

May 10, 2016



QS Energy Issues Shareholder Update

SANTA BARBARA, CA -- (Marketwired) -- 05/10/16 -- QS Energy, Inc. (OTCQX: QSEP)

With the second quarter of the year well underway, it's my pleasure to say that the initiatives detailed in the last shareholder update and our recent news releases are now in play and providing us with ongoing opportunities.

Following extensive re-tooling of the AOT hardware to optimize it for the challenging characteristics of ultra-light condensate, the re-engineered single-vessel AOT system is now in place on a primary condensate line serving the Eagle Ford formation in West Texas. As disclosed in our SEC filings and a [news release](#) issued February 10th, this is a re-deployment of AOT on this high volume pipeline which affords us an opportunity to prove our efficacy on ultra-light oil, the fastest growing segment of production from the nation's shale formations.



[Greggory M. Bigger, Chief Executive Officer and Chairman of the Board, QS Energy, Inc.](#)

A re-build of the AOT internal components of this extent was only possible due to the efforts of our customer and the expertise of our supply chain partner, both of whom provided unstinting support and commitment throughout the re-design, fabrication and testing process.

For the past several weeks we have been collaborating with our customer in monitoring a carefully controlled regimen of performance testing of AOT on this 96,000 barrel per day pipeline. Currently we are analyzing the results in partnership with the customer and Temple University. After breaking through the prior impedance issues, we expect to gain valuable insight into the AOT's significantly improved ability to reduce viscosity, maximize flow volume, and reduce operating pressure of this pipeline in particular but in the treatment of ultra-light condensate in general.

With the lifting of [40 years of federal export restrictions](#) governing unprocessed crude oil, the energy industry anticipates strong demand of U.S. condensate from foreign buyers. Positioning our technology as an effective approach to more efficiently and economically transporting condensate in the pipeline, at condensate splitter plants, and within offloading facilities represents an enormous opportunity for AOT and is one we intend to pursue vigorously.

From the beginning of this Eagle Ford Shale installation and during the entirety of the testing protocol to date, the teams of engineers and scientists involved have exhibited a highly impressive degree of professionalism toward maximizing this demonstration of our technology. We are immensely appreciative of their assistance and guidance in this critically important endeavor. Pending the completion of the tests and final review of the data, we

expect to issue further details.

On the business development front, we continue to see strong interest in our ongoing program of providing in-depth crude oil viscosity analysis in partnership with Temple University's College of Science and Engineering. As we documented in a [news release](#) February 17th, the testing of 3- to 5-gallon quantities of crude oil received from energy companies around the world is one of the best showcases imaginable for demonstrating the efficacy of AOT on virtually any grade of crude oil.

Conducted under rigorous laboratory conditions, our Pipeline Optimization Program enables us to re-create the effects achieved by AOT, providing the opportunity to furnish prospective AOT customers with an AOT Preliminary Case Study Analysis report. Based on the viscosity reduction results and subsequent hydraulic analysis using our proprietary software, this document accurately predicts maximum flow rates, probable pump station energy savings, and possible increased tariffs we can achieve for the customer on their targeted pipeline.

Over the past several quarters we have tested samples for operators in Canada, the Middle East, and Africa, and have delivered AOT deployment proposals to each of these prospective customers.

Our continuing efforts to identify acquisition targets with assets capable of producing positive cash flow have brought to our attention a number of opportunities that fall within our parameters. As a result of due diligence we have completed on a revenue generating asset in the Permian Basin, we currently have an active Non-Binding Letter of Intent under review by the seller. We are carefully watching commodity prices germane to this transaction and the commodity risk involved. As always, we will make decisions on acquiring assets that best benefit the shareholders of QS Energy. We will also pay close attention to our ability to obtain acquisition financing to fund these transactions in a manner that is most favorable to the interests of our shareholders and the Company.

QS Energy has identified a select group of entities within the oil and gas sector that meet our stringent criteria of having significant assets and positive cash flow. To each of these candidates we have provided a proposal outlining our offer, the financial terms, and other pertinent conditions. We currently have a Non-Binding Letter of Intent under review by a seller in the Permian Basin. While these transactions are in play we will continue to review other prospects throughout the year.

I'd like to stress that the financing for these acquisitions will be done in as minimally dilutive segments as possible. It is our intention to make the protection of shareholder equity a top priority in any acquisition event. As a pre-revenue company, some equity, most likely in the form of convertible notes with warrants, will be required to secure acquisition financing. To this end, we intend to finance acquisitions in tranches to reduce the dilutive impact. All of this will be outlined in detail as we move forward during 2016.

As documented in our April 25, 2016 [8-K filing](#), we have just concluded a convertible note offering to secure necessary working capital and to fund general and administrative expenses. The sale of the notes commenced on January 1st, 2016 in a private placement to qualified buyers and the offering closed on April 20th, 2016. As has been our practice in previous raises, this raise was structured to be as minimally dilutive to our shareholders as possible. For further details about previous issuances of convertible notes and other

information, please refer to our [10-K Annual Report](#) filing of March 15, 2016.

Check us out on Investors Hangout <http://investorshangout.com/QS-Energy-Inc-QSEP-68843/>

As always, we sincerely appreciate the loyalty of you, our shareholders, and your valued input.

Best regards,

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Safe Harbor Statement:

Some of the statements in this letter may constitute forward-looking statements under federal securities laws. Please visit the following link for our complete cautionary forward-looking statement: <http://www.qsenergy.com/site-info/disclaimer>

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