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QS Energy CEO Jason Lane Issues Shareholder Update

HOUSTON, TX -- (Marketwired) -- 11/02/17 -- [QS Energy, Inc.](#) (the "Company" or "QS Energy") (OTCQB: QSEP) is a developer of integrated technology solutions for the energy industry. The following is a shareholder update from Jason Lane, Chief Executive Officer and Chairman of the Board, QS Energy, Inc.

Dear Shareholders,

I am pleased to share this update with everyone on behalf of QS Energy. As most of you are aware, I have been on the job now for 7 months, having taken the helm at QS Energy in April. This letter underscores my enthusiasm about important progress we've made on multiple fronts over this short period of time, including a revamp of our go-to-market strategy with AOT; added depth of our leadership team and board; growing domestic and international interest in our technology; and the confidence and support of our shareholders in the Company's long-term product and financial strategies as demonstrated in our recent consent vote. Each element in this mix is crucial to QS Energy's future growth and success.

Revised go-to-market strategy: "eDiluent"

Our team continues to see increasing demand in the oil industry for new means of achieving viscosity reduction. Oil companies today often dilute heavy crudes by more than 25%, incurring considerable direct and indirect costs of adding condensate or other diluent, along with pipeline tariffs to transport diluent combined with heavy crude, while potentially degrading the market value of the final diluted product. Our AOT technology addresses this demand, and we've made some important changes in our business model to take advantage of this market opportunity.

In essence, using our AOT solid-state technology to reduce viscosity provides an electronic form of diluent -- a service we call "eDiluent" (trademark pending). Priced at a fraction of the cost of diluent replaced through AOT viscosity reduction, eDiluent can be a true win-win, with midstream operators positioned to upsell eDiluent as a premium service, while upstream producers enjoy reduced reliance on diluents, increased delivery volumes, decreased transport tariffs, and increased market value of their delivered product. This comes with ancillary benefits of AOT operations, such as improved vapor pressure and reduced off-gassing, pipeline pressure-drop reduction, elimination of bottlenecks, increased pipeline capacity, and reduced downtime.

Having received strong initial interest in our eDiluent concept, we are now working with select midstream companies to develop, install, and operate short-term demonstration projects. As currently proposed, equipment for these demonstration projects would be provided at no cost. Once cost savings have been established, we intend to initiate long-term leases with recurring eDiluent service fees at the demonstration site, and look to install additional AOT equipment throughout customer operations.

We are encouraged by both domestic and international opportunities. In October, we completed laboratory testing at Temple University on crude oil samples provided by a prospective customer from the Middle East, and are now preparing to run laboratory tests on a crude oil sample recently provided by a U.S. midstream oil company. Shannon Rasmussen, our VP of Engineering, and I will be traveling in early November to meet with 7-8 prospective customers in three South American countries that transport heavy crudes and are highly reliant on naphtha, a very expensive source of diluent. In Peru and Ecuador, we will be visiting two on-site oilfield operations performing feasibility studies. We are also advancing our discussions with companies in Europe and China.

Value Engineering

Last year, the Company began a value engineering program to develop and implement design improvements based on lessons learned in field tests under commercial operating conditions. As reported in February 2016, our initial value engineering efforts improved measured electrical impedance by a factor of two orders of magnitude. These design changes increased system efficiency while widening the scope of feedstocks we can treat to include certain electronically-conductive crudes. These results were supported by field tests performed on a condensate pipeline in 2016.

Since joining QS Energy in July, Mr. Rasmussen has reinvigorated our value engineering efforts with three goals in mind: to decrease cost-of-goods; decrease supply chain fabrication time; and widen our product line to meet the conditions and constraints specified by prospective customers. As a result, we are anticipating a 30%-40% reduction in cost-of-goods and a 30% decrease in production time. Mr. Rasmussen is in the process of expanding our product line to include Upstream AOT -- designed to operate in the upstream and gathering market, and meet specific requirements of prospective customers in South America; and AOT XL -- a design initiated several months ago with four times the capacity of our standard Midstream AOT, designed to meet demands of very high-volume operations and space-constrained operations such as an off-shore oil platform.

Expanded equity structure to drive growth

I'd like to thank our shareholders for your support and actions on our recent consent vote, approving our plan to authorize an additional 200 million shares of common stock and create a new class of preferred stock of 100 million additional shares. This expanded equity base provides a critical new foundation we plan to leverage in our efforts to accelerate market adoption of our AOT technologies and build upon our revised business.

Key to accelerated market adoption is our planned roll-out of a hybrid lease/eDiluent service model, designed to reduce customer cost-of-deployment, while providing long-term recurring revenues for the Company. We recognize that an equipment lease strategy comes with increased capital requirements. This was one of the primary reasons for asking our shareholders to authorize the issuance of preferred stock. Our goal now is to use this combined preferred/common structure to fund our final push into the commercial markets while minimizing shareholder dilution. In particular, we would like to use preferred shares to provide initiative-based funding, such as building equipment to be leased into the market. We have started conversations with institutional investors and others to fund QS Energy's market strategy moving forward, and to build up inventory to deploy in the field, domestically and internationally.

Closing thoughts

All of us at QS Energy continue to work diligently in our efforts to move our Company forward towards full commercialization, revenues and profitability. I have enjoyed visiting with many shareholders over the last several months. I share your enthusiasm, and assure you my team and I are doing everything in our power to make QS Energy the thriving, successful Company we all believe it can be. We look forward to seeing the AOT operating in the field worldwide, solving many of the problems that oil pipeline operators face today. In closing I would like to thank you all once again for your belief in myself, my team, and the Company and I look forward to bringing you all definitive news in the near future.

For further information about QS Energy, Inc., visit www.QSEnergy.com, read our SEC filings at <http://ir.stockpr.com/qsenergy/all-sec-filings> and subscribe to Email Alerts at <http://ir.stockpr.com/qsenergy/email-alerts> to receive Company news and shareholder updates.

Safe Harbor Statement

Some of the statements in this release 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>

About Applied Oil Technology

Developed in partnership with scientists at Temple University in Philadelphia, Applied Oil Technology (AOT) is the energy industry's first pipeline flow improvement solution for crude oil, using an electrical charge to coalesce microscopic particles native to unrefined oil, thereby reducing viscosity. Over the past four years AOT has been rigorously prepared for commercial use with the collaboration of engineering teams at numerous independent oil production and transportation entities interested in harnessing its demonstrated efficacy to increase pipeline performance and flow, drive up committed and uncommitted toll rates for pipeline operators, and reduce pipeline operating costs. Although AOT originally attracted the attention of pipeline operators motivated to improving their takeaway capacity during an historic surge in upstream output resulting from enhanced oil recovery techniques, the technology now represents what we believe to be a premiere solution for improving the profit margins of producers and transporters during today's economically challenged period of low spot prices and supply surplus.

About QS Energy

[QS Energy, Inc.](http://www.qsenergy.com) (OTCQB: QSEP), provides the global energy industry with patent-protected industrial equipment designed to deliver measurable performance improvements to crude oil pipelines. Developed in partnership with a leading university along with crude oil production and transportation entities, QS Energy's high-value solutions address the enormous capacity inadequacies of domestic and overseas pipeline infrastructures that were designed and constructed prior to the current worldwide surge in oil production. In support of our clients' commitment to the responsible sourcing of energy and environmental stewardship, QS Energy combines scientific research with inventive problem solving to provide energy efficiency 'clean tech' solutions to bring new efficiencies and lower operational costs to the upstream, midstream and gathering sectors.

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