

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016  
or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-29185

QS ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

52-2088326  
(I.R.S. Employer  
Identification No.)

735 State Street, Suite 500  
Santa Barbara, California 93101  
(Address, including zip code, of principal executive offices)

(805)-845-3561  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act: None.

Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock, \$0.001 par value.

Check whether the Registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of the Registrant's Common Stock outstanding as of May 6, 2016 was 192,267,026.

---

**QS ENERGY, INC.**  
**FORM 10-Q**

**INDEX**

<b>PART I – FINANCIAL INFORMATION</b>	<b>3</b>
Item 1. Unaudited Condensed Consolidated Financial Statements	3
Condensed Consolidated Balance Sheet	3
Condensed Consolidated Statement of Operations, Unaudited	4
Condensed Consolidated Statement of Stockholders’ Deficit, Unaudited	5
Condensed Consolidated Statements of Cash Flows, Unaudited	6
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosure about Market Risk	21
Item 4. Controls and Procedures	21
<b>PART II – OTHER INFORMATION</b>	<b>22</b>
Item 1. Legal Proceedings	22
Item 1A. Risk Factors	22
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	22
Item 3. Defaults Upon Senior Securities	22
Item 4. Mine Safety Disclosures	22
Item 5. Other Information	22
Item 6. Exhibits	23
<b>SIGNATURES</b>	<b>24</b>
<b>EXHIBITS</b>	
EXHIBIT 31.1	
EXHIBIT 31.2	
EXHIBIT 32	

**PART I – FINANCIAL INFORMATION**

**Item 1. Unaudited Condensed Consolidated Financial Statements**

**QS ENERGY, INC.  
CONDENSED CONSOLIDATED BALANCE SHEET**

ASSETS	March 31, 2016 (unaudited)	December 31, 2015
<b>Current assets:</b>		
Cash	\$ 592,720	\$ 349,186
Prepaid expenses and other current assets	54,597	50,596
<b>Total current assets</b>	<b>647,317</b>	<b>399,782</b>
Property and equipment, net of accumulated depreciation of \$27,302 and \$60,242 at March 31, 2016 and December 31, 2015, respectively	16,532	21,798
Other assets	6,480	6,480
<b>Total assets</b>	<b>\$ 670,329</b>	<b>\$ 428,060</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities:</b>		
Accounts payable-license agreements	\$ 636,876	\$ 590,001
Accounts payable and accrued expenses	226,832	207,334
Accrued expenses and accounts payable-related parties	174,603	190,750
Convertible debentures, net of discounts of \$451,113 and \$100,833 at March 31, 2016 and December 31, 2015, respectively	237,002	222,195
<b>Total current liabilities</b>	<b>1,275,313</b>	<b>1,210,280</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' deficit</b>		
Common stock, \$.001 par value: 300,000,000 shares authorized 188,720,626 and 183,831,577 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	188,721	183,832
Additional paid-in capital	101,687,839	100,308,100
Accumulated deficit	(102,481,544)	(101,274,152)
<b>Total stockholders' deficit</b>	<b>(604,984)</b>	<b>(782,220)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 670,329</b>	<b>\$ 428,060</b>

See notes to condensed consolidated financial statements.

**QS ENERGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS, UNAUDITED**

	Three months ended March 31,	
	2016	2015
<b>Revenues</b>	\$ —	\$ —
<b>Costs and Expenses</b>		
<b>Operating expenses</b>	635,402	855,452
<b>Research and development expenses</b>	74,935	272,777
<b>Loss before other income (expense)</b>	(710,337)	(1,128,229)
<b>Other income (expense)</b>		
Other income	—	1,500
Interest and financing expense	(493,712)	(47,608)
Loss on disposition of equipment	(3,343)	—
<b>Net Loss</b>	(1,207,392)	(1,174,337)
<b>Net loss per common share, basic and diluted</b>	\$ (0.01)	\$ (0.01)
<b>Weighted average common shares outstanding, basic and diluted</b>	185,222,083	181,253,911

See notes to condensed consolidated financial statements.

**QS ENERGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT, UNAUDITED**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2016**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>			
<b>Balance, January 1, 2016</b>	183,831,577	\$ 183,832	\$ 100,308,100	\$ (101,274,152)	\$ (782,220)
Common stock issued on conversion of notes payable	4,789,049	4,789	474,116		478,905
Fair value of stock issued for services	100,000	100	15,900		16,000
Fair value of warrants and beneficial conversion feature of issued convertible notes			762,468		762,468
Fair value of options and warrants issued as compensation			127,255		127,255
Net loss				(1,207,392)	(1,207,392)
<b>Balance, March 31, 2016 (unaudited)</b>	<u>188,720,626</u>	<u>\$ 188,721</u>	<u>\$ 101,687,839</u>	<u>\$ (102,481,544)</u>	<u>\$ (604,984)</u>

See notes to condensed consolidated financial statements.

**QS ENERGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, UNAUDITED**

	Three months ended	
	March 31	
	2016	2015
<b>Cash flows from Operating Activities</b>		
Net loss	\$ (1,207,392)	\$ (1,174,337)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation expense	127,255	228,352
Issuance of common stock for services	16,000	–
Amortization of debt discount	488,435	47,608
Accrued interest expense	5,277	–
Loss on disposition of assets	3,343	–
Depreciation and amortization	1,923	3,213
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(4,001)	23,101
Accounts payable and accrued expenses	19,498	5,879
Accounts payable – license agreements	46,875	11,719
Accounts payable and accrued expenses – related parties	(16,147)	(15,815)
Net cash used in operating activities	<u>(518,934)</u>	<u>(870,280)</u>
<b>Cash flows from investing activities</b>		
Purchase of equipment	–	(12,914)
Net cash used in investing activities	<u>–</u>	<u>(12,914)</u>
<b>Cash flows from financing activities</b>		
Net proceeds from issuance of convertible notes and warrants	762,468	–
Net proceeds from exercise of warrants and options	–	50,000
Net cash provided by financing activities	<u>762,468</u>	<u>50,000</u>
<b>Net increase (decrease) in cash</b>	243,534	(833,194)
<b>Cash, beginning of period</b>	349,186	2,247,557
<b>Cash, end of period</b>	<u>\$ 592,720</u>	<u>\$ 1,414,363</u>

**Supplemental disclosures of cash flow information**

Cash paid during the year for:

Interest	\$ –	\$ –
Income Taxes	\$ –	\$ –

**Non-cash investing and financing activities**

Conversion of convertible debentures to common stock	\$ 478,905	\$ 52,800
Fair value of warrants and beneficial conversion feature associated with issued convertible notes	762,468	–

See notes to condensed consolidated financial statements.

**QS ENERGY, INC.**  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, UNAUDITED  
**THREE MONTHS ENDED MARCH 31, 2016 AND 2015**

**1. Description of Business**

QS Energy, Inc. ("QS Energy", "Company") (formerly known as Save the World Air, Inc.) was incorporated on February 18, 1998, as a Nevada Corporation under the name Mandalay Capital Corporation. The Company changed its name to Save the World Air, Inc. on February 11, 1999. Effective August 11, 2015, the Company changed its name to QS Energy, Inc. The Company's common stock is quoted under the symbol "QSEP" on the Over-the-Counter Bulletin Board. More information including the Company's fact sheet, logos and media articles are available at our corporate website, [www.qsenergy.com](http://www.qsenergy.com).

QS Energy develops and commercializes energy efficiency technologies that assist in meeting increasing global energy demands, improving the economics of oil extraction and transport, and reducing greenhouse gas emissions. The Company's intellectual property portfolio includes 47 domestic and international patents and patents pending, a substantial portion of which have been developed in conjunction with and exclusively licensed from Temple University of Philadelphia, PA ("Temple"). QS Energy's primary technology is called Applied Oil Technology™ (AOT™), a commercial-grade crude oil pipeline transportation flow-assurance product. AOT™ has been proven in U.S. Department of Energy tests to increase the energy efficiency of oil pipeline pump stations. The AOT product has transitioned from the research and development stage to commercial production for testing by the midstream pipeline marketplace.

**Basis of Presentation**

The accompanying condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC. The condensed consolidated balance sheet as of December 31, 2015 included herein was derived from the audited consolidated financial statements as of that date, but does not include all disclosures, including notes, required by GAAP.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to fairly present the Company's financial position and results of operations for the interim periods reflected. Except as noted, all adjustments contained herein are of a normal recurring nature. Results of operations for the fiscal periods presented herein are not necessarily indicative of fiscal year-end results.

**2. Summary of Significant Accounting Policies**

**Consolidation Policy**

The accompanying consolidated financial statements of QS Energy Inc. include the accounts of QS Energy Inc. (the Parent) and its wholly owned subsidiaries, QS Energy Pool, Inc. and STWA Asia Pte. Limited. Intercompany transactions and balances have been eliminated in consolidation.

**Going Concern**

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying consolidated financial statements, during the three-months ended March 31, 2016, the Company incurred a net loss of \$1,207,392, used cash in operations of \$518,934 and had a stockholders' deficit of \$604,984 as of that date. These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon the Company's ability to raise additional funds and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

In addition, the Company's independent registered public accounting firm, in its report on the Company's December 31, 2015 financial statements, has raised substantial doubt about the Company's ability to continue as a going concern.

At March 31, 2016, the Company had cash on hand in the amount of \$592,720. Management estimates that the current funds on hand will be sufficient to continue operations through July 2016. Management is currently seeking additional funds, primarily through the issuance of debt and equity securities for cash to operate our business, including without limitation the expenses it will incur in connection with the license and research and development agreements with Temple; costs associated with product development and commercialization of the AOT and Joule Heat technologies; costs to manufacture and ship the products; costs to design and implement an effective system of internal controls and disclosure controls and procedures; costs of maintaining our status as a public company by filing periodic reports with the SEC and costs required to protect our intellectual property. In addition, as discussed below, the Company has substantial contractual commitments, including without limitation salaries to our executive officers pursuant to employment agreements, certain payments to a former officer and consulting fees, during the remainder of 2016 and beyond.

No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stockholders in case of equity financing.

### **Basic and Diluted Income (loss) per share**

Our computation of earnings per share (“EPS”) includes basic and diluted EPS. Basic EPS is measured as the income (loss) available to common stockholders divided by the weighted average common shares outstanding for the period. Diluted income (loss) per share reflects the potential dilution, using the treasury stock method, that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income (loss) of the Company as if they had been converted at the beginning of the periods presented, or issuance date, if later. In computing diluted income (loss) per share, the treasury stock method assumes that outstanding options and warrants are exercised and the proceeds are used to purchase common stock at the average market price during the period. Options and warrants may have a dilutive effect under the treasury stock method only when the average market price of the common stock during the period exceeds the exercise price of the options and warrants. Potential common shares that have an antidilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

Income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the respective periods. Basic and diluted (loss) per common share is the same for periods in which the Company reported an operating loss because all warrants and stock options outstanding are anti-dilutive. At March 31, 2016 and 2015, we excluded the outstanding securities summarized below, which entitle the holders thereof to acquire shares of common stock as their effect would have been anti-dilutive.

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Options	23,184,256	21,761,512
Warrants	8,885,242	5,392,087
Common stock issuable upon conversion of notes payable	3,370,400	–
Total	<u>35,439,898</u>	<u>27,153,599</u>

### **Stock-Based Compensation**

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board (FASB) whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company's stock option and warrant grants is estimated using the Black-Scholes Option Pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the stock options or warrants, and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes Option Pricing model, and based on actual experience. The assumptions used in the Black-Scholes Option Pricing model could materially affect compensation expense recorded in future periods.



## **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include those related to assumptions used in valuing equity instruments issued for financing and services. Actual results could differ from those estimates.

## **Fair Value of Financial Instruments**

Effective January 1, 2008, fair value measurements are determined by the Company's adoption of authoritative guidance issued by the FASB, with the exception of the application of the statement to non-recurring, non-financial assets and liabilities as permitted. The adoption of the authoritative guidance did not have a material impact on the Company's fair value measurements. Fair value is defined in the authoritative guidance as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy was established, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs, other than the quoted prices in active markets, are observable either directly or indirectly.

Level 3—Unobservable inputs based on the Company's assumptions.

The Company is required to use of observable market data if such data is available without undue cost and effort.

The Company is required to use observable market data if such data is available without undue cost and effort. At March 31, 2016, the carrying amounts for cash, accounts payable, accrued expenses and convertible debentures approximate their fair value due to their short term nature.

## **Patent Costs**

Patent costs consist of patent-related legal and filing fees. Due to the uncertainty associated with the successful development of our AOT and Joule Heat products, all patent costs are expensed as incurred. During the three-month periods ended March 31, 2016 and 2015, patent costs were \$13,088 and \$19,806, respectively, and were included as part of operating expenses in the accompanying consolidated statements of operations.

## **Recent Accounting Pronouncements**

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted only in annual reporting periods beginning after December 15, 2016, including interim periods therein. Entities will be able to transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company is in the process of evaluating the impact of ASU 2014-09 on the Company's financial statements and disclosures.

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, Leases. ASU 2016-02 requires a lessee to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is in the process of evaluating the impact of ASU 2016-02 on the Company's financial statements and disclosures.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statement presentation or disclosures.

### 3. Certain Relationships and Related Transactions

As of March 31, 2016 and December 31, 2015, the Company had accrued expenses and accounts payable to related parties in the amount of \$174,603 and \$190,750, respectively. Included in these amounts at March 31, 2016 and December 31, 2015 were unpaid salaries due to our former President and current member of the Company's Board of Directors of \$60,429 and \$75,429, respectively. The Company agreed to pay the former President \$5,000 per month until the unpaid salary is fully settled. Also included in these amounts at March 31, 2016 and December 31, 2015 are accrued directors' fees of \$76,089.

### 4. Property and Equipment

At March 31, 2016 and December 31, 2015, property and equipment consists of the following:

	<b>March 31, 2016</b> <b>(unaudited)</b>	<b>December 31,</b> <b>2015</b>
Office equipment	\$ 28,040	\$ 65,051
Furniture and fixtures	2,880	4,075
Testing Equipment	12,914	12,914
Subtotal	43,834	82,040
Less accumulated depreciation	(27,302)	(60,242)
Total	<u>\$ 16,532</u>	<u>\$ 21,798</u>

Depreciation expense for the three-month periods ended March 31, 2016 and 2015 was \$1,923 and \$3,213, respectively. During the period ended March 31, 2016, the Company disposed of certain property and equipment with aggregate costs of \$38,206 and accumulated depreciation of \$34,863 which resulted in a loss of \$3,343.

### 5. Convertible Notes

	<b>March 31, 2016</b> <b>(unaudited)</b>	<b>December 31</b> <b>2015</b>
Balance due on convertible notes	\$ 680,834	\$ 321,024
Accrued interest	7,281	2,004
Subtotal	688,115	323,028
Unamortized note discounts	(451,113)	(100,833)
Balance on convertible notes, net of note discounts	<u>\$ 237,002</u>	<u>\$ 222,195</u>

During 2014 and 2015, the Company conducted a private placement and issued approximately \$1 million of its unsecured convertible notes for proceeds of \$920,900 or an original issue discount ("OID") of \$85,490. The notes did not bear any interest, however, the implied interest rate used was 10% since the notes were issued at 10% less than its face value, are unsecured, and matured in twelve months from their issuance. The notes are convertible, at the option of the note holder, into the Company's common stock at a conversion price starting at \$0.10 per share through \$0.48 per share. In addition, each note holder also received a warrant to purchase common stock equivalent to 25% of the number of shares the notes are convertible into or a total of 1,942,704 shares of common stock. Each warrant is exercisable on a cash basis only at a price starting at \$0.10 through \$0.48 per share, vested immediately upon issuance, and exercisable for one year from the date of issuance.

As a result, the Company recorded a note discount of \$842,105 to account for the relative fair value of the warrants, the notes' beneficial conversion feature ("BCF"), and OID. The note discounts are being amortized over the life of the note or will be amortize in full upon the conversion of the corresponding notes to common stock. At December 31, 2015, total outstanding notes payable amounted to \$321,024 and unamortized note discount was \$100,833.

As reported in our Form 8-K filed on April 25, 2016, in the three-month period ended March 31, 2016, the Company issued similar convertible promissory notes in the aggregate of \$838,715 for cash proceeds of \$762,468 or a discount of \$76,247. The notes do not bear any interest; however, the implied interest rate used was 10% since the notes were issued at 10% less than its face value, are unsecured, mature in twelve months from their issuance and convertible at \$0.10 per share. In addition, the Company also granted these note holders warrants to purchase 4,193,575 shares of the Company's common stock. The warrants are fully vested, exercisable at \$0.10 per share and will expire in one year. As a result, the Company recorded a note discount of \$838,715 to account for the relative fair value of the warrants, the notes' BCF and OID. The note discounts are being amortized over the life of the note or will be amortize in full upon the conversion of the corresponding notes to common stock.

During the three-month period ended March 31, 2016, a total of \$478,905 of notes payable were converted into 4,789,049 shares of common stock and amortized note discount of \$488,435 was recorded as interest expense.

As of March 31, 2016, total outstanding notes payable amounted to \$680,834 and unamortized note discount of \$451,113. Included in the Company's outstanding notes payable are three notes in the aggregate of \$211,024 that had reached maturity without conversion as of March 31, 2016 and are currently due. As a result, the Company accrued interest of \$7,281 pursuant to the terms of the note agreement.

## **6. Research and Development**

Research and development costs consist of costs of construction, development and testing of the AOT and Joule Heat technologies with internal resources and through the assistance of various third party entities. Costs incurred and expensed include fees such as testing fees, purchase of test equipment, pipeline pumping equipment, crude oil tank batteries, viscometers, SCADA systems, computer equipment, payroll and other related equipment and various logistical expenses for the purposes of evaluating and testing the Company's AOT and Joule Heat prototypes. In addition, research and development costs also include licensing fees and research and development fees due to Temple University.

For the three-month periods ended March 31, 2016 and 2015, our research and development expenses were \$74,935 and \$272,777 respectively.

### **AOT Product Development and Testing**

In 2014, the Company entered into a lease agreement with Kinder Morgan Crude & Condensate, LLC for the manufacture and delivery of our AOT Prototype Equipment. The AOT Prototype Equipment is currently undergoing testing in a Kinder Morgan facility. See Note 1 and 7 for further discussion.

During the three-month periods ended March 31, 2016 and 2015, the Company incurred total expenses of \$27,860 and \$28,892, respectively, in the manufacture, delivery and testing of the AOT prototype equipment. These expenses have been reflected as part of Research and Development expenses on the accompanying consolidated statements of operations.

### **Joule Heat Product Development and Testing**

On October 15, 2014, the Company entered into a Joint Development Agreement with Newfield Pipeline Exploration Company ("Newfield") to test the effectiveness of the Company's Joule Heat technology under operating conditions on Newfield's oil pipeline. The Company's first Joule Heat prototype unit was delivered to Newfield in May 2015 for further testing. In December 2015, we temporarily suspended Joule Heat development activities to focus Company resources on finalizing commercial development of the AOT Midstream.

During the three-month periods ended March 31, 2016 and 2015, the Company incurred total expenses of \$200 and \$164,666, respectively, in the manufacture, delivery and testing of the Joule Heat prototype equipment. These expenses have been reflected as part of Research and Development expenses on the accompanying consolidated statement of operations.

### **Temple University Licensing Agreement**

On August 1, 2011, the Company and Temple University ("Temple") entered into two (2) Exclusive License Agreements (collectively, the "License Agreements") relating to Temple's patent applications, patents and technical information pertaining to technology associated with an electric and/or magnetic field assisted fuel injector system (the "First Temple License"), and to technology to reduce crude oil viscosity (the "Second Temple License"). The License Agreements are exclusive and the territory licensed to the Company is worldwide and replace previously issued License Agreements.

Pursuant to the two licensing agreements, the Company agreed to pay Temple the following: (i) non-refundable license maintenance fee of \$300,000; (ii) annual maintenance fees of \$187,500; (iii) royalty fee ranging from 4% up to 7% from revenues generated from the licensing agreements; and (iv) 25% of all revenues generated from sub-licensees to secure or maintain the sub-license or option thereon. Temple also agreed to defer \$37,500 of the amount due if the Company agreed to fund at least \$250,000 in research or development of Temple's patent rights licensed to the Company. The term of the licenses commenced in August 2011 and will expire upon the expiration of the patents. The agreement can also be terminated by either party upon notification under terms of the licensing agreements or if the Company ceases the development of the patent or failure to commercialize the patent rights.

Total expenses recognized during each three-month period ended March 31, 2016 and 2015 pursuant to these two agreements amounted to \$46,875 and has been reflected in Research and Development expenses on the accompanying consolidated statements of operations.

As of March 31, 2016 and December 31, 2015, total unpaid fees due to Temple pursuant to these agreements amounted to \$507,500 and \$460,625, respectively, which are included as part of Accounts Payable – licensing agreement in the accompanying consolidated balance sheets. As of March 31, 2016, \$175,000 of the \$507,500 payable has been deferred until the licensing agreements are terminated and \$332,500 is deemed past due. The Company is currently in negotiations with Temple to settle this amount.

There were no revenues generated from these two licenses during the three-month periods ended March 31, 2016 and 2015.

#### **Temple University Sponsored Research Agreement**

On March 19, 2012, the Company entered into a Sponsored Research Agreement (“Research Agreement”) with Temple University (“Temple”), whereby Temple, under the direction of Dr. Rongjia Tao, performed research related to the Company's AOT device (the “Project”), for the period April 1, 2012, through April 1, 2014. All rights and title to intellectual property resulting from Temple's work related to the Project were subjected to the Exclusive License Agreements between Temple and the Company, dated August 1, 2011. In exchange for Temple's research efforts on the Project, the Company has agreed to pay Temple \$500,000, payable in quarterly installments of \$62,500. The agreement expired in August 2015.

During the three-month period ended March 31, 2015, the Company recognized a total expense of \$32,344 pursuant to this agreement and such costs have been reflected in Research and Development expenses on the accompanying consolidated statements of operations. There was no such cost recorded during 2016 as a result of the expiration of the agreement in August 2015.

As of March 31, 2016 and December 31, 2015, total unpaid fees due to Temple pursuant to this agreement amounted to \$129,376, which are included as part of Accounts Payable – licensing agreement in the accompanying consolidated balance sheets. As of March 31, 2016, the entire \$129,377 is deemed past due. The Company is currently in negotiations with Temple to settle this amount.

#### **7. Kinder Morgan Crude & Condensate, LLC Lease**

On July 15, 2014, the Company entered into an Equipment Lease/Option to Purchase Agreement (“Lease”) with Kinder Morgan Crude & Condensate, LLC (“Kinder Morgan”). In accordance with the terms and conditions of the agreement, Kinder Morgan agreed to lease and test the effectiveness of the Company's AOT technology and equipment on one of Kinder Morgan's operating pipelines. Equipment provided under the Lease includes a single AOT Midstream pressure vessel with a maximum flow capacity of 5,000 gallons per minute.

The initial term (“Initial Term”) of the Lease is four months, with an option to extend the Lease for up to a maximum of 84 months. During the Initial Term, either the Company or Kinder Morgan may terminate the Agreement for any reason on 45 days' written notice. Lease payments shall be \$20,000 per month; provided however, that in the event the Equipment is removed from service at its initial location during the Initial Term, the monthly lease payments shall be reduced to \$5,000 until the Equipment is placed back in service at its new location, at which time the Lease payments shall resume at \$20,000 per month. The agreement further provides that Kinder Morgan shall have an option to purchase the Equipment during the term of the Lease for a fixed price of between \$600,000 and \$1,200,000, depending upon the date of purchase.

The AOT equipment was delivered to Kinder Morgan in December 2014 and installed in March 2015. In April 2015, the AOT equipment experienced technical issues that needed further modifications. In February 2016, the AOT equipment was re-installed at Kinder Morgan's facility. The Company and Kinder Morgan are now working to finalize installation and acceptance of the equipment under the lease. See Item 2, Overview for further discussion.

## 8. Common Stock

During the three months ended March 31, 2016, the Company issued 4,789,049 shares of its common stock upon the conversion of \$478,905 in convertible notes at \$0.10 per share. In addition, the Company also issued 100,000 shares of common stock to a consultant for services rendered with a fair value of \$16,000 which is included as part of Operating Expenses in the attached consolidated statements of operations. The shares were value at date of issuance.

## 9. Stock Options and Warrants

The Company periodically issues stock options and warrants to employees and non-employees in capital raising transactions, for services and for financing costs. Options vest and expire according to terms established at the grant date.

### Options

Employee options vest according to the terms of the specific grant and expire from 2 to 10 years from date of grant. The weighted-average, remaining contractual life of employee and non-employee options outstanding at March 31, 2016 was 5.4 years. Stock option activity for the period January 1, 2016 up to March 31, 2016, was as follows:

	<u>Options</u>	<u>Weighted Avg. Exercise Price</u>
January 1, 2016	21,535,148	\$ 0.30
Granted	1,710,527	0.19
Exercised	—	—
Forfeited	(61,419)	1.46
March 31, 2016	<u>23,184,256</u>	<u>\$ 0.29</u>

The weighted average exercise prices, remaining contractual lives for options granted, exercisable, and expected to vest as of March 31, 2016 were as follows:

<u>Option Exercise Price Per Share</u>	<u>Outstanding Options</u>			<u>Exercisable Options</u>	
	<u>Shares</u>	<u>Life (Years)</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
\$ 0.21 - \$ 0.99	23,033,810	5.4	\$0.28	21,288,283	\$0.29
\$ 1.00 - \$ 1.99	150,446	7.3	\$1.18	150,446	\$1.18
	<u>23,184,256</u>	5.4	\$0.29	<u>21,438,729</u>	\$0.29

During the three-month period ending March 31, 2016 the Company granted options to purchase 1,710,527 shares of common stock to members of the Company's Board of Directors. The options are exercisable at \$0.19 per share, vest monthly over a twelve-month period, and expire ten years from the date granted. Total fair value of these options at grant date was \$273,683 using the Black-Scholes Option Pricing model with the following assumptions: life of 5.5 years; risk free interest rate of 1.73%; volatility of 119% and dividend yield of 0%.

During the three month periods ended March 31, 2016 and 2015, the Company recognized compensation costs based on the fair value of options that vested of \$99,595 and \$207,425 respectively.

At March 31, 2016, the Company's closing stock price was \$0.15 per share. As all outstanding options had an exercise price greater than \$0.15 per share, the aggregate intrinsic value of the options outstanding at March 31, 2016 was \$0. Future unamortized compensation expense on the unvested outstanding options at March 31, 2016 is \$207,815 to be recognized through December 2016.

## Warrants

The following table summarizes certain information about the Company's stock purchase warrants activity for the period starting January 1, 2016 up to March 31, 2016.

	<u>Warrants</u>	<u>Weighted Avg. Exercise Price</u>
January 1, 2016	4,411,667	\$ 0.31
Granted	4,593,575	0.11
Exercised	—	—
Cancelled	(120,000)	1.01
March 31, 2016	<u>8,885,242</u>	<u>\$ 0.19</u>

The weighted average exercise prices, remaining contractual lives for warrants granted, exercisable, and expected to vest as of March 31, 2016 were as follows:

Warrant Exercise Price Per Share	<u>Outstanding Warrants</u>			<u>Exercisable Warrants</u>	
	<u>Shares</u>	<u>Life (Years)</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
\$ 0.25 - \$ 0.99	8,885,242	1.9	\$ 0.19	8,850,242	\$ 0.19
\$ 1.00 - \$ 1.99	—	—	—	—	—
	<u>8,885,242</u>	1.9	<u>\$ 0.19</u>	<u>8,850,242</u>	<u>\$ 0.19</u>

In the three-month period ending March 31, 2016, pursuant to terms of convertible notes issued, the Company granted warrants to purchase 4,193,575 shares of common stock with an exercise price of \$0.10 per share, vesting immediately upon grant and expiring one year from the date of grant (see Note 5).

During the three-month period ending March 31, 2016 the Company granted warrants to purchase 400,000 shares of common stock to consultants. The options are exercisable starting at \$0.12 per share to \$0.18 per share, vested upon issuance, and expire one year from the date granted.

During the three periods ended March 31, 2016 and 2015, the Company recognized compensation costs of \$27,660 and \$20,927, respectively, based on the fair value of warrants that vested. Total fair value of these warrants at March 31, 2016 was computed using the Black-Scholes Option Pricing model with the following assumptions: life of 1 year and 8 years; average stock price of \$0.16 per share, average risk free interest rate of 0.83%; average volatility of 110% and dividend yield of 0%.

At March 31, 2016, the aggregate intrinsic value of the warrants outstanding was \$256,679. Future unamortized compensation expense on the unvested outstanding warrants at March 31, 2016 is approximately \$475 to be recognized through April 2016.

## 10. Contractual Obligations

The Company has certain contractual commitments as of March 31, 2016 for future periods, including office leases, minimum guaranteed compensation payments and other agreements as described in the following table and associated footnotes:

Year ending December 31,	Office Lease (1)	Research and License Agreements (2)	Compensation Agreements (3)	Total Obligations
2016	\$ 52,470	\$ 140,625	\$ 262,500	\$ 455,595
2017	69,960	187,500	305,429	562,889
2018	40,810	187,500	290,000	518,310
2019	–	187,500	54,375	241,875
2020	–	187,500	–	187,500
Total	<u>\$ 163,240</u>	<u>\$ 890,625</u>	<u>\$ 912,304</u>	<u>\$ 1,966,169</u>

(1) Consists of rent for the Company's Santa Barbara Facility expiring on July 31, 2018.

(2) Consists of license maintenance fees to Temple University in the amount of \$187,500 paid annually through the life of the underlying patents or until otherwise terminated by either party.

(3) Consists of base salary and certain contractually-provided benefits, to i) an executive officer, pursuant to an employment agreement at a base salary of \$290,000 per year and, as amended by the Board on March 10, 2016, expires on March 8, 2019; and ii) and a severance agreement of a former officer in the amount of \$60,429.

## 11. Commitments and Contingencies

There is no current or pending litigation of any significance with the exception of the matters that have arisen under, and are being handled in, the normal course of business.

## 12. Subsequent Events

### Increase in Outstanding Shares

In April, 2016, the Company issued a convertible note in the amount of \$30,030 in exchange for cash of \$27,300. This note is unsecured, convertible into 300,300 shares in common stock of the Company at a conversion price of \$0.10 per share and mature in one year. In connection with this note, the Company also issued warrants to purchase 150,150 shares of common stock of the Company at an exercise price of \$0.10 per share and expiring one year from the date of issuance. As a result, the Company will record a note discount of \$30,030 to account for the relative fair value of the warrants, the note's beneficial conversion feature and original issue discount, which will be amortized as interest expense over the life of the notes.

In April, 2016, Company issued 3,546,400 shares of common stock upon conversion of previously issued convertible notes in aggregate value of \$354,640.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and supplementary data referred to in this Form 10-Q.

This discussion contains forward-looking statements that involve risks and uncertainties. Such statements, which include statements concerning future revenue sources and concentration, selling, general and administrative expenses, research and development expenses, capital resources, additional financings and additional losses, are subject to risks and uncertainties, including, but not limited to, those discussed elsewhere in this Form 10-Q, particularly in "Risk Factors," that could cause actual results to differ materially from those projected. Unless otherwise expressly indicated, the information set forth in this Form 10-Q is as of March 31, 2016, and we undertake no duty to update this information.

### Overview

QS Energy, Inc. ("QS Energy" or "Company" or "we" or "us" or "our") (formerly known as Save the World Air, Inc.) develops and commercializes energy efficiency technologies that assist in meeting increasing global energy demands, improving the economics of oil extraction and transport, and reducing greenhouse gas emissions. The Company's intellectual property portfolio includes 47 domestic and international patents and patents pending, a substantial portion of which have been developed in conjunction with and exclusively licensed from Temple University of Philadelphia, PA ("Temple" or "Temple University"). For details of the licensing agreements with Temple University, see Financial Statements attached hereto, Note 6. QS Energy's primary technology is called Applied Oil Technology™ (AOT™), a commercial-grade crude oil pipeline transportation flow-assurance product. AOT™ has been proven in U.S. Department of Energy tests to increase the energy efficiency of oil pipeline pump stations. The AOT product has transitioned from the research and development stage to commercial production for testing by the midstream pipeline marketplace.

Our Company was incorporated on February 18, 1998, as a Nevada Corporation under the name Mandalay Capital Corporation. The Company changed its name to Save the World Air, Inc. on February 11, 1999. Effective August 11, 2015, the Company changed its name to QS Energy, Inc. The name change was effected through a short-form merger pursuant to Section 92A.180 of the Nevada Revised Statutes. Additionally, QS Energy Pool, Inc., a California corporation, was formed as a wholly-owned subsidiary of the Company on July 6, 2015 to serve as a vehicle for the Company to explore, review and consider acquisition opportunities. The Company's common stock is quoted under the symbol "QSEP" on the Over-the-Counter Bulletin Board. More information including the Company's fact sheet, logos and media articles are available at our corporate website, [www.qsenergy.com](http://www.qsenergy.com).

In 2014, we reached a major milestone in the Company's evolution, generating revenues from our AOT technology for the first time since our inception in February 1998. We continue to devote the bulk of our efforts to the promotion, design, testing and the commercial manufacturing and operations of our crude oil pipeline products in the upstream and midstream energy sector. We anticipate that these efforts will continue during 2016 and 2017.

Between 2011 and 2012, the Company transitioned from prototype testing of its AOT technology at the U.S. Department of Energy Rocky Mountain Oilfield Testing Center, Midwest, Wyoming, to the design and production of full-scale commercial prototype units. The Company worked in a collaborative engineering environment with multiple energy industry companies to refine the AOT™ Midstream commercial design to comply with the stringent standards and qualification processes as dictated by independent engineering audit groups and North American industry regulatory bodies. In May 2013, the Company's first commercial prototype unit known as AOT™ Midstream, was completed.

In 2013, the Company entered into an Equipment Lease/Option to Purchase Agreement ("TransCanada Lease") with TransCanada Keystone Pipeline, L.P. by its agent TC Oil Pipeline Operations, Inc. ("TransCanada") which agreed to lease and test the effectiveness of the Company's AOT technology and equipment on one of TransCanada's operating pipelines. As previously reported in our 10-K report filed with the SEC on March 16, 2015, in June 2014, the equipment was accepted by TransCanada and the lease commenced and the first full test of the AOT equipment on the Keystone pipeline was performed in July 2014 by Dr. Rongjia Tao of Temple University, with subsequent testing performed by an independent laboratory, ATS RheoSystems, a division of CANNON ("ATS") in September 2014. Upon review of the July 2014 test results and preliminary report by Dr. Tao, QS Energy and TransCanada mutually agreed that this initial test was flawed due to, among other factors, the short term nature of the test, the inability to isolate certain independent pipeline operating factors such as fluctuations in upstream pump station pressures, and limitations of the AOT device to produce a sufficient electric field to optimize viscosity reduction. Subsequent testing by ATS in September 2014 demonstrated viscosity reductions of 8% to 23% depending on flow rates and crude oil types in transit. In its summary report, ATS concluded that i) data indicated a decrease in viscosity of crude oil flowing through the TransCanada pipeline due to AOT treatment of the crude oil; and ii) the power supply installed on our equipment would need to be increased to maximize reduction in viscosity and take full advantage of the AOT technology. While more testing is required to establish the efficacy of our AOT technology, we are encouraged by the findings of these field tests performed under commercial operating conditions. The TransCanada Lease was terminated by TransCanada, effective October 15, 2014. Upon termination of the TransCanada Lease, all equipment was uninstalled, returned, inspected and configured for re-deployment.



On July 15, 2014, the Company entered into an Equipment Lease/Option to Purchase Agreement (“Kinder Morgan Lease”) with Kinder Morgan Crude & Condensate, LLC (“Kinder Morgan”) under which Kinder Morgan agreed to lease and test the effectiveness of the Company’s AOT technology and equipment on one of Kinder Morgan’s operating pipelines. Equipment provided under the Lease includes a single AOT Midstream pressure vessel with a maximum flow capacity of 5,000 gallons per minute. The equipment was delivered to Kinder Morgan in December 2014 and installed in March 2015. In April 2015, during pre-start testing, low electrical impedance was measured in the unit, indicating an electrical short. A replacement unit was installed May 2015. The second unit also presented with low impedance when flooded with crude condensate from Kinder Morgan’s pipeline. Subsequent to design modifications, a remanufactured AOT unit was installed and tested at Kinder Morgan’s pipeline facility in August 2015. Initial results were promising, with the unit operating generally as expected. However, voltage dropped as preliminary tests continued, indicating decreased impedance within the AOT pressure vessel. QS Energy personnel and outside consultants performed a series of troubleshooting assessments and determined that, despite modifications made to the AOT, conductive materials present in the crude oil condensate continued to be the root cause of the decreased impedance. Based on these results, QS Energy and Kinder Morgan personnel mutually agreed to hold on final acceptance of equipment under the lease and temporarily suspend in-field testing to provide time to re-test crude oil condensate in a laboratory setting, and thoroughly review and test selected AOT component design and fabrication. Subsequent analysis and testing led to changes in electrical insulation, inlet flow improvements and other component modifications. These design changes were implemented and tested by Industrial Screen and Maintenance (ISM), one of QS Energy’s supply chain partners in Casper, Wyoming. Test performed by ISM at its Wyoming facility indicated significant improvements to system impedance and efficiency of electric field generation.

In February 2016, the modified AOT equipment was installed at Kinder Morgan’s facility. Pre-acceptance testing was performed in April 2016, culminating in more than 24 hours of continuous operations. In-field viscosity measurements and pipeline data collected during this test indicate the AOT equipment is operating as expected, resulting in reductions in viscosity and pipeline pressure equivalent to those measured under laboratory conditions. QS Energy and Kinder Morgan are now working to finalize installation and acceptance of the equipment under the lease.

Southern Research Institute (SRI) was engaged by QS Energy in 2015 to investigate the root cause of the crude oil condensate impedance issue by replicating conditions experienced in the field utilizing a laboratory-scaled version of the AOT and crude oil condensate samples provided by Kinder Morgan. In addition, QS Energy retained an industry expert petroleum pipeline engineer to review the AOT design and suggest design modifications to resolve the crude oil condensate impedance issue. This engineer has studied design details, staff reports and forensic photographs of each relevant AOT installation and test. Based on these investigations, specific modifications were proposed to resolve the impedance issue, and improve the overall efficiency of the AOT device, resulting in a new value-engineered design of certain AOT internal components.

The Company is actively seeking new deployments of its AOT technology. In August, 2015, QS Energy was invited to an offshore oil transfer platform in the Gulf of Mexico. This offshore platform was assessed by QS Energy personnel for a potential deployment of the AOT viscosity reduction technology as a solution for super-heavy crude oil flow assurance issues. Following the site visit, all parties executed non-disclosure agreements in advance of detailed analysis and in anticipation of developing an onsite AOT testing program subject to laboratory testing and case studies performed on oil samples to be provided by the offshore platform operator. In June 2015, the Company formed a strategic alliance with Norrønt, AS (“Norrønt”), located in Oslo, Norway. Through its affiliation with Norrønt, the Company is currently in the process of negotiating a collaboration agreement with three Norwegian based oil companies as well as a potential research grant with the Norwegian Research Council. Under a strategic alliance formed in 2013, Energy Tech Africa is actively marketing AOT technology in Africa and the Middle East. During the first and second quarters of 2015, oil samples from a Middle Eastern oil company were provided under non-disclosure agreement to Temple University for testing. These tests demonstrated AOT viscosity reductions of 20% to 35% in a laboratory setting. Discussions with this Middle East oil company are ongoing.

In 2014, the Company began development of a new suite of products based around the new electrical heat system which reduces oil viscosity through a process known as joule heat (“Joule Heat”). The Company is designing and optimizing the Joule Heat technology for the upstream oil transportation market. The Company filed two provisional patents related to the technology’s method and apparatus in the second quarter and fourth quarter of 2013, respectively. The first of the two provisional patents was finalized and submitted to non-provisional status on April 29, 2014. The second of the two provisional patents was finalized and submitted to non-provisional status at the end of the third quarter 2014.

In October 2014, QS Energy entered into a Joint Development Agreement with Newfield Exploration Company (“Newfield”) to test a prototype of QS Energy Joule Heat equipment, and combined Joule Heat and AOT technology, on a crude oil pipeline serving the Greater Monument Butte oilfield located in the Uintah Basin of Utah. This test of the Joule Heat technology provides ideal conditions to demonstrate efficiency and efficacy. The Uintah Basin is 5,000 to 10,000 feet above sea level with average low winter temperatures of 16°F. Crude oil pumped from the region is highly paraffinic with the consistency of shoe polish at room temperature. Uintah’s black wax crude must remain at a minimum of 95°F and yellow wax above 115°F and therefore requires a substantial amount of heat to keep it above its high pour point. Operators in the upstream market often run at temperatures of 140°F to 160°F. Newfield, like many other companies in the region, incurs significant operating expense in the form of fuel and power used to heat the waxy crude and counter the cold climate conditions characteristic of Utah. The Company’s first Joule Heat prototype was installed for testing purposes at the Newfield facility in June 2015 and the system is operational; however, changes to the prototype configuration will be required to determine commercial effectiveness of this unit. During the third and fourth quarters of 2015, we worked with Newfield and Dr. Carl Meinhart to modify the prototype configuration based on observed pipeline and Joule Heat operating factors. In addition, QS Energy provided a scaled-down version of the Joule Heat unit for static and flow-through testing at SRI. Testing performed by SRI in September 2015 on a laboratory-scale Joule Heat unit demonstrated the ability of the Joule Heat technology to deliver temperature increases in the laboratory setting.

In 2015, the Company worked in collaboration with Newfield, SRI, Dr. Carl Meinhart, and our manufacturing partner to design and build an AOT prototype unit, for operations in the upstream crude oil pipeline market (“AOT Upstream”), specifically configured for pipeline operating factors observed at Newfield’s Utah site. Our original plan was to retrofit an earlier prototype device previously tested at RMOTC; however, after multiple site visits and discussions with Newfield, it was determined a new, smaller unit, specifically optimized for Newfield operations would be more appropriate for this field test opportunity. We plan to jointly test the AOT Upstream prototype unit under typical upstream commercial pipeline conditions on Newfield’s pipeline in conjunction with the previously installed Joule Heat unit.

In December 2015, we temporarily suspended Joule Heat and AOT Upstream development activities to focus Company resources on finalizing commercial development of the AOT Midstream. Testing terminated at SRI and all prototype equipment was returned to the Company. We currently plan to resume Joule Heat and AOT Upstream development in the fourth quarter of 2016 depending on the availability of sufficient capital and other resources.

In July 2015, the Company formed QS Energy Pool, Inc., a wholly owned subsidiary of QS Energy, Inc., for the sole purpose of taking advantage of asset acquisition opportunities in the oil and gas operations market. QS Energy Pool is specifically targeting the acquisition of one or more operating companies or properties with proven positive cash flow, providing operating income and bottom line revenue which are both accretive to and synergistic with QS Energy, Inc.’s current operations. QS Energy has identified multiple attractive opportunities to acquire producing oil and gas field operations. Our strategy is to acquire producing oil and gas fields with production profiles of at least ten years, proven long-term development rights, and demonstrated positive cash flow at commodity prices as low as \$25/barrel of oil and \$2.00/MCF of gas. Any such acquisitions would be subject on our ability to obtain acquisition financing under acceptable terms and conditions. We can provide no assurances that such financing would be available to us.

Our expenses to date have been funded primarily through the sale of shares of common stock and convertible debt, as well as proceeds from the exercise of stock purchase warrants and options. We will need to raise substantial additional capital through 2016, and beyond, to fund our sales and marketing efforts, continuing research and development, and certain other expenses, until our revenue base grows sufficiently.

There are significant risks associated with our business, our Company and our stock. See “Risk Factors” in Part II, Item 1A below.

#### Results of Operations for Three months ended March 31, 2016 and 2015

	Three months ended March 31		
	2016	2015	Change
<b>Revenues</b>	\$ –	\$ –	\$ –
<b>Costs and Expenses</b>			
<b>Operating expenses</b>	635,402	855,452	(220,050)
<b>Research and development expenses</b>	74,935	272,777	(197,842)
<b>Loss before other income (expense)</b>	(710,337)	(1,128,229)	(417,892)
<b>Other income (expense)</b>			
Other income (loss)	–	1,500	(1,500)
Interest and financing expense	(493,712)	(47,608)	(446,104)
Loss on disposition of equipment	(3,343)	–	(3,343)
<b>Net Loss</b>	<u>\$ (1,207,392)</u>	<u>\$ (1,174,337)</u>	<u>\$ (125,270)</u>

The Company had no revenues in the three month periods ended March 31, 2016 and 2015.

Operating expenses were \$635,402 for the three-month period ended March 31, 2016, compared to \$855,452 for the three-month period ended March 31, 2015, a decrease of \$220,050. This is due to decreases in non-cash expenses of \$86,386, and in cash expenses of \$133,664. Specifically, the decrease in non-cash expenses are attributable to decreases in depreciation of \$1,289 and stock compensation expenses attributable to options granted to directors and employees of \$107,830, offset by increases in stock compensation expenses attributable to warrants granted to consultants of \$22,733. The decrease in cash expense is attributable to decreases in salaries and benefits of \$58,971, legal and accounting of \$43,675, travel and related expenses of \$36,119, and other expenses of \$22,910, offset by increases in consulting fees of \$10,470, rents of \$1,661, corporate expenses of \$10,483, and insurance of \$5,397.

Research and development expenses were \$74,395 for the three-month period ended March 31, 2016, compared to \$272,777 for the three-month period ended March 31, 2015, a decrease of \$197,842. This decrease is attributable to decreases in prototype product development costs of \$149,998, and product testing, research, patents and other costs of \$47,844.

Other income and expense were \$497,055 expense for the three-month period ended March 31, 2016, compared to \$46,108 expense for the three-month period ended March 31, 2015, a net increase in other expenses of \$450,947. This increase is attributable to an increase in non-cash other expenses of \$446,104 and an increase in cash expenses of \$4,843. The increase in non-cash other expense is due to an increase in expense attributable to interest, beneficial conversion factors and warrants associated with convertible notes issued in the amount of \$446,104. The decrease in other cash income is due to a decrease in income from sale fixed assets in the amount of \$1,500, and an increase in loss on the disposition of assets in the amount of \$3,343.

The Company had a net loss of \$1,207,392, or \$0.01 per share, for the three-month period ended March 31, 2016, compared to a net loss of \$1,174,337, or \$0.01 per share, for the three-month period ended March 31, 2015.

## **Liquidity and Capital Resources**

### **General**

As reflected in the accompanying condensed consolidated financial statements, the Company has not yet generated significant revenues and has incurred recurring net losses. We have incurred negative cash flow from operations since our inception in 1998 and an accumulated deficit of \$102,481,544 as of March 31, 2016. Our negative operating cash flow in 2015 and the first three months of 2016 was funded primarily through issuance of convertible notes and the exercise of stock purchase warrants and options for cash.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying condensed consolidated financial statements, the Company had a net loss of \$1,207,392 and a negative cash flow from operations of \$518,934 for the three-month period ended March 31, 2016. These factors raise substantial doubt about our ability to continue as a going concern.

In addition, the Company's independent registered public accounting firm, in its report on the Company's December 31, 2015 financial statements, has raised substantial doubt about the Company's ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to raise additional funds and implement our business plan. The consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

## **Summary**

During the period ended March 31, 2016, we received cash totaling \$762,468 from issuance of our convertible notes payable and used cash in operations of \$518,934. At March 31, 2016, we had cash on hand in the amount of \$592,720. We will need additional funds to operate our business, including without limitation the expenses we will incur in connection with the license and research and development agreements with Temple University; costs associated with product development and commercialization of the AOT and related technologies; costs to manufacture and ship our products; costs to design and implement an effective system of internal controls and disclosure controls and procedures; costs of maintaining our status as a public company by filing periodic reports with the SEC and costs required to protect our intellectual property. In addition, as discussed above, we have substantial contractual commitments, including without limitation salaries to our executive officers pursuant to employment agreements, certain severance payments to a former officer and consulting fees, during the remainder of 2016 and beyond.

No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company.

## **Licensing Fees to Temple University**

For details of the licensing agreements with Temple University, see Financial Statements attached hereto, Note 6 (Research and Development).

## **Critical Accounting Policies and Estimates**

Our discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements and related disclosures requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, expenses, and related disclosure of contingent assets and liabilities. We evaluate, on an on-going basis, our estimates and judgments, including those related to the useful life of the assets. We base our estimates on historical experience and assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results that we report in our consolidated financial statements. The SEC considers an entity's most critical accounting policies to be those policies that are both most important to the portrayal of a company's financial condition and results of operations and those that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about matters that are inherently uncertain at the time of estimation. For a more detailed discussion of the accounting policies of the Company, see Note 1 of the Notes to the Condensed Consolidated Financial Statements, "Summary of Significant Accounting Policies".

We believe the following critical accounting policies, among others, require significant judgments and estimates used in the preparation of our consolidated financial statements.

### **Estimates**

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Certain significant estimates were made in connection with preparing our consolidated financial statements as described in Note 1 to Notes to the Condensed Consolidated Financial Statements. Actual results could differ from those estimates.

### **Stock-Based Compensation**

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company's common stock option grants is estimated using the Black-Scholes Option Pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the common stock options, and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes Option Pricing model, and based on actual experience. The assumptions used in the Black-Scholes Option Pricing model could materially affect compensation expense recorded in future periods.

### **Going Concern**

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying consolidated financial statements, during the three-months ended March 31, 2016, the Company incurred a net loss of \$1,207,392, used cash in operations of \$518,934 and had a stockholders' deficit of \$604,984 as of that date. These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon the Company's ability to raise additional funds and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

At March 31, 2016, the Company had cash on hand in the amount of \$592,720. Management estimates that the current funds on hand will be sufficient to continue operations through July 2016. Management is currently seeking additional funds, primarily through the issuance of debt and equity securities for cash to operate our business, including without limitation the expenses it will incur in connection with the license and research and development agreements with Temple; costs associated with product development and commercialization of the AOT and Joule Heat technologies; costs to manufacture and ship the products; costs to design and implement an effective system of internal controls and disclosure controls and procedures; costs of maintaining our status as a public company by filing periodic reports with the SEC and costs required to protect our intellectual property. In addition, as discussed below, the Company has substantial contractual commitments, including without limitation salaries to our executive officers pursuant to employment agreements, certain payments to a former officer and consulting fees, during the remainder of 2016 and beyond.

No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stockholders in case of equity financing.

### **Recent Accounting Policies**

See Footnote 2 in the accompanying financial statements for a discussion of recent accounting policies.

## **Item 3. Quantitative and Qualitative Disclosure about Market Risk**

We issue from time to time fixed rate discounted convertible notes. Our convertible notes and our equity securities are exposed to risk as set forth below, in Part II Item 1A, "Risk Factors." Please also see Item 2, above, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## **Item 4. Controls and Procedures**

### **1. Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, evaluated, as of March 31, 2016, the effectiveness of the Company's disclosure controls and procedures, which were designed to be effective at the reasonable assurance level. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of March 31, 2016, management, the chief executive officer and the chief financial officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level at that date.

#### **(a) Changes in Internal Control over Financial Reporting**

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three-month period ended March 31, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

There is no litigation of any significance with the exception of the matters that have arisen under, and are being handled in, the normal course of business.

### Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in Form 10-K for the period ended December 31, 2015, which we filed with the SEC on March 15, 2016.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### Issuances

In private offerings exempt from registration, during the three months ended March 31, 2016, the Company issued 4,789,049 shares of its common stock upon the conversion of \$602,800 in convertible notes at \$0.10 per share.

The Company issued 400,000 shares of common stock as compensation to consultants during the three months ended March 31, 2016.

The proceeds received by the Company in connection with the above issuances of shares were used for general corporate purposes.

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Mine Safety Disclosures

None

### Item 5. Other Information

As approved by the Board of Directors by resolution on June 19, 2015, the Board revised the Company's Board compensation policy effective January 1, 2015 as follows:

- (i) Board Options: Effective January 1, 2015, and thereafter, effective January 1 of each succeeding year, each member of the Board shall receive a grant of unqualified Options to purchase Shares of the Company's common stock. The number of underlying Shares of the Option shall be equal to the quotient of \$50,000 divided by the market value of the Company's shares, on the day of the grant, as reported on the OTCBB or, if applicable, NASDAQ. The Options shall vest monthly, at a vesting rate of one-twelfth (1/12th) per month over the course of twelve (12) months, fully vesting on December 31<sup>st</sup> of the calendar year in which the Options are granted, and shall expire ten (10) years after the day of grant. All unvested Options shall be cancelled in the event a member of the Board ceases to be a member of the Board for any reason prior to the vesting date of the Option.
- (ii) Audit Committee Chairman Options: Effective January 1, 2015, and thereafter, effective January 1 of each succeeding year the Chairman of the Audit Committee shall also receive a grant of unqualified Options pursuant to the terms and conditions identified in subsection (i), above, except the number of underlying Shares shall be equal to the quotient of \$25,000 divided by the market value of the Company's shares, on the day of the grant, as reported on the OTCBB or, if applicable, NASDAQ.
- (iii) Options Issued upon Appointment to the Board of Directors: Upon appointment to the Board of Directors the appointed Director shall receive a grant of Options under terms defined in subsections (i) above, effective on the date of appointment except that the number of Shares granted shall be adjusted on a pro-rata basis for the number of days remaining in the calendar year on the date of grant.
- (iv) Options Issued upon Appointment as Chairman of the Audit Committee: Upon appointment as Chairman of the Audit Committee, the appointed Chairman shall receive a grant of Options under terms defined in subsection (ii) above, effective on the date of appointment except that the number of Shares granted shall be adjusted on a pro-rata basis for the number of days remaining in the calendar year on the date of grant.
- (v) Committee Member Compensation: Each member of a committee of the Board shall receive monthly compensation of \$500.00, plus reimbursement of reasonable travel and lodging expenses.

Item 6. Exhibits

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer of Quarterly Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e)
31.2	Certification of Chief Financial Officer of Quarterly Report pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e)
32	Certification of Chief Executive Officer and Chief Financial Officer of Quarterly Report Pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this Report to be signed on its behalf by the undersigned, hereunto duly authorized.

QS ENERGY, INC.

Date: May 10, 2016

By: /s/ Gregory M. Bigger  
Gregory M. Bigger  
Chief Financial Officer



## EXHIBITS

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer of Quarterly Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e)
31.2	Certification of Chief Financial Officer of Quarterly Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e)
32	Certification of Chief Executive Officer and Chief Financial Officer of Quarterly Report Pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

**EXHIBIT 31.1**

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
AND RULES 13A-14 AND 15D-14 UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Gregory M. Bigger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of QS Energy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(d)-15(f) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its condensed consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

2. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2016

/s/ Gregory M. Bigger  
\_\_\_\_\_  
Greggory M. Bigger  
Chief Executive Officer

**EXHIBIT 31.2**

CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
AND RULES 13A-14 AND 15D-14 UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Gregory M. Bigger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of QS Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(d)-15(f) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its condensed consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2016

/s/ Gregory M. Bigger  
\_\_\_\_\_  
Greggory M. Bigger  
Chief Financial Officer

CERTIFICATION OF PERIODIC FINANCIAL REPORT BY THE CHIEF EXECUTIVE  
OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Acting Chief Executive Officer and the Chief Financial Officer of QS Energy, Inc. (the "Company"), hereby certify, based on our knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2016 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2016

/s/ Gregory M. Bigger

Greggory M. Bigger  
Chief Executive Officer

Date: May 10, 2016

/s/ Gregory M. Bigger

Greggory M. Bigger  
Chief Financial Officer