

- Capable of running on ALL liquid, gaseous or solid fuels;
- More efficient ("well to wheel");
- Highly scalable; and
- Simpler and less expense to manufacture, operate and maintain.

B. Distribution methods of the product or services: Major manufacturers which would serve as potential candidates to employ the Cyclone Engine technology include: Caterpillar, Cummins, Chrysler, General Motors, Toyota, Onan, Kohler, Detroit Diesel, John Deere, International Harvester, Briggs & Stratton, Honda, Volvo and BMW, to name a few.

Additionally, there are dozens, if not hundreds, of small and mid-sized manufacturers, both in the U.S. and abroad, who could possibly be licensees or purchasers of the Company's technology. Such manufacturers are in the fields of lawn and garden equipment, small home and business generators, personal motorized vehicles, larger industrial power plants, boat and watercraft, busses, industrial earthmoving and lifting machinery, and many others.

The Company has begun marketing its technology to these and other potential manufacturers, licensees and partners. A critical component of its marketing strategy is attending trade shows and conferences of engine, automotive and other technology firms. The Company also markets through trade journals and other publications, both through paid advertisement and editorial copy placement. The Company believes that the active marketing of its technology is critical to securing licensees and other customers that may lead to sales revenue in the future.

C. Status of any publicly announced new product or service. To date, the Company has completed its initial research and design of the Cyclone Engine, and has successfully bench-tested single and twin cylinder engines in the small power range of up to 18 hp. The Company is also currently assembling its six-cylinder Mark V engines that are medium scale engines capable of producing up to 100 hp (which has more torque than a 300 hp internal combustion engine). The Company is well beyond the proof of concept stage on these engine sets.

The Company has also assembled, tested and preparing its first installation of its Waste Heat Engine (WHE), a lower-pressure, lower-temperature off-shoot of the Cyclone Engine that is capable of running on exhaust heat from an oven, furnace, external combustion engine or other

sources, or solar heat collected from inexpensive reflective troughs attached to a roof.

The Company has two U.S. patents issued on the Cyclone Engine and its combustion chamber, multiple foreign patents issued on the engine, and U.S. and international applications filed on many of the major components of the Cyclone Engine and the Waste Heat Engine (See Item IX, G below)

D. Competitive business conditions: The competition to develop an environmentally clean (zero emission) engine is being driven by increasingly stringent regulatory mandates. To date, Honda and Toyota have made the most advances in bringing to market "hybrid" vehicles that will meet current Environmental Protection Agency ("EPA") requirements as well as those coming into force in 2008 and 2010. However, the hybrid-electric and hybrid-fuel cell vehicles that Toyota and Honda have introduced and continue to develop are suitable only for light load carrying small passenger vehicles. The hybrid-electric vehicles are running on I/C engines on the highways, so there is no net gain. The hybrid-fuel cell vehicles, although able to maintain highway speeds for 3-4 hour periods, are still more costly than the premium priced hybrid-electric alternatives. Further, evidence is beginning to show that the fuel cells must be changed out at two-year intervals, costing between $2,000 and $6,000 per exchange. Moreover, these fuel cell vehicles require hydrogen, for which there is little or no distribution infrastructure. The cost to create this infrastructure is estimated to be $5 billion for California alone, and over $125 billion for the United States. Although hydrogen, when either used directly by the vehicles' engines or indirectly in fuel cells, produces minimal emissions, the costs of the energy required to produce and distribute it, referred to by economic analysts as "Well-to-Tank", far outweigh the apparent savings and advantages of the "Tank-to-Wheel" use of hydrogen as a fuel source.

In management's opinion, hybrids are an attempt to stretch the technological life span of the I/C engine that is reaching a point of diminishing returns in terms of emissions and fuel efficiency improvement. Those hybrid vehicles that operate without the 'auxiliary' I/C engine and run solely on batteries or fuel cells have short operating ranges, making them suitable only for localized, low-speed areas like core metro areas or gated communities.

While many manufacturers, including Chrysler, Ford and GM, are following Toyota and Honda's lead in developing hybrid vehicles, Honda

alone has undertaken research in external combustion engines. In essence, these are high technology steam engines. An engineer on this project has conveyed that Honda has not progressed beyond the preliminary design stage of its external combustion engine.

The 2007 and 2010 EPA mandates are forcing diesel engine manufacturers to bring their engines into compliance. In response, diesel engine manufacturers are adding expensive, complex technological devices to their I/C diesel engines. The devices include exhaust gas recirculation ("EGR") systems, selective catalytic reduction ("SCR") devices, and diesel particulate filters ("DPF"). EGR recycles exhaust gases, lowering power output and raising engine and exhaust temperatures to failure inducing levels. SCR operates by spraying a 20% concentration of liquid urea into the combustion chambers to neutralize the acidic emission gases. As with supplying hydrogen, there is yet no infrastructure to distribute urea to truck stops and filling stations. The fitting of these devices adds to the capital expense of the vehicle, while the consumption of the catalyzing urea matches the costs of the diesel fuel that still must be used. This thereby increases the combined "fuel" costs. DPF has a tendency to "choke" the engines, lowering efficiency and raising their temperatures. Diesel manufacturers have not found a way to monitor when to service or change these filters. This is crucial because the fouled filters can combust like a soot-encrusted chimney. Even when these devices are used in combination, compliance remains elusive.

Cyclone's Competitive Advantages.

Preliminary data from bench tests have indicated that the Cyclone Engine operates at a fuel efficiency greater than gasoline fueled I/C engines that operate at about 20%-24% efficiency. Current multi-valve, turbo-diesel engines operate at about 30%-35% efficiency. The Company is confident that independent testing of its medium power range 6-cylinder Cyclone Engine will verify that it will nearly match the thermal efficiency of current state-of-the-art diesels. The Cyclone Engine should surpass the operating efficiency of diesel engines when one takes into account the savings from running on less costly fuels. Engine to wheel efficiency is also gained because the Cyclone Engine, due to its high torque output, will not need a multi-gear transmission which absorbs 5%-7% of the power in the drivetrain. Also, the Cyclone does not idle – when stopped the engine turns off, thus further reducing both fuel consumption and the resulting harmful emissions.

The Cyclone Engine has numerous advantages over I/C engines:

1) It can run on any liquid or gaseous fuel, making it relatively independent of shortages or price spikes in particular fuels.
2) It can also be run on bio-fuels which can be 'home-grown' in third world or remote areas.
3) Being an external combustion engine, the combustion occurs at far lower temperatures than conventional I/C engines, avoiding the peak temperatures that create toxic nitrous compounds.
4) The Cyclone Engine recirculates the fuel in its external combustion chamber until carbon particulate matters are fully consumed and not exhausted into the atmosphere.
5) The Cyclone Engine has fewer moving parts than its I/C counterparts rendering it less costly to manufacture and service.
6) The Cyclone Engine is de-ionized water lubricated. No oil lubricants are used.
7) It is small and compact relative to its power output, giving it a higher power to weight ratio than many of its counterparts.
8) It requires no starter, radiator, or transmission, making it yet lighter and simpler.
9) The heat it generates is 'harvested', conserved, and recycled within the engine, greatly lessening the heat expelled to the ambient environment, thus greatly reducing its contribution to urban 'heat islands' and global warming in general.
10) The Cyclone Engine develops full torque at initial start up (i.e., one rpm), not only obviating the need for a power absorbing transmission (5%-7% power loss), but also eliminating the need to idle, where I/C engines are most inefficient (and polluting).

E. **Sources and availability of raw material:** The Company purchases raw materials and components from multiple sources, none of which may be considered a principal or material supplier.

F. **Dependence on one or a few major customers:** The Company currently has two licensees of its engine technology: Revgine Inc., based in Rochester, NY ("Revgine") and Advent Power Systems, Inc., based in Pompano Beach, FL ("Advent"); and several other Development customers, such as Raytheon Company, Robotic Technologies, and MEO Products (through Advent).

Despite having only two full licensees at the current time, the Company does not believe that the loss of either licensee would have a material adverse impact on its current operations. Both licensees are, as is the Company, in the development stage of commercializing the Cyclone technology for their particular uses (as set forth in their license agreements). As a result, the Company does not currently rely on revenue generated from these licensees. Additionally, the Company is actively pursuing other licensees in other product categories (i.e., home generators, industrial machinery and equipment, etc.). With respect to its development customers, the Company would be adversely affected by the loss of one of more of them, but management does not believe that such economic loss would be material.

G. Patents, trademarks, licenses, franchises, concessions, royalty agreements, or labor contracts, including their duration:

The Company currently has the following patents issued and pending:

US Issued Patents
US Patent No. 7,080,512 B2 **Heat Regenerative Engine**
US Patent No. 7,407,382 B2 **Steam Generator in a Heat Regenerative Engine**

Pending US Patent Applications
Centrifugal Condenser
Spider Bearing
Clearance Volume Valves in a Steam Engine
Engine Shrouding with Air to Air Exchanger
Valve Controlled Throttle Mechanism
Engine Reversing and Timing Control
Pre-Heater Coil in a Heat Regenerative Engine
Waste Heat Engine

International Patents

Issued for Heat Regenerative Engine:
Australia
South Africa
Canada
Russia
China
Korea
Indonesia

Pending for the Heat Regenerative Engine:
Japan
Europe
India
Mexico
Brazil

Pending for the Steam Generator:
Japan
Europe
Canada
India

Pending for the Spider Bearing:
Japan
Europe
India
Canada
Indonesia
Brazil

Trademark Applications
Cyclone Power
Cyclone Power Technologies
WHE
WHE.Generation
Generation WHE

The Company is currently party to two license agreements with Revgine and Advent. Revgine has the exclusive worldwide rights to produce engines using the Cyclone Technology for small lawn and garden equipment, including weed eaters and lawn mowers. The initial term of that agreement is 2 years with one 8-year renewal and on-going 5-year renewal terms thereafter. Revgine has paid the Company an initial license fee of $200,000 as of the date hereof, and will pay the Company on-going royalties from the sale of engines produced using the Cyclone Technology.

Under its license agreement, Advent has the exclusive right to develop engines using the Cyclone technology for US, EU and Israeli military, as well as an non-exclusive right to build large syngas-powered generators. This license has a 25 year term. Advent had paid $29,000 in license fees as of December 31, 2008, and is obligated to pay additional license fees

and on-going royalties from the sale of engines produced using the Cyclone Technology.

The Company is not party to any organized labor contracts.

H. The need for any governmental approval of principal products or services and the status of any requested governmental approvals: Other than the filing of patent applications with the respective governmental bodies, the Company is not aware of any approval or its products or services that may be required from government authorities. However, once the Company's technology has been placed into commercial applications, such as lawn mowers, automobiles and power generators, the governmental approval and regulatory process will become substantial. Each of such industries has many layers of regulatory requirements to ensure safety, environmental impact, usability and more. The Company believes that applicability of and compliance with such regulations and laws will be the responsibility of its individual licensees, as the manufacturers of the final products for sale. The Company has no present intention of manufacturing any of its own products for sale into the wholesale or retail markets.

Item X The nature and extent of the issuer's facilities

The Company currently operates in a leased warehouse facility owned by Schoell Marine, Inc., a company wholly-owned by the Company's CEO, Harry Schoell. Schoell Marine leases 6,000 sf of space to the Company at approximately $12/sf, ($72,000 per year) which it believes to be at or below market rates for industrial space in the area.

The address of the Company's facility is:

601 NE 26th Ct.
Pompano Beach, FL 33064

PART D Management Structure and Financial Information

Item XI The name of the chief executive officer, members of the board of directors, as well as control persons.

A. Officers and Directors

Unless otherwise stated herein, the business address for each person names below is: 601 NE 26th Ct., Pompano Beach, FL, 33064.

Harry Schoell, Chairman and Chief Executive Officer, is a 65-year-old entrepreneur and technology visionary. Harry is a native Floridian, born in Miami, and a third generation inventor and engineer. Harry has worked for years to realize his dream to create an environmentally-friendly engine, and has two patents issued and 11 patents pending on the Schoell Cycle Heat Regenerative External Combustion Engine, now called the Cyclone Engine, as well as many other patents pending on the engine's components in the U.S. and internationally.

Harry is well versed in all facets of manufacturing procedure, including, appropriate foundry protocol, castings, machining, production design & manufacturing, and plastic and fiberglass laminates. In the 1960's, he participated in thermal dynamic testing on Rankine Cycle Engines which ultimately led to the creation of the Cyclone Engine. Harry also has extensive experience in designing, inventing and building unique boat hull designs and patented marine propulsion systems, through Schoell Marine, a company he founded in 1966 and still operates today, which provides design innovation to the marine and other industries.

Since founding Schoell Marine more than 40 years ago, Harry successfully built that company and its reputation based on his original ideas, highly trained engineers, skilled drafts people, and prototype and production specialists. Schoell Marine covers all facets of contemporary boat design and manufacturing. His inventiveness has resulted in over 40 specialized patents and patent applications, and Harry is known throughout the marine industry for his genius and is highly sought after for his knowledge and expertise. He is always thinking ahead and "outside the box". Harry also patented a Jet Drive System and a trimmable surface drive, as well as a "Ground Effect Craft" that would gently glide above the water using surface effect as the medium. Harry also holds patents on a

lightweight yet powerful, compact internal engine that he designed and built in 1990.

Harry has won the Engineer of the Year Award and Designer of the Year Award from Vapor Trails Magazine. He has also been presented with four different Innovation of the Year Awards from the NMMA (National Marine Manufacturers Association): one for a multi-hull boat design, one for a surface drive propulsion system, one for marine engine conversion, and a final one for a stepped hull design. All designs were patented in recent years. Harry belongs to SAE (Society of Automotive Engineers), the ASME (American Society of Marine Engineers), and The Society of Naval Architects and Marine Engineers.

Mr. Schoell has no other Board of Directors affiliations other than with the Company.

Compensation and Stock Holdings

Mr. Schoell has an Employment Agreement with the Company providing for a base salary of $150,000 per year plus standard benefits. This compensation is currently being deferred until the Company has sufficient revenue to support its payment. The term of Mr. Schoell's agreement is three years with automatic one-year renewals.

Mr. Schoell currently beneficially owns 16,094,150 shares of the Company's common stock, 241285 shares of Series A Preferred Stock, and 797 shares of Series B Preferred Stock. Additionally, he has the following stock options:

Number of Options	Term	Vesting Exercise	Price
250,000	10 yrs	Vested	$0.25
125,000	10 yrs	Vested	$0.35
125,000	10 yrs	6/30/09	$0.45

Frankie Fruge serves as Chief Operating Officer and Director of Cyclone. She has been with the company since its inception in 2004 in the role of General Partner and Director of Administration. Frankie is in charge of the daily operations and financial concerns of the Company.

Frankie has been working with Harry Schoell since 1995, serving in multiple administrative, operational and financial positions with Schoell Marine. Between 1999 and 2003, Frankie was President of Propulsion Systems, Inc., a company that developed and sold marine surface drives; and then CFO of Pulse Drive Inc., between 2003 and 2005, a company also in the marine propulsion field.

Prior to her career in marine-based engine technology, Frankie spent over 10 years as an operating engineer for several oil refinery companies in Louisiana, including Conoco, and eight years as an auditor for Ernst & Ernst (the predecessor company to Ernst & Young). Ms. Fruge is also a certified industrial firefighter, and is on the Board of the Steam Automobile Club of America. Ms. Fruge has no other Board of Directors affiliations.

Compensation and Stock Holdings

Ms. Fruge has an Employment Agreement with the Company providing for a base salary of $120,000 per year plus standard benefits. This compensation is currently being deferred until November 2009. The term of Ms. Fruge's agreement is three years with automatic one-year renewals.

Ms. Fruge currently beneficially owns 4,468,690 shares of the Company's common stock, 60,131.67 shares of Series A Preferred Stock, and 203 shares of Series B Preferred Stock. Additionally, she has the following stock options:

Number of Options	Term	Vesting Exercise	Price
250,000	10 yrs	Vested	$0.25
125,000	10 yrs	Vested	$0.35
125,000	10 yrs	6/30/09	$0.45

James Landon serves as Director of Cyclone. As President of Landon & Associates P.A., Mr. Landon has been the company's accountant of record for over four years. He is a member of the American Institute of Certified Public Accountants and its Business Valuation and Forensic & Litigation Services Section, a member of the Florida Institute of Certified Public Accountants and its Valuation, Forensic Accounting and Litigation Services Section. He is also a member of the Association of Certified

Fraud Examiners, and the National Association of Certified Valuation Analysts.

Mr. Landon also has considerable experience in the manufacturing world, holding positions for several companies over the years as vice president of operations, vice president of finance and administration, chief financial officer and president. Mr. Landon received his Bachelor of Engineering Science from The Johns Hopkins University, and his Master of Science in Administration with a concentration in Business Financial Management from The George Washington University.

Compensation and Stock Holdings

Mr. Landon has no separate employment agreement with the Company; however, his firm Landon & Associates is retained as the Company's accountants.

Mr. Landon currently beneficially owns 300,000 shares of the Company's common stock.

Board of Directors

The Company's directors at this time Harry Schoell, CEO, Frankie Fruge, COO, and James Landon. Board of Director members may be compensated for their time in cash or restricted shares of common stock, as may be provided under the independence requirements of current securities laws.

The Company has no Audit Committee, Compensation Committee or other committees at this time. The Company expects to create such committees in the future.

Board of Advisors

The Company, from time to time, adds members to its Board of Advisors. These individuals are comprised of distinguished scientists, engineers and businessmen whose experience, knowledge and counsel help in the development of the Company and its technology. These Board of Advisor members may be compensated for their time in restricted shares of common stock. Currently, the Board of Advisors is comprised of:

Robert F. Bourque, Ph.D., P.E., a senior engineering safety officer from Los Alamos National Laboratory. Dr. Bourque has served at Los Alamos National Laboratory since 1998 in the critical positions of Pressure Safety Officer, Explosives Safety Officer and Aviation Safety Officer, responsible for overseeing pressure safety for the entire Laboratory. Prior to this, Dr. Bourque worked for 25 years at General Atomics, one of the world's foremost nuclear research and development companies and government contractors. At General Atomics, Dr. Bourque served as Lead Engineer for Superconducting Accelerator Engineering, and the ITER Cryostat and Cryogenic Thermal Shield Design, and as a Principal Engineer for the Fusion Group.

Dr. Bourque's expertise ranges over many aspects of mechanical engineering, thermodynamics and heat transfer, pressurized systems, external combustion engines, cryogenic and vacuum systems, integrated engineering analysis, nuclear fusion and fission reactors, alternate energy systems, superconducting linear accelerators, and nuclear weapon effects. He holds a Ph.D. in mechanical and aerospace engineering, an M.S. in mechanical engineering, and has over 40 technical publications and four U.S. patents to his name, including one for an external combustion engine with combustion air preheating.

James D. Crank, a retired engineer with Lockheed and one of the foremost experts on automotive steam engine systems. During his long year career with Lockheed, Mr. Crank worked in senior research positions on many important projects, including: engine development for the Ground Vehicles Department, primary battery systems for the Triton II missile, battery systems for the Hubbell Space Telescope, heat shields for the Mercury and Apollo space systems, and dynamic solar and nuclear space power systems for SDI. Mr. Crank was also a Research Engineer for the Stanford Research Institute where he worked on explosive cladding of materials for cylinder construction in Porsche and Mercedes-Benz, among other projects.

Mr. Crank also has over 50 years experience in restoration, repair and driving of various steam cars, including the total redesign of the complete Doble crankcase assembly and cylinders for the Series E Doble steam cars (with 10 sets constructed), and the design and construction of the current speed world record holding steam car. He served as a consultant on steam car restoration to Harrah Automobile Collection, Nethercutt Collection, Jay Leno Collection, Stephen Finn Collection, and the Besler General Motors Chevelle steam car, among others; and a consultant to

the State of California on the steam bus development program. He is the owner and president of Doble Steam Motors Corporation, and is currently working on a book about the history of the Doble steam car and its founding family.

Jerry A. Peoples, a retired NASA engineer with over 30 years service in the government's most elite scientific divisions. Mr. Peoples' work with NASA spans over 30 years. Most recently, after the 1986 Space Shuttle Challenger disaster, Mr. Peoples was assigned to the Solid Motor Redesign Team, where he made major contributions to the design, fabrication and testing of the Double O-ring Interference Joint, which solved the O-ring burn problem.

Mr. Peoples' work at NASA also included participation on a governmental energy task force studying solar heating and cooling, ocean thermal electric energy conversion, and the Rankine Cycle as an alternative to the internal combustion engine. On this last subject, he published over 12 research papers on the design and operation of the modern steam powered automobile.

Early in his career, Mr. Peoples served at the Marshall Space Flight Center as project engineer responsible for thermal control systems for orbiting spacecraft such as the Hubble Telescope, HEAO-1, and Gravity Probe B. Prior to that, he worked at the Wright Patterson Air Development Center on the F-105 aircraft.

Robert Edwards is a retired senior engineer from Lockheed Martin. Mr. Edwards served at Lockheed Martin for over 30 years, working on different projects including the Apollo Moon Project and other space programs. His area of expertise is in energy conversion systems, including thermoelectric, steam, internal combustion and external combustion engines. Mr. Edwards has also spent over 20 years working with experimental steam cars and other steam systems, and is an officer of the Mobile Steam Society in Tennessee. He has published over 40 scientific papers and now gives talks on the subjects of alternative fuels and heat transfer systems. He holds a B.S. from the University of Tennessee.

George Nutz is technology consultant with almost 50 years experience working with external combustion and steam engines. He is the founder of Millennium Engineering Systems and Millennium Energy Systems, through which he has provided engineering guidance and expertise to multiple external combustion engine projects over the last twenty years.

Prior to consulting, Mr. Nutz was a staff research engineer at MIT Instrumentation Laboratory, part of the Department of Aeronautics and Astronautics. While in residence, he designed hardware and control systems, as well as steam cycles and applications. He represented MIT-IL at the Department of Transportation Clean Air / External Combustion hearings, and wrote several proposal papers outlining a working steam system. During this time he also became involved with steam automobile and steamboat groups and worked on boiler and engine designs/modifications, including being part of the MIT team designing and building a steam powered automobile for Saab for the MIT-Caltech "Clean Air Car Race".

Prior to his time at MIT, Mr. Nutz spent nine years at Bendix Aerospace designing gyro and guidance equipment and test platforms, and working with optics and sensors. He served in the U.S. Air Force and received his mechanical engineering degree from the New Jersey Institute of Technology in 1959.

Allen Brown, an engineer whose experience spans over 56 years in the marine industry where he has developed propulsion, hydraulic, electrical and exhaust systems for some of the best known names in the business. Over the years, Mr. Brown has served as: Director of Product Development for Cigarette Racing Team; President and CEO of Cougar Marine, which built powerboats that won 33 consecutive offshore races including 12 World and National Championships; Director of Product Development for Stainless Marine; Project Engineer for Gentry Transatlantic on the “Gentry Eagle,” a 113’ mega-yacht that held the transatlantic speed crossing record; Product Development Consultant for Teleflex Marine; and General Manager of Donzi Marine.

Mr. Brown is widely regarded as a mechanical genius. Pete Smythe, Editor of Motorboating Magazine, wrote: “Brownie is generally considered to have more engineering moxie than anyone else in the high performance boat business.” Hotboat Magazine wrote that “Brownie’s experience in the business is second to none, with almost 50 years of high performance expertise in building, driving and designing every part of a raceboat.” Powerboat Magazine called Brownie a “mechanical wizard”.

Compensation to Advisors

The Company has compensated its Board of Advisors members with 30,000 shares of the Company's restricted common stock each for their past services rendered on behalf of Cyclone, and reserves the right to issue additional shares, stock options or cash in the future.

B. Legal/Disciplinary History

None of the Company's Officer or Directors, as listed above, has in the last five years been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations or other minor offenses);

2. The entry of an order, judgment or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities or banking activities;

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended or vacated; or

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

C. Disclosure of Certain Relationships: None.

D. Disclosure of Related Party Transactions

The Company had an informal management agreement with Schoell Marine, a company owed by Harry Schoell, to provide some turnkey operations, including office facility rental, equipment leasing and personnel, based upon cost and going market rates. This arrangement

was phased-out around July 2008; however, at December 31, 2008, the Company owed to Schoell Marine $38,075 in current liabilities and an additional $548,763, which is booked as long term debt. The debt is callable at the discretion of Mr. Schoell and is secured by a perfected security interest on the Company's patent and patent applications. The Company currently rents office space from Schoell Marine at $12.00/sf, which it believes to be at or below comparable market rates.

E. Disclosure of Conflict of Interest

Other than as described in Section D above, the Company knows of no reportable conflicts of interest.

Item XII Financial Information for the Issuer's most recent fiscal period

Financial Statements for the period ended December 31, 2008 have been attached to the end of this Annual Report and are ordered as follows:

Item XIII Similar financial information for the two preceding fiscal years

Information required by this Item XIII has been included in the Financial Statements provided in response to Item XII.

Item XIV Beneficial Owners

Common Shares

The following table sets forth information regarding the beneficial ownership of the Company's Common Stock by each member of the Company's Executive Management, Board of Directors and each Shareholder who is known by the Company to own beneficially five percent (5%) or more of the outstanding Common Shares as of December 31, 2008. On this date, 83,016,048 shares of common stock were issued and outstanding.

Name and Address	Number of Common Shares Beneficially Owned	Percentage of Common Shares Beneficially Owned
Harry Schoell, Chairman & CEO 281 SE 3rd Court Pompano Beach, FL 33060	16,358,678 (1)	19.70%
Frankie Fruge, COO & Director 281 SE 3rd Court Pompano Beach, FL 33060	4,534,822 (2)	5.46%
James Landon, Director 4401 N Federal Hwy Boca Raton, FL 33431	300,000	0.36%
TOTALS:	21,193,500	25.53%

(1) Includes 264,528 shares beneficially owned through Schoell Consulting, Inc.
(2) Includes 66,132 shares beneficially owned through Schoell Consulting, Inc.

Series A Convertible Preferred Shares

The following table sets forth information regarding the beneficial ownership of the Company's Series A Convertible Preferred Stock by each Shareholder who is known by the Company to own beneficially five percent (5%) or more of the outstanding Series A Preferred Shares as of December 31, 2008. As of that date, 500,000 shares of Series A Preferred Stock were issued and outstanding.

Name and Address	**Number of Series A Pref. Shares Beneficially Owned**	**Percentage of Series A Pref. Shares Beneficially Owned**
Harry Schoell, Chairman & CEO 281 SE 3rd Court Pompano Beach, FL 33060	241,285 (1)	48.26%
Frankie Fruge, COO 281 SE 3rd Court Pompano Beach, FL 33060	60,131.67	12.03%
Michael Hodgson, Chief Engineer 325 SE 11 Street Deerfield Beach, FL 33441	30,390	6.01%
John J. Hurley 503 Conestoga Rd. Wayne, PA 19087	25,055	5.01%
Shelby Wilson 461 Smulton Rd. Rebersburg, PA 16872	37,581.67	7.52%
TOTALS:	397,809.34	79.56%

(1) Includes 327,294 shares beneficially owned through Schoell Consulting, Inc.

Series B Preferred Shares

The following table sets forth information regarding the beneficial ownership of the Company's Series B Preferred Stock by each Shareholder who is known by the Company to own beneficially five percent (5%) or more of the outstanding Series B Preferred Shares as of December 31, 2008.

Name and Address	Number of Series B Pref. Shares Beneficially Owned	Percentage of Series B Pref. Shares Beneficially Owned
Harry Schoell, Chairman & CEO 281 SE 3rd Court Pompano Beach, FL 33060	797	79.7%
Frankie Fruge, COO 281 SE 3rd Court Pompano Beach, FL 33060	203	20.3%

Item XV The names, address, telephone number and email address of each of the following outside providers and advise the issuer or matters relating to the operations, business development and disclosure:

1. **Investment Banker:** None.

2. **Promoters:** None.

3. **Counsel:**
   Law Office of Christopher Nelson
   Christopher Nelson, Esq.
   2520 Coral Way, #2200
   Coral Gables, FL 33145
   (305) 439-5559
   chris@cnelsonlegal.com

4. Accountant

Baum & Company, P.A.
Joel Baum
605 Lincoln Rd., Suite 210
Miami Beach, FL 33139
1-888-CPA 3770
joel@jbaumcpa.com

Baum & Co. provides accounting and review services for the Company's public filings. The firm does not audit the Company's financials. It is the Company's responsibility to perform daily accounting functions which are then reviewed by the accounting firm for accuracy and compliance with GAAP, and compiled in a format required for filing.

Joel Baum, is a CPA with a BS in accounting and MS degree in taxation. He serves on the FICPA state committee for auditing and accounting standards. Baum & Co is a registered PCAOB accounting firm.

Landon & Associates
James Landon
4401 N Federal Hwy, Ste 202
Boca Raton, FL 33431
561-391-4848
jlandon@landoncpa.com

Landon & Associates assists the Company with general accounting functions, including daily bookkeeping. The firm does not audit the Company's financials and does not prepare public filings.

James Landon is a member of the American Institute of Certified Public Accountants and its Business Valuation and Forensic & Litigation Services Section, a member of the Florida Institute of Certified Public Accountants and its Valuation, Forensic Accounting and Litigation Services Section. He is also a member of the Association of Certified Fraud Examiners, and the National Association of Certified Valuation Analysts. Mr. Landon is a member of the Company's Board of Directors.

5. Public Relations Consultant

Will Wellons
Wellons Communications
452 Osceola St. Ste. 202
Altamonte Springs, FL 32701
(407) 339-0879
Info@Wellonscommunications.com

6. Investor Relations Consultant: None

7. Other Advisors: None

Item XVI Management's Discussion and Analysis or Plan or Operation

The Company has not had material or consistent revenue from operations in each of the last two fiscal years. In order for the Company to maintain and expand its operations through the next 12 months, it must:

1. Raise through capital infusions, either by means of equity or debt offerings, a minimum of $1 million and up to $5 million; or

2. Secure license agreements that provide up-front license fees, development/design fees or guaranteed royalties, in a minimum amount of $1 million and up to $5 million.

While the Company is actively engaged in both capital raising and licensing activities, management can make no assurances that such efforts will result in securing all of the needed funding for the Company. If such funds cannot be raised or otherwise generated, the Company may be forced to reduce staff, minimize its research and development activities, or in a worst case scenario, shut-down operations. Management is cautiously optimistic, however, that it will be able to generate the funding required to continue and expand its operations over the long term.

In 2008 the Company issued 9,994,824 shares of restricted common stock in private placements under Regulation D and Regulation S of the Securities Act of 1933, as amended, for $716,792 in cash proceeds, which was used for general administrative, research and development, and marketing activities. The Company also converted $348,743 in loans, debt and other liabilities into 3,457,591 shares of restricted common stock.

Currently, management believes that the Company has cash reserves and cash commitments to sustain operations through Q3 2009.

Despite its limited cash resources, the Company is able to retain engineering, consulting, legal and accounting personnel partially through the issuance of restricted common stock. In 2008, the Company issued 7,915,197 shares of restricted stock in lieu of $757,584 in cash compensation, plus an additional 2,033,333 restricted common shares which were treated for accounting purposes as conversion of $99,500 in liabilities, as they pertained to services rendered in 2007. Management believes that the agreement of these individuals to forego some or all of their agreed upon cash compensation for shares of restricted common stock demonstrates a strong dedication and long-term commitment to the Company, its technology and its future prospects.

As a research and development company, a material portion of all funds raised or generated through operations are placed back into the R&D activities of the Company. The Company's R&D expenditures were $1,090,911 for 2008 and $814,685 for 2007, and management expects such expenditures to exceed these figures for 2009, especially if additional funding can be achieved. Of this amount $84,847 was spent on U.S. and international patent filings.

The Company does not immediately anticipate a purchase or sale of plant facilities or significant equipment; however, should funding be secured, some proceeds will be used to purchase capital equipment used for development and testing of its technology. Additionally, should adequate funding be secured, the Company expects to increase the number of skilled and unskilled employees on payroll, including the recruitment of high level executive management and additional engineers and mechanical staff. Such new hires will considerably increase the Company's monthly operational expenses.

Off-Balance Sheet Arrangements. The Company does not have any off-balance sheet arrangements at this time.

PART E Issuance History

Item XVII List of securities offerings and shares issued for services in the past two years.

The following table lists all offerings and issuances of shares of the Company's common stock from January 1, 2007 until December 31, 2008. To the extent that the individual/entity to which shares were issued owned at such time 5% or greater of the common stock of the Company, under Pink Sheet Disclosure requirements, the individual or controlling party(ies) of a corporate entity has also been disclosed, to the best of the Company's knowledge.

Date	# of Shares	Amount Paid	Nature of Offering	Trading Status/Restrictions
12/31/08	320,000	$6,400	Services Rendered	Restricted/Rule 144 Legend
12/31/08	531,000	$45,600	Regulation D	Restricted/Rule 144 Legend
11/25/08	385,001	$23,100	Regulation D	Restricted/Rule 144 Legend
11/25/08	2,612,000	$52,240	Services/Annual Bonuses	Restricted/Rule 144 Legend
10/20/08	1,000,000	$3,000	Conversion of Debt	Restricted/Rule 144 Legend
10/6/08	100,000	$2,000	Services Rendered	Restricted/Rule 144 Legend
9/30/08	215,000	$19,350	Services Rendered	Restricted/Rule 144 Legend
9/30/08	1,514,625	$136,316	Liability Conversion (1)	Restricted/Rule 144 Legend
9/15/08	850,000	$169,875	Regulation S	Restricted/Reg S,144 Legend
9/03/08	125,000	$20,000	Services Rendered	Restricted/Rule 144 Legend
8/29/08	154,320	$25,000	Regulation D	Restricted/Rule 144 Legend
8/14/08	150,000	$22,558	Regulation S	Restricted/Reg S,144 Legend
8/14/08	1,424,242	$199,394	Liability Conversion (2)	Restricted/Rule 144 Legend
8/14/08	155,000	$21,700	Services Rendered	Restricted/Rule 144 Legend
7/15/08	3,000,000	$420,000	Services Rendered	Restricted/Rule 144 Legend
5/14/08	4,315,307	$287,572	Regulation D	Restricted/Rule 144 Legend
4/29/08	300,734	$21,868	Services Rendered	Restricted/Rule 144 Legend
4/10/08	3,288,462	$149,806	Regulation S	Restricted/Reg S,144 Legend
4/1/08	336,901	$20,500	Conversion of Debt	Restricted/Rule 144 Legend
4/1/08	175,000	$3,500	Services Rendered	Restricted/Rule 144 Legend
1/15/08	240,000	$4800	Services Rendered	Restricted/Rule 144 Legend
1/1/2008	150,000	$3,000	Services Rendered	Restricted/Rule 144 Legend
10/25/2007	150,908	$16,500	Regulation S	Restricted/Reg S Legend
9/6/2007	46,667	$933.34	Services Rendered	Restricted/Rule 144 Legend
9/2/2007	100,000	$200,000	Regulation D	Restricted/Rule 144 Legend
8/16/2007	51,020	$20,000	Regulation S	Restricted/Reg S Legend
8/15/2007	500,000	$1,500	Conversion of Convertible Note	Restricted/Rule 144 Legend
8/14/2007	2,500,000	$7,500	Conversion of Convertible Note	Restricted/Rule 144 Legend
8/12/2007	2,500,000	$7,500	Conversion of Convertible Note	Restricted/Rule 144 Legend

7/18/2007	500,000	$1,500	Conversion of Convertible Note	Restricted/Rule 144 Legend
7/15/2007	300,000	$6,000	Services Rendered	Restricted as per Rule 144
7/2/2007	1,000,000	NA	Options to Management per Agreement	Control Shares
7/2/2007	33,000,000	Assets of LLLP	Acquisition of Cyclone LLLP (3)	Restricted/Rule 144 Legend
ACQUISITION OF CYCLONE LLLP, CHANGE IN CONTROL AS OF 7/2/07				
7/1/2007	21,750,000	$34,935.07	Conversion of Convertible Note (4)	Restricted/Rule 144 Legend
10,000:1 REVERSE STOCK SPLIT AS OF 6/30/07				
5/24/2007	471,303,400	$47,130	Issuance to Management (5)	Control Shares
5/17/2007	151,502,281	$12,300	Conversion of Convertible Note (6)	Restricted/Rule 144 Legend
5/11/2007	216,181,900	$17,700	Conversion of Convertible Note (7)	Restricted/Rule 144 Legend
5/4/2007	197,091,800	$10,272.23	Conversion of Convertible Note (8)	Restricted/Rule 144 Legend
4/30/2007	197,091,800	$10,272.23	Conversion of Convertible Note (9)	Restricted/Rule 144 Legend
4/23/2007	74,250,000	$2,500	Conversion of Convertible Note (10)	Restricted/Rule 144 Legend
2/20/2007	90,000,000	$12,000	504 Minnesota	Not Restricted
2/16/2007	103,000,000	$13,700	Issuance to Management (5)	Control Shares
1/22/2007	113,636,363	$25,000	504 Texas	Not Restricted
1/5/2007	80,000,000	$20,000	504 Minnesota	Not Restricted

(1) Conversion of deferred salary to officers/employees of the Company at $.09/share, including 1,200,000 shares to Frankie Fruge, COO and Director.

(2) Conversion of deferred salary to employees of the Company at $.14/share.

(3) A total of 33,000,000 shares of restricted stock issued to 22 individuals and entities who were the former equity partners of Cyclone Technologies LLLP, of which the following controlled greater than 5% of the Company's common stock as of the date of issuance: 15,594,150 issued to Harry Schoell individually; and 3,968,690 issued to Tanya Robertson individually, who is the daughter of Frankie Fruge (later transferred to Ms. Fruge).

(4) A total of 21,750,000 shares issued to 14 entities, of which the following entities controlled greater than 5% of the Company's common stock as of the date of authorization: 4,333,464 shares issued to Star Consulting Inc., a company controlled by Dan Starczewski, to the best of the Company's knowledge; 3,066,536 shares issued to Power Network, Inc., a company controlled by Joe V. Overcash, to the best of the Company's knowledge; 3,000,000 shares issued to Active Stealth LLC, a company controlled by Richard Muller, to the best of the Company's knowledge; 1,963,226 shares issued to Y2TK LLC, a company controlled by Richard Muller, to the best of the Company's knowledge; and 2,136,774 shares issued to MBA Investors LTD, a Florida limited partnership controlled by Thomas Pierson, to the best of the Company's knowledge. None of the Company's current officers or directors is part of this shareholder group.

(5) Shares issued to James DiPrima and Robin Moody, as represented to the Company by such individuals in lieu of salary, expenses and loan proceeds to the Company in the amounts set forth in the table.

(6) Shares issued to Bluewater Executive Capital LLC, a Florida limited liability company controlled by Braxton P. Jones, to the best of the Company's knowledge based on public filings.

(7) 108,090,950 shares issued to Active Stealth LLC, a company controlled by Richard Muller, to the best of the Company's knowledge; and 108,080,950 shares issued to Star Consulting Inc., a company controlled by Dan Starczewski, to the best of the Company's knowledge.

(8) 98,545,900 shares issued to Y2TK LLC, a company controlled by Richard Muller, to the best of the Company's knowledge; and 98,545,900 shares issued to Power Network, Inc., a company controlled by Joe V. Overcash, to the best of the Company's knowledge.

(9) 60,000,000 shares issued to Emerging Markets Consulting LLC, a Florida limited liability company controlled by James S. Painter III, to the best of the Company's knowledge; 68,545,900 shares issued to Project Development, Inc., a North Carolina company controlled by Daniel Starczewski, to the best of the Company's knowledge based on public filings; and 68,545,900 shares issued to MBA Investors LTD, a Florida limited partnership controlled by Thomas Pierson, to the best of the Company's knowledge.

(10) 37,125,000 shares issued to Starr Consulting, Inc; 37,125,000 shares issued to Active Stealth, LLC.

PART F Exhibits

Item XVIII Material Contracts

Independent Research and Development (IR&D), dated June 10, 2008, by and between the Company and Raytheon Integrated Defense Systems (IDS). The terms of this agreement are confidential; however, it pertains to the development of a specialized Cyclone Engine powered on the monopropellant Moden Fuel. As of the date of this Annual Report, initial tests as requested under the agreement have been completed successfully.

The following material contracts have been previously filed or described in past filings, and are hereby incorporated by reference:

Asset Purchase Agreement, dated June 2, 2007, by and between Coastal Technologies, Inc., and Cyclone Technologies, LLLP.

Asset Purchase Agreement, dated July 2, 2007, by and between Cyclone Power Technologies, Inc., and The Hamlet Group, Inc.

Employment Agreement for Harry Schoell, CEO.

Employment Agreement for Frankie Fruge, COO

Technology License Agreement, November 15, 2007, by and between Cyclone Power Technologies, Inc., and Revgine Inc.

Technology License Agreement, dated March 24, 2006, by and between Cyclone Technologies, LLLP, and Advent Power Systems, Inc.

Investors Relation Agreement, dated December 5, 2007, by and between Cyclone Power Technologies, Inc. and CLX & Associates, Inc. – terminated July 2008.

Escrow and Leak-Out Agreement, dated July 17, 2007.

Escrow and Leak-Out Agreement, dated January 2, 2008, by and between the Company, Christopher M. Nelson, Esq., as Escrow Agent, and John J. Hurley – expired January 2009.

Item XIX Articles of Incorporation and Bylaws

The Company has previously filed its Articles of Incorporation and Bylaws with the Pink Sheets, as of August 27, 2007, and incorporates those filings by reference herein.

Item XX Purchases of Equity Securities by the Issuer and Affiliated Purchasers. None

Item XXI Issuer's Certifications

I, Harry Schoell, CEO of Cyclone Power Technologies, Inc., certify that:

1. I have reviewed the Annual Report for the period ended December 31, 2008, of Cyclone Power Technologies, Inc.
2. Based upon my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report; and
3. Based upon my knowledge, the financial statements and other financial information included or incorporated by reference in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Annual Report.

April 21, 2009

Harry Schoell
CEO & Chairman

I, Frankie Fruge, COO and Controller of Cyclone Power Technologies, Inc., certify that:

1. I have reviewed the Annual Report for the period ended December 31, 2008, of Cyclone Power Technologies, Inc.
2. Based upon my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report; and
3. Based upon my knowledge, the financial statements and other financial information included or incorporated by reference in this Annual Report fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Annual Report.

April 21, 2009

Frankie Fruge
COO & Controller

Financial Statements and Footnotes

Period Ended December 31, 2008

Cyclone Power Technologies Inc.
Balance Sheets
December 31, 2008 and 2007
(unadudited)

	December 31, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash	$ 1,366	$ 25,863
Accounts receivable	87,245	165,000
Inventory	18,129	0
Total current assets	106,740	190,863
PROPERTY AND EQUIPMENT		
Furniture, fixtures, and equipment	47,880	18,230
Less: Accumulated depreciation	(28,185)	(3,453)
Total property and equipment	19,695	14,777
OTHER ASSETS		
Patents, Trademarks and Copyrights (net of accumulated amortization of $ 64,018 and $ 7,740 at December 31, 2008 and 2007, respectively)	253,371	224,802
Total other assets	253,371	224,802
Total Assets	$ 379,806	$ 430,442
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	451,512	221,454
Notes and loans payable	172,804	69,080
Deferred Revenue	61,511	-
License Deposit	-	-
Accounts and loans payable-related party	552,324	542,796
Total current liabilities	1,238,151	833,330
Total liabilities	1,238,151	833,330
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred Stock A, $.0001 par value, 500,000 shares authorized, 500,000 shares issued and outstanding	50	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; 83,016,048 and 61,648,436 shares issued and outstanding at December 31, 2008 and December 31, 2007, respectively	8,302	6,165
Additional paid-in capital	4,437,212	2,616,230
Accumulated (deficit)	(5,303,909)	(3,025,333)
Total stockholders' equity (deficit)	(858,345)	(402,888)
Total Liabilities and Stockholders' Equity (Deficit)	$ 379,806	$ 430,442

The accompanying notes are an integral part of the financial statements

Cyclone Power Technologies Inc.
Statement of Operations
For the Years Ending December 31, 2008 and 2007
(unaudited)

	Year Ending Dec. 31, 2008	Year Ending Dec. 31, 2007
REVENUES		
Licensing Fees & Development	$ 11,000	$ 202,000
Total Revenues	11,000	202,000
OPERATING EXPENSES		
Advertising and Promotion	101,472	73,055
General and Administrative	1,139,878	674,774
Research and Development	1,090,911	814,685
Total operating expenses	2,332,261	1,562,514
Operating income (loss)	(2,321,261)	(1,360,514)
OTHER INCOME (EXPENSE)		
Other Income (Expense)	-	(1,214)
Interest expense	42,685	(27,072)
Total other income (expense)	42,685	(28,286)
Loss before provision for income taxes	(2,278,576)	(1,388,800)
Provision for Income taxes	-	-
Net income (loss)	$ (2,278,576)	$ (1,388,800)
Net income (loss) per common share, basic	$ (0.03)	$ (0.02)
Weighted average number of common shares outstanding	72,434,928	59,994,261

The accompanying notes are an integral part of the financial statements

Cyclone Power Technologies Inc.
Statement of Stockholders' Equity (Deficit)
December 31, 2008
(unaudited)

	Preferred Stock A		Preferred Stock B		Common Stock		Additional Paid In	Accumulated	Total Stockholders Equity
	Shares	Value	Shares	Value	Shares	Value	Capital	Deficit	(Deficit)
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					100,000	10	199,990		200,000
Issuance of restricted 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)
Issuance of restricted shares for services					7,915,197	792	756,792		757,584
Sale of common stock					9,994,824	999	715,793		716,792
Conversion of debt & liabilites to common stock					3,457,591	346	348,397		348,743
Net (loss) year ending Dec. 31, 2008								(2,278,576)	(2,278,576)
Balance, Dec. 31, 2008	500,000	$ 50	1,000	$ -	83,016,048	$ 8,302	$ 4,437,212	$ (5,303,909)	$ (858,345)

Cyclone Power Technologies Inc.
Statements of Cash Flows
For the Years Ending December 31, 2008 and 2007
(unaudited)

	Year Ending Dec.. 31, 2008	Year Ending Dec.. 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (2,278,576)	$ (1,388,800)
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Depreciation & Amortization	81,010	11,193
Issuance of restricted common stock for services	757,584	6,933
Reallocation of partners capital accounts related to reverse merger and isuance of restricted common stock		1,103,742
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	77,755	(165,000)
(Increase) decrease in inventory	(18,129)	-
Increase (decrease) in prepaid and other assets	-	10,754
Increase (decrease) in deferred revenue	61,511	-
Increase (decrease) in accounts payable and accrued expenses	378,801	221,454
Net cash provided (used) by operating activities	(940,044)	(199,724)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures incurred for Patents	(84,847)	(79,842)
Expenditures incurred for Equipment & Furniture	(29,650)	(18,230)
Net cash provided (used) by investing activities	(114,497)	(98,072)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds pursuant to Acquisition Agreement	-	100,000
Increase (decrease) in loans-net	303,724	(81,242)
Proceeds from sale of common stock	716,792	53,000
Proceeds from consultants of Coastal Technologies	-	200,000
Increase (decrease) in related party loans-net	9,528	32,456
Net cash provided (used) by financing activities	1,030,044	304,214
Net increase (decrease) in cash	(24,497)	6,418
CASH and equivalents, beginning of period	25,863	19,445
CASH and equivalents, end of period	$ 1,366	$ 25,863
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Payment of taxes in cash	$ -	$ -
Payment of interest in cash	$ -	$ -
NON CASH DISCLOSURES:		
Expenses paid with 7,915,197 and 346,667 shares of restricted common stock	$ 757,584	$ 6,933
Debt & liabilities converted via issuing 3,457,591 and 6,000,000 shares of restricted stock	348,743	18,000
Sale of 9,994,824 and 201,908 shares of common stock	716,792	53,000
Issuance of 21,750,000 shares of common stock to holders of convertible notes	-	34,935
Issuance of 33,000,000 restricted shares to partners of predecessor entity prior to merger		3,300

The accompanying notes are an integral part of the financial statements

CYCLONE POWER TECHNOLOGIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

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 "LLLP"), a limited liability limited partnership formed in Florida in June 2004. The LLLP was the developer and patent holder of the Cyclone Engine Technology, an award winning, eco-friendly external combustion engine.

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 LLLP 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 LLLP 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, the Company has not recognized significant revenues.

B. BASIS OF ACCOUNTING

The Company utilizes the accrual method of accounting, whereby revenue is recognized when earned and expenses when incurred. The unaudited financial statements have been prepared in accordance with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and these adjustments are of a normal recurring nature.

C. 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.

D. 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 $250,000.

E. 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.

F. 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, adopted by the company, 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.

G. REVENUE RECOGNITION

Revenue for non refundable license fees is recognized upon the execution and closing of the license agreement for the amount of the license fee. License fees are generally due upon the execution of the license agreement. Revenue from continuing 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.

H. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, “Disclosures about Fair Value of Financial Instruments”, requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate the value. For purpose of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The carrying amounts reported in the balance sheet for cash, accounts receivable, inventory, accounts payable and accrued expenses, and loans payable approximate their fair market value based on the short-term maturity of these instruments.

NOTE 2 - GOING CONCERN

As shown in the accompanying financial statements, the Company incurred substantial net losses for the year ending December 31, 2008 of $ 2,278,576 and $ 5,303,909 cumulatively since inception. It has a working capital deficit at December 31, 2008 of $ 1,131,411. There is no guarantee whether the Company will be able to generate enough revenue and/or raise capital to support those operations. This raises substantial doubt about the Company’s ability to continue as a going concern. Management also states that they are confident that they can improve operations and raise the appropriate funds to grow their underlying business. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. The Company is currently raising working capital to fund its operations via debt and private placements of common stock. The Company had raised $ 716,792 from the sale of 9,994,824 shares of common stock for the year ending December 31, 2008.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due from licenses and consulting/design agreements with licensees and other clients of company, and research and development prototype charges.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2008 and 2007 consists of the following:

	2008	2007
Display Equipment for Trade Shows	$ 9,648	$ 9,648
Computer Hardware and Software	38,232	8,582
Total	47,800	18,230
Less: Accumulated Depreciation	28,185	3,453
Net Property and Equipment	$ 19,695	$ 14,777

Depreciation expense for the years ending December 31, 2008 and 2007 was $ 24,732 and $ 3,343 respectively.

NOTE 5 – PATENTS AND TRADEMARKS AND COPYRIGHTS

The Cyclone Engine is currently protected under U.S. Patent # 7,080,512, and its steam generator component is protected under U.S. Patent # 7,407,382. Additionally, the Company has filed patent applications in the U.S. on seven other major components of the engine, as well as the Waste Heat Engine. The Company also has received patents in seven countries and patents pending in five more countries for the Cyclone Engine; and has patent applications pending in all these foreign jurisdictions for two of its major engine components. The Company plans to continue to pursue patent protection in the U.S. and internationally for it intellectual property.
The Company has filed trademark applications in the U.S. for Cyclone Power Technologies, Cyclone Power, WHE, WHE Generation, and Generation WHE.

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, 2008 and 2007 was $ 56,278 and $ 7,740, respectively.

NOTE 6 – CONVERTIBLE NOTE AND OTHER LOANS PAYABLE

The convertible note originally 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 of the assets and liabilities of the LLLP. On July 17, 2007, $18,000 of the note was converted into 6,000,000 restricted common shares of the Company, and on October 17, 2008, $3,000 was converted into 1,000,000 restricted common shares. The balance on the note as of December 31, 2008 was $47,259 and accrued interest expense for the year ended December 31, 2008 was $2,782.

The company converted $23,000 of loans payable into 1,333,329 shares of restricted common stock in the year ending December 31, 2008.

NOTE 7 – RELATED PARTY TRANSACTIONS

A. RELATED PARTY NOTES PAYABLE,

Related party notes and accounts payable include $548,762 due to Schoell Marine which 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. The note is secured by a UCC-1 filing on the Company's patents and patent applications. During the year ended December 31, 2008, $ 23,870 was paid on the note balance and the Company had accrued interest expense of $32,842.

B. LEASE ON WAREHOUSE

The Company leases its 6,000 square foot warehouse and office facility located at 601 NE 26th 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. Occupancy costs for the year ended December 31, 2008 were $ 72,253 and $ 36,000 for the period commencing in July 2007 through December 31, 2007.

NOTE 8 – ACCRUED SALARIES

As of December 31, 2008, accrued salaries for corporate officers were $174,531 all of which can be paid in 2009 if funds are available. In 2008, $148,377 of accrued salary owed to three employees was converted to 2,837,958 shares of common stock, of which $99,500 representing 2,033,333 shares of common stock was classified as "conversion of debt & liabilities" as it was accrued in 2007.

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 31, 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 33 million 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. As of December 31, 2008, the Series A shares were convertible into approximately 42 million shares of common stock. The Series B shares are majority voting shares and are held by senior management. Ownership of the Series B shares assures the holders thereof a 51% voting control over the common stock of the Company. The Series B shares are convertible on a one-for-one basis with the common stock in the instance the Company is merged or sold.

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 relies on capital raised through loans, private placement memorandums and Regulation S transactions (stock sold to foreign investors) to fund operations.

During the year ending December 31, 2008, the company issued 7,915,197 shares of restricted stock, valued at $757,584 for services, based on the price of the most recent sale of company stock. During the same period, the company sold 9,994,824 shares of restricted common stock for $716,792 and converted $348,743 of debt, accrued salaries and payables for 3,457,571 shares of restricted common stock.

NOTE 11 – INCOME TAX

Deferred assets and liabilities are measured using enacted tax rates in effect for the year in which temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred assets and liabilities from a change in tax rates is recognized in the period that includes the enactment date. For the years ending Dec. 31, 2008 and 2007 the effective income tax rate is:

	Period ending	
	Dec 31, 2008	Dec 31, 2007
Statutory federal income tax rate	34%	34%
Valuation allowance	(34%)	(34)
Effective tax rate	---%	--%

The Company has a net operating loss carry forward as of December 31, 2008 of approximately $3,600,000 which is offset by a 100% valuation allowance due to the uncertainty surrounding the ultimate realization of these assets. The loss carry-forward expires in 15 years commencing 2007. Prior to the merger at July 2, 2007, the company was a limited partnership, and all income tax considerations were reflected on the individual members' tax returns.

NOTE 12 – RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*." SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of SFAS No. 141(R). SFAS No. 160 is effective for fiscal years beginning December 15, 2008. The Company does not expect that this interpretation will have a material impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ("SFAS 161"), requiring disclosures about derivative instruments, and related hedged items. The Company does not believe that application of this FASB would have a material impact on the financial statements.

In April 2008, FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3) was issued. This revises the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. The Company is determining what the application of this Staff Position would have on the financial statements.