CYCLONE POWER TECHNOLOGIES INC
Form 10-K/A
September 11, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

Amendment No. 1

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016

Or

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 000-54449

Cyclone Power Technologies, Inc.

(Exact name of registrant as specified in its charter)

Florida 26-0519058

(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
601 NE 26th Ct, Pompano Beach, Florida (Address of principal executive offices)	**33064 (Zip Code)**

Registrant's telephone number (954) 943-8721

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.0001 par value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ ] Yes [X] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] Yes [X] No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for a shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [X]

Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[X]
		Emerging Growth Company	[X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.) [ ] Yes [X] No

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of the closing price of such shares on the last business day of the registrant's most recently completed fiscal year was approximately $2,100,000.

The number of shares outstanding of the registrant's common stock as of July 27, 2017 is 1,753,246,329

DOCUMENTS INCORPORATED BY REFERENCE—NONE

Explanatory Note

The purpose of this Amendment No.1 to our annual report on form 10-K as of and for the period ended December 31, 2016, filed with the Securities and Exchange Commission on July 31, 2017 is the result of a review by the SEC of this 10-K. The reviewer specifically requested a more robust discussion of our Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures over our financial reporting as presented in Item 9A. Controls and Procedures. The company has revised Item 9A to present a more full bodied discussion of the lack of effectiveness of our internal control over financial reporting in the amended 10-K below.

In addition we have attached to Amendment No.1 currently dated certification from our President and Chief Financial Officer as required by the SEC Rule 13a- 14(a)/15d-14(a) and by section 906 of the Sarbanes-Oxley ACT of 2002.

No other changes have been made to Form 10-K. This Amendment No.1 to the Form 10-K speaks as of the original filing date of the Form 10-K and does not reflect events that may have occurred subsequent to the original date and does not modify or update in any way disclosures made in the original Form 10-K.

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FORM 10-K

Part I

Item 1. Business

Summary

Cyclone Power Technologies, a Florida corporation (OTCQB: CYPW) (the "Company," "Cyclone," or "we," "our" is a clean-tech innovation company based in Pompano Beach, Florida. We were incorporated on July 5, 2007. Our mission is to develop power technologies that lead to more efficient and diverse utilization of energy resources, less dependence on fossil fuels, and a cleaner environment.

Since 2006, we have completed multiple prototype stages and received 33 patents on the **Cyclone Engine**, an external heat engine that generates mechanical power by expanding super-heated steam rapidly inside its cylinders. This steam expansion pushes pistons and turns a shaft. Hot water is then expelled into a condenser to cool and return to the external heat source to repeat the process in a closed loop. This is a *Rankine cycle*, which is how nuclear and coal-fired power plants produce electricity.

What makes the Cyclone Engine different from power plants is size. Cyclone Engines are compact systems that can be used for distributed power generation (i.e., a small electric home generator that also co-generates hot water and space heating) and transportation applications. Unlike power plants that use turbines which are difficult to build cost-effectively and run efficiently in small sizes, we are designing our engines to be easy to manufacture, high performance, compact piston engines.

What makes the Cyclone Engine different from piston steam engines of the past is efficiency. Based on current testing, we are able to convert up to approximately 33% of the energy content of fuel into usable power. This is approximately a 400% improvement over historical steam engines and on par with today's small diesel engines. We are able to achieve such high thermal efficiencies because we have figured out how to run our engines without using lubricating oil which carbonizes at high temperatures. Without that limitation we are able to utilize steam heated to the same temperature and pressures as used by large power plants. *High temperature = high efficiency; and high pressure = high power density*.

What makes the Cyclone Engine more useful than diesel engines is fuel diversity. As an external heat engine that uses steam to create mechanical power, how that steam is created is of little consequence. We can use traditional fossil or bio-fuels in our patented, clean-burning combustion chamber. We can integrate our engine with gasifiers that

dispose biomass and bio-waste. We can capture exhaust heat from furnaces or other engines. We can even use solar thermal collectors to harness the energy of the sun.

The market opportunities for Cyclone Engines are vast. We estimate that our technology addresses a market potential of roughly $100+ billion, and touches virtually all areas of power generation and transportation, as well as the production of U.S bio-fuels, natural gas and coal.

We currently have three engines in development addressing markets that present what we believe to be the best and most immediate opportunities:

Our Mark 1 and Mark 3 model engines address the alternative energy markets to provide an external combustion engine able to burn various fuels providing power for usable mechanical and/or electric power. Our business model is to subcontract the manufacturing of these models and sell them to commercial customers and vertical partners starting in 2017.

Transportation and Equipment: Our Mark 5 model engine is a powerful, multi-fuel and clean burning demonstrator for the automotive, marine and off-road equipment markets. Our business model is to secure strong development partners in these sectors to provide program funding and support to allow us to complete a heavy equipment and vehicle integration in 2017.

Portable / Mobile Power*:* Our S-2 model engine was developed and accepted under a contract with the U.S. Army as a portable, multi-fuel power generator for vehicles and forward operating bases. We have licensed this technology to Falck Schmidt Defense Systems ("FSDS") of Denmark, a worldwide military supplier. They will take the unit to a trial for military compliance.

The advantages of our technology have been widely recognized. We first caught the public eye as *Popular Science Magazine's* Invention of the Year in 2008, and since then, we have secured engine development contracts with Raytheon, the U.S. Army, Phoenix Power Group (waste-to-energy), Combilift (European equipment manufacturer). FSDS (military supplier) and Integrated Biomass Energy System, FZ-LLC ("IBES"), a United Arab Emirates corporation. We have formed working relationships with other major defense and industrial groups, and teaming agreements with multiple "vertical" development partners that manufacture and distribute furnaces, gasifiers, electric generators and other synergistic technologies.

Business Objectives

Our business objective is to design and develop engines that we can manufacture through sub-contracted parties for direct sale to customers, which include Original Equipment Manufacturers (OEMs) of different clean combustion / heat technologies (such as biomass gasifiers and pyrolysis, methane and natural gas, wood pellet furnaces, solar collectors and similar items), and OEM's in the equipment / transportation sectors. We also license our technology to manufacturers and other producers of specialized applications.

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Based on our business model, our revenue will come from:

- Development and engineering fees from customers, partners and licensees;
- Direct sales revenue from engines we manufacture through sub contractors;
- Up-front license fees and on-going royalties based on sales by our licensees.
- Direct sales of Cyclone powered generators to distributors.

Development Status of Technology

Our products are in development, however, prototypes of several different models and sizes are near completion. The following lists each of the Cyclone Engines and products that we have in development:

Model	Size	Uses	Stage
Mark 1	5 HP	Power generation –all fuels and heat sources	Preproduction units (10) in field testing
Mark 3	25 HP	Auxiliary power for military, biomass to power, portable power	Preproduction units (15) at OEM's
Mark 5	100 HP	Transportation, commercial power, military	Beta Prototype (2)
Combustion Chamber		Waste fuels, biomass to power, for :transportation, commercial power, military	Preproduction units (25)

(1) "Pre Production Unit" refers to an engine in the process of being engineered for manufacturing at OEM's

(2) Beta Prototype" refers to a second generation prototype engine, which has undergone significant testing at Cyclone's facility.

Our engines are currently in customer field testing, and there is no guarantee that they will successfully meet customer expectations when completed.

Research and Development Activities

As a technology research and development company, much of our annual expenses are dedicated towards R&D, including labor costs, material costs, tooling and equipment and other expenses required to run our business. Our R&D expenditures for 2016 and 2015 were $604,199 and $467,610, respectively.

We actively pursue development agreements with customers, whereby we will develop an engine, design plans or other products to spec at the customer's full or partial expense. Sometimes these arrangements are part of a more expansive license agreement.

Prototyping and Manufacturing

We currently contract with multiple suppliers for the production of many of our prototype parts, which we design and then assemble and test at our facility. In 2014, we acquired the machinery to produce in-house a greater portion of this prototype manufacturing work, which we believe has saved us considerable time and money. For production of prototypes we have contracted with one or more manufacturers that have the expertise, machinery, tooling and other capital assets required to commercialize and manufacture in mass production our engines.

Competitive Business Conditions

We believe that our technology, which is a small-scale heat-regenerative, Rankine cycle external combustion engine, has little direct competition. However, depending on the industry in which these engines are applied, indirect competitors utilizing different technologies do exist.

Currently, there are several companies which have developed and commercialized other types of external heat engines, such as Stirling engines. Stirling engines are similar to our technology and are used in overlapping applications (such as solar thermal power generation), however; the two engine technologies have several major differences, including size, power-density, and adaptability to fluctuations in heat and load. Based on preliminary testing and analysis, we believe that our engine technology may be superior to the Stirling engines in these aspects; and thus, has more applications in waste heat and mobile uses (i.e., cars, trucks and ships). We have not yet commercialized our engine technology, and these claims are still to be proven. Also, several Stirling engine companies such as Infinia Corp. have greater capital resources than we do, which could help establish their technology in the marketplace quicker than we can.

Other technologies that may be indirectly competitive with our engines are lithium-ion batteries and hydrogen fuel cells. Batteries are useful for some applications where limited sustained power (torque) and operating time is needed, however, they are just “fuel tanks” which allow for power that is generated elsewhere (i.e., a coal-fired power plant) to be saved and transported. The 100hp Cyclone engine we are currently developing, which would produce approximately 50kW of electric output, weighs just 125lbs, is 2 ft in diameter and height, and is expected to cost 10 times less to produce. Once again, these claims are based on our current beliefs and developmental testing, as we have not yet produced commercial products.

Patents and IP Protection

We currently have the following patents issued or allowed on our engine technology:

Active U.S. Patents

U.S. No. 7,080,512 B2 Heat Regenerative Engine

U.S. No. 7,407,382 B2 Steam Generator in a Heat Regenerative Engine

U.S. No. 7,856,822 B2 Heat Regenerative Engine

U.S. No. 7,856,823 B2 Pre-Heater Coil in a Heat Regenerative Engine

Active Foreign Patents/Applications - Heat Regenerative Engine

European Patent No. 1809865

Australian Patent No. 2005284864

Brazilian Application No. P10515305-0

Canadian Patent No. 2577585

Chinese Patent No. ZL200580030436.4

Japanese Patent No. 4880605

Mexican Patent No. 285078

Russian Patent No. 2357091

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South African Patent No. 2007/02947

Indonesian Patent No. IDP0024346*

Indian Patent Application No. 1949/DELNP/2007

Pursuant to new US Patent Office regulations, upon approval, expired patents can be reestablished from inception. We have also taken advantage of reissues to include changes and broaden the patents. We pursue a rigorous patent strategy, pursuant to which (and subject to our available cash resources) we file patents in the U.S. for our engines, their individual components, and other innovations and inventions we develop. We also pursue patents internationally in countries where we believe we may have manufacturing or sales opportunities and/or competition. Despite these efforts, we cannot make assurances that our patents will not infringe on other patents throughout the world, that other groups will not try to infringe on our patents, and if either of these were to occur, that we would have the resources to defend our rights. If this were to occur, it could have a material adverse effect on our business.

We require all customers, suppliers and other partners to execute Non-Disclosure Agreements. We also require our employees and certain contractors to sign agreements that assign to us any innovations or discoveries they develop while working for us or working with our technology. Our license agreements contain similar assignment provisions. We feel that these efforts are satisfactory in protecting our technology with respect to people and companies with which we have direct business relationships.

Sources and availability of raw material

We purchase raw materials and components from multiple sources, none of which may be considered a principal or material supplier. If necessary we could replace these suppliers with minimal effect on our business operations.

Dependence on a few major customers

We have contracts for development and licensing of our engine technology: Combi-Lift LTD. (a global materials handling and lift equipment manufacturer based in Ireland), Falck Schmidt Defense Systems of Denmark (“FSDS”) (a global military products manufacturing and supplier), IBES (a producer of biomass furnace electric systems) and G2E (a solar engineering company for Mexico and South America). We have formed working relationships with other

major industrial groups, and teaming agreements with manufacturers. Our licensee for waste heat to power, Q2 Power Inc., is currently in breach of their licensing agreement and has been formally notified to cure contract breaches.

Because of the diversification of applications, uses and business models, and the current stage of our development / product sales cycle, we do not believe that the loss of the licensee or development partner would have a material adverse impact on our current or future operations. Additionally, we are actively pursuing other licensees and development partners in other product categories.

Governmental regulation

Our Products. Power systems are subject to extensive statutory and regulatory requirements that directly or indirectly impose standards governing emissions and noise. Our engines, when they will ultimately be installed in power systems, will be subject to compliance with all current emissions standards imposed by the EPA, state regulatory agencies in the United States, including the California Air Resources Board (CARB), and other regulatory agencies around the world and established for power systems utilized in applications such as electric generators or off-highway industrial equipment. EPA and CARB regulations imposed on engines utilized in industrial off-highway equipment generally serve to restrict emissions, with a primary focus on oxides of nitrogen, particulate matter and hydrocarbons. Emission regulations for engines utilized in off-highway industrial equipment vary based upon the use of the equipment into which the engine is incorporated (such as stationary power generation or mobile off-highway industrial equipment), and the type of fuel used to drive the power system. Further, applicable emission thresholds differ based upon the gross power of an engine utilized in industrial off-highway equipment. Additionally, most emissions thresholds are designed for gasoline and diesel-powered “spark-ignited” internal combustion engines, and not external combustion engines like Cyclone’s engines. In 2015, Cyclone received EPA and CARB certifications for all fuels 25HP and below for power generation.

Our markets can be positively or negatively impacted by the effects of governmental and regulatory matters. We are affected not only by energy policy, laws, regulations and incentives of governments in the markets into which we sell, but also by rules, regulations and costs imposed by utilities. Utility companies or governmental entities could place barriers on the installation of our product or the interconnection of the product with the electric grid. Further, utility companies may charge additional fees to customers who install on-site power generation, thereby reducing the electricity they take from the utility, or for having the capacity to use power from the grid for back-up or standby purposes. These types of restrictions, fees or charges could hamper the ability to install or effectively use our products or increase the cost to our potential customers for using our systems in the future. This could make our systems less desirable, thereby adversely affecting our revenue and profitability potential. In addition, utility rate reductions can make our products less competitive which would have a material adverse effect on our future operations. These costs, incentives and rules are not always the same as those faced by technologies with which we compete. However, rules, regulations, laws and incentives could also provide an advantage to our distributed generation solutions as compared with competing technologies if we can achieve required compliance at a lower cost when our engines are commercialized. Additionally, reduced emissions and higher fuel efficiency could help our future customers combat the effects of global warming. Accordingly, we may benefit from increased government regulations that impose tighter emission and fuel efficiency standards. Cyclone has already received EPA and CARB emissions certification for generators any fuel 25 horsepower and under.

Our Operations. Our operations are also subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. We may be required to incur significant costs to comply with such laws and regulations in the future, and any failure to comply with such laws or regulations could have a material adverse effect upon our ability to do business.

Because of our work with the military, we have registered with the U.S. Department of State under its International Trafficking in Arms Regulations (ITAR). We do not believe we develop, sell or export any covered munitions under these Regulations, but have registered the company in an abundance of precaution.

Employees. As of December 31, 2016, we had 6 full-time employees including management, and one part-time employee. We consider our relations with our employees to be good. None of our employees are covered under any labor union or collective bargaining agreement. As needed, we contract with specialized labor and consultants to control costs.

Item 1A. Risk Factors

Not required for smaller reporting companies.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently operate in a 6,000 sf leased warehouse facility at a monthly rate of $5,661. Our address is 601 NE 26th Ct., Pompano Beach, FL 33064. The lease expired Dec 2016, and we are currently on a monthly basis. We believe these facilities are in good condition, but we still may need to expand our operating space further as our research and development efforts expand.

Item 3. Legal Proceedings

Effective May 8, 2015, the Company is subject to a default judgment in Dallas Texas of approximately $175,000 plus interest for non-payment of convertible debt and interest, attorney fees and court costs. The Company is negotiating a reduced settlement. A Judgment was entered in 160th District Court of Dallas county, Texas, Case No: DC-15-00829, on April 3, 2015, between the Company and JSJ Investments Inc. for default of convertible note. We entered into a settlement agreement for conversion of judgment based on value and conversions of original note on January 9, 2017.

In August 2015, the Company is subject to a default judgment $166,000 plus interest for non- payment of a convertible warrant true up. The Company is seeking to arrange a reduced settlement. A judgment was entered in United States District Court of Utah, Central Division, case No: 215-cv-00536-PMW, on May 17, 2016, between the Company and Tonaquint Inc. for default of true up on a convertible warrant.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is currently traded on the OTC Pink sheets. The following table represents the high and low bid information for our common stock for each quarterly period within the two most recent fiscal years, as regularly quoted on the OTCPK. Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not necessarily represent actual transactions.

According to the records of our transfer agent and NOBO listing, as of March 31, 2017, there were approximately 4,700 shareholders of record of our common stock, and two shareholders of record of our Series B Preferred Stock.

Year Ended December 31, 2016

	High Bid Price	Low Bid Price
First Quarter	$0.0030	$0.0010
Second Quarter	0.0230	0.0010
Third Quarter	0.0028	0.0011
Fourth Quarter	0.0028	0.0016

Year ended December 31, 2015

	High Bid Price	Low Bid Price
First Quarter	$0.0021	$0.0002
Second Quarter	0.0090	0.0002
Third Quarter	0.0023	0.0005
Fourth Quarter	0.0030	0.0007

Dividend Policy.

We have not paid any dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. We intend to retain any earnings to finance the growth of our business. We cannot assure you that we will ever pay cash dividends. Whether we pay cash dividends in the future will be at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, capital requirements and any other factors that the Board of Directors decides are relevant. See *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Item 6. Selected Financial Data

Not required for smaller reporting companies.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This report contains forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including, among other things:

- the ability to successfully complete commercialization of our technology;
- changes in existing and potential relationships with customers and collaborative partners;
- the ability to retain certain members of management;
- our expectations regarding general and administrative expenses;
- our expectations regarding cash availability and balances, capital requirements, anticipated revenue and expenses, including infrastructure and patent expenditures;
- other factors detailed from time to time in filings with the SEC.

In addition, in this filing, we use words such as “anticipate,” “believe,” “plan,” “expect,” “future,” “intend,” and similar expres to identify forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this filing. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this filing may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statement.

Overview

We are engaged in the research and development of all-fuel, eco-friendly engine technologies. Several prototypes of these engines are current beta tested, pre-production tested or nearing completion with 2 models currently in limited production. While we started to generate revenue from its operations as early as 2008, it has not had material or consistent revenue in each of the last two fiscal years. For us to maintain and expand our operations through the next 12 months, we will seek the completion of our manufactured products by our two manufacturers of the engines and the integration of the engines into a generator package to be sold to distributors. We will also continue license agreements and development agreements that provide up-front or progress payment funds to us. We also will continue to pursue raising capital by means of equity or debt offerings.

In 2015, the TARDAC (S2) engine was delivered, on time, and accepted, by the U.S. Army. This contract was for approximately $1.4 million. We have licensed this S2 technology to FSDS, to take it to TRL9 for military compliance. We have received $150,000 with another $75,000 due on delivery for 2 S2 systems. We have completed 80% of the testing and anticipate delivery and final payments within the next 1-2 months. We have also signed a long term license agreement with FSDS which also brings Cyclone into their organization as an R&D arm.

In 2017, with additional resources, our R&D team will also move towards completion of the Mark 5 project. This engine is to be delivered to Combilift for its clean-burning material lift equipment.. With respect to the Combilift contract, we are forecasting an additional $300,000 in revenue from the delivery of two Mark 5 engines to this customer. We are also pursuing other R&D contracts that both support and build-off of these two engine programs, inclusive of marine power applications.

Financing Transactions

In 2016, we financed our operations through funds generated from $94,725 in notes payable and an increase in trade accounts payables, accrued liabilities and payables and debt to related parties of approximately $962,000.

Corporate Structural Actions. We will continue to take decisive steps to mature our structure and operations to attract funding from investors with long range horizons and strategic partners who can add value from multiple directions. This type of funding is different from the convertible notes we used to finance us over the last few years.

Stock for Services and Contracts. During the year ended December 31, 2016, we issued 3 million shares of common stock for $6,000 of services. We also amortized (based on vesting) $2,526 of common stock options for employee services.

Stock for Liabilities. During the year ended December 31, 2016, we issued approximately 125.7 million shares of common stock in payment of approximately $241,000 of liabilities.

Research & Development. We invest considerably in the development of our technology. Over the years, these investments have led to over 30 patents and substantial progress towards the commercialization of our engine technology. For 2016 our R&D expenses were $604,199. and for 2015, our R&D expenses were $467,610.

Commitments for Capital and Operational Expenditures. Should additional funding be secured, we could increase the number of skilled and unskilled employees on payroll, including the recruitment of high level executive management and additional engineers and mechanical staff.

Critical Accounting Policies. Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), which requires management to make estimates, assumptions and related expectations. Management believes that these estimates, assumptions and related expectations upon which we depend at the time are reasonable based upon information then available. These estimates, assumptions and related expectations affect the reported amounts of the balance sheet and income statement for the timeframe of the financial statements presented. To the degree that there are significant variances between these estimates and assumptions and actual results, there would be an effect on the financial statements. GAAP mandates specific accounting treatment in numerous situations and does not require management’s estimates and judgment in its application. Alternative accounting treatments, where available, based on management’s estimates and judgments would not produce a materially different result. The following should be read in conjunction with our consolidated financial statements and

related notes.

Intangible assets, consisting primarily of patents, are deemed to be critical for the furtherance of our business objectives and our engine products. Impairment is not currently reflective, as we are developing our products and obtaining new contracts based on these engine and associated technology patents.

We review inventory for engine development on an ongoing basis for obsolescence as engine designs are revised, with resultant charges to R&D.

For purposes of valuing stock based compensation, we use market prices of our common stock as of the time of issuance. We use the Black Scholes valuation method for valuing our stock based compensation from common stock options. This method requires us to make estimates and assumptions regarding stock prices, stock volatility, dividend yields, expected exercise term and risk-free interest rates.

Our audited consolidated financial statements include our accounts and our 95% owned subsidiary, Cyclone Performance. We have eliminated all material inter-company transactions and balances in our consolidated financial statements. The accompanying audited consolidated financial statements have been prepared in accordance with GAAP in the United States for financial information. In our management's opinion, all adjustments considered necessary for a fair presentation of financial statements have been included and such adjustments are of a normal recurring nature.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that would have been established for facilitating off-balance sheet arrangements (as that term is defined in Item 303(a)(4)(ii) of Regulation S-K) or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or FASB, or other standard setting bodies that are adopted by us as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

Results of Operations –

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenues and Gross Profit

There were no revenues or gross profit for the years ended December 31, 2016 and December 31, 2015.

Operating Expenses

Our operating expenses increased $451,924, or 40%, to $1,580,071 for the year ended December 31, 2016 compared to $1,128,147 for the comparable period in 2015. The majority of the increase was due to higher research and development expenses of $202,689 (74%) that were attributable to the complete expensing of engine developmental labor and overhead, and an increase in general and administrative expenses of $273,351 or 44%, (primarily consulting and timing of patent maintenance fees) and a charge of $41,252 for patent retirements. This was partially offset by a

net $66,100 reduction in the inventory reserve provision.

Operating Loss

Our operating losses increase $451,924, or 40%, to $1,580,071 for the year ended December 31, 2016 compared to $1,128,147 for the comparable period in 2015.

Other Income (Expense)

Net other expense for the year ended December 31, 2016 was ($520,852) primarily attributable to non cash derivative expense of $370,519 and $141,450 of interest expense. Net other expense for the year ended December 31 2015 of $(342,156) was inclusive of interest expense of $348,858, and to derivative liability income of $56,702.

Net Income and Earnings per Share

Our net loss increased $630,620 or 43% to $2,100,923 for the year ended December 31, 2016 compared to a net loss of $1,470,303 for the comparable period in 2015. The decrease is due to the factors set forth above. The resulting net loss per weighted average share for 2016 and 2015 was ($0.00) and ($0.00), respectively.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Revenues

Our revenues declined $329,027, or 100%, to $0 for the year ended December 31, 2015 compared to $329,027 for the comparable period in 2014. The lack of revenues was due to current contracts on a completed contract basis versus prior milestone basis. Our 2014 revenues included $140,527 from the successful fulfillment of the final milestone under the U.S. Army contract, and $175,000 from the income recognition of the license agreement with Q2 Power.

Gross Profit

Our gross profit declined $240,220, or 100%, to $0 for the year ended December 31, 2015 compared to $240,220 for the comparable period in 2014. The decrease is due to no sales in 2015. Our 2014 Cost of Goods Sold included approximately $88,000 related to the U.S. Army contract.

Operating Expenses

Our operating expenses decreased $1,890,075, or 63%, to $1,128,147 for the year ended December 31, 2015 compared to $3,018,222 for the comparable period in 2014. The majority of the decrease was due to lower research and development expenses of $550,942 (54%) that were attributable the spin off in 2014 of the WHE engine as well as a reduction in staff and the 2014 loss on retirement of R&D equipment. This was partially offset by a $112,000 2015 inventory reserve. General and administrative expenses were lower by $1,237,049 (65%) due to reduced staffing and related expenses, lower stock based payments for services and cost controls reflective of funding considerations. Advertising and promotion expenses were $102,084 or 93% lower reflective of the 2014 $85,583 loss on the retirement of demonstration equipment.

Operating Loss

Our operating losses decreased $1,649,855, or 59%, to $1,128,147 for the year ended December 31, 2015 compared to $2,778,002 for the comparable period in 2014.

Other Income (Expense)

Net other expense for the year ended December 31, 2015 was ($342,156) primarily attributable to interest expense. Net other expense for the year ended December 31 2014 of $(2,176,423) was inclusive of interest expense of $1,327,102, losses related to derivative liability of $147,680 and realization loss provisions on the valuation of WHE Gen investment and note receivable of $706,756.

Net Income and Earnings per Share

Our net loss decreased $3,484,122, or 70%, to $1,470,303 for the year ended December 31, 2015 compared to $4,954,425 for the comparable period in 2014. The decrease is due to the factors set forth above. The resulting net loss per weighted average share for 2015 and 2014 was ($0.00) and ($0.01), respectively.

Liquidity and Capital Resources

Our working capital deficiency increased by $1.7 million or 76%, to $4.0 million for the year ended December 31, 2016 compared $2.3 million for the comparable period in 2015. The variance is primarily due to the manufacturing material and WIP inventory reductions and higher: payables and accruals, notes and loans payable, derivative fair value liabilities and deferred revenue deposits.

For the year ended December 31, 2016, funds were provided by a $554,744 increase in accounts payable and accruals, a $407,426 increase in related party accounts payable, accruals and notes payable, a $170,941 reduction in inventory and a $175,700 increase in deferred revenue deposits. Funds were used by the net loss of $2,100,923. Included in the net loss is a net non-cash charge of $370,518 attributable to inclusion, (besides the underlying debt) in the fair value of derivative liabilities of note default judgments, default interest and related debt interest.

For the year ended December 31, 2015, funds were primarily used by the net loss of ($1,470,303) and an increase of $46,465 in inventory. Funds were provided by debt proceeds of $50,000, an increase in accounts payable and accrued liabilities of $483,129, and an increase in related party payables and debt of $457,564. Non cash charges were $174,043 for amortization of derivative debt discounts, an $192,000 inventory reserve provision and $75,574 of depreciation and intangible amortization.

Cash Flow Management Plan

Through 2016, we collected contract progress payments and contract deposits of $175,000, and collected approximately $100,000 in traditional, non derivative related debt. In the second quarter of 2016, in recognition of the declining market value and low market volume, we sold all of our investment in Q 2 Power Technologies for $44,000.

In 2016, we have submitted approximately $3 million in grant (or grant-type) applications and proposals with various government offices, which could provide non-dilutive funding for our development.

Our auditors have issued a going concern opinion for the years ended December 31, 2015 and 2016. Management is optimistic, however, that revenue can be generated and funding can be secured to maintain operations and development at the current pace.

Recent Accounting Pronouncements

Our significant accounting policies are described in Note 1 to the accompanying financial statements, and above in “Critical Accounting Policies”.

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements at this time.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data

Financial statements required by this Item 8 are included at the end of this report as listed on Item 15.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

(a) Engagement of New Independent Registered Accounting Firm and Dismissal of Independent Accounting Firms

On March 22, 2017, we appointed Soles, Heyn & Company LLP (SH) as our new independent registered accounting firm with respect to the fiscal year ended December 31, 2016. In addition, we engaged SH to review the quarterly financial statements of March 31, 2016, June 30, 2016, and September 30, 2016.

On July 25, 2016,we had appointed Anton & Chia,, LLP (A&C) as our new independent registered accounting firm with respect to the fiscal years ended December 31, 2015 and 2014. In addition, we had engaged A&C to review the quarterly financial statements of March 31, 2015, June 30, 2015, and September 30, 2015.

In March 2017, we terminated the engagement of Anton & Chia,, LLP (A&C) as our independent registered accounting firm. This action effectively dismissed A&C as our independent registered accounting firm. A&Cs reports on our consolidated financial statements for the fiscal years ended December 31, 2014 and 2015 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles, except that the report included an explanatory paragraph relating to an uncertainty as to our ability to continue as a going concern. Furthermore, since March, 2017, there have been no disagreements with A&C on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to A&C’s satisfaction, would have caused MF to make reference to the subject matter of the disagreement in connection with its reports on our consolidated financial statements for such periods.

On July 26, 2016, we terminated the engagement of Mallah Furman & Company, P.A.("MF") as our independent registered accounting firm. This action effectively dismissed MF as our independent registered accounting firm for the fiscal year ending December 31, 2014 and 2015. MF's reports on our consolidated financial statements for the fiscal year ended December 31, 2013 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles, except that the report included an explanatory paragraph relating to an uncertainty as to our ability to continue as a going concern. Furthermore, since December 31, 2013, there have been no disagreements with MF on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to MF's satisfaction, would have caused MF to make reference to the subject matter of the disagreement in connection with its reports on our consolidated financial statements for such periods.

Except as noted in this paragraph, since January 1, 2014, there were no "reportable events" as that term is described in Item 304(a)(1)(v) of Regulation SK.

Since July, 2016, neither us nor anyone acting on our behalf consulted SH or A&C, with respect to any of the matters or reportable events set forth in Item 304(a)(2)(i) and (ii) of Regulation SK.

Item 9A. Controls and Procedures

Disclosure Controls

None.

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We carried out an evaluation as required by paragraph (b) of Rule 13a-15 and 15d-15 of the Exchange Act, under the supervision and with the participation of our management, including our President (Chief Executive Officer) and Chief Financial Officer, of the effectiveness of our financial disclosures, controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2016.

A material weakness can be defined as an insufficiency of internal controls that may result in a more than remote likelihood that a material misstatement will not be prevented, detected or corrected in a company's financial statements.

Based upon that evaluation, our President (Chief Executive Officer) and Chief Financial Officer concluded that our disclosure controls and procedures were not effective, based on the following deficiencies:

Weaknesses in Accounting and Finance Personnel: We have a small accounting staff and we do not have the robust employee resources and expertise needed to meet complex and intricate GAAP and SEC reporting requirements of a U.S. public company. Additionally, numerous adjustments and proposed adjustments have been noted by our auditors. This is deemed by management to be a material weakness in preparing financial statements.

We have written accounting policies and control procedures, but we do not have sufficient staff to implement the related controls. Management had determined that this lack of the implantation of segregation of duties, as required by our written procedures, represents a material weakness in our internal controls.

Internal control has as its core a basic tenant of segregation of duties. Due to our limited size and economic constraints, we are not able to segregate for control purposes various asset control and recording duties and functions to different employees. This lack of segregation of duties had been evaluated by management, and has been deemed to be a material control deficiency.

We have determined that the above internal control weaknesses and deficiencies could result in a reasonable possibility for financial statements that material misstatements will not be prevented or detected on a timely basis by our internal controls.

Changes in Internal Control Over Disclosure Controls and Procedures.

Management is currently evaluating what steps can be taken to address these material weaknesses. As a growing small business, we continuously devote resources to the improvement of our internal control over financial reporting. Due to budget constraints, the staffing size, proficiency and specific expertise in the accounting department is below requirements for the operation. We are anticipating correcting deficiencies as funds become available.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting is being designed to include policies and procedures that are intended to:

(i) maintain records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, our management applied the integrated framework and criteria which has been developed and set forth by the Committee of Sponsoring Organizations of the Treadway Commission (Coso) (Revised 2013). This assessment included an evaluation of the design and procedures of our control over financial reporting. Based on this evaluation, our management concluded that as of December 31, 2016 our internal control over financial reporting was not effective due to certain material weaknesses. These identified material weaknesses included (i) an insufficient accounting staff; (ii) limited checks and balances in processing cash and other transactions; and (iii) lack of sufficient active independent directors and an independent audit committee.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate

We are committed to improving our financial and oversight organization and procedures. During the remainder of 2017 and into 2018, we intend to adopt new accounting and disclosure controls and procedures, improve existing procedures to remedy material weaknesses in our internal control over financial reporting and to add experienced personnel to our accounting staff as our financial ability allows. We also hope to add independent directors to our Board of Directors, and to establish an Audit Committee comprised of independent directors with accounting and /or financial reporting expertise.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The names, ages, positions and dates appointed of our current directors and executive officers are set forth in the table below:

Name	Age	Position	Date of Appointment
Harry Schoell	74	Chairman and Chief Technology Officer	June 2004*
Frankie Fruge	72	Director and President	June 2004
Bruce Schames	70	Chief Financial Officer	April 2010
James Hasson	76	Director	June 2014
Dennis Dudzik	65	Director	June 2014

* Mr. Schoell originally served as our Chairman and Chief Executive Officer. In October 2012, he transitioned from CEO to our Chief Technology Officer (CTO).

Harry Schoell, Chairman and Chief Technology Officer, is a life-long entrepreneur and inventor. He is a native Floridian, born in Miami, and a third generation inventor and engineer. Mr. Schoell has worked for years to realize his dream to create an environmentally-friendly engine, and has 30 patents issued and allowed to date on the Schoell Cycle heat regenerative external combustion engine, now called the Cyclone Engine.

Mr. Schoell is well versed in all facets of manufacturing procedures, including, appropriate foundry protocol, castings, machining, production design and manufacturing, and plastic and fiberglass laminates. He also has 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 exists today.

Mr. Schoell built Schoell Marine and its reputation based on his original ideas, trained engineers, and prototype and production specialists – the same as he is doing now for Cyclone. Over these 40+ years, his efforts resulted in over 40 specialized patents and patent applications, including a Jet Drive System, a trimmable surface drive, a “Ground Effect Craft”, and a lightweight internal engine that he designed and built in 1990. Mr. Schoell 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's qualifications to be a director of the Company, in addition to his business background (as described above), include his intimate involvement in the development of the Cyclone Engine as well as the business plan for its commercialization. Mr. Schoell has no other Board of Directors affiliations with public companies other than with the Company. He is a director of Schoell Marine, Inc.

Frankie Fruge serves as our President and Director. She has been with us since our inception in 2004 in the role of General Partner and Director of Administration. Ms. Fruge oversees our daily operations and financial matters.

Ms. Fruge has been working with Mr. Schoell since 1995, serving in multiple administrative, operational and financial positions with Schoell Marine. Between 1999 and 2003, Ms. Fruge 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, Ms. Fruge 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, is Chairman of the Board of the International Association for Advancement of Steam Power, Corp. (a 501c3) and is a former board member of the Steam Automobile Club of America. on the Board of the Steam Automobile Club of America.

Ms. Fruge's qualification to be a director of us, in addition to her general business background (as described above), include her extensive hands-on engineering experience. Ms. Fruge has no other Board of Directors affiliations.

Bruce Schames serves as our CFO. He has been a CPA since 1971, representing both public and private clients in his own practice since 2001. Prior to that, Mr. Schames served as CFO of East Coast Beverage Corp. (OTCBB: ECBV), Medcom USA (NASDAQ: EMED), Financial Reporting Manager for Dole Fresh Fruit Co., and in various accounting and reporting capacities of NYSE companies. Mr. Schames received his BBA from Baruch College of the City University of N.Y., and an MBA from the University of Southern California.

James Hasson Since 1994 he has been President and owner of Hypex, Inc., a company that designs and builds machinery for the pharmaceutical, medical device, aerospace, food and other specialized industries. and has additionally presided over three acquisitions and three start-ups. Previously, Mr. Hasson was President and CEO of Citisteel USA, Inc., where he managed over 300 people and led the company to over $100 million in annual revenue; President and CEO of Magnetic Metals Corp., a$50 million manufacturing business; and Vice President and General Manager of the manufacturing division of LaSalle Steel Company, with over $200 million in sales. Mr. Hasson holds a BS in Mechanical Engineering from Drexel University, an AS in Mechanical Engineering from Pennsylvania State University.

Dennis Dudzik is the founder and President of the International Association for the Advancement of Steam Power (IAASP), a leading global non-profit organization dedicated to the advancement and commercialization of modern steam power. In his professional capacity for URS Corporation, Mr. Dudzik is the Program and Contract Manager for Integrated Resource Plan services to Los Angeles Department of Water and Power (LADWP), and Program and Contract Manager for major power project environmental and engineering services contracts for the Sacramento Municipal Utility District (SMUD). He has held key management roles in over a dozen major electric generation, transmission, and substation projects over the last 12 years. Mr. Dudzik served as the Contract Manager for the construction contracts for the 30 MW Ormesa Geothermal Power Project, the 125 MW NCPA Combustion Turbine Project, and provided permitting services for the 47 MW COLMAC Power Project, as well as numerous other California power projects. He also is a Professional Engineer.

Board Leadership Structure and Role in Risk Oversight

We have not adopted a formal policy on whether the Chairman and Chief Executive Officer positions should be separate or combined. Mr. Schoell served as our Chief Executive Officer and Chairman since inception in 2004 until 2012 when he was appointed as our Chief Technology Officer. No one currently serves as our CEO.

Our Board of Directors is primarily responsible for overseeing our risk management processes. The Board of Directors receives and reviews periodic reports from management, auditors, legal counsel, and others, as considered appropriate regarding our assessment of risks. The Board of Directors focuses on the most significant risks facing us and our general risk management strategy, and also ensures that risks undertaken by us are consistent with the Board's appetite for risk. While the Board oversees our risk management, management is responsible for day-to-day risk management processes. We believe this division of responsibilities is the most effective approach for addressing the risks we face and that our board leadership structure supports this approach.

We do not have an Audit Committee, however, we have hired a CPA consultant to assist with our SEC filings. We expect to add members to this committee in the near future. The Audit Committee is responsible for monitoring and reviewing our financial statements and internal controls over financial reporting. In addition, they recommend the selection of the independent auditors and consult with management and our independent auditors prior to the presentation of financial statements to shareholders and the filing of our forms 10-Q and 10-K. Our Board will choose new committee members who qualify as "audit committee financial experts" as defined under the federal securities laws. The Audit Committee's responsibilities are set forth in our Charter of Corporate Governance, a copy of which is currently available from us and is posted on our website.

We do not have a Compensation Committee, Nominating Committee or other committees at this time. We expect to create such committees in the future.

Director Independence

Our Board of Directors has adopted the definition of "independence" as described under the Sarbanes Oxley Act of 2002 (Sarbanes-Oxley) Section 301, Rule 10A-3 under the Securities Exchange Act of 1934 (the Exchange Act) and NASDAQ Rules 4200 and 4350. Our Board of Directors has determined that Messer's Hasson and Dudzik currently meet the independence requirements.

Board of Advisors

From time to time, we add members to our Board of Advisors. These individuals are comprised of distinguished scientists, engineers and businessmen whose experience, knowledge and counsel help in the development of us and our technology. These Board of Advisor members may be compensated for their time in restricted shares of common stock. Advisors do not have voting or observatory powers over the Board of Directors or management. Our CTO interacts with these advisors from time to time on matters related to our technological development. There are no formalized Board of Advisor meetings, and members have no other special powers or functions. Each individual on the Board works part-time with us as requested. Currently, the Board of Advisors is comprised of:

George Nutz is technology consultant with almost 50 years of 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.

Other Key, Non-Executive Personnel

Lawrence A. Bornstein, CPA, currently consults for us and advises on accounting matters and filings with the SEC. Mr. Bornstein has been a senior executive with over 29 years of experience in auditing, accounting, finance, operations, acquisitions/mergers and international licensing. Mr. Bornstein started his career at Arthur Anderson, where he rose to the position of Senior Manager, in their West Palm Beach office. He managed a diverse client base ranging from closely held small businesses to large international public corporations and non-profit entities. During his tenure at Arthur Andersen Mr. Bornstein was responsible for uncovering several major corporate frauds and leading subsequent investigations. He has testified at numerous depositions and has assisted counsel with interpretations of accounting principles, review and analysis of business records, assistance with discovery and preparation of analyses and reports.

He then transitioned to American Media, Inc. as V.P. Finance and Chief Accounting Officer, where he managed day to day oversight of accounting and various corporate acquisitions. Over the last decade Mr. Bornstein's has held various positions at American Media, including Senior V.P General Manager & Administration/M&A, as well as General Manager of International Licensing and Syndication. Mr. Bornstein supervised an annual budget of over $400M in revenues, implemented various forecasting systems, procedures and controls, participated in acquisitions, managed several departments, prepared business plans and oversaw 43 licensed magazine editions in 58 Countries.

In addition, Mr. Bornstein has acted as an Independent Business Consultant, with engagements focusing on financial, accounting, operational and funding strategies for several organizations in the U.S.A. and Canada. Customers included companies in the environmental, emerging technology and food industries. Mr. Bornstein also has worked with several major private equity firms and investment banks on Wall Street.Mr. Bornstein graduated Cum Laude from UMass Amherst, where he earned a Bachelor of Business Administration degree in Accounting and a minor in Economics.

Karl Petersen, currently consults for us and was our Vice President of Engineering through March 2014. He has over 45 years of experience in product development, engineering, manufacturing, and quality systems. He currently works directly with our engineering team to assist in the commercialization of its external combustion engine technology. Previously, Mr. Petersen ran Petersen Product Development in Boise, ID, which provided mechanical, chemical and manufacturing process development for clients that include Caterpillar and John Deere. Prior to that Mr. Petersen spent over 25 years in various engineering and management positions at Preco (purchased by Vansco Electronics in 2005), which provided critical product development for Caterpillar and AGCO. He also served several Lockheed divisions as a Senior Mechanical Engineer. Having worked on steam systems since the 1960's, Mr. Petersen has built numerous engines throughout his career and has vast knowledge of their mechanical and thermodynamic operations.

Allen Brown, currently consults for us and was our Senior Engineering Fellow through March 2014. He is 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.

Compensation to Advisors

We have compensated our Board of Advisors' members with shares of restricted common stock and stock options for their past services rendered on behalf of us, and reserve the right to issue additional shares, stock options or cash in the future. Both Allen Brown and Karl Petersen received salaries for their services which are performed at our facility.

Family Relationships

There are no family relationships among our directors and executive officers.

Code of Conduct and Ethics

We have adopted a code of business conduct and ethics that applies to our directors, officers and all employees. The code of business conduct and ethics may be obtained free of charge on our website, or by writing to us, Attn: Chief Financial Officer, 601 NE 26th Ct., Pompano Beach, FL 33064.

Compliance with Section 16(a) of the Exchange Act

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us under Rule 16a-3(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") during twelve months ended December 31, 2016, we are not aware of any person that failed to file on a timely basis, as disclosed in the aforementioned Forms, reports required by Section 16(a) of the Exchange Act during the years ended December 31, 2016.

Item 11. Executive Compensation

Summary Compensation Table

The following table sets forth certain information concerning the annual and long-term compensation of our Chief Executive Officer and our other executive officers during the last two fiscal years.

Current Officers Name & Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards (S)	All Other Compensation ($)	Option Awards ($)	Total ($)
Harry Schoell	2016	$150,000(1)	0	0	0	$ 1,230	$150,525
Chairman & CTO	2015	150,000(1)	0	0	0	525	150,525
Frankie Fruge	2016	$125,000(2)	0	0	0	$ 1,230	$125,525
Director & President	2015	125,000(2)	0	0	0	525	125,525
Bruce Schames	2016	$72,000 (3)	0	0	0	$ 1,230	$72,525
CFO	2015	72,000 (3)	0	0	0	525	72,525

(1) All of Mr. Schoell's salary in 2016 and 2015 has been deferred until determined by the Board of Directors that we can afford to pay such salary. In 2015 Mr. Schoell forgave $325,000 of accrued salary.

(2) All of Ms. Fruge's salary in 2016 and 2015 has been deferred until determined by the Board of Directors that we can afford to pay such salary. In 2015 Ms. Fruge forgave $287,500 of accrued salary.

(3) As of December 31, 2016, Mr. Schames had $132,725 of deferred salary, which will be paid when determined by the Board of Directors that we can afford to pay such salary. In 2015 Mr. Schames forgave $42,725 of accrued salary.

Employment Agreements

Harry Schoell. Mr. Schoell has an employment agreement with us providing for a base salary of $150,000 per year plus standard benefits. This compensation is currently being deferred until we have sufficient revenue to support its payment, and to date, he has not received any cash compensation under his agreement. Mr. Schoell converted $20,000 of deferred salary to common stock in 2010, and $24,000 to common stock in 2013 at current market prices. Mr. Schoell also converted 1.5 million shares of our common stock to a 2.5% equity interest in Cyclone Performance LLC in 2012. In 2014 Mr. Schoell converted $844,844 of unpaid deferred salary into 10,560,550 shares of common stock, and in 2015 Mr. Schoell forgave $325,000 of accrued salary. As of December 31, 2016, Mr. Schoell had $225,000 in unpaid, deferred salary due to him.

Mr. Schoell's employment agreement commenced June 30, 2007, and was amended on January 1, 2011. Mr. Schoell received 500,000 common stock options in 2007 pursuant to the original agreement, and is to receive 600,000 options per year pursuant to the amendment. If Mr. Schoell is terminated for "cause," he shall receive any unpaid base salary due to him as of the date of termination. If he is terminated without "cause" or upon a change in control, he shall receive (i) any unpaid base salary accrued through the effective date of termination, (ii) his base salary at the rate prevailing at such termination through 12 months from the date of termination or the end of his term then in effect, whichever is longer, and (iii) any performance bonus that would otherwise be payable to him were he not terminated, during the 12 months following his, termination. Upon termination without cause, all of his stock options shall vest immediately.

Frankie Fruge. Ms. Fruge has an Employment Agreement with us providing for a base salary of $125,000 per year plus standard benefits. This compensation is currently being deferred, and to date, she has not received any cash compensation under her agreement. Ms. Fruge converted $6,000 of deferred salary to common stock in 2010, and $24,000 salary to common stock in 2013. She also converted 1.5 million shares of our stock into 2.5% equity interest in Cyclone Performance LLC in 2012.

In 2014 Ms. Fruge converted $738,740 of unpaid deferred salary into 7,984,250 shares of common stock and in 2015 Ms. Fruge forgave $287,500 of accrued salary. As of December 31, 2016, Ms. Fruge had $185,500 in unpaid, deferred salary due to her.

Ms. Fruge's employment agreement commenced June 30, 2007, and was amended on January 1, 2011. Ms. Fruge received 500,000 common stock options in 2007 pursuant to the original agreement, and is to receive 600,000 options per year pursuant to the amendment. If Ms. Fruge is terminated for "cause," she shall receive any unpaid base salary due to her as of the date of termination. If she is terminated without "cause" or upon a change in control, she shall receive (i) any unpaid base salary accrued through the effective date of termination, (ii) her base salary at the rate prevailing at such termination through 12 months from the date of termination or the end of her term then in effect, whichever is longer, and (iii) any performance bonus that would otherwise be payable to her were she not terminated, during the 12 months following her termination. Upon termination without cause, all of her stock options shall vest immediately.

Bruce Schames. Mr. Schames has an agreement with us providing for annual cash compensation of $60,000, $12,000 in restricted common stock and 600,000 common stock options. His year-to-year contract began June 1, 2010. Either Mr. Schames or us may terminate his employment on 60 days' notice. If we terminate other than for "cause," he shall receive his base compensation due through the date of termination plus a good faith repayment plan for any deferred and unpaid compensation. If Mr. Schames leaves or is terminated for "cause," he shall not be paid any deferred compensation and any unvested options shall terminate immediately. "Cause" is defined as gross negligence or willful misconduct that injures or may reasonably injure us. Mr. Schames converted $55,292 of deferred salary to 691,152 shares of our common stock in 2014 and in 2015 Mr. Schames forgave $42,725 of accrued salary. As of December 31, 2016, Mr. Schames had $132,725 in unpaid deferred salary due to him.

CYCLONE OFFICER and DIRECTOR OPTIONS

As of Dec. 31 2016

Outstanding Equity Awards at December 31, 2016

The following table summarizes information concerning all stock option grants held by our named executive officers as of December 31, 2016.

All outstanding equity awards are options to purchase shares of common stock.

Name and Position	Option Grant Dates	Total Number Granted Granted	Number Exercisable (Vested) (1)	Number Un-exercisable	Exercise or Base Price of Option Awards ($/Share)	Grant Date Fair Value of Stock in Option Awards ($) (2)	Option Expiration Date	Number Exercisable Date Vested	Nu ex Da Ex
Harry Schoell Chairman & Chief Technology Officer	2007-2016	3,400,000	2,950,000	450,000	$.45-.$0003	$.45-.$0003	2017-2026	2008-2017	20
Frankie Fruge Director & President	2007-2016	3,400,000	2,950,000	450,000	$.45-.$0003	$.45-.$0003	2017-2026	2008-2017	20
Bruce Schames CFO	2010-2016	4,115,000	3,665,000	450,000	$.33-.0003	$.33-.0003	2012-2026	2011-2017	20
James Hasson-Director	-	-	-	-	-	-	-	-	-
Dennis Dudzik - Director	-	-	-	-	-	-	-	-	-
Total		10,915,000	9,565,000	1,350,000					

(1) Options vest one year from the date of grant.

(2) We determined the grant date fair value of stock option awards using the methodology in footnote 10 to our Consolidated Financial Statements for the years ended December 31, 2016 and 2015.

Option Exercise and Stock Vesting

During 2016, none of the above named executive officers exercised any options, and 1.8 million executive officer and director options vested.

Compensation of the Board of Directors

The following table sets forth compensation to our non-employee directors during the year ended December 31, 2016 and 2015.

Name	Fees earned or paid in cash ($)	Option awards ($)	Stock Awards ($)	Nonqualified deferred compensation earnings ($)	All other compensation ($)	Total ($)
James Hasson	-	-	-	-	-	-
Dennis Dudzik	-	-	-	-	-	-

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information regarding the beneficial ownership of our Common Stock and Series B Preferred Stock by each of our named Executive Officers and Board of Directors, and each shareholder who is known by us to own beneficially five percent (5%) or more of the outstanding stock of such class as of March 31, 2016. On March 31, 2017, there were 1,661,876,344 shares of common and 1,000 shares of Series B Preferred stock issued and outstanding.

Name and Address	Common Shares Beneficially Owned	%	Series B Pref. Shares Beneficially Owned	%

Harry Schoell, Chairman & Chief Technology Officer 601 NE 26th Ct. Pompano Beach, FL 33064	50,915,970 (1)	3.05%	797		80 %
Frankie Fruge, President & Director 601 NE 26th Ct. Pompano Beach, FL 33064	20,434,206 (2)	1.22%	203		20 %
Bruce Schames, CFO 601 NE 26th Ct. Pompano Beach, FL 3306	4,778,175 (3)	.29 %	-		-
James Hasson Director 601 NE 26th Ct. Pompano Beach, FL 33064	-	-	-		-
Dennis Dudzik Director 601 NE 26th Ct. Pompano Beach, FL 33064	-	-	-		-
All Executive Officers as a Group (5 persons)	76,128,351	4.56%	-		-
TOTALS:	76,128,351	4.56%	1,000	*	100%

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* The 1,000 shares of Series B Preferred stock provide their holders a majority vote on all matters brought before the common stock shareholders.

(1) Mr. Schoell's total includes 2,950,000 vested common stock options, but excludes 450,000 unvested options awarded in 2016.

(2) Ms. Fruge's total includes 2,950,000 vested common stock options, but excludes 450,000 unvested options awarded in 2016.

(3) Mr. Schames' total includes 3,665,000 vested common stock options, but excludes 450,000 unvested options awarded in 2016.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Our Board of Directors (excluding any interested director) is charged with reviewing and approving all related-person transactions, and a special committee of our Board of Directors is established to negotiate the terms of such transactions. In considering related-person transactions, our Board of Directors considers all relevant available facts and circumstances.

We have an Operations Agreement dated July 2, 2007, with Schoell Marine, a company owned by Harry Schoell, providing equipment leasing, based upon cost and going market rates and though December 2015 office facility rental. At December 31, 2016, we owed to Schoell Marine $223,567, which is recorded as related party debt. The debt is callable at the discretion of Mr. Schoell. Through December 2015 we rented office space from Schoell Marine under this agreement at approximately $12.00/sf, which we believe to be at market rates.

As of December 31, 2016, we also had recorded $412,500 of accrued and deferred officer's salaries to Mr. Schoell and Ms. Fruge, The accrued deferred salary can be paid to the officers if and when funds are available. These funds are accounted for as non-interest bearing accruals due on demand.

In 2012, Mr. Schoell and Ms. Fruge each acquired a 2.5% equity interest in Cyclone Performance LLC for 1.5 million shares of our stock each.

Item 14. Principal Accountant Fees and Services

The following table shows what, Soles, Heyn & Company, LLP and Anton & Chia LLP, our independent auditing firms, billed for audit and other services for the years ended December 31, 2016, and 2015.

	Year Ended December 31, 2016	Year Ended December 31, 2015
Audit Fees – Soles, Heyn & Company, LLP	$ -	$ -
Audit Fees -Anton & Chia, LLP	20,000	35,000
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
	-	-
Total	$ 20,000	$ 35,000

Audit Fees—This category includes the audit of our annual financial statements, review of financial statements included in our Form 10-Q Quarterly Reports and services that are normally provided by the independent auditors in connection with engagements for those years.

Audit-Related Fees —N/A

Tax Fees—N/A

Other Fees- This category reflects analysis of the accounting for the Advent business and contract acquisition.

Overview —Our Audit Committee reviews and, in its sole discretion pre-approves, our independent auditors' annual engagement letter including proposed fees and all audit and non-audit services provided by the independent auditors. Accordingly, all services described under "Audit Fees," "Audit-Related Fees," "Tax Fees" and "Other Fees" were pre-approved by our Audit Committee. The Audit Committee may not engage the independent auditors to perform the non-audit services proscribed by law or regulation. Our Audit Committee may delegate pre-approval authority to a member of the Board of Directors, and authority delegated in such manner must be reported at the next scheduled meeting of the Board of Directors.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements

(b) Exhibits

Exhibit No.	**Description**
3.1 *	Articles of Incorporation, dated June 14, 2007
3.2 *	Certificate of Domestication, dated June 14, 2007
3.3 *	Articles of Amendment to Articles of Incorporation containing Certificates of Designation for Series A Convertible Preferred Stock and Series B Preferred Stock, dated July 17, 2011
3.4 *	Articles of Amendment to Articles of Incorporation, dated July 27, 2007
3.5 *	Articles of Amendment to Articles of Incorporation, dated July 24, 2009
3.6 *	Articles of Amendment to Articles of Incorporation, dated March 30, 2010
3.7 *	Articles of Amendment to Articles of Incorporation, dated April 28, 2010
3.8*	By-Laws of Cyclone Power Technologies, Inc.
3.09*	Written Consent of the Shareholders in lieu of a Meeting, dated December 19, 2013 Amendment to the
3.10*	Articles of Incorporation of the Company, dated January 31, 2014
10.1 *	Employment Agreement, dated June 30, 2007, between the Company and Frankie Fruge
10.2 *	Employment Agreement, dated June 30, 2007, between the Company and Harry Schoell
10.3 *	Common Stock Purchase Warrant, dated July 30, 2009, between the Company and Phoenix Power Group, LLC
10.4 *	Cyclone Power Technologies' 2010 Stock Option Plan
10.5 *	Employment Agreement, dated August 1, 2011, between the Company and Christopher Nelson
10.6 *	Employment Agreement, dated June 10, 2010, between the Company and Bruce Schames
10.7 *	Operations Agreement, dated July 2, 2007, between the Company and Schoell Marine, Inc.
10.8 *	Systems Application License Agreement, dated July 30, 2009, between the Company and Phoenix Power Group LLC
10.9 *	

	Technology License Agreement, dated December 11, 2009, between the Company and Great Wall Alternative Power Systems, Ltd.
10.10*	Amended and Restated technology License Agreement, dated Jun 15, 2011, between the Company and Renovalia Energy, S.A.
10.11 *	Subcontractor Contract for Development of a Rankine Cycle Engine, dated December 20, 2010, between the Company and Advent Power Systems, Inc.
10.12 *	Technology License Agreement, dated March 24, 2006, between the Company and Advent Power Systems, Inc., including Amendments thereto.
10.13 *	Letter of Understanding, dated March 1, 2011, between the Company and TopLine Energy Systems, LLC
10.14 *	Security Agreement, dated August 1, 2007, between the Company and Schoell Marine, Inc.
10.15 *	Systems Application License Agreement, dated September 12, 2011, between the Company and Combilift.

10.16*†	Cyclone Power Technologies, Inc. 2012 Stock Option Plan
10.161*†	Asset Purchase Agreement, dated December 20, 2011, between Cyclone Power Technologies, Inc. and Advent Power Systems, Inc.
10.17*	Private Placement Purchase Agreement, by and between Cyclone Power Technologies, Inc. and GEM Global Yield Fund Limited, dated July 6, 2012
10.18*	Form of Securities Purchase Agreement, signed between the Company and Brio Capital LP and Gemini Master Fund Ltd.
10.19*	Form of Promissory Note signed between the Company and Brio Capital LP and Gemini Master Fund Ltd.
10.20*	Form Common Stock Purchase Warrant signed between the Company and Brio Capital LP and Gemini Master Fund Ltd.
10.21*	$500,000 Promissory by and between Cyclone Power Technologies, Inc and JMJ Financial, dated April 3, 2013
10.22*	Securities Purchase Agreement, dated May 31, 2013, by and between Cyclone Power Technologies, Inc. and Tonaquint, Inc.
10.23*	Convertible Promissory Note, dated May 31, 2013, by and between Cyclone Power Technologies, Inc. and Tonaquint, Inc.
10.24*	Warrant to Purchase Shares of Common Stock, dated May 31, 2013, by and between Cyclone Power Technologies, Inc. and Tonaquint, Inc.
10.25††	Securities Purchase Agreement by and between the Company and TCA, with an effective date of September 1, 2013.
10.25.1††	Amended and Restated Systems Application License Agreement between the Cyclone Power Technologies, Inc. and Phoenix Power Group LLC, dated September 30, 2013 and finalized on October 7, 2013.
10.26*	Senior Secured Redeemable Debenture by and between the Company and TCA, with an effective date of September 1, 2013.
10.27*	Security Agreement by and between the Company and TCA, effective f September 1, 2013.
10.28*	Security Agreement by and between the Subsidiaries and TCA, with an effective date of September 1, 2013.
10.29*	Guaranty Agreement by and between the Subsidiaries and TCA, with an effective date of September 1, 2013.
10.30*	Securities Purchase Agreement by and between the Company and LG, with a signing date of November 21, 2013.
10.31*	Convertible Promissory Note by and between the Company and LG, with a signing date of November 21, 2013.

10.32*	Securities Purchase Agreement by and between the Company and GEL, with a signing date of December 3, 2013.

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10.33*	10% Convertible Redeemable Promissory Note by and between the Company and GEL, with a signing date of December 3, 2013.
10.34*	Securities Purchase Agreement by and between the Company and Peak One, dated December 17, 2013.
10.35*	Debenture by and between the Company and Peak One, issued December 17, 2013.
10.36*	Registration Rights Agreement by and between the Company and Peak One, issued December 17, 2013.
10.37*	Debt Purchase Agreement by and between the Union Capital LLC, TCA Global Credit Master Fund, LP and the Company, dated February 28, 2014.
10.38*	10% Convertible Redeemable Note by and between the Company and Union Capital LLC, issued February 28, 2014.3
10.39*	Draw on JMJ note 10.21* of $50,000 issued, June 23, 2014.
10.40*	Resignation of President, Christopher Nelson, July 17, 2014.
10.41*	Resignation of Board Member, Joel Myersohn, July 17, 2014.
10.42*	Note Payable 2 year simple interest $50,000 at 6% between the Company and A. Nikitina, issued January 6, 2015.
10.43*	Legal Judgment by JSJ $175,000 for inability to convert note, May 8, 2015.
10.44*	Resignation of Board Member, Lew Jaffee, July 31, 2015.
10.45*	Warehouse lease agreement for one year with EZCP for 601 building, December 11, 2015.
10.46*	License agreement with mergered 3R and IBES, February 14, 2016.
10.47*	License agreement with G2E, May 1, 2016.
10.48*	Development agreement with FSDS and appendix, June 15, 2016.
10.49*	Engagement of Anton & Chia LLP as new auditors June 17, 2016.
10.50*	Promissory note, 2 months term, simple interest $4,000 at 4% between the Company and Chad Tendrich, issued July 6, 2016.
10.51*	Legal Judgment by Tonaquint for $166,000 plus interest for non- payment of a convertible warrant true up, July 13, 2016.
10.52*	Convertible promissory note 6 months term, simple interest $46,000 at 10% between the Company and Chad Tendrich, issued July 26, 2016.
10.53*	

Promissory note 6 week term interest payable in stock, $27,000, between the Company and S D White issued Sept. 1, 2016.

Increase in authorized common shares to 4 billion from 2 billion-September 6 2016.

10.54*

10.55* FSDS engineering development agreement June 1, 2016

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10.56*	Larry Bornstein October 24, 2016 consulting agreement for 3 months.
10.57*	"Bornstein Consulting Agreement dated January 3, 2017" consulting agreement.
10.58*	FSDS technology license agreement dated January 26, 2017
10.59*	Tendrich Consulting Addendum #2 dated March 30, 2017
10.60*	Tendrich Consulting Agreement dated April 1, 2017
21*	Subsidiaries of the Company
31.1	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer or Principal Executive Officer as stated under Florida Law Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (This exhibit shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed incorporated by reference into any other filing under the Security Act of 1933, as amended, or by the Security Exchange Act of 1934, as amended.)
32.2	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (This exhibit shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 as amended or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed incorporated by reference into any other filing under the Security Act of 1933, as amended, or by the Security Exchange Act of 1934, as amended.)
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

The certification attached as Exhibits 32.1 and 32.2 that accompany this Annual Report on Form 10-K are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Cyclone Power Technologies, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

* Previously filed.

** Attached herewith.

† These two exhibits were previous filed using the same Exhibit 10.16 number in error.

†† These two exhibits were previous filed using the same Exhibit 10.25 number in error.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Cyclone Power Technologies, Inc.

By: */S/ HARRY SCHOELL*
Harry Schoell
Chairman and Chief Technical Officer

Dated: September 11, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: */S/ HARRY SCHOELL*
Harry Schoell
Chairman and Chief Technical Officer

Dated: September 11, 2017

By: */S/ FRANKIE FRUGE*
Frankie Fruge
President, (principal executive officer) and Director

Dated: September 11, 2017

By: */S/ BRUCE SCHAMES*
Bruce Schames
Chief Financial Officer
(principal accounting and financial officer)

Dated: September 11, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and

Board of Directors of Cyclone Power Technologies, Inc.

We have audited the accompanying balance sheet of Cyclone Power Technologies, Inc., as of December 31, 2016, and the related statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cyclone Power Technologies, Inc., as of December 31, 2016 and results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2 of the accompanying financial statements, the Company has had no revenues and has incurred losses since inception which raises substantial doubt about its ability to continue as a going concern. Management’s plans in regard to this matter are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Soles, Heyn & Company, LLP
Soles, Heyn and Company, LLP
West Palm Beach, Florida
July 31, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Cyclone Power Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Cyclone Power Technologies, Inc. (the "Company") as of December 31, 2015, and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company was not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2015, and the results of its consolidated operations, changes in stockholders' deficit and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, these conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

/s/ Anton & Chia, LLP

Newport Beach, California

March 16, 2017

CYCLONE POWER TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	$591	$-
Inventory, net	26,667	323,508
Other current assets	193	587
Total current assets	27,451	324,095
PROPERTY AND EQUIPMENT		
Furniture, fixtures, and equipment	302,770	304,569
Accumulated depreciation	(209,498)	(178,049)
Net property and equipment	93,272	126,520
OTHER ASSETS		
Patents, trademarks and copyrights	394,980	539,446
Accumulated amortization	(216,502)	(256,078)
Net patents, trademarks and copyrights	178,478	283,368
Other assets	7,862	8,062
Total other assets	186,340	291,430
Total Assets	$307,063	$742,045
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Bank overdraft	$-	$3,221
Accounts payable and accrued expenses	1,472,851	1,159,133
Accounts payable and accrued expenses-related parties	545,225	210,225
Notes and other loans payable-current portion	512,642	357,737
Derivative liabilities	754,000	383,482
Notes and other loans payable-related parties	393,760	321,334
Capitalized lease obligations-current portion	14,312	12,950
Deferred revenue and license deposits	323,826	148,031
Total current liabilities	4,016,616	2,596,113
NON CURRENT LIABILITIES		
Capitalized lease obligations-net of current portion	25,536	36,939
Notes and other loans payable-net of current portion	-	50,000

Total non-current liabilities	25,536	86,939
Total Liabilities	4,042,152	2,683,052
Commitments and contingencies		
STOCKHOLDERS' DEFICIT		
Series B preferred stock, $.0001 par value, 1,000 shares authorized, 1,000 shares issued and outstanding at December 31, 2016 and December 31, 2016, respectively.	-	-
Common stock, $.0001 par value, 4,000,000,000 shares authorized, 1,517,400,273, and 1,388,669,532 shares issued and outstanding at December 31, 2016, and December 31, 2015 respectively.	151,737	138,864
Additional paid-in capital	56,915,794	56,621,826
Treasury Stock 317,000 shares, at December 31, 2016, and December 31, 2015 respectively, at cost.	(3,000)	(3,000)
Accumulated deficit	(60,828,659)	(58,727,736)
Total stockholders' deficit - Cyclone Power Technologies Inc.	(3,764,128)	(1,970,046)
Non controlling interest in consolidated subsidiaries	29,039	29,039
Total Stockholders' Deficit	(3,735,089)	(1,941,007)
Total Liabilities and Stockholders' Deficit	$307,063	$742,045

The accompanying notes are an integral part of these consolidated financial statements

CYCLONE POWER TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR YEARS ENDED DECEMBER 31 2016, AND 2015

	2016	2015
REVENUES	$-	$ -
COST OF GOODS SOLD	-	-
Gross profit	-	-
OPERATING EXPENSES		
Advertising and promotion expenses	8,166	7,434
General and administrative		
Retirement of patents	69,782	28,530
Other general and administrative	897,924	624,573
Total general and administrative	967,706	653,103
Research and development		
Inventory reserve provision	125,900	192,000
Other research and development	478,299	275,610
Total research and development	604,199	467,610
Total operating expenses	1,580,071	1,128,147
Operating loss	(1,580,071)	(1,128,147)
OTHER (EXPENSE) INCOME		
Other income (expense)		
Other income and (expense)	(8,883)	(50,000)
Derivative income (expense) -notes payable	(370,519)	56,702
Interest (expense)	(141,450)	(348,858)
Total other income (expense)	(520,852)	(342,156)
Loss before income taxes	(2,100,923)	(1,470,303)
Income taxes	-	-
Net loss	$(2,100,923)	$(1,470,303)
Net loss per common share, basic and diluted	$(0.00)	$(0.00)
Weighted average number of common shares outstanding	1,416,738,836	1,189,240,307

The accompanying notes are an integral part of these consolidated financial statements

CYCLONE POWER TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2016

	Preferred Stock		Common Stock		Additional Paid In Capital	Treasury Stock	Prepaid Expenses via Common Stock	Preferred Stock Subscription Receivable	Accumulated (Deficit)	Stockhol (Deficit) Cyclone Power Tech. Inc
	Shares	Value	Shares	Value						
Balance, December 31, 2014	1,000	$-	861,315,576	$86,129	$55,026,213	$-	$(28,459)	$(6,000)	$(57,257,441)	$(2,179,5
Issuance of options for employee services	-	-	-	-	2,526	-	-	-	-	2,526
Forgiveness of officers accrued salaries	-	-	-	-	655,225	-	-	-	-	655,225
Forgiveness of accrued rent, interest & other expenses due an officer's company	-	-	-	-	710,272	-	-	-	-	710,272
Forgiveness of employees accrued salaries	-	-	-	-	18,970	-	-	-	-	18,970
Repayment of debt and interest with common stock	-	-	424,853,956	42,485	88,370	-	-	-	-	130,855

	-	-	-	-	-	-	-	-	-	-
Repayment of liabilities in common stock	-	-	92,500,000	9,250	57,250	-	-	-	-	66,500
Loss on debt paid with common stock	-	-	-	-	50,000	-	-	-	-	50,000
Cancellation of stock subscription receivable	-	-	-	-	-	(3,000)	-	3,000	-	-
Write-off of stock subscription receivable	-	-	-	-	-	-	-	3,000	-	3,000
Repayment of shares loaned by stockholder	-	-	10,000,000	1,000	13,000	-	-	-	-	14,000
										-
Allocation of loses of subsidiaries to non controlling interests	-	-	-	-	-	-	-	-	8	8
Amortization of expenses prepaid with common stock	-	-	-	-	-	-	28,459	-	-	28,459
Net loss year ended December 31, 2015	-	-	-	-	-	-	-	-	(1,470,303)	(1,470,3
Balance, December 31, 2015	1,000	-	1,388,669,532	138,864	56,621,826	(3,000)	-	-	(58,727,736)	(1,970,0
Issuance of options for employee	-	-	-	-	2,526	-	-	-	-	2,526

services										
Repayment of liabilities in common stock	-	-	125,730,741	12,573	228,359	-	-	-	-	240,932
Loss on debt paid with common stock	-	-	-	-	57,383	-	-	-	-	57,383
Issuance of common stock for services			3,000,000	300	5,700					6,000
Net loss year ended December 31, 2016	-	-	-	-	-	-	-	-	(2,100,923)	(2,100,9
Balance, December 31, 2016	1,000	-	1,517,400,273	$151,737	$56,915,794	$(3,000)	$-	$-	$(60,828,659)	$(3,764,1

The accompanying notes are an integral part of these consolidated financial statements

CYCLONE POWER TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR YEARS ENDED DECEMBER 31, 2016, AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(2,100,923)	$(1,470,303)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	68,357	75,574
Provision for inventory reserve	125,900	192,000
Issuance of restricted common stock, options and warrants for services	2,526	2,526
(Gain) loss from derivative liability-notes payable	370,518	(56,702)
Amortization of derivative debt discount	11,680	174,043
Loss on debt conversion via common stock	57,383	50,000
Write-off of stock subscription receivables	-	3,000
Amortization of prepaid expenses and interest via common stock	-	28,459
Expenses paid with common stock	6,000	-
Write-off of expired patents	69,782	25,894
Loss on debt conversion via common stock-net		
Changes in operating assets and liabilities:		
(Increase) decrease in inventory	170,941	(46,465)
Decrease in other current assets	594	15,576
(Increase) in other assets	-	(5,387)
Cash overdraft	(3,221)	3,221
Increase in accounts payable and accrued expenses	554,744	483,129
Increase in accounts payable and accrued expenses-related parties	335,000	306,275
Increase in deferred revenue and deposits	175,700	25,404
Net cash used by operating activities	(155,019)	(193,756)
CASH FLOWS FROM INVESTING ACTIVITIES:	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of capitalized lease obligations	(10,041)	(7,811)
Proceeds from notes and loans payable	94,725	50,000
Repayment of notes and loans payable	(1,500)	-
Increase in related party notes and loans payable-net	72,426	151,289
Net cash provided by financing activities	155,610	193,478
Net increase (decrease) in cash	591	(278)
Cash, beginning of year	-	278
Cash, end of year	$591	$-

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Payment of interest in cash	$-	$14,491
Payment of income tax in cash	$-	$-
NON CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of 20,313,416 shares of Common stock for repayment of related party payables	$6,000	$-
Issuance of 125,730,741 shares of Common stock for liabilities	$240,932	$-
Issuance of 92,500,000 shares of Common stock for accrued expenses	$-	$66,500
Issuance of 424,853,956 shares of Common stock for debt and interest repayment	$-	$130,856
Value of shares repaid to stockholder	$-	$14,000
Forgiveness of deferred officers' salaries	$-	$655,225
Forgiveness of accrued rent, interest and other expenses due officer's company	$-	$710,272

The accompanying notes are an integral part of these consolidated financial statements

CYCLONE POWER TECHNOLOGIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 1 – ORGANIZATIONAL AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION AND OPERATIONS

Cyclone Power Technologies, Inc. (the "Company", "our," "Cyclone") is the successor entity to the business of Cyclone Technologies LLLP (the "LLLP"), a limited liability limited partnership formed in Florida in September 2004. The LLLP was the original developer and intellectual property holder of the Cyclone engine technology. Initiated in 2016, the Company's current business model, is to be primarily a research and development engineering company whose main purpose is to develop, commercialize, market and license its Cyclone engine technology. Engines and related systems will be outsourced for manufacturing but the company will invoice customers. Our prior business model also included engine manufacturing.

In 2012, the Company established Cyclone Performance LLC ("Cyclone Performance") f/k/a Cyclone-TeamSteam USA, LLC. The purpose of Cyclone Performance is to build, test and run various vehicles and vessels utilizing the Company's engine. As of December 31, 2016 and 2015, the company had a 95% controlling interest in Cyclone Performance.

In 2010, the Company established a subsidiary WHE Generation Corp. f/k/a, Cyclone-WHE LLC (the "WHE Subsidiary", "WheGen"), to market the waste heat recovery systems for all Cyclone engine models. As of September 30, 2014 the Company had sold most of its ownership and the balance was sold in the second quarter of 2016.

B. PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and its 95% owned subsidiary Cyclone Performance. All material inter-company transactions and balances have been eliminated in the condensed consolidated financial statements.

Effective September 30, 2014, Cyclone sold most of its investment in the WHE Subsidiary and as of December 31, 2015 retained approximately a 2 million share non controlling (below 20%) interest in the WHE Subsidiary. This investment was deconsolidated on September 30, 2014 and the remaining investment was sold in the second quarter of 2016.

The Company prepares its consolidated financial statements in conformity with account principles generally accepted in the United States (“U.S. GAAP”). The accounting principles utilized by the Company require the Company to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, the reported amounts of revenues and expenses, cash flows and the related footnote disclosures during the periods. On an on-going basis, the Company reviews and evaluates its estimates and assumptions, including, but not limited to, those that relate to the realizable value of inventory, identifiable intangible assets and other long-lived assets, contracts, income taxes, derivative liabilities, and contingencies. Actual results could differ from these estimates.

C. CASH

Cash includes cash on hand and cash in banks. At December 31, 2016 and 2015, the Company maintained cash balances at one financial institution.

D. COMPUTATION OF LOSS PER SHARE

Net loss per share is computed by dividing the loss by the weighted average number of common shares outstanding during the period. Diluted loss per share is not presented as the conversion of the preferred stock and exercise of outstanding stock options and warrants would have an anti-dilutive effect. As of December 31, 2016 and 2015, total anti-dilutive shares amounted to approximately 14.5 million and 13.5 million shares, respectively.

E. INCOME TAXES

Income taxes are accounted for under the asset and liability method as stipulated by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, "*Income Taxes*" ("ASC 740"). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities or a change in tax rate is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced to estimated amounts to be realized by the use of a valuation allowance. A valuation allowance is applied when in management's view it is more likely than not (50%) that such deferred tax will not be utilized.

In the unlikely event that an uncertain tax position exists in which the Company could incur income taxes, the Company would evaluate whether there is a probability that the uncertain tax position taken would be sustained upon examination by the taxing authorities. Reserves for uncertain tax positions would be recorded if the Company determined it is probable that a position would not be sustained upon examination or if payment would have to be made to a taxing authority and the amount is reasonably estimated. As of December 31, 2016, the Company does not believe it has any uncertain tax positions that would result in the Company having a liability to the taxing authorities. Interest related to the unrecognized tax benefits is not recognized in the consolidated financial statements as a component of income taxes. The Company's tax returns are subject to examination by the federal and state tax authorities for the years ended 2013 through 2016.

F. REVENUE RECOGNITION

The Company's revenue recognition policies are in compliance with ASC 605, "*Revenue Recognition – Multiple Element Arrangements*", and Staff Accounting Bulletin ("SAB") 104, *Revenue Recognition*. Revenue will be recognized at the date of shipment of engines and systems, engine prototypes, engine designs or other deliverables to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant

obligations of the Company exist and collectability is reasonably assured. Revenue from contracts for multiple deliverables and milestone method recognition are evaluated and allocated as appropriate. The Company does not allow its customers to return prototype products. Current contracts do not require the Company to provide any warranty assistance after the “deliverable” has been accepted.

It is the Company’s intention when it has royalty revenue from its contracts to record royalty revenue periodically when earned, as reported in sales statements from customers. The Company does not have any royalty revenue to date.

G. WARRANTY PROVISIONS

Current contracts do not require warranty assistance subsequent to acceptance of the “deliverable R&D prototype” by the customer. For products that the Company will sell in the future, warranty costs are anticipated to be borne by the manufacturing vendor.

H. INVENTORY

Inventory is recorded at the lower of cost or market. Based on our revised R&D company business model, commencing in 2016, costs include only material to develop a completed engine. In our former business model costs include material, labor and allocated overhead to manufacture a completed engine. These costs are periodically evaluated to determine if they have a net realizable value. If the net realizable value is lower than the carrying amount, a reserve is provided.

I. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, "*Fair Value Measurements and Disclosures*" requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate the value. The carrying amounts reported in the balance sheet for cash, accounts payable and accrued expenses, and loans payable approximate their fair market value based on the short-term maturity of these instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's own assumptions based on the best information available in the circumstances. The fair value hierarchy prioritizes the inputs used to measure fair value into three broad levels. The three levels of the fair value hierarchy are defined as follows:

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, as of the reporting date.

Level 3 – Unobservable inputs for the asset or liability that reflect management's own assumptions about the assumptions that market participants would use in pricing the asset or liability as of the reporting date.

The summary of annual fair values and changing values of financial instruments as of January 1, 2015 through December 31 2015 and January 1, 2016 through December 31, 2016 is as follows:

Instrument	Beginning of Period	Change	End of Period	Level	Valuation Methodology
Derivative liabilities 2015	$ 440,184	$ (56,706)	$ 383,482	3	Stochastic Process Forecasting Model
Derivative liabilities 2016	$ 383,482	$ 370,518	$ 754,000	3	Stochastic Process Forecasting Model

Please refer to Note 16 for disclosure and assumptions used to calculate the fair value of the derivative liabilities.

J. RESEARCH AND DEVELOPMENT

Research and development activities for product development are expensed as incurred. Costs for the years ended December 31, 2016 and 2015 were $604,199 and $467,610, respectively.

K. STOCK BASED COMPENSATION

The Company applies the fair value method of ASC 718, "*Share Based Payment*", in accounting for its stock based compensation. This standard states that compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. The Company values stock based compensation at the market price for the Company's common stock as of the date in which the obligation for payment of services is incurred.

L. COMMON STOCK OPTIONS AND PURCHASE WARRANTS

The Company accounts for common stock options and purchase warrants at fair value in accordance with ASC 815-40, "*Derivatives and Hedging"*. The Black-Scholes option pricing valuation method ("BSM option pricing model") is used to determine fair value of these warrants consistent with ASC 718, "*Share Based Payment"*. Use of this method requires that the Company make assumptions regarding stock volatility, dividend yields, expected term of the warrants and risk-free interest rates.

The Company accounts for transactions in which services are received from non-employees in exchange for equity instruments based on the fair value of the equity instruments exchanged, in accordance with ASC 505-50, "*Equity Based payments to Non-employees"*.

M. ORIGINAL ISSUE DEBT DISCOUNT

The original issue discount (OID) related to notes payable is amortized by the effective interest method over the repayment period of the notes. The unamortized OID is represented as a reduction of the amount of the notes payable.

N. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is computed on the straight-line method, based on the estimated useful lives of the assets as follows:

	Years
Display equipment for trade shows	3
Leasehold improvements and furniture and fixtures	10 - 15
Shop equipment	7
Computers	3

Expenditures for maintenance and repairs are charged to operations as incurred.

O. IMPAIRMENT OF LONG LIVED ASSETS

The Company continually evaluates the carrying value of intangible assets and other long lived assets to determine whether there are any impairment losses. If indicators of impairment are present and future cash flows are not expected to be sufficient to recover the assets' carrying amount, an impairment loss would be charged to expense in the period identified. To date, the Company has not recognized any impairment charges.

P. RECENT ACCOUNTING PRONOUNCEMENTS

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting. This addresses the accounting for share-based payment transactions and includes the recognition of the income tax effects of awards that vest or settle as income tax expense and clarification of the presentation of certain components of share-based awards in the statement of cash flows. We are still in the process of

evaluating the effect of adoption on our financial statements and the effective date of application is 2018.

In March 2016, the FASB issued ASU 2016-06, "*Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the FASB Emerging Issues Task Force)*". which applies to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options, and requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met. One criterion is that the economic characteristics and risks of the embedded derivatives are not clearly and closely related to the economic characteristics and risks of the host contract. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently assessing the impact of the ASU on its financial position, results of operations or cash flows.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments. This standard amends and adjusts how cash receipts and cash payments are presented and classified in the statement of cash flows. *ASU 2016-15* is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and will require adoption on a retrospective basis unless impractical. If impractical the Company would be required to apply the amendments prospectively as of the earliest date possible. The Company is currently evaluating the impact that *ASU 2016-15* will have on its financial position, results of operations or cash flows.

Q. CONCENTRATION OF RISK

The Company does not have any off-balance sheet concentrations of credit risk. The Company expects cash and accounts receivable to be the two assets most likely to subject the Company to concentrations of credit risk. The Company's policy is to maintain its cash with high credit quality financial institutions to limit its risk of loss exposure.

As of December 31, 2016, the Company maintained its cash in one quality financial institution. The Company has not experienced any losses in its bank accounts through December 31,2016. The Company purchases raw material and components from multiple sources, none of which may be considered a principal or material supplier. If necessary, the Company could replace these suppliers with minimal effect on its business operations.

R. DERIVATIVE FINANCIAL INSTRUMENTS

Accounting and reporting standards for derivative instruments and for hedging activities were codified by ASC Topic 815, *Derivatives and Hedging* ("ASC Topic 815"). It requires that all derivatives be recognized in the balance sheet and measured at fair value. Gains or losses resulting from changes in the fair value of derivatives are recognized in earnings or recorded in other comprehensive income (loss) depending on the purpose of the derivatives and whether they qualify and have been designated for hedge accounting treatment. The Company has derivative liabilities pursuant to convertible debt and common stock warrants, and has recognized net expenses on the condensed consolidated statements of operations. The Company does not have any derivative instruments for which it has applied hedge accounting treatment.

NOTE 2 - GOING CONCERN

As shown in the accompanying consolidated financial statements, the Company incurred substantial operating and other losses and expenses of approximately $2.10 million for the year ended December 31, 2016, and $1.5 million for

the year ended December 31, 2015. The cumulative deficit since inception is approximately $60.8 million. The Company has a working capital deficit at December 31, 2016 of approximately $4.0 million. There is no guarantee whether the Company will be able to generate enough revenue and/or raise capital to support its operations. This raises substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on management's plans which include implementation of its business model to generate revenue from development contracts, licenses and product sales, and continuing to raise funds through debt or equity raises. The Company will also likely continue to rely upon related-party debt or equity financing.

The consolidated 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, advance contract payments (deferred revenue) and advances from and deferred payments to related parties.

NOTE 3 – INVENTORY, NET

Initiated in 2016, based on our revised R&D company business model, Inventory principally consists of raw material. to develop an engine. Under our prior business model, inventory consisted of raw material engine parts, work in process engines, labor and overhead, net of realization, valuation and obsolescence reserves. In the aggregate inventory is stated at the lower of cost or market.

Inventory, net consists of:

	December 31, 2016	December 31, 2015
Raw materials	$ 26,667	$ 323,508
Total	$ 26,667	$ 323,505

We provide estimated provisions for the realization, valuation and obsolescence of our inventories, including adjustments to market, based on various factors, including the age of such inventory and our management's assessment of the need for such provisions. We look at historical inventory aging and usage reports and margin analyses in determining our provision estimate.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	December 31, 2016	December 31, 2015
Display equipment for trade shows	$6,270	$6,270
Leasehold improvements and furniture and fixtures	93,922	93,922
Equipment and computers	202,578	204,377
Total	302,770	304,569
Accumulated depreciation	(209,498)	(178,049)
Net property and equipment	$93,272	$126,520

Depreciation expense for the years ended December 31, 2016, and 2015 was $33,269 and $36,645, respectively.

NOTE 5 – PATENTS, TRADEMARKS AND COPYRIGHTS

Patents, trademarks and copyrights consist of legal fees paid to file and perfect these claims. The net balances as of December 31, 2016, and 2015 were $178,478 and $283,368, respectively. For the years ended December 31, 2016, and 2015 the Company capitalized $0, and $0, respectively, of expenditures related to these assets. In 2016, and 2015 the Company recorded net charges of $69,782 and $28,530, respectively, included in general and administrative expenses, for various expired patents; the basic patents for the Cyclone technology are still protected.

As of December 31, 2016, the Company had 15 patents issued on its technology both in the U.S. and internationally. Pursuant to new US Patent Office regulations, upon approval, expired patents can be reestablished from inception.

Patents, trademarks and copyrights are amortized over the life of the intellectual property which is 15 years. Amortization expenses for the years ended December 31, 2016, and 2015 were $35,088 and $38,929, respectively.

NOTE 6 – NOTES AND OTHER LOANS PAYABLE

A. NON-RELATED PARTIES

A summary of non-related party notes and other loans payable is as follows:

	December 31, 2016	December 31, 2015
12% convertible notes payable, maturing at various dates from November 2013 through April 2016 (A)	$42,951	$34,558
10% convertible note payable, monthly payments commencing in December 2013 through July 2014 (B)	19,963	19,963
10% convertible notes payable maturing at various dates from May 2015 through February 2016 (C)	76,000	72,793
10% convertible notes payable, maturing at various dates from December 2015 through January 2016 (D)	29,303	29,223
10% convertible notes payable maturing at various dates from February 2015 through August 2015 (F)	116,200	116,200
12% convertible notes payable, maturing at various dates from April 2015 through May 2015 (G)	85,000	85,000
10% note payable, maturing Feb 3, 2017	50,000	-
Various notes payable, maturing 2016 and 2017	13,500	-
Note payable, maturing Oct 14 2016, (I)	27,000	-
10% Note payable, maturing January 26, 2017	46,000	-
Demand Note, (H)	6,725	-
Total non related party notes –net of discount	512,642	407,737
Less-Current Portion	512,642	357,737
Total non-current non related party	$-	$50,000

(A) Notes issued net of 10% original discount (fully amortized). This note is in default.

(B) Note issued net of original discount (fully amortized). Effective May 8, 2015, the Company is subject to a default judgment of approximately $175,000, plus subsequent penalty interest for non-payment of convertible debt and interest. The Company is negotiating a reduced settlement. Unpaid interest, default penalties and default interest is included in accounts payable and accrued liabilities.

(C) Notes issued net of discount from derivative liabilities (fully amortized). At December 31, 2016, the Company held approximately 97 million shares in reserve to cover the potential conversion of this note into common stock pursuant to debt covenants. This note is in default.

(D) Notes issued net of discount (fully amortized). This note is in default.

(F) Notes issued net of discount from derivative liabilities (fully amortized). At December 31, 2016, the Company held 233.3 million shares in reserve to cover the potential conversion of this note into common stock pursuant to debt covenants. This note is in default.

(G) Notes issued net of discount from derivative liabilities (fully amortized). The Company is subject to litigation judgment of approximately $150,000, plus subsequent penalty interest for non–payment. Company is seeking to arrange a settlement. Unpaid interest, default penalties and default interest is included in accounts payable and accrued liabilities.

(H) Note convertible into common stock at a 40% discount to 20 day market average.

(I) Interest of $3,000 to be paid in 1,500,000 shares of restricted company common stock This note is in default.

B. RELATED PARTIES

A summary of related party notes and other loans payable is as follows:

	December 31, 2016	December 31, 2015
6% demand loans per Operations Agreement with Schoell Marine Inc., a company owned by Cyclone's Chairman and controlling shareholder (A)	$ 169,751	$ 117,734
6% non-collateralized loans from officer and shareholder, payable on demand. The original principal balances were $157,101.	107,842	103,328
12% non-collateralized loans from officer and shareholder, payable on demand	21,044	20,178
Accrued Interest	95,123	80,094
Total current related party notes, inclusive of accrued interest	$ 393,760	$ 321,334

(A) This note arose from services and salaries incurred by Schoell Marine on behalf of the Company. The Schoell Marine note bears an interest rate of 6% and repayments occur as cash flow of the Company permits.

In June 2015 Schoell Marine forgave $710,272 of principle and accrued interest on the note.

NOTE 7 – RELATED PARTY TRANSACTIONS-Deferred Compensation

Included in accounts payable and accrued expenses - related parties as of December 31, 2016, and December 31, 2015 are $412,500 and $137,500, respectively, of accrued and deferred officers' salaries compensation which may be paid as funds are available. These are non-interest bearing and due on demand.

In June 2015, the principle officers of the company forgave $612,500 of deferred compensation.

NOTE 8 – PREFERRED STOCK

The Series B Preferred Stock is majority voting stock and is held by the two co-founders of the Company. Ownership of the Series B Preferred Stock shares assures the holders thereof a 51% voting control over the common stock of the Company. The 1,000 Series B Preferred Stock shares are convertible on a one-for-one basis with the common stock in the instance the Company is merged, sold or otherwise dissolved.

NOTE 9 – STOCK TRANSACTIONS

During the year ended December 31, 2016, the Company:

a- Issued 125,730,741 shares of restricted common stock valued at $298,315 for payment of $240,932 of liabilities and incurred a $57,383 loss on this debt payment.

b- Amortized (based on vesting) $2,526 of common stock options for employee services.

c- Issued 3,000,000 shares of common stock valued at $6,000 for services

During the year ended December 31, 2015, the Company:

a- Issued 92,500,000 shares of restricted common stock valued at $116,500 for payment of $66,500 of liabilities and incurred a $50,000 loss on this debt payment.

b- Amortized (based on vesting) $2,526 of common stock options for employee services.

c- Issued 424,853,956 shares of common stock valued at $130,855 as repayment of debt and related interest expense.

d- Repaid a loan of 10,000,000 shares of stock from the Company's Chairman and co-founder. which had been reissued pursuant to various debt covenants that had to be covered with stock.

NOTE 10 – STOCK OPTIONS AND WARRANTS

A. COMMON STOCK OPTIONS

Per the employment contracts with certain officers, the company issued 1,800,000 common stock options, valued at $3,690 (pursuant to the Black Scholes valuation model) that are exercisable into shares of common stock at an average exercise price of $.0021 and with a maturity life of 10 years. For the years ended December 31, 2016, and December 31, 2015 the amortization of stock options was $2,526 and $2,526, respectively. The unamortized balance at December 31 2016 was $2,396.

A summary of the common stock options for the period from December 31, 2014 through December 31, 2016 follows:

	Number Outstanding	**Weighted Avg. Exercise Price**	**Weighted Avg. Remaining Contractual Life (Years)**
Balance, December 31, 2014	11,090,000	$ 0.123	6.0
Options issued	1,800,000	.0009	9.6
Options exercised	-	-	-
Options cancelled	(510,000)	(.12)	-
Cancelled-old	-		
Balance, December 31, 2015	12,380,000	$ 0.123	5.8
Options issued	1,800,000	.0021	9.6
Options expired	(150,000)	(.098)	
Balance, December 31, 2016	14,030,000	$ .096	5.3

The vested and exercisable options at period end follows:

	Exercisable/ Vested Options Outstanding	**Weighted Avg. Exercise Price**	**Weighted Avg. Remaining Contractual Life (Years)**
Balance December 31, 2016	12,230,000	$ .11	4.6
Additional vesting by March 31, 2017	450,0000	.0002	9.0

The fair value of new stock options, re-priced stock options, new purchase warrants and re-priced purchase warrants granted using the Black-Scholes option pricing model was calculated using the following assumptions:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Risk free interest rate	.71%-1.4%	.89% -1.31%
Expected volatility	136% - 1.39%	102% - 131%
Expected term	3	3
Expected dividend yield	0%	0%
Average value per options and warrants	$.0019 -$.0024	$.0003 -$.0016

Expected volatility is based on historical volatility of the Company's common stock price. Short Term U.S. Treasury rates were utilized at the risk free interest rate. The expected term of the options and warrants was calculated using the alternative simplified method newly codified as ASC 718 "*Accounting for Stock Based Compensation,*" which defined the expected life as the average of the contractual term of the options and warrants and the weighted average vesting period for all issuances.

B. COMMON STOCK WARRANTS

During the year ended December 31, 2016, 625,000 warrants with an average exercise price of $.0144 expired.

A summary of outstanding vested warrant activity for the period from December 31, 2014 to December 31, 2016 follows:

	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Common Stock Warrants			
Balance, December 31, 2014	3,633,692	$ 0.074	0.89
Warrants expired	(2,508,692)	(.148)	
Balance, December 31, 2015	1,125,000	$ .0042	2.05
Warrants expired	(625,000)	(.011)	
Balance, December 31, 2016	500,000	$ .08	.67

All warrants were vested and exercisable as of the date issued.

NOTE 11 – INCOME TAXES

A reconciliation of the differences between the effective income tax rates and the statutory federal tax rates for the years ended December 31, 2016 and 2015 are as follows:

	Year ended December 31, 2016		Year ended December 31, 2015	
Tax benefit at U.S. statutory rate	$470,466	34 %	$235,276	34 %
State taxes, net of federal benefit	55,349	4	27,679	4

Change in valuation allowance	(525,818)	(38)	(262,955)	(38)
	-	-	-	

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2016 and December 31, 2015 consisted of the following:

Deferred Tax Assets	**December 31, 2016**	**December 31, 2015**
Net Operating Loss Carry-forward	$10,577,607	$9,924,492
Deferred Tax Liabilities – Accrued Officers' Salaries	(900,306)	(795,805)
Net Deferred Tax Assets	9,677,301	9,128,687
Valuation Allowance	(9,677,301)	(9,128,687)
Total Net Deferred Tax Assets	$-	$-

As of December 31, 2016, the Company had a net operating loss carry forward for income tax reporting purposes of approximately $22.8 million that may be offset against future taxable income through 2031. Current tax laws limit the amount of loss available to be offset against future taxable income when a substantial change in ownership occurs. Therefore, the amount available to offset future taxable income may be limited. No tax asset has been reported in the financial statements because the Company believes there is a 50% or greater chance the carry forwards will expire unused. Accordingly, the potential tax benefits of the loss carry forwards are offset by a valuation allowance of the same amount.

NOTE 12- LEASE OBLIGATIONS

A. LEASE ON FACILITIES

The Company leases a 6,000 square foot warehouse and office facility located at 601 NE 26th Court in Pompano Beach, Florida. The original lease, was at an annual rent of $60,000. The lease period ended December 2016 and the current lease is monthly with a 3% rate increase. Occupancy costs for the years ended December 31, 2016, and 2015 were $64,100 and $60,000, respectively.

B .CAPITALIZED LEASE OBLIGATIONS

In 2013 and 2014, the company acquired $45,566 of equipment via capitalized leases at interest rates ranging from 6.9% to 15.5%. Total lease payments made for the year ended December 31, 2016 were $10,042. The balance of capitalized lease obligations payable at December 31, 2016, and December 31, 2015 were $39,847 and $49,889, respectively. Future lease payments are:

2017	$14,312
2018	9,754
2019	8,127
2020	7,654
2021	0
	$39,847

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Company has employment agreements with Harry Schoell, Chairman and CTO (previously, CEO), at $150,000 per year and Frankie Fruge, President, at $120,000 per year; (collectively, the “Executives”). These agreements provide for a term of three (3) years from their Effective Date (July 2007 with automatically renewing successive one year periods starting on the end of the second anniversary of the Effective Date. If the Executive is terminated “without cause” or pursuant to a “change in control” of the Company, as both defined in the respective agreements, the Executive shall be entitled to (i) any unpaid Base Salary accrued through the effective date of termination, (ii) the Executive’s Base Salary at the rate prevailing at such termination through 12 months from the date of termination or the end of his Term then in effect, whichever is longer, and (iii) any performance bonus that would otherwise be payable to the Executive were he/she not terminated, during the 12 months following his or her termination.

NOTE 14 –CONSOLIDATED SUBSIDIARY

In 2012, the Company established a 100% owned subsidiary (renamed) Cyclone Performance LLC. The purpose of Cyclone Performance is to build, test and run a vehicle utilizing the Company's engine. In the last quarter of 2012, the Company sold a 5% equity investment to an unrelated investor for $30,000. Subsequent to December 31, 2012, this 5% equity investment was acquired by a corporate officer of the Company. Losses of the subsidiary are currently fully borne by the Company, as there is no guarantee of future profits or positive cash flow of the subsidiary. As of December 31, 2016, the cumulative unallocated losses to the non-controlling interests of this subsidiary of $953 are to be recovered by the parent from future subsidiary profits if they materialize.

NOTE 15 – RECEIVABLES, DEFERRED REVENUE AND BACKLOG

As of December 31, 2016, total backlog for prototype engines to be delivered was $400,000 from the Combilift agreement, of which $100,000 has been paid and has been recorded as deferred revenue. In 2016, 3 other customers advanced $175,700 as deposits towards payments on $355,000 of contracts for engines currently estimated to be delivered in 2017 and license deposits.

NOTE 16 – DERIVATIVE FINANCIAL INSTRUMENTS

Prior to 2015, the Company entered into convertible note agreements (subject to derivative accounting treatment). The conversion prices into common stock ranged from a discount of 30% to 45% of the lowest closing prices in the 10 to 20 trading days prior to the conversion. Under provisions of ASC Topic 815-40, this conversion feature triggered derivative accounting treatment because the convertible note was convertible into an indeterminable number of shares of common stock. The fair value of the embedded conversion option was required to be presented as a derivative liability and adjusted to fair value at each reporting date, with changes in fair value reported in the condensed consolidated statements of operation.

In the year ended December 31, 2016, the Company recorded a $11,680 non-cash charge to interest expense (reflective of debt discount amortization), and $370,519 of derivative loss related to adjusting the derivative liability to fair value. At December 31, 2016, the derivative related fair value of debt was $754,000. The significant increase in the derivative loss was the inclusion of default judgments, default and accrued interest in the fair market debt calculation.

In the year ended December 31, 2015, the Company recorded a $174,043 non-cash charge to interest expense (reflective of debt discount amortization), an increase of $0 in additional paid in capital pursuant to conversion of convertible notes to common stock, and a $56,702 of derivative gain related to adjusting the derivative liability to fair value. At December 31, 2015, the derivative related fair value of debt was $383,482.

The Company calculates the estimated fair values of the liabilities for derivative instruments at each quarter-end using the Stochastic Process Forecasting models (Monte Carlo simulations). Volatility, expected term and risk free interest rates used to estimate the fair value of derivative liabilities are indicated in the table below. The volatility was based on historical volatility, the expected term is equal to the remaining term of the debt and the risk free rate is based upon rates for treasury securities with the same term.

	Year Ended December 31, 2016	**Year Ended December 31, 2015**
Volatility	71%- 91 %	103%- 343 %
Risk Free Rate	.02% - .28 %	.01% - .28 %
Expected Term (years)	0 – 1.05	0 – 1.05
Dividend Rate	0 %	0 %

NOTE 17 – LITIGATION

Effective May 8, 2015, the Company is subject to a default judgment of approximately $175,000, plus subsequent penalty interest for non-payment of convertible debt and interest Tonaquint Inc. filed and received a judgment and the Company is negotiating a reduced settlement. As at December 31 2016, outstanding interest, default interest and default judgment penalties are included in accrued liabilities.

In August 2015, the Company is subject to litigation of approximately $150,000, plus subsequent penalty interest for non -payment of a liability. JSJ filed and received a judgment and the Company entered into a settlement agreement for conversion of judgment based on value and conversions of original note on January 9, 2017.

As at December 31, 2016, outstanding interest, default interest and default judgment penalties are included in accrued liabilities.

NOTE 18 – SUBSEQUENT EVENTS

In the first and second quarters of 2017, the Company engaged in the following transactions:

a- The Company issued approximately 6.4 million shares of common stock value at $5,096 for services.

b- The Company issued 70 million shares of common stock in payment of a $123,000 accrued liability for services.

c- The Company issued 100 million shares of common stock in settlement of a $49,000 note payable and related interest

d- The Company issued approximately 44.5 million shares of common stock pursuant of conversion of approximately $34,000 of note payable an related interest.

In January 2017 Falck Schmidt Defense Systems ("FSDS") of Denmark signed an Exclusive Worldwide Technology License Agreement to use the Cyclone engine technology for both military and aerospace power applications. For each Cyclone engine that FSDS manufactures Cyclone will receive a royalty. Additionally these contracts call for Cyclone to be the R&D arm of FSDS.

Through the first half of 2017, the company received funds of approximately $153,000 from current derivative and non-derivative note holders.

The Company entered into a consulting contract on January 3, 2017 to oversee and complete the process of its 2016 audit and to provide other financial consulting. Compensation is to be in the amount of 10,000,000 shares per month for a period of twelve months.

The Company entered an addendum to a consulting agreement "Tendrich Consulting Addendum # 2 dated March 30,2017." The Addendum calls for a one time payment of 50,0000,000 shares for additional responsibilities performed.

The Company entered into a consulting contract on April 1, 2017 " Tendrich consulting Agreement dated April 1, 2017" to provide the directors and executives guidance on certain matters. Compensation is to be in the amount of $10,000 of Restricted Stock per month for a period of twelve months, with an optional twelve month extension.

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CYCLONE POWER TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2016, JUNE 30, 2016 AND MARCH 31, 2016

(UNAUDITED)

	March 31 2016	June 30, 2016	September 30, 2016
ASSETS			
CURRENT ASSETS			
Cash	$-	$14,861	$1,387
Inventory, net	337,959	349,513	407,515
Other current assets	587	250	1,400
Total current assets	338,546	364,624	410,302
PROPERTY AND EQUIPMENT			
Furniture, fixtures, and equipment	302,770	302,770	302,770
Accumulated depreciation	(184,981)	(193,577)	(202,153)
Net property and equipment	117,789	109,193	100,617
OTHER ASSETS			
Patents, trademarks and copyrights	539,446	539,446	539,446
Accumulated amortization	(264,999)	(273,622)	(282,414)
Net patents, trademarks and copyrights	274,447	265,824	257,032
Other assets	8,062	8,062	8,062
Total other assets	282,509	273,886	265,094
Total Assets	$738,844	$747,703	$776,013
LIABILITIES AND STOCKHOLDERS' DEFICIT			
CURRENT LIABILITIES			
Bank overdraft	$3,068	$-	$-
Accounts payable and accrued expenses	1,253,933	1,337,627	1,264,939
Accounts payable and accrued expenses-related parties	293,975	377,725	461,475
Notes and other loans payable-current portion	422,930	424,917	508,642
Derivative liabilities	381,161	380,705	380,162
Notes and other loans payable-related parties	385,511	385,304	391,132
Capitalized lease obligations-current portion	13,426	13,916	14,052
Deferred revenue and license deposits	153,731	188,826	263,826

Total current liabilities	2,907,735	3,109,020	3,284,228
NON CURRENT LIABILITIES			
Capitalized lease obligations-net of current portion	32,341	28,219	26,909
Total non-current liabilities	32,341	28,219	26,909
Total Liabilities	2,940,076	3,137,239	3,311,137
Commitments and contingencies			
STOCKHOLDERS' DEFICIT			
Series B preferred stock, $.0001 par value, 1,000 shares authorized, 1,000 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively.	-	-	-
Common stock, $.0001 par value, 4,000,000,000 shares authorized, 1,388,669,532, 1,437,400,273 and 1,517,400,273 shares issued and outstanding at March 31, 2016, June 30, 2016 and September 30, 2016, respectively.	138,864	143,738	151,738
Additional paid-in capital	56,622,211	56,706,255	56,914,961
Treasury Stock, 317,000 shares, at cost.	(3,000)	(3,000)	(3,000)
Accumulated deficit	(58,988,346)	(59,265,568)	(59,627,862)
Total stockholders' deficit-Cyclone Power Technologies Inc.	(2,230,271)	(2,418,575)	(2,564,163)
Non controlling interest in consolidated subsidiaries	29,039	29,039	29,039
Total Stockholders' Deficit	(2,201,232)	(2,389,536)	(2,535,124)
Total Liabilities and Stockholders' Deficit	$738,844	$747,703	$776,013

The accompanying notes are an integral part of these consolidated financial statements

CYCLONE POWER TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended March 31	
	2016	**2015**
REVENUES	$-	$-
COST OF GOODS SOLD	-	-
Gross profit	-	-
OPERATING EXPENSES		
Advertising and promotion	5,291	254
General and administrative	190,619	271,579
Research and development	34,693	106,927
Total operating expenses	230,603	378,760
Operating loss	(230,603)	(378,760)
OTHER (EXPENSE) INCOME		
Other (expense)	500	(50,000)
Derivative income (expense)	2,321	(17,654)
Interest (expense)	(32,828)	(141,223)
Total other (expense)	(30,007)	(208,877)
Loss before income taxes	(260,610)	(587,637)
Income taxes	-	-
Net loss	$(260,610)	$(587,637)
Net loss per common share, basic and diluted	$(0.00)	$(0.00)
Weighted average number of common shares outstanding	1,388,669,532	972,124,660

The accompanying notes are an integral part of these condensed consolidated financial statements

CYCLONE POWER TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
REVENUES	$-	$-	$-	$-
COST OF GOODS SOLD	-	-	-	-
Gross margin	-	-	-	-
OPERATING EXPENSES				
Advertising and promotion	5,839	434	548	180
General and administrative	385,509	401,014	194,890	129,435
Research and development	73,850	188,164	39,157	81,237
Total operating expenses	465,198	589,612	234,595	210,852
Operating loss	(465,198)	(589,612)	(234,595)	(210,852)
OTHER (EXPENSE) INCOME				
Other income (expense)	(12,969)	(50,000)	(13,469)	-
Derivative income(expense)	2,777	(10,811)	456	6,843
Interest (expense)	(62,442)	(227,854)	(29,614)	(86,631)
Total other (expense)	(72,634)	(288,665)	(42,627)	(79,788)
Loss before income taxes	(537,832)	(878,277)	(277,222)	(290,640)
Income taxes	-	-	-	-
Net loss	$(537,832)	$(878,277)	$(277,222)	$(290,640)
Net loss per common share, basic and diluted	$(0.00)	$(0.00)	$(0.00)	$(0.00)
Weighted average number of common shares outstanding, basic and diluted	1,393,890,683	1,082,119,889	1,403,288,754	353,877,991

See accompanying notes to the condensed consolidated financial statements

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CYCLONE POWER TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Nine Months Ended Sept. 30,		Three Months Ended Sept. 30,	
	2016	**2015**	**2016**	**2015**
REVENUES	$-	$-	$-	$-
COST OF GOODS SOLD	-	-	-	-
Gross margin	-	-	-	-
OPERATING EXPENSES				
Advertising and promotion	7,986	2,934	2,147	2,500
General and administrative	655,309	526,241	269,801	125,227
Research and development	131,827	291,769	57,977	103,605
Total operating expenses	795,122	820,944	329,925	231,332
Operating loss	(795,122)	(820,944)	(329,925)	(231,332)
OTHER (EXPENSE) INCOME				
Other income (expense)	(12,968)	(50,000)	-	-
Derivative income (expense)	3,320	(11,406)	543	(595)
Interest (expense)	(95,356)	(293,123)	(32,914)	(65,269)
Total other (expense)	(105,004)	(354,529)	(32,371)	(65,864)
Loss before income taxes	(900,126)	(1,175,473)	(362,296)	(297,196)
Income taxes	-	-	-	-
Net loss	$(900,126)	$(1,175,473)	$(362,296)	$(297,196)
Net loss per common share, basic and diluted	$(0.00)	$(0.00)	$(0.00)	$(0.00)
Weighted average number of common shares outstanding, basic and diluted	1,403,414,280	1,145,656,355	1,445,400,243	1,346,156,963

See accompanying notes to the condensed consolidated financial statements

CYCLONE POWER TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three months Ended March 31,		**Six Months Ended June 30,**		**Nine Months Ended September 30,**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net loss	$(260,610)	$(587,637)	$(537,832)	$(878,277)	$(900,126)	$(1,175,473)
Adjustments to reconcile net loss to net cash used in operating activities:						
Depreciation and amortization	17,653	19,078	34,872	38,031	52,240	56,810
Issuance of restricted common stock, options and warrants for services	-	62,084	987	62,953	1,693	63,377
Loss on debt paid with common stock	-	50,000	57,383	50,000	57,383	50,000
Amortization of prepaid interest expenses via common stock & warrants	-	28,459	6,000	-	6,000	-
(Gain) loss from derivative liability-notes payable	(2,321)	17,654	(2,777)	10,811	(3,320)	11,406
Amortization of derivative debt discount	8,193	78,861	11,680	132,531	11,680	157,507
Interest paid with common stock	-	11,372	-	11,371	-	12,394
Amortization of prepaid expenses via common stock & warrants	385	-	-	28,459	-	28,459
Changes in operating assets and liabilities:			-	-		
(Increase) decrease in inventory	(14,451)	(45,759)	(26,005)	(46,417)	(84,007)	13,533
Increase in other current assets	-	15,116	337	15,240	(813)	15,365
Decrease in cash overdraft	(153)	0	(3,221)	1,228	(3,221)	3,027
Increase in accounts payable and accrued expenses	94,799	177,782	203,521	226,286	251,250	315,437
Increase in accounts payable and accrued expenses-related parties	83,750	83,750	167,500	186,470	346,833	361,522
Increase in deferred revenue and deposits	5,700	-	40,700	25,000	115,700	25,403
Net cash used in operating activities	(67,055)	(89,240)	(46,855)	(136,314)	(148,708)	(61,233)
CASH FLOWS FROM INVESTING ACTIVITIES:	-	-	-	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:						
Payment of capitalized leases	(4,122)	(1,370)	(7,754)	(5,254)	(8,928)	(6,731)
Proceeds from notes and loans payable	7,000	50,000	7,000	50,000	90,725	50,000

Repayment of notes and loans payable	-	-	(1,500)	-	(1,500)	-
Increase in related party notes and loans payable-net	64,177	40,339	63,970	91,290	69,798	17,686
Net cash provided by financing activities	67,055	88,969	61,716	136,036	150,095	60,955
Net increase (decrease) in cash	-	(271)	14,861	(278)	1,387	(278)
Cash, beginning of period	-	278	-	278		278
Cash, end of period	$-	$7	$14,861	$-	$1387	$-
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:						
Payment of interest in cash	$1,603	$10,869	$3,379	$11,372	$4,232	$13,836
Payment of Taxes	-	-	-	-	-	-
NON CASH INVESTING AND FINANCING ACTIVITIES:						
Issuance of 40,000,000 shares of Common stock for liability settlement	$-	$14,000	$-	$14,000	$-	$14,000
Issuance of 5,250,000 shares of Common stock pursuant to prior year common stock price guarantees	$-	$52,500	$-	$52,500	$-	$52,500
Issuance of 328,161,744 shares of Common stock for debt repayment	$-	$109,462	$-	$109,462	$-	$-
Issuance of 35,959,970 shares of Common stock for debt interest	$-	$11,372	$-	$11,372	$-	$-
Issuance of 45,730,741 shares of Common stock for liability settlements	$-	$-	$24,932	$-	$-	$-
Issuance of 3,000,000 shares of Common stock for services	$-	$-	$6,000	$-	$6,000	$-
Issuance of 125,730,741 shares of Common stock for liability settlements	$-	$-	$-	$-	$240,932	$-
Issuance of 328,707,198 shares of Common stock for debt repayment	$-	$-	$-	$-	$-	$118,462
Issuance of 42,146,758 shares of Common stock for debt interest	$-	$-	$-	$-	$-	$12,392
Foregivness of deferred officers salaries	$-	$-	$-	$-	$-	$655,225
Foregivness of accrued rent, interest and other expenses due officer’s company	$-	$-	$-	$-	$-	$710,272

The accompanying notes are an integral part of these consolidated financial statements

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The unaudited consolidated financial statements include the accounts of the Company and its 95% owned subsidiary Cyclone Performance. All material inter-company transactions and balances have been eliminated in the condensed consolidated financial statements. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to interim financial information and the requirements of Form 10-Q and Article 8 of Regulation S-X of the SEC. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete consolidated financial statements. We follow the same accounting policies in preparation of interim reports as we do in our annual reports.

Interim results are not necessarily indicative of results for a full year. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position and the results of operations and cash flows for the interim periods have been included. We suggest that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report for the year ended December 31, 2016.

The accounting principles utilized by the Company require the Company to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, the reported amounts of revenues and expenses, cash flows and the related footnote disclosures during the periods. On an on-going basis, the Company reviews and evaluates its estimates and assumptions, including, but not limited to, those that relate to the realizable value of inventory, identifiable intangible assets and other long-lived assets, contracts, income taxes, derivative liabilities, and contingencies. Actual results could differ from these estimates.

NOTE 2 - GOING CONCERN

As shown in the accompanying condensed consolidated financial statements, the Company incurred substantial operating and other losses and expenses of approximately $.9 million for the nine months ended September 30, 2016 and the cumulative deficit since inception to September 30, 2016 is approximately $59.6 million,. The Company has a working capital deficit at September 30, 2016 of approximately $2.9 million. There is no guarantee whether the Company will be able to generate enough revenue and/or raise capital to support its operations. This raises substantial doubt about the Company’s ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The ability of the Company to continue as a going concern is dependent on management's plans which include continuation of its business model to generate revenue from development contracts, licenses and product sales, and continuing to raise funds through debt and advances from strategic partners and deferred payments to related parties.

NOTE 3 – RELATED PARTY TRANSACTIONS

Cumulatively, for the nine months ended September 30, 2016, related party indebtness increased $416,631 from December 31, 2015.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

The Company has employment agreements with Harry Schoell, Chairman and CTO (previously, CEO), at $150,000 per year and Frankie Fruge, President, at $120,000 per year; (collectively, the "Executives"). These agreements provide for a term of three (3) years from their Effective Date (July 2007 with automatically renewing successive one year periods starting on the end of the second anniversary of the Effective Date. If the Executive is terminated "without cause" or pursuant to a "change in control" of the Company, as both defined in the respective agreements, the Executive shall be entitled to (i) any unpaid Base Salary accrued through the effective date of termination, (ii) the Executive's Base Salary at the rate prevailing at such termination through 12 months from the date of termination or the end of his Term then in effect, whichever is longer, and (iii) any performance bonus that would otherwise be payable to the Executive were he/she not terminated, during the 12 months following his or her termination

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (unaudited)

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

Revenue. The Company had no revenues in the quarters ended March 31 2016 and March 31, 2015.

Gross Margin. In the quarters ended March 31, 2016 and 2015, the company has no gross margins.

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Operating Expenses.

Operating expenses incurred for the quarter ended March 31, 2016 were $220,603 as compared to $378,760 for the same period in the previous year, a reduction of $148,157 or 39%. The majority of the decrease was due to a reduction in General and Administrative expenses of $80,960 (30%): staffing, insurance and professional fees. Research and Development expenses were lower by $72,234 or 68%, reflective of staff reduction.

Operating Loss. The operating losses for the quarters ended March 31, 2016 and 2015 were $230,603 and $378,760, respectively, a reduced loss of $148,157 or 39%, due to the factors outlined above.

Other Expense. Other expense for the quarter ended March 31, 2016 was $30,007 versus $208,877 for the same period in the prior year, a reduction of $178,870 or 86%.,

The 2016 net other expense included $32,828 of interest expense. The 2015 other expenses included $62,362 of interest expense, $78,861 of derivative accounting related interest charges and a loss of $50,000 from debt settled with common stock.

Net Loss and Loss per Share. The net loss for the quarter ended March 31, 2016 was $260,610, compared to a net loss of $587,637 for the same period in the previous year. The decreased loss of $327,027 or 56% is related to the factors outlined above. The net loss per weighted average share was $0.00 for both the current quarter and prior quarter.

Liquidity and Capital Resources

At March 31, 2016, the net working capital deficiency was $2,569,189 as compared to a deficiency of $2,272,018 at December 31, 2015, a variance of $297,171 or 13%.

For the three months ended March 31, 2016, cash decreased by $0. This is reflective of funds used by the net loss of $260,610 and the $14,451 increase in inventory. Funds were provided by debt proceeds of $7,000, higher accounts payable and accrued expenses of $94,799 and an increase of $147,927 in related party notes payables and accrued expenses.

For the three months ended March 31, 2015, cash decreased by $271. This is reflective of funds used by the net loss of $587,637 and the $45,759 increase in inventory. Funds were provided by debt proceeds of $50,000, higher accounts payable and accrued expenses of $177,782 and an increase of $83,750 in related party payables and accrued expenses. Non-cash charges for the three months were from the issuance of common stock, warrants and options for services of $62,084, amortization of prepaid expenses paid with common stock of $28,459, $78,861 of derivative debt discount amortization, and a $50,000 loss recognized by settling debt with common stock.

Results of Operations (unaudited)

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Revenue. The Company had $0 revenue in the quarters ended June 30, 2016 and June 30, 2015

Gross Margin. The Company had $0 gross margin in the quarters ended June 30, 2016 and June 30, 2015.

Operating Expenses. Operating expenses incurred for the quarter ended June 30, 2016 were $234,595 as compared to $210,852 for the same period in the previous year, an increase of $23,743 (11%). R&D expenses for the three months ending June 30 2016 were $39,157 or $42,080 or 52% lower versus 2015 on reduced staff and expenses. General and administrative expenses increased by $65,453 (51%) primarily from higher consulting expenses and increased patent maintenance fees (renewal timing), offset by lower staff and related expenses.

Operating Loss. The operating losses for the quarters ended June 30, 2016 and 2015 were $234,595 and $210,852, respectively, an increased loss of $23,743 or 11%, due to the factors outlined above.

Other Income (Expense) The net other loss for the quarter ended June 30, 2016 was ($42,627) versus a net loss of ($79,788) for the comparable period of last year, a favorable variance of $37,161 or 47%. The 2016 net other expense included a $44,000 gain on the sale of the Whe Gen stock, a $57,383 loss on debt paid with stock and interest expense of $29,614

Net other expense for the quarter ended June 30, 2015 was $79,788, primarily due to interest expense of $86,631.

Net Loss and Loss per Share. The net loss for the quarter ended June 30, 2016 was $277,222, compared to a net loss of $290,640 for the same period in the previous year, a favorable variance of $13,418 or 4.6%. The net income per weighted average share was $0.00 for the quarter ended June 30, 2016 and $0.00 for the prior year comparable quarter.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Revenue. The Company had $0 revenue in the six months ended June 30, 2016 and June 30, 2015.

Gross Margin. The Company had $0 gross margin in the six months ended June 30, 2016 and June 30, 2015.

Operating Expenses. Operating expenses incurred for the six months ended June 30, 2016 were $465,198 as compared to $589,612 for the same period in the previous year, a decrease of $124,414 or 21%. The decrease was due to a reduction in research and development staff and expenses of $114,314 or 61%, Also, general and administrative expenses decreased by $15,505 (4%) primarily from a reduction professional and consulting expenses partially offset by reduced stock issued for services.

Operating Loss. The operating losses for the six months ended June 30, 2016 and 2015 were $465,198 and $589,612, respectively, a decrease of $124,414 or 21%, due to the factors outlined above.

Other Income (Expense) Net other expense for the six months ended June 30, 2016 was ($72,634) versus ($288,665) for the comparable period of the prior year, a favorable variance of $216,031 or 75%. The 2016 net expense included interest expenses of $62,442, and a $57,383 loss on a debt conversion paid with restricted common stock, partially offset by a $44,000 gain on the sale of the Whe Gen investment.

Net other expense for the six months ended June 30, 2015 was $(288,665) included interest expenses of $227,854, and a $50,000 loss on a debt conversion paid with restricted common stock.

Net Loss and Loss per Share. The net loss for the six months ended June 30, 2016 was a loss of $537,832, compared to a net loss of $878,277 for the same period in the previous year a favorable variance of $340,445 or 39%. The net income per weighted average share was $0.00 for the six months ended June 30, 2016 and 2015, respectively.

Liquidity and Capital Resources

At June 30, 2016, the net working capital deficiency was $2,744,396 as compared to a deficiency of $2,272,018 at December 31, 2015, an increased deficiency of $472,378 or 21%.

For the six months ended June 30, 2016, cash increased by $14,861. Funds were provided by the $231,470 increase in notes, accounts payable and accruals to related parties, higher accounts payable and accrued expenses of $203,521. Funds were used by the $537,832 loss and a $26,005 increase in inventory. Non-cash charges for the six months were from: a $24,932 loss on liabilities and debt paid with common stock and $6,000 of expense paid with common stock.

The six months ended June 30, 2015, cash increased by $0. Funds were used by the net loss of ($878,277), and $46,417 higher inventory. Funds were provided by $50,000 of new debt financing, a $277,760 increase in related party debt and accrued expenses, an a $226,286 increase in accounts payable and accrued expenses. Non-cash charges for the six months were from the issuance of common stock and options for services of $62,953, a $50,000 loss on liabilities and debt paid with common stock, and $132,531 of amortization of derivative debt discount.

Results of Operations (unaudited)

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Revenue. The Company had $0 revenue in the quarters ended September 30, 2016 and September 30, 2015

Gross Margin. The Company had $0 gross margin in the quarters ended September 30, 2016 and September 30, 2015.

Operating Expenses. Operating expenses incurred for the quarter ended September 30, 2016 were $329,923 as compared to $231,332 for the same period in the previous year, an increase of $98,591 or 43%. R&D expenses were $45,628 or 44% lower largely due to a $60,000 inventory reserve provided for in 2015. General and administrative expenses increased by $144,572 (115%) primarily from higher audit and legal fees for the 2014 and 2015 audit, increased consulting expenses and increased patent maintenance fees (renewal timing).

Operating Loss. The operating losses for the quarters ended September 30, 2016 and 2015 were $329,923 and $231,332, respectively, an increased loss of $98,591 or 43%, due to the factors outlined above.

Other Income (Expense) The net other loss for the quarter ended September 30, 2016 was 32,371, versus a net loss of $65,864 for the comparable period or the prior year, a favorable variance of $33,493 (51%) primarily due to reduced interest expense.

Net Loss and Loss per Share. The net loss for the quarter ended September 30, 2016 was $362,294, compared to a net loss of $297,196 for the same period in the previous year. The unfavorable variance of $65,098 or 22% primarily relates to the higher General and Administrative expense. The net income per weighted average share was $0.00 for the quarter ended September 30, 2016 and the net loss per weighted average share was $0.00 for the prior year

comparable quarter.

Nine months Ended September 30, 2016 Compared to Six Months Ended September 30, 2015

Revenue. The Company had $0 revenue in the nine months ended September 30, 2016 and September 30, 2015.

Gross Margin. The Company had $0 gross margin in the nine months ended September 30, 2016 and September 30, 2015.

Operating Expenses. Operating expenses incurred for the nine months ended September 30, 2016 were $795,122 as compared to $820,944 for the same period in the previous year, a decrease of $25,822 or 3.1%. The decrease was due to lower research and development expenses of $159,942 or 55%, largely due to a $60,000 inventory reserve provided for in 2015 and a higher 2016 allocation of engineering labor to new engine WIP inventory. General and administrative expenses increased by $129,067 (25) %) primarily from higher audit and legal fees for the 2014 and 2015 audit, increased consulting expenses and increased patent maintenance fees (renewal timing).

Operating Loss. The operating losses for the nine months ended September 30, 2016 and 2015 were $795,121 and $820,944, respectively, a decrease of $25,822 or 3.1%, due to the factors outlined above.

Other Income (Expense) Net other income (loss) for the nine months ended September 30, 2016 was ($105,005) versus a loss of ($354,529) for the same period in the prior year, for a variance of $249,524 (70%). The net other 2016 loss included interest expense of $95,356, and a $57,383 loss on a debt conversion paid with restricted common stock, partially offset by a $44,000 gain on the sale of the Whe Gen investment.

Net other expense for the nine months ended September 30, 2015 was $(354,529) included interest expenses of $293,123 and a $50,000 loss on a debt conversion paid with restricted common stock.

Net Loss and Loss per Share. The net income for the nine months ended September 30, 2016 was a loss of $900,126, compared to a net loss of $1,175,473 for the same period in the previous year for a variance of $275,347 or 23% The net income per weighted average share was $0.00 for the nine months ended September 30, 2016 and the net loss per weighted average share was $0.00 for the prior comparable nine month period.

Liquidity and Capital Resources

At September 30, 2016, the net working capital deficiency was $2,873,926 as compared to a deficiency of $2,272,018 at December 31, 2015, an increase of $601,908 or 26%.

For the nine months ended September 30, 2016, cash increased by $1,387. Funds were provided by the $416,631 increase in notes, accounts payable and accruals to related parties, higher accounts payable and accrued expenses of $251,250, an increase in deferred revenue of $115,700, $90,725 in loan and note proceeds and $44,000 from the sale of the Whe Gen stock. Funds were used by the $900,126 loss and a $84,007 increase in inventory. Non-cash charges for the nine months were from: a $57,383 loss on liabilities and debt paid with common stock and $6,000 of expense paid with common stock.

For the nine months ended September 30, 2015 cash decreased by $278. This is reflective of funds provided by $50,000 of new debt funding, $315,437 increase in accounts payable and accruals, and a $379,208 increase in related party notes and accounts payables. Non-cash charges for the nine months were from the issuance of common stock for liability and debt settlement of $50,000 and the issuance of common stock, options and warrants for services of $63,377.