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QS Energy CEO Jason Lane Issues Shareholder Update

HOUSTON, TX -- (Marketwired) -- 01/25/18 -- [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,

2018 is poised to be a turning-point for QS Energy. We made progress on many fronts over the past year and are now positioned to complete our evolution from research and development to commercialization. 2017 was a year of change. When I took the helm as CEO last April, I immediately set out to execute critical short-term objectives, re-aligning our Board bringing in new Directors with deep oil industry experience, hiring Shannon Rasmussen as VP of Engineering, and expanding our capital structure to provide a foundation to fund our final push to commercial markets in the U.S. and beyond. Throughout 2017, the company worked to improve both the efficacy and efficiency of our AOT technology, implementing a retrofit program based on lessons learned while operating our equipment on midstream pipelines under commercial operating conditions, and initiating a value engineering program targeting a 30% to 40% reduction in cost of goods.

Over the past few months, we have been working diligently on what I believe to be the company's final key to success -- the installation and operation of one or more pilot projects; projects that will operate under relative transparency, allowing limited access to test facilities and open access to data with independent third-party validation. The crude oil industry is known for keeping its information tight-to-the-vest, with virtually all outside agreements operating under tight conditions of non-disclosure. QS Energy's experience to date with tests and operations is no different. Although we have operating data we would like to freely share with potential customers, confidentiality agreements strictly limit such disclosure. After discussing this issue with oil executives and potential customers, I am confident that access to pilot project facilities and independently-validated operating data will provide the catalyst needed to accelerate adoption of our AOT technology.

BUSINESS DEVELOPMENT

Our efforts to secure one or more pilot projects are currently focused on specific prospects in three primary markets: U.S., South America, and Asia. Each of these prospects operates heavy crude oil pipelines with an identified system-wide need likely to benefit AOT viscosity reduction.

In November, Shannon and I had a very productive trip to South America, meeting with eight companies in Ecuador, Colombia, and Peru. After communicating remotely with engineers and executives of these companies over the past few months, this trip provided an opportunity to meet face-to-face, tour facilities and operations, and see first-hand how and

where AOT would likely provide benefit to their operations. Each of these companies expressed both interest and need for our AOT technology and discussions are continuing at a variety of levels.

Our most interesting prospect in South America has a defined need to increase capacity on a pipeline transporting a very heavy crude typical throughout South America. This operator is weighing AOT against installing more pump stations while adding more diluent to its blend to meet its needs. Preliminary analysis indicates AOT could decrease viscosity by more than 50%, allowing for increased flow rates and decreased reliance on diluent, with the potential to increase pipeline capacity by 20%. We are now in negotiations on terms of a Letter of Intent (LOI) detailing the preliminary scope and terms of a pilot project subject to crude oil sample laboratory testing and analysis to improve on our preliminary estimates and optimize the pilot site AOT configuration. A heavy crude oil sample has been provided, and is now in transit from South America and is scheduled to arrive at Temple University in the next 7 to 10 days after clearing customs later this week. The LOI will also detail the expected system-wide deployment of AOTs subject to 30 to 60 days of pilot testing. Importantly, we intend to maintain a high level of transparency on pilot test data collected for future use and dissemination by QS Energy. Overall, we are looking forward to a very busy 2018 in South America.

We are also very excited by opportunities in Asia, having recently reopened discussions with an Asian crude oil company with prior experience testing AOT equipment in the field. Although these discussions are early stage, we have provided a draft LOI and hope to move quickly based on their experience and familiarity with QS Energy and our technology.

Of course, North America continues to be a market of major focus. After operating AOT on a condensate (ultralight) pipeline in Texas, we continue to work with this midstream operator to locate a new test site on a pipeline transporting heavier crude to demonstrate greater benefit from AOT viscosity reduction. We are also in active discussions with several other U.S. and Canadian midstream companies regarding a pilot project allowing for data transparency. We are working closely with one midstream operator with an expressed interest in using AOT to alleviate pipeline bottlenecks in the Southern United States. A crude oil sample from the prospective site arrived at Temple University this week for laboratory testing. Preliminary test results and analysis should be completed next week, with final results to follow shortly thereafter. After working with this company for the past five months, we have confidence that AOT can provide a cost-effective solution to their bottleneck issues. Subject to laboratory test results at Temple University, we intend to move forward with an AOT pilot project with potential for system-wide deployment.

While our efforts are tightly focused on executing our pilot program strategy, conversations continue with prospective customers in the Gulf Coast, Canada, and the Middle East.

FINANCING

Our current funding strategy incorporates a combination of working capital and expansion funding. We anticipate an increase in capital requirements upon completion of our first pilot project as we expect to deliver additional equipment to the pilot customer, as well as leverage operational data and project transparency to gain traction in the commercial markets. In advance of our first pilot installation, we have made moves to reduce operating expenses and outgoing cash flows, including but not limited to deferring payments to former

CEO, Gregg Bigger under his separation agreement. We do have an immediate need for working capital to fund operations through our first pilot project. To this end, we have been meeting with several funds and family offices regarding both working and expansion capital.

PATH FORWARD

We are excited about 2018 and the strategy and plans we have for this company. I would like to share the certain goals and milestones we have set as management of QS Energy.

Our key focus is the installation and completion of a pilot project. This effort is well underway as we are in pilot project discussions with three companies and expect to have our first letter of intent signed shortly. Upon completion and analysis of laboratory testing of sample crude oil, we will meet to discuss analytics, select a pilot project site, define the scope of a post-pilot rollout and execute definitive pilot project contracts. Pilot installation and testing would begin upon contract execution. Based on current timelines and discussions, we are projecting installation of our first pilot test in Q2-Q3 2018, followed by 30 to 60 days of testing to be completed by the end of Q3 2018. Subject to successful testing, we would execute definitive agreements to sell or lease equipment for the expanded rollout as defined in the original LOI in Q4 2018.

Based on current discussions with prospective pilot customers, we believe this schedule is achievable, putting us on target to begin commercial deployment by year-end. Armed with pilot project data, we should be positioned for accelerated sales in 2019 and beyond.

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. Since joining the team, I have enjoyed visiting with many shareholders and have come to appreciate your insights and our shared dedication and excitement for our Company's future. I believe we are moving in the right direction and are laser-focused on heavy crude oil markets in which we can thrive. We all 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 confidence in myself, my team, and the Company and I look forward to bringing you all definitive news as it happens in the very 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 premier 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.](#) (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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