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QS Energy Enters New Fiscal Year With Commercial Deployment of Improved AOT(TM) Viscosity Reduction Technology and M&A Asset Strategy

SANTA BARBARA, CA -- (Marketwired) -- 02/23/16 --[QS Energy, Inc.](#) (the "Company") (OTCQX: QSEP), a developer of integrated technology solutions for the energy industry, today further elaborated on material disclosures it recently provided concerning commercialization of the [re-engineered AOT™](#) (Applied Oil Technology) viscosity reduction system, and the Company's ongoing diversification strategy of acquiring undervalued oil and gas assets to capitalize on today's buy-side opportunities. In a follow-up to a [February 10th news release](#) concerning the redeployment of a newly optimized AOT unit, QS Energy confirmed that transport of the customized equipment by freightliner to the [Eagle Ford Shale](#) has now been definitively scheduled at the request of a customer and partner in Houston, Texas for installation on a designated pipeline pump station.

"The purpose of this timely release is to convey additional insight into our mergers and acquisition strategy during this pivotal period as the AOT is being re-deployed in the field with a \$30 billion pipeline operator," stated Greggory M. Bigger, Chairman and Chief Executive Officer. "We're pleased that our goal of commercializing the optimized AOT system is occurring as we continue to perform due diligence on distressed assets within the oil and gas vertical. As stated previously, we reviewed two prospective acquisitions in the fourth quarter of 2015, one located in Louisiana and the other based in the Haynesville formation in Texas. We'll continue to look at deal flow, perform due diligence, and when we identify the optimal opportunity for our shareholders, we will engage in a letter of intent to acquire those assets."

In July of last year, The Company [announced](#) the establishment of QS Energy Pool (QSEP), a wholly owned subsidiary to execute on a diversification strategy based on the acquisition of distressed, non-operated assets out of bankruptcy.

"The QSEP advisors are diligently furnishing deal flow to our management team and Board of Directors, providing us with the opportunity to appraise assets and perform due diligence for a period of 30 to 60 days," Mr. Bigger commented. "If, in our judgment, these assets



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



[A field AOT installation with John, a QS Energy Project Manager](#)

represent a benefit to our shareholders, we will create a letter of intent and/or a buy-sell agreement, purchase agreement to further pursue the opportunity."

Mr. Bigger added that any such acquisitions were dependent on the sourcing of secured debt financing to ensure QS Energy's ability to protect against further dilution of the Company's equity base.

As an example of the opportunities recently under consideration, Mr. Bigger cited a potential transaction identified by QSEP's advisors which consisted of a natural gas acquisition in the [Haynesville Shale formation](#), the world's fourth largest onshore gas reserve. If finalized, the agreement would have provided QS Energy with a majority interest in leasehold and drilling rights of four fields within the formation, comprising 7,000+ gross acres in four field areas, 21 producing wells and 38 Proven Undeveloped (PUD) and Probable wells.

"At the time, prices per Mcf (one thousand cubic feet of natural gas) were at \$2.79 per MMBtu (one million British thermal units), but then precipitously dropped below \$2.00 MMBtu, resulting in a decision to hold off on acquiring that asset," Mr. Bigger said. "This asset may or may not still be in play, but we are in discussions with our advisors at QSEP regarding our ability to buy that asset at the right present value minus ten percent discount, or PV10 (present value of estimated future oil and gas revenues, net of estimated direct expenses, discounted at an annual discount rate of 10 percent)."

Despite the depressed state of commodities and natural gas currently selling at under \$2.00 MMBtu, Mr. Bigger pointed out that operators active in high output formations such as the Marcellus Shale are maintaining profitability by keeping drilling and transportation overhead at around \$1.50 per thousand cubic feet, representing a substantial percentage of markup upon delivery to market. In performing the due diligence on the Haynesville acquisitions, an internal QSEP 16-page due diligence report was produced which showed that, if acquired at the desired target price, this single asset alone would have taken the Company completely off of its burn rate and been cash flow accretive on a go-forward basis.

"QS Energy also benefitted from further analysis which was provided in a 2014 audit of the Haynesville assets by independent oil and gas consulting firm," he explained. "Their in-depth research showed an estimated ultimate recovery (EUR) from producing wells (PDP) at 6.3 billion cubic feet of natural gas (BCF) and another 19 proved undeveloped sites (PUD) contain another 6 billion cubic feet of natural gas, which we used to base several of our cost basis assumptions."

Following deployment of an AOT unit on a condensate pipeline which resulted in performance-enhancing design modifications, QS Energy's supply chain partners will modify additional units for upcoming installations in 2016. Mr. Bigger noted that re-tooling of the Company's inventory of AOT vessels has been undertaken at the request of pipeline operators evaluating the technology under non-disclosure agreements. He added that during the current environment of depressed commodity markets and volatile spot prices, QS Energy and Temple University's jointly-offered [crude oil composition analysis and viscosity reduction testing program](#) has been instrumental in enabling North American and overseas crude oil producers and transporters to quantify AOT's potential benefit to their pipeline infrastructure in controlling overhead costs and maximizing flow volume.

"To some degree we have a backlog of pipeline optimization proposals to process due to the

re-engineering of AOT which began in the middle of last year and just concluded this month with the much more efficacious and efficient unit we are shipping to the Eagle Ford formation before month's end," Mr. Bigger stated. "The improved AOT technology we're now offering required setting a new and significantly higher baseline for the hydraulic analysis we use to calculate maximum flow rates, probable pump station energy savings, and possible increased toll rate revenues. We're working through a number of new material transfer agreements with operators interested in having their crude oil tested at Temple University and are expeditiously processing the resultant laboratory results."

In addition to seeking out conventional oil and gas assets, Mr. Bigger said QSEP may explore ownership or joint venture positions in renewable and alternative energy projects that meet certain criteria, including positive cash flow, predictable annualized returns, and the potential of capitalization assistance in the form of federal or state grant programs.

"Many of the world's leading energy companies such as [Chevron](#), [BP](#), [Total SA](#), [Shell](#), [Valero](#), [ConocoPhillips](#), [Suncor Energy](#), and others have strategic investments in solar, wind, biofuels, geothermal power plants, tidal and wave turbines, cogeneration/landfill gas capture, and other emerging sources of alternative energy," he stated. "Our ability to deliver the economic benefits of increased pipeline flow while lowering the energy consumed by pumping stations positions AOT as a practical and Opex-centric green technology, which is an appealing combination in today's business environment."

Furthermore, global investment in renewables continues to grow, Mr. Bigger noted, quoting a study commissioned by the United Nations Environment Programme (UNEP), a global agency focused on sustainable energy policy, which showed over \$270 billion going toward "green" energy on a worldwide basis in 2014 alone.

"To further leverage our existing franchise as an innovator in optimizing the performance of energy infrastructures, we may elect to also capitalize on emerging energy sectors that show a high probability of building long-term value for our shareholders," he noted. "Cash generating events such as AOT equipment lease-purchase agreements and income-producing oil and gas assets may broaden our options for licensing our electrorheological-related patents to other industries or toward acquiring a stake in alternative energy verticals."

With the extensive re-tooling of the AOT system now completed and readied for a full-scale installation with a \$30 billion pipeline operator, Mr. Bigger believes QS Energy is ideally positioned as the industry's sole vendor of flow improvement hardware based on the use of electrical charges to change the viscosity and mechanical behavior of a variety of crude oils, liquid gases and petroleum fluids.

"Our entire focus over the past two quarters has been an exhaustive effort to re-calibrate the AOT technology, fine-tune our M&A strategy, and ensure an extraordinary amount of due diligence is in place to inform each of these initiatives," Mr. Bigger stated. "The Company will continue to dedicate itself to the development of the AOT technology and we are highly optimistic that the quality and scope of the acquisition opportunities provided by QSEP will continue to fall in line with our expectations, especially as the rig count continues to slide and oil field assets are taken offline."

As the ramifications of weak crude oil prices resonate across the energy supply chain, the volume of U.S. drilling activity continues to fall. Figures from the [Baker Hughes Rig Count](#), a

leading indicator of global oil drilling activity, show that, as of February 19th, there were 514 active rigs in the U.S., down from 1,310 at this time last year. The result, according to the Energy Information Administration's [Short-Term Energy Outlook](#) (February 9, 2016), will be a drop in U.S. production to 620,000 barrels a day, or roughly 7 percent from the first quarter of 2016 to the fourth. Industry analysts such as the Goldman Sachs Group Inc. have projected in [recent reports](#) that falling production will likely re-balance the supply-demand curve, resulting in a price rebound by the end of this year.

"There is a rich history of companies within the energy sector and other industries prone to cyclical fluctuations that have rolled up assets when commodity prices were depressed and valuations negatively affected," Mr. Bigger stated. "It is QS Energy's intention to benefit from the current down cycle by making accretive acquisitions that generate meaningful cash flow for the underlying shareholder base."

Regardless of the direction of spot prices throughout 2016, Mr. Bigger said that any acquisitions under evaluation by QS Energy would be driven by internal due diligence and thoughtful consultation with the appropriate domain professionals which would include geologists, reservoir engineers, and industry analysts to ensure that any final asset analysis would pass scrutiny by the Company's auditors, Weinberg and Associates, and general counsel Edward Gelfand of Gartenberg Gelfand Hayton LLP.

"Assuming that any transaction should result following 30 to 60 days of intensive review, the necessary letters of intent, purchase agreements and/or buy-sell agreements will be tabled and duly represented in an 8-K with further release and further information regarding the acquisition opportunity following promptly," Mr. Bigger added.

For further information about QS Energy, Inc., visit www.QSEnergy.com, read our SEC filings at <https://ir.stockpr.com/qsenegy/all-sec-filings> and subscribe to Email Alerts at <https://ir.stockpr.com/qsenegy/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 AOT™ (Applied Oil Technology)

Developed in partnership with scientists at Temple University in Philadelphia, AOT (Applied Oil Technology) is the energy industry's first crude oil pipeline flow improvement solution 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 over 30 engineering teams at 19 independent oil production and transportation entities interested in harnessing its proven 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 interested in improving their takeaway capacity during an historic surge in upstream output resulting from enhanced oil recovery techniques, the technology now represents the premiere solution for improving the profit margins of producers and transporters during today's economically challenging period of low spot prices

and supply surplus.

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.

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