

January 12, 2016



## QS Energy, Inc. CEO Issues Letter to Shareholders

To all QS Energy shareholders,

Sincere best wishes to you and your loved ones for a healthy and successful 2016 from the Board of Directors, the QS Energy team and myself. Now that the holiday season is behind us I'd like to provide an update on the status of our ongoing acquisitions strategy as previously described in recent filings and shareholder communiques.

During the past several months 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, and afford the opportunity to bring in a joint venture operating partner. To each of these candidates we have provided a proposal outlining our offer, the financial terms, and other pertinent conditions. 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 we enter this new year, I'd like to thank our shareholders for their continued support and for the many communications of encouragement we have received with regard to our acquisition strategy. Recently some of our shareholders have asked for an estimated timeline with regard to acquisitions and for details on how such an event will unfold. Please be aware there are no set timelines. Today's oil and gas sector is highly volatile with rapidly changing market conditions; changes which generally favor our buy-side acquisition strategy, but require nearly constant re-evaluation of acquisition targets and renegotiation of proposed terms and conditions.

By example, since initiating negotiations with our first natural gas acquisition target in August 2015, we have seen the Henry Hub natural gas spot price drop by as much as 40% from a monthly average of \$2.77/MMBtu to a 16-year low of \$1.66/MMBtu on December 15, 2015, significantly impacting the purchase price and economics of the proposed acquisition. Similar market forces caused the withdrawal of an auction to be held in the U.S. Bankruptcy Court on December 18th; an auction in which QS Energy had submitted a qualified stalking horse bid. This public sale is now expected to be rescheduled sometime in the second quarter of this year.

Following the issuance of our Form 10-Q on November 9th, we have had inquiries regarding the status of operating capital and whether QS Energy has the benefit of sufficient runway. I am pleased to assuage these concerns by saying that additional funds have been and are

being secured to continue our operations in 2016. Details of all funding will be provided in the company's 2015 Form 10-K due to be filed in March or sooner.

Finally, it is my pleasure to report that as a result of our deployment and optimization efforts involving our technologies throughout 2015, several design enhancements have been made to the internal components of the AOT. We have already begun modifications of existing units with these upgrades in anticipation of additional deployment potentials for 2016. We will be sharing more information about this over the next quarter.

As I stated when we announced our bifurcated strategy of acquiring undervalued assets while continuing the commercialization of our industrial solutions for optimizing crude oil pipelines, these initiatives mark the beginning of a new chapter in our history. Although the energy sector is facing many challenges, we remain committed to ensuring QS Energy is optimally positioned to both capitalize on the industry's current down cycle and attain maximum benefit when the energy commodities market recovery occurs.

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

Best regards,

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For further information about QS Energy, Inc., visit [www.QSEnergy.com](http://www.QSEnergy.com), read our SEC filings at <https://ir.stockpr.com/qsenery/all-sec-filings> and subscribe to Email Alerts at <https://ir.stockpr.com/qsenery/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 QS Energy, Inc.***

QS Energy, Inc. (OTCQX: 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 leading 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. More information is available at: [www.QSEnergy.com](http://www.QSEnergy.com).

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