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

FORM 10-K

☒ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

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	**52-2088326**
(State or other jurisdiction of incorporation or organization)	(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)

Save the World Air, Inc.
(Former name, former address and former fiscal year, if changed since last report)

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.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 ☐ Smaller reporting company ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates (excluding voting shares held by officers and directors) as of June 30, 2015, was $61,579,449.

The number of shares of the Registrant's Common Stock outstanding as of March 4, 2016, was 186,251,577

DOCUMENTS INCORPORATED BY REFERENCE - None

Transitional Small Business Disclosure Format (Check one)
Yes ☐ No ☒

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PART I

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements. These forward-looking statements include predictions and statements regarding our future:

- revenues and profits;
- customers;
- research and development expenses and efforts;
- scientific and other third-party test results;
- sales and marketing expenses and efforts;
- liquidity and sufficiency of existing cash;
- technology and products; and
- the effect of recent accounting pronouncements on our financial condition and results of operations.

You can identify these and other forward-looking statements by the use of words such as “may,” “will,” “expects,” “anticipates,” “believes,” “estimates,” “intends,” “project,” “potential,” “forecast” “continues,” “strategies,” or the negative of such terms, or other comparable terminology, and also include statements concerning plans, objectives, goals, strategies and future events or performance.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below under the heading “Risk Factors.” We cannot assure you that we will achieve or accomplish our expectations, beliefs or projections. All forward-looking statements included in this document are based on information available to us on the date hereof. We assume no obligation to update any forward-looking statements.

Item 1. Business

The discussion of our business is as of the date of filing this report, unless otherwise indicated.

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 initial commercial production for 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.

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. We look forward to further development and commercialization of our technology. 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. For more information on test procedures and results, see section below labeled "Laboratory and Scientific Testing".

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. Laboratory tests previously run on at Temple University on condensate samples provided by Kinder Morgan indicated the condensate was non-conductive; however, the condensate is known to have a relatively high density of semi-conductive particulate matter suspended within the fluid. Similar conditions were experienced in earlier prototype tests at the Rocky Mountain Oilfield Testing Center ("RMOTC"). At RMOTC, the pipeline had a high concentration of highly conductive particulate matter, which tended to concentrate at the base of the AOT when installed horizontally, causing the AOT to present with an electrical short. This issue was solved at RMOTC by converting to a vertical configuration, which allowed the particulate matter to flow naturally through the AOT. Based on experience at RMOTC, Dr. Tao expressed a high level of confidence that converting to a vertical configuration will resolve the issue of conductive particulate matter.

In June 2015, QS Energy engineers performed a series of tests and internal inspections on the AOT unit, which identified other potential design issues that could impact electrical impedance. Based on these findings, a number of internal components of the AOT were retrofitted or remanufactured to improve both efficacy and efficiency. The remanufactured AOT unit was delivered to Kinder Morgan facility in Texas and was installed in its new vertical configuration in July 2015. Installation and pre-start safety tests were successfully completed and preliminary testing initiated 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 continue to be the root cause of the decreased impedance. Based on this result, QS Energy and Kinder Morgan personnel mutually agreed the best course of action was to hold on final acceptance of equipment under the lease and temporarily suspend in-field testing to provide time to thoroughly test samples of Kinder Morgan's crude oil condensate in a laboratory setting.

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.

In December 2015, the Kinder Morgan AOT unit was retrofitted with the value-engineered internal components at Industrial Screen and Maintenance ("ISM"), one of QS Energy's supply chain partners. Tests performed by ISM on the re-engineered unit demonstrated improvements in system efficiency, and a significant increase in internal impedance. Tests performed on an unmodified AOT measured impedance at approximately 200 mega-ohms of resistance. Under similar conditions, the re-engineered AOT measured more than 20,000 mega-ohms; a 100 times increase in impedance. As modified, the AOT needed only 500 to 800 nano-amps to achieve a test voltage of 15,000 volts. These design modifications, specifically designed to address impedance issues experienced in the Kinder Morgan condensate pipeline tests, have the potential of improving efficacy and efficiency in crude oil pipeline operations as well. The increased efficiencies measured on the re-engineered unit has the potential to mitigate the need for a larger power supplies as experienced on operations on TransCanada's high volume crude oil pipeline. The re-engineered AOT unit was delivered to and installed on the Kinder Morgan condensate pipeline in February 2016, with testing scheduled begin in March 2016.

The Company is actively seeking 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 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 16ºF. 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 95ºF and yellow wax above 115ºF 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 140ºF to 160ºF. 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," below.

Other Recent Developments

On December 1, 2015, QS Energy posted a presentation of its Business Plan on the Company website (qsenergy.com) as announced in a Form 8-K submitted to the SEC on December 1, 2015. A copy of the Company's Business Plan presentation was attached to the 8-K filing as Exhibit 99.1.

Our Business Strategy

QS Energy intends to continue commercialization and marketing of its current technologies. Our current and primary product portfolio is dedicated to the crude oil production and transportation marketplace, with a specifically-targeted product offering for enhancing the flow-assurance parameters of new and existing pipeline gathering and transmission systems.

Our primary goal is to provide the oil industry with a cost-effective method by which to increase the number of barrels of oil able to be transported per day through the industry's existing and newly built pipelines. We also seek to provide the oil industry with a way to reduce emissions from operating equipment. We believe our goals are realizable via viscosity reduction using our AOT and Joule Heat product lines.

We believe QS Energy's technologies will enable the petroleum industry to gain key value advantages boosting profit, while satisfying the needs of regulatory bodies at the same time. In 2014, we installed and operated AOT equipment on one of TransCanada's North American pipeline, proving our ability to build, deliver and operate our AOT equipment on a high-volume commercial pipeline and key players in the pipeline industry continue to demonstrate strong interest in our technologies.

Our manufacturing strategy is to contract with third-party vendors and suppliers, each with a strong reputation and proven track record in the pipeline industry. These vendors are broken up by product component subcategory, enabling multiple manufacturing capacity redundancies and safeguards to be utilized. In addition, this strategy allows the Company to eliminate the prohibitively high capital expenditures such as costs of building, operating and maintaining its own manufacturing facilities, ratings, personnel and licenses, thereby eliminating unnecessary capital intensity and risk.

Our identified market strategy is to continue meeting with oil and gas industry executives in the upstream, gathering, and midstream sectors from both domestic and foreign companies. Our goal is to introduce our technology to oil and gas companies and to demonstrate potential value for the purposes of negotiating commercial implementation of our AOT technology to their existing infrastructures.

Our strategy includes:

1. Continue optimization and value engineering of our AOT Midstream commercial product line.
2. Expand AOT Midstream field test operations on commercial pipeline operations.
3. Gain clearance from customers' procurement divisions for expanded installation of AOT Midstream based on field test results.
4. Complete laboratory testing of our Joule Heat product line.
5. Initiate and expand field testing of Joule Heat product on commercial pipeline operations.
6. Commercial deployment of our Joule Heat product line.
7. Publish material events, collaborative arrangements, framework agreements and joint development agreements.
8. Co-Present with customers at various trade conferences in the United States.
9. Continue to make inroads and meet with key strategic potential customers in the following geographic regions:
    a. Alberta, Canada
    b. Williston, Bakken Basin, USA
    c. Niobrara, Denver-Julesberg Basin, USA
    d. Uinta-Piceanse Basin
    e. Green River Basin
    f. West Africa
    g. Asia
    h. Australia-Asia
    i. South America
10. Continue to make inroads and strategic alliances with additional supply chain and logistics support to rapidly expand our production capacity beyond its current physical limitations, adding capacity, reach and stability with pre-approved supply chain members that meet the criteria of the customers' procurement divisions.
11. Further develop additional AOT and Joule Heat product models beyond targeting upstream and gathering energy production and transport sectors.
12. Continue to develop collaboratively additional scientific and technical whitepaper reports, product development enhancements, and additional products with our engineering support, consultants and relationships.

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 to our ability to obtain acquisition financing under acceptable terms and conditions. We can provide no assurances that such financing would be available to us.

Market Analysis Overview

The energy sector continues to operate in a period of both rapid change and expansion. Due to the relatively recent and widespread adoption of advanced oilfield drilling and completion technologies, known as enhanced oil recovery (EOR) techniques, enormous reserves of "tight" oil and gas are now recoverable from shale formations throughout North America and the world. This historic surge in upstream crude oil production has resulted in costly and persistent transportation bottlenecks when moving upstream production to downstream storage, offloading facilities and refineries. This persistent and severe industrywide problem is stimulating investments in new and existing pipeline infrastructure and a reliance on less desirable alternate forms of transport, including rail and freight truck.

Since the initial use of EOR or tertiary recovery techniques in the 1970s, oil and gas producers have progressively relied more heavily on the application of gas and chemical injection as well as thermal recovery. These extraction techniques, coupled with a much greater number of new wells in active oilfields, has raised the output of reservoirs by 30 to 60 percent above traditional primary and secondary recovery practices. Due to the rapid adoption of advanced extraction technologies throughout the U.S. energy industry, a 34-year decline in domestic oil and gas production was reversed in 2006. Historically high output from massive shale formations such as North Dakota's Bakken, Texas' Eagle Ford and Permian Basin, Colorado's Green River and Utah's Uintah Basin continues to the present day.

Other nations with significant exploitable shale formations include Russia, China, Argentina, Libya, Australia, Venezuela, Mexico and dozens of others, providing a ready market for crude oil pipeline optimization technologies as production comes online. All told, the U.S. Energy Information Administration estimates there to be 345 billion barrels of identified and recoverable shale oil worldwide.

Consequently, oil production greatly exceeds the capacity of existing pipelines in the U.S., Canada and many other regions of the world, often resulting in delivery delays to refineries, as well as reliance on less desirable rail and tanker truck transport.

Recently, the softening of oil prices worldwide has incentivized producers and transporters to reduce costs and seek technologies that can provide greater operational efficiencies. AOT and Joule Heat technologies are specifically designed to increase pipeline capacity, while reducing pipeline operating costs and overhead, thereby increasing margins and delivering measurable competitive advantages.

Projected Pipeline Infrastructure Investment

Among the challenges facing the global crude oil production and transportation sectors, few are as intransigent or detrimental to the industry as the transportation bottlenecks and well-to-market delivery delays that are endemic here in North America and overseas. While new pipeline infrastructure projects are underway here in the U.S., Canada and in foreign markets, gaining legislative approval is a lengthy process and their construction is highly capital-intensive.

Although pipelines are by far the safest and most economical transportation method, outmoded pipeline infrastructure constructed primarily in the 1950s and 1960s cannot provide the capacity necessary to move production downstream to storage, refinery and offloading facilities. Consequently, delivery delays to refineries and reliance on less desirable rail and tanker truck transport have increased exponentially since 2008 when the shale boom began in earnest. Data compiled by the U.S. Energy Information Administration, IHS Global and the American Petroleum Institute identify billions in lost revenue opportunities for E&P companies and tax collection agencies in leading oil producing states such as Texas, North Dakota, Alaska, California, Colorado, Wyoming and Utah directly attributable to production takeaway constraints.

As of 2013, the U.S. and Canadian midstream oil market was serviced by a total of 60,911 miles of crude oil pipelines, up 3,448 miles or 6 percent over 2012 and up 11,647 miles or 23 percent over the past decade. Planned midstream pipeline projects are expected to bring an additional 20,000 miles of pipeline capacity over the 5 to 10 years. However, the bulk of the active pipelines in the U.S. were constructed several decades ago, necessitating enormous capital investments to maintain and update the aging pipeline infrastructure. Studies by research firm IHS Global Inc. estimate that between 2014 and 2020, an average of greater than $80 billion will be invested annually in U.S. midstream and downstream petroleum infrastructure.

Despite the recently depressed price level of global oil benchmarks, experts forecast continued growth in crude oil pipeline capital expenditures. For example, a study published by GlobalData in February of this year, ‘North America and Russia to Dominate Global Oil and Gas Pipeline Construction by 2018’, estimates that U.S. oil and gas pipeline capital expenditures for new construction will exceed $500 billion, resulting in the construction of 24,000 miles of new oil and gas pipeline capacity.

QS Energy’s AOT and Joule Heat Technologies are strategically aligned with the major requirements and challenges facing the petroleum pipeline economy.

First, AOT allows the midstream sector to increase capacity while remaining within maximum pressure requirements. The technology can increase capacity for the industry and reduce reliance on truck and train transport, which has often proven inefficient and environmentally hazardous. Second, AOT and Joule Heat help to reduce operating expenses for pipeline operators. These technologies optimize pipeline operating efficiency, which is especially important given the current oil price environment.

Recently, the softening of oil prices worldwide has incentivized producers and transporters to reduce costs and seek technologies that can provide greater operational efficiencies. As noted by industry analysts, the drive to squeeze out better margins began in late 2013 when oil prices fell to the $100 per barrel mark after a price expansion cycle that had been in place since 2000 (*“Deloitte: Low Oil Prices Creating Need for More Efficient Operations”*, Rigzone.com, February 5, 2015). Capital-intensive extraction techniques necessary for unlocking tight oil and gas have boosted costs across the industry since the shale boom began in earnest in 2008, and today’s low spot prices have caused for upstream and midstream operators to aggressively reduce overhead.

In answer to the energy industry’s pressing challenges, QS Energy is commercializing cost-efficient solutions for increasing the capacity of existing and new pipeline gathering and transmission systems, capable of reducing operational overhead, increasing margins and delivering measurable competitive advantages.

Target Markets

The oil and gas sector market can be segmented into three primary categories: Upstream Producers, Midstream Transporters and Downstream Refiners:

- The Upstream segment is involved in the exploration and production (E&P) of oil and gas.
- Midstream companies and partnerships transport oil and gas to markets via pipelines, rail and shipping, and provide storage in the field and at the destination location.
- The Downstream sector refines oil and gas into finished products and, in cooperation with manufacturers and retailers, markets and distributes fuels and other refined petroleum products.

Upstream Producers

The Upstream segment has the greatest exposure to commodity prices. When prices fall as has been the case recently, they feel the brunt of this realignment. They also have the most to gain from additional flow throughput capacity and therefore would see immediate benefit from QS Energy's AOT and Joule Heat solutions.

This sector is typically nimble and faces few barriers to entry. With clear financial upside for every additional barrel of crude oil that they are able to transport, these companies are often open to new and innovative technology capable of providing greater efficiencies, lower costs and improved cash flow. Upstream producers physically move the most volume of product. They are customers to the Midstream transporters and enter into long-term contractual shipping obligations (tariff-based transportation contracts) with Midstream transporters to secure the movement of product from their fields to the refiners and markets downstream.

Producers make the spot market price for every barrel delivered to refinery, minus the transport costs, tariffs, and marketing discounts associated with bringing the product to market. A rough rule of thumb for this market is that the further away they are from the refinery, the higher the transport costs to deliver the product. Discussions with Upstream entities has uncovered strong interest in solutions that unlock chokepoints from their field equipment to the transmission line loading terminals through viscosity reduction (AOT) and optimizing flow by directly heating feedstock (Joule Heat). In addition, this group would also benefit from transporters implementing our AOT transmission-line series due to its ability to increase the overall flow capacity of pipelines transporting product from loading terminals to market.

Midstream entities transport the bulk of the world's crude oil output via the 400,000 miles of crude oil pipelines globally. Domestically, they deliver a large percentage of the U.S. daily production of 9.2 million barrels per day through 160,000 miles of crude pipelines. Midstream operators represent a strong and ready market for both AOT and Joule Heat, and field test deployments for both solutions are underway.

The pipeline transport operators' business model is to charge a tariff to transport each barrel of oil through their pipeline. Due to the high daily volume of oil being transported and its value as a commodity, even incremental performance efficiencies can drive significant reductions in overhead reduction and increases in toll revenues.

The potential benefits of the AOT and Joule Heat technologies include increased flow, reduced pipeline operating pressure and reduced friction losses and friction-induced heat build-up, providing economic benefits through increased capacity and toll rate income, and regulatory benefits through reductions in BTU per ton-mile, off-gassing and reduced carbon emissions (CO2).

Midstream Gathering Transporters

A subset of the Midstream transporters sector is the gathering line operators, this group often functions as a part of the Upstream producers' operations, or within the Midstream transporter's operations. Midstream gathering lines are the regional transportation infrastructure that connect Upstream oilfield gathering lines to Midstream long distance main trunk lines. Typically, these pipelines are of a relatively short length (20-100 miles) and have diameters between 6" and 12", and could benefit from our smaller, lower cost AOT Upstream technology.

Downstream Refineries / Offloading Facilities

The third market category of the industry that can potentially benefit from our technologies consists of downstream refineries and rail, truck and marine offloading facilities. AOT viscosity reduction and Joule Heat technologies have the potential to benefit the Downstream market sector through reduced reliance on chemical based flow assurance additives, reduced friction from turbulent pipelines, reduced volatility, and subsequent evaporation mitigation practices and hardware requirements as mandated by the U.S. Environmental Protection Agency.

Our Products and Technology

AOT Commercial Products

Beginning in the second quarter of 2012, the Company began the design and engineering efforts required to transition from prototype testing to full-scale commercial unit production. The Company established its supply chain, designs, drawings, engineering, certifications and specifications to comply with the engineering audit processes as dictated by the energy industry regulation processes and North American regulatory bodies. We have built, delivered and tested, under limited duration and conditions, AOT equipment on a high-volume commercial pipeline. We have not proven the commercial viability of this product. Please see "ITEM 1A, Risk Factors", for a discussion associated with the commercial viability of our products.

The first commercial deployment of AOT occurred on the Keystone Pipeline in Udall, Kansas in May 2014, utilizing four AOT pressure vessels in a parallel "4-Pack" configuration for a cumulative capacity of 600,000 barrels per day. This system was operated under normal pipeline operating conditions as reported in the ATS RheoSystems field test summary report dated February 5, 2015. A copy of the ATS summary report is available on the Company website at: https://wsenergy.box.com/ATS-AOT-SummaryRpt. See section titled "Laboratory and Scientific Testing" below for more information on test procedures and results. Subsequent to testing and termination of the TransCanada lease, the AOT 4-Pack was uninstalled and reconfigured for deployment as four individual AOT units.

Our second AOT commercial installation was a single AOT deployment initially installed in March 2015 on the Kinder Morgan Crude & Condensate pipeline, which provides takeaway capacity for the Eagle Ford Shale in South Texas, primarily delivering crude oil condensate. Testing and re-engineering of this unit continued through the remainder of 2015, specifically addressing issues experienced treating crude oil condensate, resulting in a value-engineered unit which was delivered to and installed on the Kinder Morgan condensate pipeline in February 2016, with testing scheduled to begin in March 2016.

The Company continues to optimize and value engineer its AOT product line, targeting both Midstream and Upstream markets. In 2016, the Company plans to focus its efforts and resources on finalizing commercialization of the AOT Midstream product line. Development efforts of the AOT Upstream product was temporarily suspended in December 2015. We currently plan to resume AOT Upstream development in the fourth quarter of 2016 depending on the availability of sufficient capital and other resources.

Joule Heat Product Development

The Company began development its Joule Heat product in 2014, based around the new electrical heat system which reduces oil viscosity through a process known as joule heat, specifically targeting the upstream crude oil transportation market. The Company is designing and optimizing the Joule Heat technology for the upstream oil transportation market. The Company's first Joule Heat prototype was installed for testing purposes under a joint development agreement with Newfield Exploration Company in June 2015 and the system is operational; however, changes to the prototype configuration will be required to determine commercial effectiveness of this unit. In December 2015, we temporarily suspended Joule Heat development activities to focus Company resources on finalizing commercial development of the AOT Midstream. We currently plan to resume Joule Heat development in the fourth quarter of 2016 depending on the availability of sufficient capital and other resources.

AOT Commercial Supply Chain

The Company has developed a well-established supply chain for fabrication of the commercial AOT and Joule Heat devices. The supply chain consists of multiple component suppliers and manufacturing companies engaged under Independent Contractor Agreements according to their respective fields of expertise. The supply chain entities have been chosen for their ability to work collaboratively with QS Energy and for their existing relationships with current and potential future customers of QS Energy technologies. The external components such as pressure vessels, inlet and outlet piping header systems, personnel and equipment shelters are manufactured under contract with Power Service Inc. with offices in Wyoming, Utah, Colorado, Montana, North Dakota, and Texas. Internal components such as grid packs, electrical connections and other machined parts are manufactured by Industrial Screen and Maintenance, with offices in Wyoming and Colorado. All equipment is manufactured in the United States of America, using only approved raw materials and vendors for quality control and import/export compliance purposes and meet the certifications and specifications as dictated by our customers and their independent oversight and auditing authorities.

Other components such as power systems, electrical junction boxes, cabling, hardware, switches, circuit breakers, computer equipment, sensors, SCADA/PLC, software and other power and integration equipment are purchased as complete units from various suppliers with operations based throughout North America. All component vendors are required to meet or exceed the same specifications as the parts manufacturers to maintain compliance as dictated by our customers and their independent oversight and auditing authorities.

AOT Intellectual Property

The Company began its own independent audit process for the updating of its intellectual property portfolio in 2012. The goal of this process was to streamline unnecessary legacy items left over from prior management, consolidate efforts to countries and regions of interest and retire items that were no longer valid or had been replaced with new intellectual property developments. In 2013, the Company retained the law firm of Jones Walker LLP, with operations based in Houston, Texas and began consolidation and streamlining efforts to manage intellectual properties. Since that time, QS Energy has filed two additional provisional patents related to our technologies' method and apparatus.

QS Energy is currently maintaining and licensing from Temple University 47 domestic and international patents, which have either been granted or have been published and are pending subject to final approval by the respective patent agency. Each of these intellectual properties are related to QS Energy's AOT, Joule Heat and Fuel Injector technologies. The AOT and Joule Heat technologies are being actively developed and marketed by the Company. Active development of QS Energy's fuel injector technology was suspended in 2013, but the Company continues to maintain a license agreement with Temple University with respect to the underlying patents, and is considering its options to re-start commercialization, sublicense the technology, or terminate the fuel injector license agreement with Temple. For details of the licensing agreements with Temple University, see Financial Statements attached hereto, Note 6. Please see ITEM 1A, Risk Factors below for a discussion of risks associated with these intellectual properties.

Summary of QS Energy Patents
Granted and Pending

Description of Patent	Technology	Granted	Pending	Total
Device for Saving Fuel and Reducing Emissions	Fuel Injector	9	5	14
Electric-Field Assisted Fuel Atomization System and Method of Use	Fuel Injector	4	3	7
Method and Apparatus for Treatment of a Fluid	AOT	7	6	13
Increasing Fluidity of a Flowing Fluid	AOT	1	–	1
Electrical Interconnect and Method	AOT, Joule Heat	–	1	1
Joule Heating Apparatus and Method	Joule Heat	–	1	1
Apparatus and Method for Reducing Viscosity	AOT	–	2	2
Method for Reduction for Crude Oil Viscosity	AOT	6	2	8
		27	20	47

A brief description of each of these patents is as follows:

Device for Saving Fuel and Reducing Emissions
- This patent is related to QS Energy's fuel injector technology.
- Owned by QS Energy.
- A copy of the U.S. patent can be found at https://www.google.com/patents/US6901917

Electric-Field Assisted Fuel Atomization System and Method of Use
- This patent is related to QS Energy's fuel injector technology.
- Owned by Temple University; licensed to QS Energy under an exclusive worldwide license agreement.
- A copy of the published, pending U.S. patent can be found at https://www.google.com/patents/US20100024783

Method and Apparatus for Treatment of a Fluid
- This patent is related to QS Energy's AOT technology.
- Owned by Temple University; licensed to QS Energy under an exclusive worldwide license agreement.
- A copy of the U.S. patent can be found at https://www.google.com/patents/US8173023

Increasing Fluidity of a Flowing Fluid
- This patent is related to QS Energy's AOT technology.
- Owned by QS Energy.
- A copy of the U.S. patent can be found at https://www.google.com/patents/US8616239

Electrical Interconnect and Method

- This patent has applications in both QS Energy's AOT and Joule Heat technologies.
- Owned by QS Energy.
- A copy of the published, pending U.S. application can be found at https://www.google.com/patents/US20150184887

Joule Heating Apparatus and Method

- This patent is related to QS Energy's Joule Heat technology.
- Owned by QS Energy.
- A copy of the published, pending U.S. application can be found at https://www.google.com/patents/US20150163858

Apparatus and Method for Reducing Viscosity

- This patent is related to QS Energy's AOT technology.
- Owned by QS Energy.
- A copy of the published, pending U.S. application can be found at https://www.google.com/patents/US20140318946

Method for Reduction for Crude Oil Viscosity

- This patent is related to QS Energy's AOT technology.
- Owned by Temple University; licensed to QS Energy under an exclusive worldwide license agreement.
- A copy of the U.S. patent can be found at http://www.google.com/patents/US8156954

Current Business Status

We are subject to non-disclosure agreements with national and multi-national upstream and midstream energy production and transportation companies throughout the USA and overseas for evaluation, testing and analysis of our AOT products' value to their systems. The Company has non-disclosure agreements in place with companies located on the following continents:

North America
Europe
Africa
Asia
Australia

Many of these companies have further demonstrated interest in our technology by electing to send crude oil samples to Temple University to test the potential efficacy of AOT technology on oils typical to their operations, results of which are used to provide detailed benefits analysis and determine baseline AOT configurations optimized for each company's unique operating conditions. Oil samples tested under these non-disclosure agreements include: African crude oil; refinery fuels; black wax and yellow wax crudes from the Uintah Basin; #2 diesel fuel; ultra-low sulfur diesel; Central California crude oil; crude oil condensate; and sour crude oil. Results of laboratory these tests vary greatly depending on properties of the oil samples (viscosity, water content, particulate matter, etc.), and pipeline operating characteristics (oil temperature, flow rate, etc.). All samples tested demonstrated viscosity reductions, with half of the samples measuring viscosity reductions for 40% or more; one quarter of the samples measuring viscosity reductions ranging from 15% to 25%; and one quarter of the samples measuring viscosity reduction ranging from 4% to 6%.

The Company is currently in negotiations with a large crude oil and transportation company with operations in the Southern United States and gulf coast region. Temple University has tested multiple oil samples provided under a non-disclosure agreement, demonstrating viscosity reductions up to 46% in a laboratory setting.

A Company affiliate, 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 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.

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.

The Company is currently in discussions regarding AOT technologies with eight additional top-tier national and multi-national oil and gas companies.

Laboratory and Scientific Testing

From 2010 through 2013, the Company worked with the U.S. Department of Energy ("US DOE") to test its technology at the Department of Energy's Rocky Mountain Oilfield Testing Center ("RMOTC"), near Casper, Wyoming. This third-party testing independently verified the efficacy of the Company's technology operating in a controlled facility, using commercial-scale prototype of our AOT equipment. These tests were summarized in the US DOE Rocky Mountain Oilfield Test Center report dated April 4, 2012 ("ROMRC Report"), which reported AOT measured pressure loss reduction of 40% (RMOTC Report, Fig. 1, page 4) and viscosity reduction of 40% (RMOTC Report, Fig. 2, page 4); and reported observed reductions in line-loss and gains in pump operation efficiency across the entire length of the 4.4-mile test pipeline. A copy of the RMOTC April 4, 2012 Report is available on the Company website at: https://qsenergy.box.com/DOE-STWA-RMOTC-Report. A subsequent long-duration (24-hour) test at the RMOTC facility tested the effectiveness of AOT in treating oil overnight, as pipeline oil temperatures and viscosities drop. In its report dated May 3, 2012 to May 4, 2012, US DOE engineers recorded 56% reduction in viscosity of the AOT-treated oil versus untreated oil, with AOT effectively stabilizing oil viscosity throughout the overnight run despite dropping temperatures. A copy of the RMOTC May 3, 2012 to May 4, 2012 report is available on the Company website at: https://qsenergy.box.com/DOE-STWA-RMOTC-Overnight.

Laboratory testing of our AOT technology has been conducted by Dr. Rongjia Tao. Testing of the technology as applied to crude oil extraction and transmission has been conducted at Temple University in their Physics Department, in addition to the US DOE, at their Rocky Mountain Oilfield Testing Center, located on the Naval Petroleum Reserve #3 Teapot Dome Oilfield, north of Casper, Wyoming. In addition, a group led by Dr. Rongjia Tao, Chairman, Department of Physics of Temple University conducted experiments, using the laboratory-scale Applied Oil Technology apparatus at the National Institute of Standards and Technology (NIST) Center for Neutron Research (CNR). NIST is an agency of the U.S. Department of Commerce, founded in 1901 in Gaithersburg, Maryland.

Independent laboratory testing was also conducted as a collaborative effort by Temple University and PetroChina Pipeline R&D Center ("PetroChina") in 2012. In its report dated June 26, 2012 ("PetroChina Report"), PetroChina concluded, "The above series of tests show that it is very effective to use AOT to reduce the viscosity of crude oil. We can see that AOT has significantly reduced the viscosity of Daqing crude oil, Changqing crude oil, and Venezuela crude oil, and greatly improved its flow rate." (PetroChina Report, page 15). A copy of the PetroChina Report is available online at: https://qsenergy.box.com/PetroChina-STWA-Report

As previously reported in 2014, QS Energy installed and tested its commercial AOT equipment, leased and operated by TransCanada on TransCanada's high-volume Keystone pipeline operation. The first full test of the AOT equipment on the Keystone pipeline was performed in July 2014, with preliminary data analyzed and reported by Dr. Rongjia Tao of Temple University. 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. Although Dr. Tao's preliminary report indicated promising results, QS Energy and TransCanada mutually agreed that no conclusions could be reliably reached from the July 2014 test or from Dr. Tao's preliminary report. As a result of this test, the Company modified its testing protocols and contracted with an independent laboratory, ATS RheoSystems, a division of CANNON ("ATS"), to perform follow-up tests at the TransCanada facility. This independent laboratory performed viscosity measurements at the TransCanada facility during subsequent testing in September 2014. As detailed in its field test report dated October 6, 2014, ATS measured AOT viscosity reductions of 8% to 23% depending on flow rates and crude oil types in transit. Over the duration of a 24-hour test intended to measure the recovery of the AOT treated oil from its reduced-viscosity treated state to its original pre-treated viscosity, ATS measured viscosity reductions of 23% three hours after treatment and 11% thirteen hours after treatment, with the crude oil returning to its untreated state approximately twenty-two hours after treatment. In its summary report dated February 5, 2015, 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. A copy of the ATS summary report dated February 5, 2015 is available on the Company website at: https://qsenergy.box.com/ATS-AOT-SummaryRpt. A copy of the ATS field test report dated October 6, 2014, with certain confidential information redacted, is available on the Company website at: https://qsenergy.box.com/ATS-AOT-Detailed-Report.

Although, as reported by ATS, the efficacy of the AOT technology operated in the TransCanada field test was constrained due to limitations of the electric field applied by that unit's power supply, subsequent analysis by QS Energy personnel of ATS test results compared against laboratory tests performed at Temple University on oil samples provided by TransCanada revealed a single test run in which the electric field generated by the AOT was sufficient to fully treat the oil given operating conditions at the time of the test. In this test run, ATS measured a 23% reduction in viscosity three hours after AOT treatment. Laboratory tests at Temple University performed on a sample of crude oil provided by TransCanada of the same type treated in that specific field test measured a 27% reduction in viscosity in the laboratory immediately following treatment. Allowing for the actual three-hour of recovery time of the field test measurement, the resulting field test viscosity reduction of 23% correlates very well to the 27% viscosity reduction achieved in the laboratory setting.

Due to the small sample size of tests performed during the TransCanada field test, results reported by ATS are statistically inconclusive and cannot be relied upon to provide proof of AOT efficacy. While more testing is required to establish the efficacy of our AOT technology, we are encouraged by the findings of our independent research laboratory and the results of subsequent comparative analysis of data collected under laboratory and commercial operating conditions. We look forward to further development and commercialization of our technology. The TransCanada Lease was terminated by TransCanada, effective October 15, 2014. The Company has modified the design of the AOT power supply such that future installations of the AOT device are expected to achieve sufficient electric field to optimize viscosity reduction.

The Company contracted Southern Research Company ("SRI") in 2015 to perform independent laboratory tests on its prototype Joule Heat units AOT Upstream units. SRI performed tests on a prototype Joule Heat unit in September 2015, which showed promising results in which the Joule Heat prototype was observed to increase crude oil temperatures. 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.

Competition

The oil transportation industry is highly competitive. We are aware of only three currently available competitive technologies in widespread use for reducing the viscosity of oil throughout the world. Many of our competitors have greater financial, research, marketing and staff resources than we do. For instance, oil pipeline operators use heat, diluents such as naphtha and/or natural gasoline, and/or chemical viscosity reduction additives, or chemical drag-reducing agents to improve flow in pipelines. Our research indicates that these methods are either very energy-intensive, or costly to implement on a day to day basis. Management believes that the Company's AOT technology presents advantages over traditional methods, yet the industry's willingness to experiment with new technology may pose some challenges in acceptance.

We are not aware of any other technology using uniform electrical field crude oil viscosity reduction technology which is designed to significantly improve pipeline operation efficiency. Although we are unaware of any technologies that compete directly with our technologies, there can be no assurance that any unknown existing or future technology will not be superior to products incorporating our AOT technology. Major domestic and international manufacturers and distributors of pipeline flow-improvement chemical solutions include Pemex, Petrotrin, Pluspetrol, Repsol, Glencore, Conoco-Philips, and Baker-Hughes. According to our research, heater skid manufacturers are generally local to the oilfield and pipeline regions, and are comprised of a large number of relatively small businesses in a fragmented industry. Major heater skid manufacturers are Parker, KW International, Thermotech Systems, LTD.

Government Regulation and Environmental Matters

Our research and development activities are not subject to any governmental regulations that would have a significant impact on our business and we believe that we are in compliance with all applicable regulations that apply to our business as it is presently conducted. Our products, as such, are not subject to certification or approval by the EPA or other governmental agencies domestically or internationally. Depending upon whether we manufacture or license our products in the future and in which countries such products are manufactured or sold, we may be subject to regulations, including environmental regulations, at such time.

Non-Disclosure Agreements

To protect our intellectual property, we have entered into agreements with certain employees and consultants, which limit access to, and disclosure or use of, our technology. There can be no assurance, however, that the steps we have taken to deter misappropriation of our intellectual property or third party development of our technology and/or processes will be adequate, that others will not independently develop similar technologies and/or processes or that secrecy will not be breached. In addition, although management believes that our technology has been independently developed and does not infringe on the proprietary rights of others, there can be no assurance that our technology does not and will not so infringe or that third parties will not assert infringement claims against us in the future. Management believes that the steps they have taken to date will provide some degree of protection; however, no assurance can be given that this will be the case.

Employees

As of December 31, 2015, the Company had three (3) full-time employees. As of such date, we also utilized the services of six part-time consultants to assist us with various matters, including engineering, logistics, investor relations, public relations, accounting and sales and marketing. We intend to hire additional personnel to provide services when they are needed on a full-time basis. We recognize that our efficiency largely depends, in part, on our ability to hire and retain additional qualified personnel as and when needed and we have adopted procedures to assure our ability to do so.

Item 1A. Risk Factors

We have a history of losses, and we cannot assure you that we will ever become or remain profitable. As a result, you may lose your entire investment.

We generated insignificant revenues from operations in late 2006 and subsequently did not generate any revenues until 2014 and we have incurred recurring net losses every year since our inception in 1998. For the fiscal years ended December 31, 2015, 2014, and 2013 we had net losses of $4,228,954, $4,006,335, and $10,657,009 respectively. To date, we have dedicated most of our financial resources to research and development, general and administrative expenses and initial sales and marketing activities. We have funded all of our activities through sales of our debt and equity securities for cash. We anticipate net losses and negative cash flow to continue until such time as our products are brought to market in sufficient amounts to offset operating losses. Our ability to achieve profitability is dependent upon our continuing research and development, product development, and sales and marketing efforts, to deliver viable products and the Company's ability to successfully bring them to market. Although our management is optimistic that we will succeed in marketing products incorporating our technologies, there can be no assurance that we will ever generate significant revenues or that any revenues that may be generated will be sufficient for us to become profitable or thereafter maintain profitability. If we cannot generate sufficient revenues or become or remain profitable, we may have to cease our operations and liquidate our business.

Our independent auditors have expressed doubt about our ability to continue as a going concern, which may hinder our ability to obtain future financing.

In their report dated March 15, 2016, our independent auditors stated that our consolidated financial statements for the year ended December 31, 2015 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of our recurring net losses and accumulated deficit from operations since inception. We had an accumulated deficit of $101,274,152 as of December 31, 2015. Our ability to continue as a going concern is subject to our ability to obtain significant additional capital to fund our operations and to generate revenue from sales, of which there is no assurance. The going concern qualification in the auditor's report could materially limit our ability to raise additional capital. If we fail to raise sufficient capital, we may have to liquidate our business and you may lose your investment.

Since we have not yet begun to generate positive cash flow from operations, our ability to continue operations is dependent on our ability to either begin to generate positive cash flow from operations or our ability to raise capital from outside sources.

We have not generated positive cash flow from operations since our inception in February 1998 and have relied on external sources of capital to fund operations. We had $349,186 in cash at December 31, 2015 and negative cash flow from operations of $2,595,457 for the year ended December 31, 2015.

We currently do not have credit facilities available with financial institutions or other third parties, and historically have relied upon best efforts third-party funding. Though we have been successful at raising capital on a best efforts basis in the past, we can provide no assurance that we will be successful in any future best-efforts financing endeavors. We will need to continue to rely upon financing from external sources to fund our operations for the foreseeable future. If we are unable to raise sufficient capital from external sources to fund our operations, we may need to curtail operations.

We will need substantial additional capital to meet our operating needs, and we cannot be sure that additional financing will be available.

As of December 31, 2015 and thereafter, our expenses ran, and are expected to continue to run, at an approximate "cash burn rate" of $120,000 per month, which amount could increase during 2016. In order to fund our capital needs, we conducted private offerings of our securities in 2013, 2014 and 2015. While discussion regarding additional interim and permanent financings are being actively conducted, management cannot predict with certainty that an equity line of credit will be available to provide adequate funds, or any funds at all, or whether any additional interim or permanent financings will be available at all or, if it is available, if it will be available on favorable terms. If we cannot obtain needed capital, our research and development, and sales and marketing plans, business and financial condition and our ability to reduce losses and generate profits will be materially and adversely affected.

Our business prospects are difficult to predict because of our limited operating history, early stage of development and unproven business strategy. Since our incorporation in 1998, we have been and continue to be involved in development of products using our technology, establishing manufacturing and marketing of these products to consumers and industry partners. Although we believe our technology and products in development have significant profit potential, we may not attain profitable operations and our management may not succeed in realizing our business objectives.

If we are not able to devote adequate resources to product development and commercialization, we may not be able to develop our products.

Our business strategy is to develop, manufacture and market products incorporating our AOT and Joule Heat technologies. We believe that our revenue growth and profitability, if any, will substantially depend upon our ability to raise additional necessary capital for research and development, complete development of our products in development and successfully introduce and commercialize our products.

Certain of our products are still under various stages of development. Because we have limited resources to devote to product development and commercialization, any delay in the development of one product or reallocation of resources to product development efforts that prove unsuccessful may delay or jeopardize the development of other product candidates. Although our management believes that it can finance our product development through private placements and other capital sources, if we do not develop new products and bring them to market, our ability to generate revenues will be adversely affected.

The commercial viability of QS Energy's technologies remains largely unproven and we may not be able to attract customers.

Despite the fact that we leased AOT equipment in 2014 to a major oil pipeline operator and tested the equipment on their high-volume pipeline under normal operating conditions, have entered into a lease agreement with a second major oil pipeline operator to operate and test AOT equipment in 2015, and initiated testing of our Joule Heat technology in laboratory and commercial operating conditions in 2015, the commercial viability of our devices is not known at this time. If commercial opportunities are not realized from the use of products incorporating the AOT and Joule Heat technologies, our ability to generate revenue would be adversely affected. There can be no assurances that we will be successful in marketing our products, or that customers will ultimately purchase our products. Failure to have commercial success from the sale of our products will significantly and negatively impact our financial condition. There can be no assurances that we will be successful in marketing our products, or that customers will ultimately purchase our products. Failure to have commercial success from the sale of our products will significantly and negatively impact our financial condition.

If our products and services do not gain market acceptance, it is unlikely that we will become profitable.

At this time, our technology is commercially unproven, and the use of our technology by others is limited. Specific examples of use to date include:

- Temple University, testing, research and joint development;
- U.S. Department of Energy Rocky Mountain Oilfield Testing Center, testing and research;
- PetroChina Pipeline R&D Center, testing and research;
- TransCanada, testing;
- Kinder Morgan Crude and Condensate, testing, possible conversion to commercial use;
- Newfield Exploration Company, testing and joint development;

The commercial success of our products will depend upon the adoption of our technology by the oil industry. Market acceptance will depend on many factors, including:

- the willingness and ability of consumers and industry partners to adopt new technologies;
- our ability to convince potential industry partners and consumers that our technology is an attractive alternative to other technologies;
- our ability to manufacture products and provide services in sufficient quantities with acceptable quality and at an acceptable cost; and,
- our ability to place and service sufficient quantities of our products.

If our products do not achieve a significant level of market acceptance, demand for our products will not develop as expected and it is unlikely that we will become profitable.

We outsource and rely on third parties for the manufacture of our products.

Our business model calls for the outsourcing of the manufacture of our products in order to reduce our capital and infrastructure costs, capital expenditure and personnel. Accordingly, we must enter into agreements with other companies that can assist us and provide certain capabilities that we do not possess, and to increase our manufacturing capacity as necessary. We can provide no assurances that any such outsourcing will be at commercially acceptable rates or profitable. Moreover, we do not have the required financial and human resources or capability to manufacture, market and sell our products. Our business model calls for the outsourcing of the manufacture, and sales and marketing of our products in order to reduce our capital and infrastructure costs as a means of potentially improving our financial position and the profitability of our business. Accordingly, we must enter into agreements with other companies that can assist us and provide certain capabilities that we do not possess. We may not be successful in entering into additional such alliances on favorable terms or at all. Furthermore, any delay in entering into agreements could delay the development and commercialization of our products and reduce their competitiveness even if they reach the market. Any such delay related to our existing or future agreements could adversely affect our business.

If any party to which we have outsourced certain functions fails to perform its obligations under agreements with us, the development and commercialization of our products could be delayed or curtailed.

To the extent that we rely on other companies to manufacture, sell or market our products, we will be dependent on the timeliness and effectiveness of their efforts. If any of these parties do not perform its obligations in a timely and effective manner, the commercialization of our products could be delayed or curtailed because we may not have sufficient financial resources or capabilities to continue such development and commercialization on our own.

Any revenues that we may earn in the future are unpredictable, and our operating results are likely to fluctuate from quarter to quarter.

We believe that our future operating results will fluctuate due to a variety of factors, including delays in product development, market acceptance of our new products, changes in the demand for and pricing of our products, competition and pricing pressure from competitive products, manufacturing delays and expenses related to and the results of proceedings relating to our intellectual property.

A large portion of our expenses, including expenses for our facilities, equipment and personnel, is relatively fixed and not subject to further significant reduction. In addition, we expect our operating expenses will increase in 2015 as we continue our research and development and increase our production and marketing activities, among other activities. Although we expect to generate revenues from sales of our products, revenues may decline or not grow as anticipated and our operating results could be substantially harmed for a particular fiscal period. Moreover, our operating results in some quarters may not meet the expectations of stock market analysts and investors. In that case, our stock price most likely would decline.

Nondisclosure agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

In order to protect our proprietary technology and processes, we rely in part on nondisclosure agreements with our employees, licensing partners, customers, consultants, agents and other organizations to which we disclose our proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position. Since we rely on trade secrets and nondisclosure agreements, in addition to patents, to protect some of our intellectual property, there is a risk that third parties may obtain and improperly utilize our proprietary information to our competitive disadvantage. We may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights.

The manufacture, use or sale of our current and proposed products may infringe on the patent rights of others, and we may be forced to litigate if an intellectual property dispute arises.

We have taken measures to protect ourselves from infringing on the patent rights of others; however, if we infringe or are alleged to have infringed another party's patent rights, we may be required to seek a license, defend an infringement action or challenge the validity of the patents in court. Patent litigation is costly and time consuming. We may not have sufficient resources to bring these actions to a successful conclusion. In addition, if we do not obtain a license, do not successfully defend an infringement action or are unable to have infringed patents declared invalid, we may incur substantial monetary damages ,encounter significant delays in marketing our current and proposed product candidates, be unable to conduct or participate in the manufacture, use or sale of product, candidates or methods of treatment requiring licenses, lose patent protection for our inventions and products; or find our patents are unenforceable, invalid, or have a reduced scope of protection.

Parties making such claims may be able to obtain injunctive relief that could effectively block our ability to further develop or commercialize our current and proposed product candidates in the United States and abroad and could result in the award of substantial damages. Defense of any lawsuit or failure to obtain any such license could substantially harm the company. Litigation, regardless of outcome, could result in substantial cost to and a diversion of efforts by the Company to operate its business.

We may face costly intellectual property disputes.

Our ability to compete effectively will depend in part on our ability to develop and maintain proprietary aspects of our technologies and either to operate without infringing the proprietary rights of others or to obtain rights to technology owned by third parties. Our pending patent applications, specifically patent rights of the AOT technology and Joule Heating process may not result in the issuance of any patents or any issued patents that will offer protection against competitors with similar technology. Patents we have licensed for our technologies, and which we may receive, may be challenged, invalidated or circumvented in the future or the rights created by those patents may not provide a competitive advantage. We also rely on trade secrets, technical know-how and continuing invention to develop and maintain our competitive position. Others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets.

We may not be able to attract or retain qualified senior personnel.

We believe we are currently able to manage our current business with our existing management team. However, as we expand the scope of our operations, we will need to obtain the full-time services of additional senior management and other personnel. Competition for highly-skilled personnel is intense, and there can be no assurance that we will be able to attract or retain qualified senior personnel. Our failure to do so could have an adverse effect on our ability to implement our business plan. As we add full-time senior personnel, our overhead expenses for salaries and related items will increase compensation packages, these increases could be substantial.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve profitability.

Our future success is substantially dependent on the efforts of our senior management, particularly Gregg Bigger, our President, Chief Executive Officer and Chief Financial Officer. The loss of the services of members of our senior management may significantly delay or prevent the achievement of product development and other business objectives. Because of the scientific nature of our business, we depend substantially on our ability to attract and retain qualified marketing, scientific and technical personnel, including consultants. There is intense competition among specialized automotive companies for qualified personnel in the areas of our activities. If we lose the services of, or do not successfully recruit key marketing, scientific and technical personnel, the growth of our business could be substantially impaired. We do not maintain key man insurance for any of these individuals.

Currently, there is only very limited trading in our stock, so you may be unable to sell your shares at or near the quoted bid prices if you need to sell your shares.

The shares of our common stock are thinly-traded on the OTCQX marketplace and the OTC Bulletin Board, meaning that the number of persons interested in purchasing our common shares at or near bid prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company engaged in a high risk business which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that can generate or influence daily trading volume and valuation. Should we even come to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven, early stage company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous trading without negatively impacting share price. We cannot provide any assurance that a broader or more active public trading market for shares of our common stock will develop or be sustained. Due to these conditions, we cannot give any assurance that shareholders will be able to sell their shares at or near bid prices or at all.

The market price of our stock is volatile.

The market price for our common stock has been volatile during the last year, ranging from a closing price of $0.50 on March 17, 2015 to a closing price of $0.16 on December 22, 2015, and a closing price of $0.19 on March 4, 2016. Additionally, the price of our stock has been both higher and lower than those amounts on an intra-day basis in the last year. Because our stock is thinly traded, its price can change dramatically over short periods, even in a single day. The market price of our common stock could fluctuate widely in response to many factors, including, developments with respect to patents or proprietary rights, announcements of technological innovations by us or our competitors, announcements of new products or new contracts by us or our competitors, actual or anticipated variations in our operating results due to the level of development expenses and other factors, changes in financial estimates by securities analysts and whether any future earnings of ours meet or exceed such estimates, conditions and trends in our industry, new accounting standards, general economic, political and market conditions and other factors.

Substantial sales of common stock could cause our stock price to fall.

In the past year, there have been times when average daily trading volume of our common stock has been extremely low, and there have been many days in which no shares were traded at all. At other times, the average daily trading volume of our common stock has been high. Nevertheless, the possibility that substantial amounts of common stock may be sold in the public market may adversely affect prevailing market prices for our common stock and could impair a shareholder's ability to sell our stock or our ability to raise capital through the sale of our equity securities.

Potential issuance of additional shares of our common stock could dilute existing stockholders.

We are authorized to issue up to 300,000,000 shares of common stock. To the extent of such authorization, our Board of Directors has the ability, without seeking stockholder approval, to issue additional shares of common stock in the future for such consideration as the Board of Directors may consider sufficient. The issuance of additional common stock in the future will reduce the proportionate ownership and voting power of shareholders.

We may not be successful in identifying, making, financing and integrating acquisitions.

A component of our business strategy is to make selective acquisitions that will strengthen our core services or presence in selected markets. The success of this strategy will depend, among other things, on our ability to identify suitable acquisition candidates, to obtain acceptable financing, to timely and successfully integrate acquired businesses or assets and to retain the key personnel and the customer base of acquired businesses. Any future acquisitions could present a number of risks, including but not limited to:

- incorrect assumptions regarding the future results of acquired operations or assets or expected cost reductions or other synergies expected to be realized as a result of acquiring operations or assets;
- failure to integrate successfully the operations or management of any acquired operations or assets in a timely manner;
- failure to retain or attract key employees; and
- diversion of management's attention from existing operations or other priorities.

If we are unable to identify, make and successfully integrate acquired businesses, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our common stock is subject to penny stock regulation, which may make it more difficult for us to raise capital.

Our common stock is considered penny stock under SEC regulations. It is subject to rules that impose additional sales practice requirements on broker-dealers who sell our securities. For example, broker-dealers must make a suitability determination for the purchaser, receive the purchaser's written consent to the transaction prior to sale, and make special disclosures regarding sales commissions, current stock price quotations, recent price information and information on the limited market in penny stock. Because of these additional obligations, some broker-dealers may not effect transactions in penny stocks, which may adversely affect the liquidity of our common stock and shareholders' ability to sell our common stock in the secondary market. This lack of liquidity may make it difficult for us to raise capital in the future.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Our executive offices are located at 735 State Street, Suite 500, Santa Barbara, California 93101. The Company also operated its ELEKTRA Research and Development facility located at 235 Tennant Avenue, Morgan Hill, California 95037 until its closure in June 2013.

Total rent expense under these leases in effect during the years ended December 31, 2015, 2014, and 2013, was $69,960, $81,851, and $160,535, respectively which are included as part of Operating Expenses in the attached consolidated statements of operations. Remaining minimum lease commitments under the non-cancellable office lease at December 31, 2015 were $180,730 through the end of 2018. The following is a schedule by years of future minimum rental payments required under the non-cancellable office leases as of December 31, 2015.

Year ending December 31,	Non-cancellable Office Leases
2016	$ 69,960
2017	69,960
2018	40,810
Total	$ 180,730

We believe our facilities are adequate to meet our current and near-term needs.

Item 3. 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 4. Mine Safety Disclosures.

None.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Through May 21, 2007, our common stock was traded on the Over the Counter Bulletin Board (the "OTCBB" under the symbol "ZERO". Effective May 22, 2007, our common stock was removed from the OTCBB and placed on the "Pink Sheets". Effective February 8, 2010, our common stock was reinstated and currently trades on the OTCBB. On October 30, 2014, our common stock was listed for trading on the OTCQX marketplace under the symbol "ZERO". Effective August 11, 2015, the Company changed its name to QS Energy, Inc., and changed its trading symbol to "QSEP". The following table sets forth the high and low bid prices of the Company's common stock for the quarters indicated as quoted on the OTCBB or OTCQX, as applicable, as reported by Yahoo Finance. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	2015		2014		2013	
	High	Low	High	Low	High	Low
First Quarter	$ 0.51	$ 0.34	$ 1.12	$ 0.76	$ 1.13	$ 0.77
Second Quarter	$ 0.47	$ 0.30	$ 0.89	$ 0.64	$ 1.50	$ 0.77
Third Quarter	$ 0.38	$ 0.15	$ 0.84	$ 0.50	$ 1.88	$ 1.05
Fourth Quarter	$ 0.34	$ 0.13	$ 0.74	$ 0.34	$ 1.39	$ 0.83

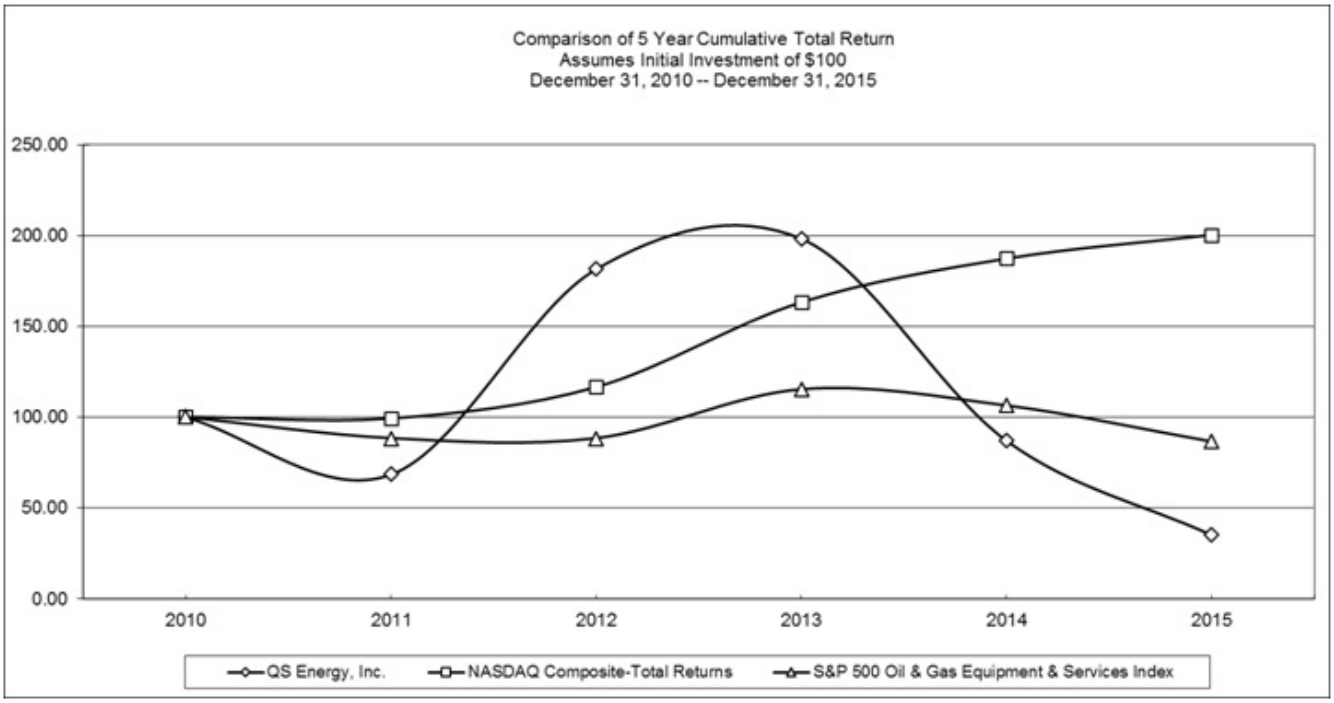
According to the records of our transfer agent, we had approximately 1,009 stockholders of record of our common stock at March 4, 2016. The Company believes that the number of beneficial owners is substantially higher than this amount.

We do not pay a dividend on our common stock and we currently intend to retain future cash flows to finance our operations and fund the growth of our business. Any payment of future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, our earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions in respect to the payment of dividends and other factors that our Board of Directors deems relevant.

Stock Performance Graph and Cumulative Total Return

The graph below shows the cumulative total stockholder return assuming the investment of $100 on the date specified (and the reinvestment of dividends thereafter) in each of QS Energy common stock (symbol QSEP), the NASDAQ Composite Total Returns, and the S&P Oil & Gas Equipment & Services Index. The stock performance graph does not include QS Energy's peer group because peer group information is represented and included in the S&P Oil & Gas Equipment & Services Index. The comparisons in the graph below are based upon historical data and are not indicative of, or intended to forecast, future performance of our common stock.

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of $100
December 31, 2010 – December 31, 2015



	12/2010	12/2011	12/2012	12/2013	12/2014	12/2015
QS Energy, Inc.	100.00	68.52	181.48	198.15	87.04	35.19
NASDAQ Composite Total Returns	100.00	99.17	116.48	163.21	187.27	200.31
S&P 500 Oil & Gas Equipment & Services Index	100.00	88.32	88.32	115.39	106.39	86.14

Issuances of Unregistered Securities in Current Fiscal Year and Prior Fiscal Year

During the year ended December 31, 2015, the Company issued an aggregate of 2,803,333 shares of its common stock as follows:

- On January 12, 2015, the Company issued 200,000 shares of its common stock to the holder of a warrant upon exercise of the warrant at a price of $0.25 per share with proceeds of $50,000.

- The Company issued 2,603,333 shares of its common stock valued at $668,800 at conversion prices of $0.10-$0.48 per share upon voluntary conversion of certain of the Company's convertible promissory notes as follows:

Shares of Common Stock Issued in Year Ended December 31,2015

Date of Issuance	Principal and Interest Converted to Common Stock	Conversion Price	Shares of Common Stock Issued
1/7/2015	$ 52,800	$ 0.48	110,000
6/22/2015	$ 385,000	$ 0.30	1,283,333
6/30/2015	$ 165,000	$ 0.30	550,000
12/15/2015	$ 55,000	$ 0.10	550,000
12/15/2015	$ 5,500	$ 0.10	55,000
12/15/2015	$ 5,500	$ 0.10	55,000
Total, 2015	$ 668,800	$ 0.26	2,603,333

- The Company issued convertible notes in aggregate value of $726,000 for net proceeds of $660,000, convertible into 3,593,333 shares in common stock of the Company at a conversion prices of $0.10-$0.30 per share, and in connection with these notes, issued warrants to purchase 1,796,667 shares of common stock of the Company at exercise prices of $0.10-$0.30 per share and expiring one year from the date of issuance, as follows:

Convertible Notes Issued in Year Ended December 31,2015

Date of Issuance	Cash Proceeds	Face Value of Note	Conversion Price	Convertible to Shares of Common Stock	Warrants to Purchase Common Stock	Warrant Exercise Price	Warrant Expiration Date
5/27/2015	$ 350,000	$ 385,000	$ 0.30	1,283,333	641,667	$ 0.30	5/27/2016
6/3/2015	$ 150,000	$ 165,000	$ 0.30	550,000	275,000	$ 0.30	6/3/2016
12/1/2015	$ 50,000	$ 55,000	$ 0.10	550,000	275,000	$ 0.10	12/1/2016
12/7/2015	$ 5,000	$ 5,500	$ 0.10	55,000	27,500	$ 0.10	12/7/2016
12/2/2015	$ 5,000	$ 5,500	$ 0.10	55,000	27,500	$ 0.10	12/2/2016
11/16/2015	$ 30,000	$ 33,000	$ 0.10	330,000	165,000	$ 0.10	11/16/2016
12/28/2015	$ 70,000	$ 77,000	$ 0.10	770,000	385,000	$ 0.10	12/28/2016
Total, 2015	$ 660,000	$ 726,000	$ 0.20	3,593,333	1,796,667	$ 0.20	

During the year ended December 31, 2014, the Company issued an aggregate of 4,785,427 shares of its common stock as follows:

- In January and February 2014, warrants to acquire 4,690,947 shares of common stock were exercised resulting in gross proceeds of $1,407,284. Each of these warrants had been issued in connection with convertible notes issued in January and February 2012 as previously reported in the Company's SEC Form 8-K filings submitted on January 23, 2012 and February 8, 2012. The offering documents were attached as exhibits to the aforementioned 8-K filings. Included in the exercise of these warrants was the issuance of 100,000 shares of common stock valued at $30,000 and accounted for as partial settlement of unpaid fees recorded in prior years. As a result, the aggregate net proceeds received amounted to $1,377,284.

- In February 2014, options to purchase 20,000 shares of common stock at an exercise price of $0.30 per share were exercised resulting in proceeds of $6,000. These options had been issued to an employee in May 2012.

- The Company issued 74,480 shares of its common stock in exchange for conversion of $35,750 of Convertible Notes pursuant to the convertible notes at a conversion price of $0.48 per share, as follows:

Shares of Common Stock Issued in Year Ended December 31,2014

Date of Issuance	Principal and Interest Converted to Common Stock	Conversion Price	Shares of Common Stock Issued
12/8/2014	$ 11,000	$ 0.48	22,917
12/8/2014	$ 11,000	$ 0.48	22,917
12/8/2014	$ 13,750	$ 0.48	28,646
Total, 2014	$ 35,750	$ 0.48	74,480

- The Company issued convertible notes in aggregate value of $280,390 for net proceeds of $254,900, convertible into 584,147 shares in common stock of the Company at a conversion price of $0.48 per share, and in connection with these notes, issued warrants to purchase 146,037 shares of common stock of the Company at an exercise price of $0.48 per share and expiring one year from the date of issuance, as follows:

Convertible Notes Issued in Year Ended December 31,2014

Date of Issuance	Cash Proceeds	Face Value of Note	Conversion Price	Convertible to Shares of Common Stock	Warrants to Purchase Common Stock	Warrant Exercise Price	Warrant Expiration Date
10/5/2014	$ 10,000	$ 11,000	$ 0.48	22,917	5,729	$ 0.48	10/5/2015
9/30/2014	$ 14,400	$ 15,840	$ 0.48	33,000	8,250	$ 0.48	9/30/2015
10/8/2014	$ 10,000	$ 11,000	$ 0.48	22,917	5,729	$ 0.48	10/8/2015
10/9/2014	$ 48,000	$ 52,800	$ 0.48	110,000	27,500	$ 0.48	10/9/2015
10/14/2014	$ 10,000	$ 11,000	$ 0.48	22,917	5,729	$ 0.48	10/14/2015
10/29/2014	$ 12,500	$ 13,750	$ 0.48	28,646	7,162	$ 0.48	10/29/2015
12/11/2014	$ 150,000	$ 165,000	$ 0.48	343,750	85,938	$ 0.48	12/11/2015
Total, 2014	$ 254,900	$ 280,390	$ 0.48	584,147	146,037	$ 0.48	

The sales of the securities described above were made in reliance on the exemptions from registration set forth in Section 4(2) of the Securities Act of 1933, as amended (the "Act"), and/or Regulation S promulgated thereunder, in that the sales were made without general advertising or solicitation in non-public offerings to accredited U.S. investors and/or to non-U.S. investors in transactions outside the United States. The above described shares of common stock, convertible notes and warrants were issued by the Company in furtherance of the terms and conditions of each such instrument, forms of which are attached to this form 10-K as Exhibits 10.117, 10.118 and 10.119.

Item 6. Selected Financial Data

The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and related notes thereto and management's discussion and analysis included elsewhere in this Form 10-K annual report and in our annual reports that have been filed for the prior years presented.

CONSOLIDATED STATEMENT OF OPERATIONS

	Year ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Net sales	$ –	$ 240,000	$ –	$ –	$ –
Costs and Expenses					
Operating expenses	2,915,369	3,284,666	11,884,775	7,187,970	6,698,981
Research and development expenses	577,501	893,452	2,011,486	963,184	1,318,783
Loss before other income (expense)	(3,492,870)	(3,938,118)	(13,896,261)	(8,151,154)	(8,017,764)
Other income (expense)					
Interest and financing expense	(747,342)	(39,619)	(260)	(3,627,732)	(5,084,253)
Change in fair value of derivative liabilities	–	–	(220,614)	(4,023,094)	2,021,536
Gain on extinguishment of derivative liabilities	–	–	3,441,752	2,445,095	–
Other income (expense)	11,258	(28,598)	18,374	264,498	223,934
Net loss	(4,228,954)	(4,006,335)	(10,657,009)	(13,092,387)	(10,856,547)
Net loss per common share, basic and diluted	$ (0.02)	$ (0.02)	$ (0.07)	$ (0.10)	$ (0.10)
Weighted average common shares outstanding, basic and diluted	182,267,719	180,386,712	160,958,284	128,667,391	104,103,109

CONSOLIDATED BALANCE SHEET

	Year ending December 31,				
Assets	**2015**	**2014**	**2013**	**2012**	**2011**
Cash	$ 349,186	$ 2,247,557	$ 4,137,068	$ 1,601,791	$ 617,797
Property and Equipment, net of accumulated depreciation	21,798	21,946	35,771	55,674	75,609
Other assets	57,076	78,055	62,760	50,462	88,237
Total assets	$ 428,060	$ 2,347,558	$ 4,235,599	$ 1,707,927	$ 781,643
Liabilities					
Accounts payable and accrued expenses	$ 988,085	$ 840,048	$ 1,160,283	$ 1,384,309	$ 2,074,244
Convertible debentures, net of discount	222,195	139,098	–	–	169,542
Fair value of derivative liabilities	–	–	–	3,221,138	1,643,139
Total Liabilities	$ 1,210,280	$ 979,146	$ 1,160,283	$ 4,605,447	$ 3,886,925
Stockholders' equity (deficiency)	(782,220)	1,368,412	3,075,316	(2,897,520)	(3,105,282)
Total liabilities and stockholders' equity	$ 428,060	$ 2,347,558	$ 4,235,599	$ 1,707,927	$ 781,643

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

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 Item 7 of this Form 10-K.

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 above in Item 1 and elsewhere in this Form 10-K, 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-K is as of December 31, 2015, and we undertake no duty to update this information.

Overview

In the second quarter of 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.

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 raised capital in 2015 and will need to raise substantial additional capital in 2016, and possibly beyond, to fund our sales and marketing efforts, continuing research and development, and certain other expenses, until our revenue base grows sufficiently.

Results of Operation

Revenue Comparison, 2015 and 2014

The Company had no revenues in the fiscal year ended 2015. The Company recognized $240,000 in revenues in the fiscal year ended December 31, 2014 pursuant to the lease of the AOT Equipment by TransCanada.

Operating Expense Comparison, 2015 and 2014

Operating expenses were $2,915,369 for the fiscal year ended December 31, 2015, compared to $3,284,666 for the fiscal year ended December 31, 2014, a decrease of $369,297. This decrease was attributable to decreases in non-cash expenses of $2,912 and cash expenses of $365,585. Specifically, the decrease in non-cash expenses is attributable to a decrease in valuation of warrants and options issued to employees, directors and consultants of $2,149, and a decrease in depreciation of $763. The decrease in cash expenses is attributable to decreases in salaries and benefits of $227,635, consulting fees of $81,397, rents, utilities and maintenance of $5,920, travel expenses of $39,917, offset by an increase in general operating expenses of $7,322.

Research and development expenses were $577,501 for the fiscal year ended December 31, 2015, compared to $893,452 for the fiscal year ended December 31, 2014, a decrease of $315,951. This decrease is attributable to decreases in product prototype development costs of $216,657 and general testing and development costs of $34,587, and licensing and research fees of $64,707.

Other income was $11,258 for the fiscal year ended December 31, 2015, compared to an expense of $28,598 for the fiscal year ended December 31, 2014, an increase of $9,758. This increase is attributable to an increase in gain from disposition of fixed assets of $9,758.

Interest expenses were $747,342 for the fiscal year ended December 31, 2015, compared to $39,619 for the fiscal year ended December 31, 2014, an increase of $707,723. This increase is attributable to an increase in non-cash interest and financing expense of $707,723.

We had a net loss of $4,228,954 or $0.02 loss per share for the fiscal year ended December 31, 2015 compared to a net loss of $4,006,335 or $0.02 loss per share for the fiscal year ended December 31, 2014.

Revenue Comparison, 2014 and 2013

The Company recognized $240,000 in revenues in the fiscal year ended December 31, 2014 pursuant to the lease of the AOT Equipment by TransCanada. There were no similar transactions during the fiscal year ended December 31, 2013.

Operating Expense Comparison, 2014 and 2013

Operating expenses were $3,284,666 for the fiscal year ended December 31, 2014, compared to $11,884,775 for the fiscal year ended December 31, 2013, a decrease of $8,600,109. This decrease is attributable to decreases in non-cash expenses of $7,298,848 and cash expenses of $1,301,261. Specifically, the decrease in non-cash expenses is attributable to a $3,108,351 decrease in settlements paid through issuance of stock, a decrease in valuation of warrants, options and common stock issued to employees, directors and consultants of $4,183,923, and a decrease in depreciation of $6,574. The decrease in cash expenses is attributable to decreases in salaries and benefits of $774,820, consulting fees of $196,630, rents, utilities and maintenance of $109,770, travel expenses of $12,123 and general operating expenses of $207,918.

Research and development expenses were $893,452 for the fiscal year ended December 31, 2014, compared to $2,011,486 for the fiscal year ended December 31, 2013, a decrease of $1,118,034. This decrease is attributable to decreases in product prototype development costs of $526,423 and general testing and development costs of $602,351, offset by an increase in licensing and research fees of $10,740.

Interest expenses were $39,619 for the fiscal year ended December 31, 2014, compared to $260 for the fiscal year ended December 31, 2013, an increase of $39,359. This increase is attributable to an increase in non-cash interest and financing expense of $39,619 and decrease in other interest expenses of $260.

Gain on extinguishment of derivative liabilities was $0 for the fiscal year ended December 31, 2014, compared to $3,441,752 for the fiscal year ended December 31, 2013, a decrease of $3,441,752. This decrease is attributable to decrease in the gain on extinguishment of derivative liabilities of $3,441,752.

Other income was an expense of 28,598 for the fiscal year ended December 31, 2014, compared to income of $18,374 for the fiscal year ended December 31, 2013, a decrease of $46,872. This decrease is attributable to a decrease in gain from disposition of fixed assets of $41,923 and a decrease in debt cancellation and other miscellaneous income of $4,949.

We had a net loss of $4,006,335 or $0.02 loss per share for the fiscal year ended December 31, 2014 compared to a net loss of $10,657,009, or $0.07 loss per share for the fiscal year ended December 31, 2013.

Liquidity and Capital Resources

General

We have incurred negative cash flow from operations since our inception in 1998. As of December 31, 2015, we had cash of $349,186 and an accumulated deficit of $101,274,152. Our operating cash flow in 2015 was funded primarily through cash reserves, the exercise of stock purchase warrants for cash, and the issuance of convertible notes for cash.

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, the Company had a net loss of $4,228,954 and used cash in operations of $2,595,457 for the year ended December 31, 2015. These factors raise substantial doubt about our 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

At December 31, 2015, the Company had cash on hand in the amount of $349,186. Management estimates that the current funds on hand will be sufficient to continue operations through May 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 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 officer pursuant to an employment agreement, and certain payments to a former officer, 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 stock holders, in case of equity financing.

Contractual Obligations

The Company has certain contractual commitments 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)	License Agreements (2)	Compensation Agreements (3)	Total Obligations
2016	$ 69,960	$ 187,500	$ 350,000	$ 607,460
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	$ 180,730	$ 937,500	$ 999,804	$ 2,118,034

(1) Consists of rent for the Company's Santa Barbara Facility expiring on July 31, 2018. (For description of this property, see Part 1, Item 2, "Properties").

(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 $75,429.

Licensing Fees to Temple University

For details of the licensing agreements with Temple University, see Financial Statements attached hereto, Note 6.

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 2 of the Notes to the 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 2 to Notes to 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 grant 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.

Research and Development Costs

Costs incurred for research and development are expensed as incurred. Purchased materials that do not have an alternative future use are also expensed. Furthermore, costs incurred in the construction of prototypes with no certainty of any alternative future use and established commercial uses are also expensed.

For the years ended December 31, 2015, 2014 and 2013, research and development costs incurred were $577,501, $893,452 and $2,011,486 respectively.

Recent Accounting Pronouncements

See Note 2 of the financial statements for discussion of recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures 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 above, in Item 1A, “Risk Factors.” Please also see Item 7, above, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements as of and for the years ended December 31, 2015. 2014 and 2013 are presented in a separate section of this report following Item 15 and begin with the index on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 December 31, 2015, 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 December 31, 2015, 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.

2. Internal Control over Financial Reporting

(a) Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, 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 and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

QS Energy, Inc.'s internal control system is designed to provide reasonable assurance to the Company's management and Board regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations which may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of QS Energy, Inc.'s internal controls over financial reporting as of December 31, 2015. In making this assessment, it used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") (2013 framework). Based on our assessment, we conclude that, as of December 31, 2015, the Company has maintained effective internal control over financial reporting based on those criteria.

Our independent registered public accounting firm, Weinberg & Company, P.A., has audited the Consolidated Financial Statements and has issued an attestation report on QS Energy, Inc.'s internal controls over financial reporting as of December 31, 2015 as stated in its reports which are included herein.

(b) 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 fourth quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Composition of Board of Directors

Our bylaws provide that the Board shall consist of between one and eight directors, as determined by the Board from time to time. The Board consisted of six (6) members elected by the holders of the common stock at the Company's Meeting of Shareholders on June 19, 2015. Our directors are elected by our stockholders at each annual meeting of stockholders and will serve until their successors are elected and qualified, or until their earlier resignation or removal. Officers are appointed by our Board of Directors and their terms of office are, except to the extent governed by an employment contract, at the discretion of our Board of Directors. There are no family relationships among any of our current directors or our executive officers.

The following constitutes the Board of Directors as of December 31, 2015:

Name	Age	Position	Director Since
Greggory Bigger	47	Chief Executive Officer, Chief Financial Officer and Chairman, Director (Non-Independent)	2013
Charles R. Blum (1) (2) (3)	76	Director (Non-Independent)	2007
Donald Dickson(2)	58	Director (Independent)	2013
Nathan Shelton (1) (2) (3)	65	Director (Independent)	2007
Mark Stubbs (1)(2)	43	Director (Independent)	2013
Thomas Bundros(1)	59	Director (Independent)	2015

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Nominating and Corporate Governance Committee

Biographical Information Regarding Directors

Greggory Bigger, President, CEO and CFO (Non-Independent Director) was appointed to the Board of Directors on September 16, 2013. Gregg Bigger was most recently Founding Partner of Rocfin Advisors, a Strategic Management Consulting Company providing advice and direction to a variety of clients including companies in the energy, clean tech, and emerging technology markets. Prior, Mr. Bigger was Founder and Board Member of The Bank of Santa Barbara. Earlier in his career Mr. Bigger held a variety of key management and leadership positions including U.S. Trust as a Vice-President in the Private Client Group, and First Republic Bank as a Vice President and Manager in the Private Banking Group. Mr. Bigger also served in the United States Marine Corps' Special Operations in Amphibious Warfare and Cliff Assault.

Charles R. Blum (Non-Independent Director) was appointed on July 25, 2007 to the Board of directors and engaged as the President and Chief Executive Officer of the Company. In January 2010, Mr. Blum resigned as Chief Executive Officer of the Company, and thereafter resigned as President of the Company. Mr. Blum spent 22 years as the President/CEO of the Specialty Equipment Market Association (SEMA). SEMA is a trade group representing 6500 business members who are actively engaged in the manufacture and distribution of automotive parts and accessories. SEMA produces the world's largest automotive aftermarket Trade Show which is held annually in Las Vegas, Nevada. Mr. Blum led the association as its members grew from a handful of small entrepreneurial companies into an industry membership that sells over 31 billion dollars of product at the retail level annually. Mr. Blum has a proven record of accomplishment as a senior executive and brings a broad knowledge of the automotive aftermarket to the Company. Mr. Blum attended Rutgers University.

Nathan Shelton (Independent Director) has served as a director since February 12, 2007. Mr. Shelton has a long and distinguished career with a number of diverse successful companies primarily related to the automotive industry, holding prominent positions. In 1987 he joined K&N Engineering as President and part owner and built the company into an industry leader. In 2002 he sold his interest in K&N Engineering and founded S&S Marketing, which is engaged in the automotive aftermarket parts rep business, which he currently operates. Mr. Shelton is the recipient of numerous industry related prestigious awards, and in 1992, Specialty Equipment Market Association (SEMA) invited him to join its board of directors, which includes serving in capacity as its Chairman from 2002 to 2004. In 2007 he was elected to the SEMA "Hall of Fame". Mr. Shelton served honorably in the United States Seabees from 1968 to 1972. He attended Chaffey Junior College.

Mark Stubbs (Independent Director) was appointed to the Board of Directors and Chairman of the Audit Committee on July 3, 2013. Mr. Stubbs currently serves as Chief Financial Officer for London Stock Exchange listed BBA Aviation's Aftermarket Services Division, a leading global aviation services and aftermarket support provider. Prior to joining BBA in 2012, Mr. Stubbs served as Chief Financial Officer and Interim Chief Executive Officer for CallWave, Inc., which was then a NASDAQ-listed company and a global provider of enhanced telecommunications software and services. From 2005 to 2006, Mr. Stubbs was Chief Financial Officer of Sound ID, a privately held consumer electronics company. Prior to Sound ID, Mr. Stubbs held a number of executive positions including Vice President Global Supply Chain and Vice President and Managing Director EMEA (Europe, Middle East and Africa) at Somera, Inc., which at the time was a NASDAQ-listed company and a leading global provider of telecommunications infrastructure and services. Previously, Mr. Stubbs held a number of financial management positions at Kinko's Inc., which has since been acquired by NYSE-listed FedEx. Mr. Stubbs earned a BA in Finance and MBA from Cal Poly San Luis Obispo and is a Certified Public Account (CPA).

Don Dickson (Independent Director), appointed to Board of Directors on August 6, 2013, and currently is employed with Kinder Morgan, Inc. working on the Northeast Energy Direct Project, after finishing the Cortez Expansion project as project manager / engineering principal / construction support. The NED project will serve the Northeast United States delivering natural gas to the region, while the Cortez expansion project will increase the volume of CO2 being shipped from Southwest Colorado to West Texas for oil recovery. Prior to rejoining Kinder Morgan Mr. Dickson served as Chief Executive Officer for Advanced Pipeline Services (APS). APS was established for the purpose of providing a full range of services to the oil and gas industry. Core business areas are in new construction of pipeline and facilities, horizontal directional drilling and pipeline integrity/rehabilitation. Prior to APS, Mr. Dickson worked for Kinder Morgan in their natural gas operations, retiring after twenty-six years. During his time at Kinder Morgan served in different engineering capacities including as Director of Operations on two major pipeline projects, the 42” (REX) Rockies Mountain Express through the state of Illinois, and the 42” (MEP) Midcontinent Express Pipeline through the state of Louisiana. He also was Director of Operations with Tetra Resources completing various onshore and offshore oil and gas wells and a Senior Engineer with Halliburton Services. Mr. Dickson earned his B.S. in Engineering from Oklahoma State University.

Thomas Bundros (Independent Director), was appointed to the Board of Directors effective January 5, 2015. Mr. Bundros served as Chief Financial Officer at Colonial Pipeline Company from July 2009 to September 2012, the world's largest pipeline operator transporting 100 million gallons of refined petroleum products daily across 5,500 miles of pipeline. Mr. Bundros currently holds the post of Chief Executive Officer of Dalton Utilities (January 2016 to present), a provider of electricity, natural gas, water and telecommunications services to the city of Dalton and portions of northwest Georgia. Prior to his appointment as Chief Executive Officer, Mr. Bundros had served as Dalton Utilities’ Chief Operations Officer for Dalton Utilities since October 2012. Mr. Bundros was Chief Financial Officer of Dalton Utilities from January 1997 to June 2009. Prior to Dalton Utilities, Mr. Bundros also held various financial positions in the Atlanta and New York offices of the Southern Company System, the 16th largest utility company in the world and the fourth largest in the U.S. with over 4 million customers in Alabama, Georgia, Florida, and Mississippi. He earned his Master of Business Administration in Finance and Bachelor of Science in Economics and Business Administration at the University of North Carolina at Greensboro.

Director Compensation Policy

Effective January 1, 2014, the Board passed a resolution suspending the July 1, 2013 Board compensation policy. Effective May 6, 2014, the Board approved a compensation policy which includes two annual grants of options, including i) an option to purchase a number of shares of common stock equal to $25,000 divided by the per share closing price on the date of grant with an exercise price equal to the stock closing price on the date of grant, a one year vesting period and an expiration date 10 years from the date of grant; and ii) an option to purchase a number of shares of common stock equal to $25,000 divided by the per share fair market value of the option calculated using the Black-Scholes Option Pricing Model based on market conditions, including stock closing price, risk free interest rate and stock volatility, on the date of grant with an exercise price equal to the stock closing price on the date of grant, vesting immediately and an expiration date 10 years from the date of grant. Also effective July 1, 2013, the Board approved an annual grant of options to purchase 25,000 shares of common stock at a price equal to the stock’s closing price on the date of grant, vesting immediately and expiring 10 years from the date of grant as compensation to the chairman of the Board’s Audit Committee. Effective January 1, 2015, the Board amended the policy such that i) all options granted would vest over one year; and ii) options granted mid-year due to appointment to the Board or appointment to Chairman of the Audit Committee would be adjusted such that the number of shares would be calculated on a pro rata basis depending on the number of day remaining in the calendar year, and the options would vest December 31 of the year of grant.

Executive Officers

The following table sets forth certain information regarding our executive officers as of December 31, 2015:

Nam	Age	Position
Greggory M. Bigger	47	Chief Executive Officer, Chief Financial Officer and President

For the biography of Greggory Bigger, please see above under "Biographical Information Regarding Directors."

CORPORATE GOVERNANCE

We maintain a corporate governance page on our corporate website at www.qsenergy.com, which includes information regarding the Company's corporate governance practices. Our codes of business conduct and ethics, Board committee charters and certain other corporate governance documents and policies are posted on our website. In addition, we will provide a copy of any of these documents without charge to any stockholder upon written request made to Corporate Secretary, QS Energy, Inc., 735 State Street, Suite 500, Santa Barbara, California 93101. The information on our website is not, and shall not be deemed to be, a part of this form 10-K or incorporated by reference into this or any other filing we make with the Securities and Exchange Commission (the "SEC").

Board of Directors

Director Independence

Our Board of Directors as of December 31, 2015 consisted of six (6) members. As of that date, the Board has affirmatively determined that Mr. Dickson, Mr. Shelton, Mr. Stubbs and Mr. Bundros are independent directors. Mr. Bigger, our President, Chief Executive Officer, and Chief Financial Officer and Mr. Blum, former Chief Executive Officer, are not considered independent.

Effective January 5, 2015, Thomas A. Bundros was elected to the Company's Board of Directors. As of that date, the Board has affirmatively determined that Mr. Bundros is an independent director.

Meetings of the Board

The Board held five (5) meetings in 2015. A majority of the members attended all 5 board meetings held in 2015. The Board has held one meeting in 2016.

Communications with the Board

The following procedures have been established by the Board in order to facilitate communications between our stockholders and the Board:

Stockholders may send correspondence, which should indicate that the sender is a stockholder, to the Board or to any individual director, by mail to Corporate Secretary, QS Energy, Inc. 735 State Street, Suite 500, Santa Barbara, California, 93101 or by e-mail to info@qsenergy.com.

Our Secretary will be responsible for the first review and logging of this correspondence and will forward the communication to the director or directors to whom it is addressed unless it is a type of correspondence which the Board has identified as correspondence which may be retained in our files and not sent to directors. The Board has authorized the Secretary to retain and not send to directors communications that: (a) are advertising or promotional in nature (offering goods or services), (b) solely relate to complaints by customers with respect to ordinary course of business customer service and satisfaction issues or (c) clearly are unrelated to our business, industry, management or Board or committee matters. These types of communications will be logged and filed but not circulated to directors. Except as set forth in the preceding sentence, the Secretary will not screen communications sent to directors.

The log of stockholder correspondence will be available to members of the Board for inspection. At least once each year, the Secretary will provide to the Board a summary of the communications received from stockholders, including the communications not sent to directors in accordance with the procedures set forth above.

Our shareholders may also communicate directly with the non-management directors, individually or as a group, by mail c/o Corporate Secretary, QS Energy, Inc., 735 State Street, Suite 500, Santa Barbara, California 93101 or by e-mail to info@qsenergy.com.

The Audit Committee has established procedures, as outlined in the Company's policy for **"**Procedures for Accounting and Auditing Matters**",** for the receipt, retention and treatment of complaints regarding questionable accounting, internal controls, and financial improprieties or auditing matters. Any of the Company's employees may confidentially communicate concerns about any of these matters by calling our toll-free number, +1 (844) OIL-QSEP, (+1 (844) 645-7737). Upon receipt of a complaint or concern, a determination will be made whether it pertains to accounting, internal controls or auditing matters and if it does, it will be handled in accordance with the procedures established by the Audit Committee.

Committees of the Board

The Board has a standing Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. Each of these committees operates under a written charter. Copies of these charters, and other corporate governance documents, are available on our website, www.qsenergy.com In addition, we will provide a copy of any of these documents without charge to any stockholder upon written request made to Corporate Secretary, QS Energy Inc., 735 State Street, Suite 500, Santa Barbara, California 93101.

The composition, functions and general responsibilities of each committee are summarized below.

Audit Committee

The Audit Committee currently consists of Mr. Stubbs (chairperson), Mr. Blum, Mr. Shelton and Mr. Bundros. The Board has determined that Mr. Stubbs, Mr. Shelton and Mr. Bundros are considered independent under rules of the SEC. The Audit Committee held a total of four (4) meetings during 2015, each attended by a majority of Audit Committee members. The Audit Committee has met once during 2016 as of the date of this report.

The Audit Committee operates under a written charter. The Audit Committee's duties include responsibility for reviewing our accounting practices and audit procedures. In addition, the Audit Committee has responsibility for reviewing complaints about, and investigating allegations of, financial impropriety or misconduct. The Audit Committee works closely with management and our independent auditors. The Audit Committee also meets with our independent auditors on a quarterly basis, following completion of their quarterly reviews and annual audit, to review the results of their work. The Audit Committee also meets with our independent auditors to approve the annual scope of the audit services to be performed.

As part of its responsibility, the Audit Committee is responsible for engaging our independent auditor, as well as pre-approving audit and non-audit services performed by our independent auditor in order to assure that the provision of such services does not impair the independent auditor's independence.

See "Audit Committee Report" below, which provides further details of many of the duties and responsibilities of the Audit Committee.

Compensation Committee

The Compensation Committee consists of Mr. Blum (chairperson), Mr. Stubbs, Mr. Shelton and Mr. Dickson. The Board has determined that Mr. Stubbs, Mr. Shelton and Mr. Dickson are independent. The Compensation Committee held no meetings during 2015 and has not met during 2016 as of the date of this report.

The Compensation Committee administers the Company's executive compensation program. The Compensation Committee has the authority to review and determine the salaries and bonuses of the executive officers of the Company, including the Chief Executive Officer and the other executive officers named in the Summary Compensation Table (the "Named Executive Officers") appearing elsewhere in this 10-K, and to establish the general compensation policies for such individuals.

The Compensation Committee operates under a written charter. The charter reflects these various responsibilities, and the Committee is charged with periodically reviewing the charter. In addition, the Committee has the authority to engage the services of outside advisors, experts and others, including independent compensation consultants who do not advise the Company, to assist the Committee.

See "Compensation Committee Report" below, which provides further details of many of the duties and responsibilities of the Compensation Committee.

Nominating and Governance Committee

The Nominating and Corporate Governance Committee consists of Mr. Shelton (chairperson) and Mr. Blum. The Board believes that Mr. Shelton meets independent requirements under rules of the SEC. The Nominating and Corporate Governance Committee held no meetings during 2015 and has not met during 2016 as of the date of this report.

The Nominating and Corporate Governance Committee operates under a written charter. The Nominating and Corporate Governance Committee has the primary responsibility for overseeing the Company's corporate governance compliance practices, as well as supervising the affairs of the Company as they relate to the nomination of directors. The principal ongoing functions of the Nominating and Corporate Governance Committee include developing criteria for selecting new directors, establishing and monitoring procedures for the receipt and consideration of director nominations by stockholders and others, considering and examining director candidates, developing and recommending corporate governance principles for the Company and monitoring the Company's compliance with these principles and establishing and monitoring procedures for the receipt of stockholder communications directed to the Board.

The Nominating and Corporate Governance Committee is also responsible for conducting an annual evaluation of the Board to determine whether the Board and its committees are functioning effectively. In performing this evaluation, the Nominating and Corporate Governance Committee receives comments from all directors and reports annually to the Board with the results of this evaluation.

See "Nominating and Governance Committee Report" below, which provides further details of many of the duties and responsibilities of the Nominating and Governance Committee.

AUDIT COMMITTEE REPORT

The Audit Committee is currently composed of four (4) directors, Mr. Stubbs (Chairperson), Mr. Charles R. Blum, Mr. Bundros and Mr. Shelton. The Board has determined that Mr. Stubbs, Mr. Bundros and Mr. Shelton are considered independent within the rules of the SEC. The duties and responsibilities of a member of the Audit Committee are in addition to his duties as a member of the Board.

The Audit Committee operates under a written charter, which is available on the Company's website. The Board and the Audit Committee believe that the Audit Committee charter complies with the current standards set forth in SEC regulations. There may be further action by the SEC during the current year on several matters that affect all audit committees. The Board and the Audit Committee continue to follow closely further developments by the SEC in the area of the functions of audit committees, particularly as it relates to internal controls for non-accelerated filers, and will make additional changes to the Audit Committee charter and the policies of the Audit Committee as required or advisable as a result of these new rules and regulations. The Audit Committee met four (4) times during 2015 and each was attended by a majority of committee members. The Audit Committee has met once during 2016 as of the date of this report.

The Audit Committee's primary duties and responsibilities are to:

- engage the Company's independent auditor;
- monitor the independent auditor's independence, qualifications and performance;
- pre-approve all audit and non-audit services;

Management is responsible for the Company's internal controls and the financial reporting process. The Company's independent auditor is responsible for performing an independent audit of the Company's financial statements in accordance with the standards of the Public Company Accounting Oversight Board and issuing a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

In February 2012, the Company began the process of designing and implementing various financial controls from within our finance department under the supervision of the Company's Chief Executive Officer and Chief Financial Officer. Furthermore, the Company also hired an outside consultant to further enhance these internal controls, policies and procedures. On March 19, 2013, the Company's Board of Directors approved and began the implementation of these internal controls, policies and procedures. In June 2013, the Company began the process of designing and implementing additional internal controls based on a continuous process of assessment and improvement under which board and management financial reporting objectives were defined and implemented, policies and procedures were tested for effectiveness and deficiencies were identified and remediated. On December 16, 2013, the Board of Directors approved a revised Internal Controls Policy based on policy refinements and improvements implemented under this assessment process. Additional controls and policies designed and implemented in second and third quarters of 2013 have been tested and identified deficiencies have been remediated. The Internal Controls Policy and Sarbanes-Oxley 302 matrix approved by the Board of Directors on March 19, 2013, as revised and approved by the board on December 16, 2013, have been implemented and are functioning as planned.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") were effective as of September 30, 2013 and continue to be effective as of the date of this report.

Our Chief Executive Officer, Chief Financial Officer and Controller conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2015 based on the framework in Internal Control – Integrated Framework ("2013 Framework") issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our internal controls over financial reporting (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") were effective as of December 31, 2015.

With respect to the Company's independent auditors, the Audit Committee, among other things, discussed with Weinberg & Co., P.A., matters relating to its independence, including the written disclosures made to the Audit Committee as required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The Audit Committee also reviewed and approved the audit and non-audit fees of that firm.

On the basis of these reviews and discussions, the Audit Committee (i) appointed Weinberg & Co., P.A. as the independent registered public accounting firm for the 2015 fiscal year and (ii) recommended to the Board that the Board approve the inclusion of the Company's audited financial statements in the 10-K for filing with the SEC.

Respectfully submitted:

Mark Stubbs (Chairman)

COMPENSATION COMMITTEE REPORT

The Compensation Committee has furnished this report on executive compensation for the 2015 fiscal year.

The Compensation Committee administers the Company's executive compensation program. The Compensation Committee has the authority to review and determine the salaries and bonuses of the executive officers of the Company, including the Chief Executive Officer and the other executive officers named in the Summary Compensation Table (the "Named Executive Officers") appearing elsewhere in this 10-K, and to establish the general compensation policies for such individuals.

The Compensation Committee currently consists of Mr. Blum (chairperson), Mr. Stubbs, Mr. Dickson and Mr. Shelton. The Board believes that Messrs. Stubbs, Dickson and Shelton are independent. None of our executive officers served on the compensation committee of another entity or on any other committee of the board of directors of another entity performing similar functions during 2015. The Compensation Committee held no meetings during 2015 and has not met during 2016 as of the date of this report.

The Compensation Committee operates under a written charter. The charter reflects these various responsibilities, and the Committee is charged with periodically reviewing the charter. In addition, the Committee has the authority to engage the services of outside advisors, experts and others, including independent compensation consultants who do not advise the Company, to assist the Committee.

The Compensation Committee believes that the compensation programs for the Company's executive officers should reflect the Company's performance and the value created for the Company's stockholders. In addition, the compensation programs should support the short-term and long-term strategic goals and values of the Company, reward individual contribution to the Company's success and align the interests of the Company's officers with the interests of its stockholders. The committee believes that the Company's success depends upon its ability to attract and retain qualified executives through the competitive compensation packages it offers to such individuals.

The principal factors that were taken into account in establishing each executive officer's compensation package for the 2015 fiscal year are described below. However, the Compensation Committee may in its discretion apply entirely different factors, such as different measures of financial performance, for future fiscal years. Moreover, all of the Company's Named Executive Officers have entered into employment agreements with the Company and many components of each such person's compensation are set by such agreements.

Equity-Based Compensation. The Committee believes in linking long-term incentives to an increase in stock value. Accordingly, it awards stock options with an exercise price equal to the fair market value of the underlying stock on the date of grant that vest and become exercisable over time. The Committee believes that these options encourage employees to continue to use their best efforts and to remain in the Company's employment. Options granted to executive officers generally vest and become exercisable in annual 25% increments over a four-year period after grant.

The Committee relies substantially on management of the Company to make specific recommendations regarding which individuals should receive option grants and the amounts of such grants.

The Company grants stock options to executive officers with a cumulative option price of up to $100,000 as incentive stock options and the remainder as non-qualified stock options, both with an exercise price equal to the fair market value of the Company's common stock on the date of grant. Accordingly, those stock options will have value only if the market price of the Company's common stock increases after that date. In determining the size of stock option grants to executive officers, the Committee bases its decisions on such considerations as similar awards to individuals holding comparable positions in our comparative groups, company performance and individual performance, as well as the allocation of overall share usage attributed to executive officers.

Compliance with Code Section 162(m). Section 162(m) of the Code disallows a tax deduction to publicly-held companies for compensation paid to certain of their executive officers, to the extent that compensation exceeds $1 million per covered officer in any fiscal year. The limitation applies only to compensation which is not considered to be performance based. Non-performance based compensation paid to the Company's executive officers for the 2015 fiscal year did not exceed the $1 million limit per officer, and the Compensation Committee does not anticipate that the non-performance based compensation to be paid to the Company's executive officers for the 2016 fiscal year will exceed that limit. Because it is unlikely that the cash compensation payable to any of the Company's executive officers in the foreseeable future will approach the $1 million limit, the Compensation Committee has decided at this time not to take any action to limit or restructure the elements of cash compensation payable to the Company's executive officers. The Compensation Committee will reconsider this decision should the individual cash non-performance based compensation of any executive officer ever approach the $1 million level.

The Board did not modify any action or recommendation made by the Compensation Committee with respect to executive compensation for the 2015 fiscal year. It is the opinion of the Compensation Committee that the executive compensation policies and plans provide the necessary total remuneration program to properly align the Company's performance and the interests of the Company's stockholders through the use of competitive and equitable executive compensation in a balanced and reasonable manner, for both the short and long term.

Respectfully submitted by:

Charles Blum, Chairman

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE REPORT

The Nominating and Corporate Governance Committee currently consists of Mr. Shelton (chairperson) and Mr. Blum. The Board believes that Mr. Shelton meet independent requirements under rules of the SEC. The Nominating and Corporate Governance Committee held no meetings during 2015 and has not met during 2016 as of the date of this report.

The Nominating and Corporate Governance Committee operates under a written charter. The Nominating and Corporate Governance Committee has the primary responsibility for overseeing the Company's corporate governance compliance practices, as well as supervising the affairs of the Company as they relate to the nomination of directors. The principal ongoing functions of the Nominating and Corporate Governance Committee include developing criteria for selecting new directors, establishing and monitoring procedures for the receipt and consideration of director nominations by stockholders and others, considering and examining director candidates, developing and recommending corporate governance principles for the Company and monitoring the Company's compliance with these principles and establishing and monitoring procedures for the receipt of stockholder communications directed to the Board.

The Nominating and Corporate Governance Committee is also responsible for conducting an annual evaluation of the Board to determine whether the Board and its committees are functioning effectively. In performing this evaluation, the Nominating and Corporate Governance Committee receives comments from all directors and reports annually to the Board with the results of this evaluation.

Director Nominations

The Nominating and Corporate Governance Committee seeks out appropriate candidates to serve as directors of the Company, and the Nominating and Corporate Governance Committee interviews and examines director candidates and makes recommendations to the Board regarding candidate selection. In considering candidates to serve as director, the Nominating and Corporate Governance Committee evaluates various minimum individual qualifications, including strength of character, maturity of judgment, relevant technical skills or financial acumen, diversity of viewpoint and industry knowledge, as well as the extent to which the candidate would fill a present need on the Board.

The Nominating and Corporate Governance Committee will consider, without commitment, stockholder nominations for director. Nominations for director submitted to this committee by stockholders are evaluated according to the Company's overall needs and the nominee's knowledge, experience and background. A nominating stockholder must give appropriate notice to the Company of the nomination not less than 90 days prior to the first anniversary of the preceding year's annual meeting. In the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the anniversary date of the preceding year's annual meeting, the notice by the stockholder must be delivered not later than the close of business on the later of the 60th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such annual meeting is first made.

The stockholders' notice shall set forth, as to:

- each person whom the stockholder proposes to nominate for election as a director:
- the name, age, business address and residence address of such person,
- the principal occupation or employment of the person,
- the class and number of shares of the Company which are beneficially owned by such person, if any, and
- any other information relating to such person which is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A under the Exchange Act and the rules hereunder; and the stockholder giving the notice
- the name and record address of the stockholder and the class and number of shares of the Company which are beneficially owned by the stockholder,

- a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which nomination(s) are to be made by such stockholder,
- a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice,
- any other information relating to such person which is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A under the Exchange Act and the rules thereunder.

The notice must be accompanied by a written consent of the proposed nominee to be named as a director.

We have adopted codes of business conduct and ethics for our directors, officers and employees, which we believe meet requirements of a code of ethics. You can access the Company's Code of Business Conduct and Ethics and our Code of Ethics for Senior Executives and Financial Officers on the Corporate Governance page of the Company's website at www.qsenergy.com. Any shareholder who so requests may obtain a printed copy of the Code of Conduct by submitting a request to the Company's Corporate Secretary.

Respectfully submitted by:

Nathan Shelton, Chairman

Item 11. Executive Compensation

EXECUTIVE COMPENSATION DISCUSSION AND ANALYSIS

The following table sets forth certain information regarding the compensation earned during the last three fiscal years by the Named Executive Officers:

Summary Compensation Table

			Long-Term Compensation Awards				
Name and Principal Position	Fiscal Year	Annual Compensation Salary ($)	Stock Awards ($)	Securities Underlying Options (#)	Full Value of Options ($)	All Other Compensation ($)	Total ($)
Greggory Bigger (1) (3) (5)	2015	$ 290,000	$ –	–	$ –	$ –	$ 290,000
President,	2014	$ 290,000	$ –	–	$ –	$ –	$ 290,000
Chief Executive Officer and	2013	$ 290,000	$ 109,000	–	$ –	$ 50,000	$ 449,000
Chief Financial Officer							
Cecil Bond Kyte (2) (3)(4)	2013	$ 335,417	$ –	–	$ –	$ 100,000	$ 435,417
Chief Executive Officer							

(1) On February 1, 2012, Mr. Bigger was appointed Chief Financial Officer. In 2012, Mr. Bigger received options for 4,000,000 exercisable at $0.25 per share, vesting over four years. Of the 4,000,000 options, 500,000 vested on February 1, 2012, 500,000 vested on February 1 2013, 1,000,000 vested on February 1, 2014, 1,000,000 vested on February 1, 2015, and 1,000,000 vested on February 1, 2016. On March 10, 2016, the Board of Directors agreed to amend Mr. Bigger's employment contract, effective March 10, 2016, such that the contract will terminate on March 8, 2019, the business day immediately preceding the third anniversary of the effective date of the amendment. Prior to this amendment, Mr. Bigger's contract was scheduled to terminate on January 31, 2017, subject to automatic one-year extensions of the contract. A copy of this contract amendment is attached to this Form 10-K as Exhibit 10.120.

(2) Mr. Kyte was appointed Chief Executive Officer in January 2009. Effective September 1, 2013, the Board approved Amendment Number 3 to Mr. Kyte's Employment Agreement, increasing his salary to $350,000 per year. During the year 2013, Mr. Kyte received a bonus of $100,000. Mr. Kyte's employment terminated on November 15, 2013. Under terms of his Separation Agreement, Mr. Kyte received severance payments totaling $350,000 paid semi-monthly through November 15, 2014.

(3) The number and value of vested restricted stock based upon the closing market price of the common stock at December 31, 2013 of $1.07 were as follows: Mr. Kyte's 10,569,000 vested shares at an execution price of $0.25 are valued at $8,659,2000, and Mr. Bigger's, 1,500,000 vested shares at an execution price of $0.25 are valued at $1,230,000.

(4) In connection with Mr. Kyte's separation from the Company, Mr. Kyte have agreed that Mr. Kyte's Employment Agreement, dated January 30, 2009, and the three (3) amendments thereto, dated March 1, 2011, December 1, 2011 and September 1, 2013, respectively, would be terminated and be of no further force or effect. In exchange, the Company agreed to pay Mr. Kyte an amount equal to $350,000, representing his salary for one (1) year, less withholding taxes, in twelve (12) equal monthly installments, commencing November 15, 2013. The Company has also agreed to reimburse Mr. Kyte for his health insurance premiums for a twelve (12) month period, also commencing November 15, 2013. Mr. Kyte retained his vested Company stock options and warrants, but all unvested Company stock options and warrants were terminated and of no further force or effect, except that 3,520,000 option shares previously granted to Mr. Kyte, and scheduled to vest on January 30, 2014, were deemed vested as of November 15, 2013. The Company paid Mr. Kyte the sum of $25,000, less all applicable tax withholdings, on November 15, 2013, representing payment for Mr. Kyte's accrued vacation and sick days.

(5) Mr. Bigger also received stock options as a member of the Board of Directors of the Company. See section below labeled, "Director Compensation".

OPTION GRANTS IN LAST FISCAL YEAR

No options were granted to Named Executive Officers during the 2015 fiscal year as executive compensation; however, options were granted to Greggory Bigger under the Company's Board of Directors compensation policy as detailed in the Director Compensation section below.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND YEAR-END OPTION VALUES

No options were exercised by any of the Named Executive Officers during the 2015 fiscal year. The following table sets forth the number of shares of our common stock subject to exercisable and unexercisable stock options which the Named Executive Officers held at the end of the 2015 fiscal year.

	Shares	Value	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options ($)(1)	
Name	Acquired on Exercise (#)	Realized ($)	Exercisable	Unexercisable	Exercisable	Unexercisable
Greggory Bigger	$ –	$ –	3,147,351	1,052,083	$ –	$ –

(1) Market value of our common stock at fiscal year-end minus the exercise price. The closing price of our common stock on December 31, 2015 the last trading day of the year was $0.19 per share.

EMPLOYMENT AGREEMENTS

Employment Agreement with Greggory M. Bigger

On February 1, 2012, the Company entered into an employment agreement with Greggory M. Bigger, pursuant to which he agreed to serve as the Company's Chief Financial Officer. The initial term of the agreement commenced February 1, 2012, and continues for one (1) year. Thereafter, the agreement is renewable for successive one (1) year periods, unless either party gives written notice of non-renewal, no later than sixty (60) days prior to the renewal date. The agreement provides for the payment of a one-time acceptance bonus of $10,000. Base salary under the agreement is $10,000 per month, plus an automobile allowance of $900 per month and other benefits generally available to senior employees of the Company. In addition, the Company also granted Mr. Bigger an option to purchase 4,000,000 shares of common stock at $0.25/share (See Note 10 of the Company's Financial Statement). The options were granted on February 1, 2012 and will expire ten years from date of grant. The options vest subject to Mr. Bigger's continued employment over a period of four years, with 500,000 shares vesting immediately upon grant, 500,000 shares vesting on February 1, 2013, and three tranches of 1,000,000 shares each vesting on February 1, 2014, 2015 and 2016. On April 30, 2012, the Company raised Mr. Bigger's salary to $15,000 per month for his extraordinary leadership and loyalty. On September 1, 2012, his salary was increased to $20,000 per month for accepting the position of President of the Company in addition to being the Chief Financial Officer.

Amendment #1 to Bigger Employment Agreement

Effective September 1, 2013, Mr. Bigger's Employment Agreement, in recognition of his additional responsibilities as President of the Company, was amended, as follows:

(i) Annual Base Salary for Mr. Bigger was increased to $290,000. Mr. Bigger is also eligible to receive an annual cash bonus, within the discretion of the Company's Board. In exercising its discretion, the Board shall consider, among other things, the Company's: (a) revenue; (b) earnings; (c) contracts; (d) cash position; (e) liquidity; (f) customers; (g) NASDAQ or other exchange listings; (h) market capitalization; (i) general financial condition; and (j) achievement of goals set forth in management's yearly budgets, plans and projections. Any award of bonus shall be paid no later than forty-five (45) days following the filing of the Company's Form 10-K.

(ii) Additionally, in the event any person, including all affiliates of such person, directly or indirectly, becomes the beneficial owner of 50% or more of the combined voting power of the Company's outstanding shares, and otherwise on a Change of Control event as defined in Mr. Bigger's Employment Agreement, Mr. Bigger's Employment Agreement and all amendments thereto shall be terminated whereupon Mr. Bigger shall be paid an amount equal to two (2) times his annual Base Salary as in effect on the date of the Change of Control event, and all of Mr. Bigger's unvested stock options and warrants shall immediately vest effective on the date of the Change of Control event.

(iii) Additionally, if Mr. Bigger is terminated by the Company without cause or if he resigns for "good reason," he shall be paid an amount equal to three (3) times his annual Base Salary as in effect on the date of the termination, payable, at the discretion of the Company, in one lump sum or in equal monthly installments during a term not to exceed thirty-six (36) months, less applicable withholding taxes. Additionally, all of Mr. Bigger's unvested options and warrants shall vest to the same extent as he would have become vested if he had remained employed by the Company for an additional three (3) years. "Good Reason" shall be defined to mean any reduction in Mr. Bigger's then current annual Base Salary of ten percent (10%) or more, or relocation of the Company's principal executive office to a location more than twenty-five (25) miles outside of Santa Barbara, California, or a substantial change in Mr. Bigger's then current duties and responsibilities.

(iv) Additionally, in the event of Mr. Bigger's termination for Cause, Mr. Bigger shall be entitled to receive only his Base Salary accrued through the date of such termination, and nothing more, and all of Mr. Bigger's unvested options and warrants shall be canceled.

Amendment #2 to Bigger Employment Agreement

On March 10, 2016, the Board of Directors agreed to amend Mr. Bigger's employment contract, effective March 10, 2016, such that the contract will terminate on March 8, 2019, the business day immediately preceding the third anniversary of the effective date of the amendment. Prior to this amendment, Mr. Bigger's contract was scheduled to terminate on January 31, 2017, subject to automatic one-year extensions of the contract. A copy of this contract amendment is attached to this Form 10-K as Exhibit 10.120.

DIRECTORS COMPENSATION

The Company granted options to purchase 738,552 shares of common stock to members of the Board of Directors under a new Board of Directors compensation policy adopted by the Company on May 6, 2014 and as amended effective January 1, 2015. The options are exercisable at $0.48/share and $0.46/share and expire ten years from the date of grant. A total of 738,552 options vested on December 31, 2015. Total fair value of these options at grant date was approximately $296,787 using the Black-Scholes Option Pricing model with the following assumptions: life of 5 years; risk free interest rate of 1.72% and 1.67%; volatility of 121% and dividend yield of 0%.

The table below summarizes the compensation paid by the Company to its directors for the fiscal year ended December 31, 2015.

Name	Fees earned or paid in cash (1) ($)	Stock Awards ($)	Option Awards (2) ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Gregg Bigger (3)	–	–	$ 46,354	–	–	–	$ 46,354
Charles Blum (4)	$ 6,000	$ –	46,354	–	–	–	52,354
Donald Dickson (5)	3,000	–	46,354	–	–	–	49,354
Nathan Shelton (6)	6,000	–	46,354	–	–	–	52,354
Mark Stubbs (7)	6,000	–	46,354	–	–	–	52,354
Thomas Bundros (8)	3,000	–	43,663	–	–	–	46,663

(1) Effective July 1, 2013, the Board approved a compensation policy which includes a $500 monthly fee paid to any member of the Board of Directors who serves on a Board Committee. Effective May 6, 2014, the Board approved a revised compensation policy which continued this $500 monthly fee.

(2) Effective January 1, 2014, the Board passed a resolution suspending the July 1, 2013 Board compensation policy. Effective May 6, 2014, the Board approved a compensation policy which includes two annual grants of options, including i) an option to purchase a number of shares of common stock equal to $25,000 divided by the per share closing price on the date of grant with an exercise price equal to the stock closing price on the date of grant, a one year vesting period and an expiration date 10 years from the date of grant; and ii) an option to purchase a number of shares of common stock equal to $25,000 divided by the per share fair market value of the option calculated using the Black-Scholes Option Pricing Model based on market conditions, including stock closing price, risk free interest rate and stock volatility, on the date of grant with an exercise price equal to the stock closing price on the date of grant, vesting immediately and an expiration date 10 years from the date of grant. Also effective July 1, 2013, the Board approved an annual grant of options to purchase 25,000 shares of common stock at a price equal to the stock's closing price on the date of grant, vesting immediately and expiring 10 years from the date of grant as compensation to the chairman of the Board's Audit Committee. Effective January 1, 2015, the Board amended the policy such that i) all options granted would vest over one year; and ii) options granted mid-year due to appointment to the Board or appointment to Chairman of the Audit Committee would be adjusted such that the number of shares would be calculated on a pro rata basis depending on the number of day remaining in the calendar year, and the options would vest December 31 of the year of grant.

(3) On January 1, 2015, Mr. Bigger was granted options to purchase 114,583 shares of common exercisable at $0.48/share, vesting on December 31, 2015 and expiring ten years from the date of grant. Total fair value of these options at grant date was approximately $46,354 using Black-Scholes Option Pricing. During the year ended December 31, 2015, the Company recognized compensation costs of $46,354 based on the fair value of Mr. Bigger's options that vested.

(4) Mr. Blum serves as chairman of the Compensation Committee and as a member of the Audit Committee and the Governance and Nominating Committee. As a member of a Board Committee, Mr. Blum received compensation in the amount of $500 per month for the twelve-month period of January 1, 2015 through December 31, 2015. On January 1, 2015, was granted options to purchase 114,583 shares of common exercisable at $0.48/share, vesting on December 31, 2015 and expiring ten years from the date of grant. Total fair value of these options at grant date was approximately $46,354 using Black-Scholes Option Pricing. During the year ended December 31, 2015, the Company recognized compensation costs of $46,354 based on the fair value of Mr. Blum's options that vested and $6,000 for Mr. Blum's Board Committee fees.

(5) Effective July 1, 2015, Mr. Dickson was appointed to the Compensation Committee. As a member of a Board Committee, Mr. Dickson received compensation in the amount of $500 per month for the six-month period of July 1, 2015 through December 31, 2015. On January 1, 2015, Mr. Dickson was granted options to purchase 114,583 shares of common exercisable at $0.48/share, vesting on December 31, 2015 and expiring ten years from the date of grant. Total fair value of these options at grant date was approximately $46,354 using Black-Scholes Option Pricing. During the year ended December 31, 2015, the Company recognized compensation costs of $46,354 based on the fair value of Mr. Dickson's options that vested.

(6) Mr. Shelton serves as chairman of the Compensation Committee and as a member of the Audit Committee and the Governance and Nominating Committee. As a member of a Board Committee, Mr. Shelton received compensation in the amount of $500 per month for the twelve-month period of January 1, 2014 through December 31, 2014. On May 6, 2014, Mr. Shelton was granted options to purchase 114,583 shares of common exercisable at $0.48/share, vesting on December 31, 2015 and expiring ten years from the date of grant. Total fair value of these options at grant date was approximately $46,354 using Black-Scholes Option Pricing. During the year ended December 31, 2015, the Company recognized compensation costs of $46,354 based on the fair value of and $6,000 for Mr. Shelton's Board Committee fees.

(7) Mr. Stubbs serves as chairman of the Audit Committee and as a member of the Compensation Committee. As a member of a Board Committee, Mr. Stubbs received compensation in the amount of $500 per month for the twelve-month period of January 1, 2014 through December 31, 2014. On January 1, 2015, Mr. Stubbs was granted options to purchase 114,583 shares of common exercisable at $0.48/share, vesting on December 31, 2015 and expiring ten years from the date of grant. Total fair value of these options at grant date was approximately $46,354 using Black-Scholes Option Pricing. As chairman of the Audit Committee, Mr. Stubbs received an additional grant of options on January 1, 2015 to purchase 52,083 shares of common stock valued at $21,352 using Black-Scholes Option Pricing. These options are exercisable at $0.48/share, vested immediately upon grant and expire ten years from the date of grant. During the year ended December 31, 2015, the Company recognized compensation costs of $67,706 based on the fair value of Mr. Stubb's options that vested and $6,000 for Mr. Stubb's Board Committee fees.

(8) Mr. Bundros was appointed to the Board effective January 5, 2015, and was appointed to Compensation Committee effective July 1, 2015. As a member of a Board Committee, Mr. Bundros received compensation in the amount of $500 per month for the six-month period of July 1, 2015 through December 31, 2015. On January 20, 2015, was granted options to purchase 115,554 shares of common exercisable at $0.46/share, vesting on December 31, 2015 and expiring ten years from the date of grant. Total fair value of these options at grant date was approximately $43,663 using Black-Scholes Option Pricing. During the year ended December 31, 2015, the Company recognized compensation costs of $43,663 based on the fair value of Mr. Blum's options that vested and $3,000 for Mr. Bundros's Board Committee fees.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our common stock as of December 31, 2015.

- each person, or group of affiliated persons, known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock;
- each of our directors;
- the Company's Chief Executive Officer, who also holds the positions of Chief Financial Officer and President, is the only person serving as a Named Executive as of December 31, 2015 whose total annual salary and bonus exceeded $100,000, for services rendered in all capacities to the Company (such individuals are hereafter referred to as the "Named Executive Officers"); and all of our directors and executive officers serving as a group.

Named Executive Officers and Director Name and Address of Beneficial Owner (1)	Number of Shares of Common Stock Beneficially Owned (2)	Percentage of Shares Beneficially Owned (2)
Bigger, Greggory – Chief Executive Officer, Chief Financial Officer, President, Director (3)	4,320,443	2.30%
Charles R. Blum – Director (4)	2,186,455	1.18%
Dickson, Donald (5)	207,665	0.11%
Shelton, Nathan – Director (6)	671,234	0.35%
Stubbs, Mark – Director (7)	330,450	0.18%
Thomas Bundros – Director (8)	113,554	0.06%
All directors and executive officers as a group	7,829,801	4.09%

(1) Unless otherwise indicated, the address of each listed person is c/o QS Energy, Inc., 735 State Street, Suite 500, Santa Barbara, California 93101.

(2) Percentage of beneficial ownership is based upon 183,831,577 shares of the Company's common stock outstanding as of December 31, 2015. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options and warrants currently exercisable or convertible, or exercisable or convertible within 60 days, are deemed outstanding for determining the number of shares beneficially owned and for computing the percentage ownership of the person holding such options, but are not deemed outstanding for computing the percentage ownership of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

(3) Mr. Bigger's beneficial ownership includes 121,009 shares of common stock, exercisable options to purchase 3,199,434 shares of common stock, and options to purchase 1,000,000 shares of the Company's common stock exercisable within 60 days of December 31, 2015.

(4) Mr. Blum's beneficial ownership includes 398,342 shares of common stock and exercisable options to purchase 1,788,113 shares of common stock.

(5) Mr. Dickson's beneficial ownership includes 14,620 shares of common stock and exercisable options to purchase 193,045 shares of common stock.

(6) Mr. Shelton's beneficial ownership includes 215,288 shares of common stock and exercisable options to purchase 455,946 shares of common stock.

(7) Mr. Stubbs' beneficial ownership includes 22,936 shares of common stock and exercisable options to purchase 307,514 shares of common stock.

(8) Mr. Bundros' beneficial ownership includes exercisable options to purchase 62,184 shares of common stock.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Accrued Expenses and Accounts Payable - Related Parties

As of December 31, 2015 and December 31, 2014, the Company had accounts payable to related parties in the amount of $76,089 and $80,589, respectively. These amounts are unpaid Directors Fees and unpaid Company expenses incurred by Officers and Directors.

As of December 31, 2015 and December 31, 2014, the Company accrued the unpaid salaries, unused vacation and the corresponding payroll taxes of Officers in the aggregate of $114,661, and $178,468, respectively. Included in these accruals are the unpaid salaries a former President and current member of the Company's Board of Directors of $75,429, and $135,429, respectively. The Company agreed to a monthly payment of $5,000 the current Board member until his unpaid salary is fully settled.

Bonus Paid to Officers

General and administrative expenses for the year ended December 31, 2013 include bonuses in the aggregate of $150,000 paid to Officers. There were no such bonuses paid during the years ended December 31, 2015 and December 31, 2014.

Consulting Fees Paid to Related Party

During the years ended December 31, 2014 and 2013, the Company incurred consulting fees of $60,000 to a consulting firm controlled by former a member of our Board of Directors. There were no such costs in 2015.

Director Independence

The Company believes Mr. Dickson, Mr. Shelton, Mr. Stubbs and Mr. Bundros are independent, and Mr. Bigger and Mr. Blum are non-independent.

Item 14. Principal Accounting Fees and Services

The Audit Committee has selected Weinberg & Company, P.A. to audit our financial statements for the fiscal year ended December 31, 2016.

Weinberg & Company, P.A. was first appointed in fiscal year 2003, and has audited our financial statements for fiscal years 2002 through 2015.

Audit and Other Fees

The following table summarizes the fees charged by Weinberg & Company, P.A. for certain services rendered to the Company during 2015, 2014 and 2013.

	Amount		
Type of Fee	**Fiscal Year 2015**	**Fiscal Year 2014**	**Fiscal Year 2013**
Audit (1)	$ 119,121	$ 145,436	$ 121,340
Audit Related (2)	–	–	–
Taxes (3)	18,767	9,579	6,430
All Other (4)	–	–	–
Total	$ 137,888	$ 155,015	$ 127,770

(1) This category consists of fees for the audit of our annual financial statements included in the Company's annual report on Form 10-K and review of the financial statements included in the Company's quarterly reports on Form 10-Q. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements, statutory audits required by non-U.S. jurisdictions and the preparation of an annual "management letter" on internal control matters.

(2) Represents services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years, aggregate fees charged for assurance and related services that are reasonably related to the performance of the audit and are not reported as audit fees. These services include consultations regarding Sarbanes-Oxley Act requirements, various SEC filings and the implementation of new accounting requirements.

(3) Represents aggregate fees charged for professional services for tax compliance and preparation, tax consulting and advice, and tax planning.

(4) Represents aggregate fees charged for products and services other than those services previously reported.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this Form 10-K.

Financial Statements:

Reference is made to the contents to the consolidated financial statements of QS Energy, Inc. under Item 7 of this Form 10-K.

(b) Exhibits:

The exhibits listed below are required by Item 601 of Regulation S-K.

Exhibit No.	Description
3.1(78)	Articles of Incorporation, as amended, of the Registrant.
3.1(87)	Articles of Merger
3.2(77)	Amended and Restated Bylaws of the Registrant.
10.1(2)	Commercial Sublease dated October 16, 2003 between the Registrant and KZ Golf, Inc.
10.2(9)	Amendment dated June 15, 2004 to Exhibit 10.1
10.3 (10)	Amendment dated August 14, 2005 to Exhibit 10.1
10.4(10)	General Tenancy Agreement dated March 14, 2006 between the Registrant and Autumlee Pty Ltd.
10.5(3)	Agreement dated December 13, 2002 between the Registrant and RAND.
10.6(2)**	Agreement dated May 7, 2003 between the Registrant and RAND.
10.7(5)	Modification No. 1 dated as of August 21, 2003 to Exhibit 10.5
10.8(5)	Modification No. 2 dated as of October 17, 2003 to Exhibit 10.5
10.9(5)	Modification No. 3 dated as of January 20, 2004 to Exhibit 10.5
10.10(4)	Deed and Document Conveyance between the Trustee of the Property of Jeffrey Ann Muller and Lynette Anne Muller (Bankrupts).
10.11(4)	Assignment and Bill of Sale dated May 28, 2002 between the Registrant and Kevin Charles Hart.
10.12(11)†	Amended and Restated Employment Agreement dated October 5, 2005 between the Registrant and Eugene E. Eichler.
10.13(15)†	Severance Agreement dated November 8, 2006 between the Registrant and Eugene E. Eichler
10.14(11)†	Amended and Restated Employment Agreement dated October 5, 2005 between the Registrant and Bruce H. McKinnon.
10.15(6)	Save the World Air, Inc. 2004 Stock Option Plan
10.16(8)	Form of Incentive Stock Option Agreement under 2004 Stock Option Plan
10.17(8)	Form of Non-Qualified Stock Option Agreement under 2004 Stock Option Plan
10.18(8)	Consulting Agreement dated as of October 1, 2004 between the Registrant and John Fawcett
10.19(7)	License Agreement dated as of July 1, 2004 between the Registrant and Temple University – The Commonwealth System of Higher Education
10.20(8)	Consulting Agreement dated as of November 19, 2004 between the Registrant and London Aussie Marketing, Ltd.
10.21(13)	Amendment dated September 14, 2006 to Exhibit 10.20
10.22(8)†	Employment Agreement dated September 1, 2004 with Erin Brockovich
10.23(15)†	Amendment dated as of July 31, 2006 to Exhibit 10.22
10.24(8)	Assignment of Patent Rights dated as of September 1, 2003 between the Registrant and Adrian Menzell

10.25(8)	Global Deed of Assignment dated June 26, 2004 between the Registrant and Adrian Menzell
10.26(11)†	Amended and Restated Employment Agreement dated as of March 1, 2006 between the Registrant and John Richard Bautista III
10.27(9)	Lease dated August 15, 2005 between the Registrant and Thomas L. Jackson
10.28(10)	Amendment dated February 1, 2006 to Exhibit 10.27
10.29(10)	Form of 9% Convertible Note issued in the 2005 Interim Financing
10.30(10)	Form of Stock Purchase Warrant issued in the 2005 Interim Financing
10.31(10)	Form of Stock Purchase Warrant issued in the 2005 Bridge Financing
10.32(11)	Form of Stock Purchase Warrant issued in 2006 Regulation S financing
10.33(11)	Form of Stock Purchase Warrant issued in 2006 PIPE financing
10.34(12)	Commercial Sublease between the Registrant and KZG Golf dated January 1, 2006
10.35(12)	Investment Agreement dated September 15, 2006 between the Registrant and Dutchess Private Equities Fund
10.36(12)	Registration Rights Agreement dated September 15, 2006 between the registrant and Dutchess Private Equities Fund, LLP
10.37(17)	License Agreement between the Registrant and Temple University dated February 2, 2007
10.38(17)	License Agreement between the Registrant and Temple University dated February 2, 2007
10.39(17)	R&D Agreement between the Registrant and Temple University dated February 2, 2007
10.40(14)	Note Purchase Agreement dated December 5, 2006 between the registrant and Morale Orchards LLC
10.41(14)	Form of Stock Purchase Warrant issued to Morale Orchards LLC
10.42(14)	Form of Convertible Note issued to Morale Orchards LLC
10.43(16)	Consulting Agreement dated January 4, 2007 between the Registrant and Spencer Clarke LLC
10.44(15)	Agreement dated as of July 15, 2006 between the Company and SS Sales and Marketing Group
10.45(15)	Engagement Agreement between the Registrant and Charles K. Dargan II
10.46(15)	Form of 10% Convertible Note issued in 2007 PIPE Offering
10.47(15)	Form of Stock Purchase Warrant issued in 2007 PIPE Offering
10.48(18)	Appointment of New Directors, Nathan Shelton, Steven Bolio and Dennis Kenneally
10.49(19)	Issuance of RAND Final Report
10.50(20)	Delisting from OTCBB to OTC Pink Sheets
10.51(21)	Resignation of Director, Dennis Kenneally
10.52(22)	Resignation of Officer, Bruce H. McKinnon
10.53(23)	Form of 10% Convertible Note issued in 2007 Spring Offering
10.54(23)	Form of Stock Purchase Warrant issued in 2007 Spring Offering
10.55(24)	Termination of North Hollywood Lease
10.56(25)	Modification Agreement of 10% 2007 PIPE Convertible Notes
10.57(26)	Form of 10% Convertible Note issued in 2007 Summer Offering
10.58(26)	Form of Stock Purchase Warrant issued in 2007 Summer Offering
10.59(27)	Resignation of Director, J. Joseph Brown
10.60(28)	Resignation of Chief Financial Officer and Appointment of Interim Chief Financial Officer
10.61(29)	Severance Agreement dated June 15, 2007 between Registrant and Bruce H. McKinnon
10.62(30)	Resignation of Director, Bruce H. McKinnon
10.63(31)	Second Modification Agreement of 10% 2007 PIPE Convertible Notes
10.64(32)	Form of 10% Convertible Note issued in 2007 Fall Offering
10.65(32)	Form of Stock Purchase Warrant issued in 2007 Fall Offering
10.66(33)	Resignation of Director, Joseph Helleis
10.67(34)	Form of 10% Convertible Note issued in 2007/8 Winter Offering
10.68(34)	Form of Stock Purchase Warrant issued in 2007/8 Winter Offering
10.69(34)	Modification and Satisfaction Agreement of Convertible Notes with Morale Orchards, LLP and Matthews & Partners

10.70(35)	Termination of employment relationship with John Bautista
10.71(36)	Form of 10% Convertible Note issued in 2008 Summer Offering
	Form of Stock Purchase Warrant issued in 2008 Summer Offering
10.72(37)	Form of 10% Convertible Note issued in 2008 Fall Offering
	Form of Stock Purchase Warrant issued in 2008 Fall Offering
10.73(38)	Form of 10% Convertible Note issued in 2008 Winter Offering
	Form of Stock Purchase Warrant issued in 2008 Winter Offering
10.74(39)	Letter Agreement with Temple University extending default date
10.75(40)	Notice of first payment to Temple University under Letter Agreement
	Announcement of date of 2010 Annual Shareholder Meeting
	Appointment of Cecil Bond Kyte as new Chief Executive Officer
10.76(41)	Form of 10% Convertible Note issued in 2009 Winter Offering
	Form of Stock Purchase Warrant issued in 2009 Winter Offering
10.77(42)	Employment Agreement with Cecil Bond Kyte
10.78(43)	Form of 10% Convertible Note issued in 2009 Winter #2 Offering
	Form of Stock Purchase Warrant issued in 2009 Winter #2 Offering
10.79(44)	Form of 10% Convertible Note issued in 2009 Spring Offering
	Form of Stock Purchase Warrant issued in 2009 Spring Offering
10.80(45)	Form of 7% Convertible Note issued in 2009 Summer Offering
	Form of Stock Purchase Warrant issued in 2009 Summer Offering
10.81(46)	Passing of Steven Bolio, Company Director
10.82(47)	Form of 7% Convertible Note issued in 2009 Wellfleet Offering
	Form of Stock Purchase Warrant issued in 2009 Wellfleet Offering
10.83(48)	Form of 7% Convertible Note issued in 2009 Fall Offering
	Form of Stock Purchase Warrant issued in 2009 Fall Offering
10.84(49)	Letter to Shareholders
10.85(50)	Form of 10% Convertible Note issued in 2010 Winter Offering
	Form of Stock Purchase Warrant issued in 2010 Winter Offering
10.86(51)	Settlement of Bruce H. McKinnon Arbitration Award
10.87(52)	Form of 10% Convertible Note Issued in 2010 Spring Offering
	Form of Stock Purchase Warrant issued in to2010 Spring Offering
10.88(53)	Form of 10% Convertible Note Issued in 2010 Summer Offering
	Form of Stock Purchase Warrant issued in 2010 Summer Offering
10.89(54)	Form of 10% Convertible Note issued in 2010 Fall Offering
	Form of Stock Purchase Warrant issued in 2010 Fall Offering
10.90(55)	Form of 10% Convertible Note issued in 2010 Fall Offering #2
	Form of Stock Purchase Warrant issued in 2010 Fall Offering #2
10.91(56)	Resignation of Director John A. Price
10.92(57)	Form of 10% Convertible Note issued in 2011 Winter Offering
	Form of Stock Purchase Warrant issued in 2011 Winter Offering
10.93(58)	Amendment to Employment Contract with Cecil Kyte
	Announcement of date of 2011 Annual Shareholder Meeting
10.94(59)	License Agreement between the Registrant and Temple University dated August 9, 2011
10.96(60)	Form of 10% Convertible Note Issued in 2011 Spring Offering
	Form of Stock Purchase Warrant issued in 2011 Spring Offering
10.97(61)	Form of 10% Convertible Note Issued in 2011 Summer Offering
	Form of Stock Purchase Warrant Issued in 2011 Summer Offering
10.94(62)	Form of 10% Convertible Note Issued in 2011 Fall Offering
	Form of Stock Purchase Warrant Issued in 2011 Fall Offering
10.95(63)	Final Report of the Rocky Mountain Oilfield Testing Center of Viscosity Reduction Device (AOT)
10.96(64)	Form of 10% Convertible Note Issued in 2011 Fall#2 Offering
	Form of Stock Purchase Warrant Issued in 2011 Fall#2 Offering

10.97(65)	Letter of Intent between Registrant and Heng He Xing Ye Technology Development Co., Ltd. dated October 19,2011
10.98(66)	Announcement of resignation of Eugene E. Eichler, Interim Chief Financial Officer for health reasons.
10.99(67)	Form of 10% Convertible Note Issued in 2011 Fall#3 Offering
10.100(68)	Form of Stock Purchase Warrant Issued in 2011 Fall#3 Offering
10.101(69)	Form of 10% Convertible Note Issued in 2012 Winter Offering
10.102(70)	Form of Stock Purchase Warrant Issued in 2012 Winter Offering
10.103(71)	Letter of Intent between Registrant and LG Partners LLC ("LGP")
10.104(72)	Cooperation Framework Agreement between Registrant and Heng He Xing Technology Development Co., Ltd (TDC) dated March 9, 2012
10.105(73)	Employment Agreement with Gregg Bigger, Chief Financial Officer
10.106(74)	U.S. Department of Energy Agreement dated February 6, 2012
10.107(75)	Continental Divide, LLC Agreement dated January 2, 2013
10.108(76)	Equipment Lease/Option to Purchase Agreement with TransCanada Keystone Pipeline, L.P.
10.109(79)	Amendment to Greggory M. Bigger Employment Contract.
10.110(80)	Cecil Bond Kyte Separation Agreement
10.111(81)	Equipment Lease/Option to Purchase Agreement, dated effective as of July 15, 2014, between Save The World Air, Inc. and Kinder Morgan Crude & Condensate LLC.
10.112(82)	Mutual Confidentiality Agreement, dated July 15, 2014, between Save The World Air, Inc. and Kinder Morgan Crude & Condensate LLC.
10.113(83)	Letter from TransCanada to Save The World Air, Inc., dated July 15, 2014.
10.114(84)	Newfield Exploration Company Joint Development Agreement.
10.115(85)	Haven Technology Solutions Joint Development Agreement.
10.116(86)	Registrant's Business Plan
10.117*	Forms of Convertible Note, Warrant, and Securities Purchase Agreement in 2014 Fall Offering
10.118*	Forms of Convertible Note, Warrant, and Securities Purchase Agreement in 2015 Spring Offering
10.119*	Forms of Convertible Note, Warrant, and Securities Purchase Agreement in 2015 Winter Offering
10.120*	Amendment to Greggory M. Bigger Employment Contract dated March 10, 2016.
10.121*	Temple Research Agreement dated March 19, 2012, as amended March 19, 2013.
21	List of Subsidiaries
24*	Power of Attorney (included on Signature Page)
31.1*	Certification of Chief Executive Officer of Annual Report Pursuant to Rule 13(a)—15(e) or Rule 15(d)—15(e).
31.2*	Certification of Chief Financial Officer of Annual Report Pursuant to 18 U.S.C. Section 1350.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer of Annual Report pursuant to Rule 13(a)—15(e) or Rule 15(d)—15(e).
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

*	Filed herewith.
**	Confidential treatment previously requested.
†	Management contract or compensatory plan or arrangement.
(1)	Incorporated by reference from Registrant's Registration Statement on Form 10-SB (Registration Number 000-29185), as amended, filed on March 2, 2000.

(2) Incorporated by reference from Registrant's Form 10-KSB for the fiscal year ended December 31, 2002.
(3) Incorporated by reference from Registrant's Form 8-K filed on December 30, 2002.
(4) Incorporated by reference from Registrant's Form 8-K filed on November 12, 2002.
(5) Incorporated by reference from Registrant's Form 10-QSB for the quarter ended March 31, 2004.
(6) Incorporated by reference from Appendix C of Registrant's Schedule 14A filed on April 30, 2004, in connection with its Annual Meeting of Stockholders held on May 24, 2004.
(7) Incorporated by reference from Registrant Form 8-K filed on July 12, 2004.
(8) Incorporated by reference from registrant's Form 10-KSB for the fiscal year ended December 31, 2004.
(9) Incorporated by reference from Registrant's Form 10-QSB for the quarter ended September 30, 2005
(10) Incorporated by reference from Registrant's Form 10-KSB for the fiscal year ended December 31, 2005
(11) Incorporated by reference from Registrant's Form SB-2 filed on June 28, 2006 (SEC File No. 333- 333-135415)
(12) Incorporated by reference from Registrant's Form 8-K filed on September 21, 2006
(13) Incorporated by reference from Registrant's Form SB-2 filed on October 6, 2006 (SEC File No. 333-137855)
(14) Incorporated by reference from Registrant's Form 8-K filed on December 11, 2006
(15) Incorporated by reference from Registrant's Form 10KSB for the fiscal year ended December 31, 2006
(16) Incorporated by reference from Registrant's form 8-K filed on January 10, 2007
(17) Incorporated by reference from Registrant's form 8K filed on February 8, 2007
(18) Incorporated by reference from Registrant's form 8K filed on February 16, 2007
(19) Incorporated by reference from Registrant's form 8K filed on May 3, 2007
(20) Incorporated by reference from Registrant's form 8K filed on May 22 2007
(21) Incorporated by reference from Registrant's form 8K filed on June 8, 2007
(22) Incorporated by reference from Registrant's form 8K filed on June 15, 2007
(23) Incorporated by reference from Registrant's form 8K filed on July 2, 2007
(24) Incorporated by reference from Registrant's form 8K filed on July 18, 2007
(25) Incorporated by reference from Registrant's form 8K filed on August 30, 2007
(26) Incorporated by reference from Registrant's form 8K filed on October 9, 2007
(27) Incorporated by reference from Registrant's form 8K filed on October 23, 2007
(28) Incorporated by reference from Registrant's form 8K filed on November 9, 2007
(29) Incorporated by reference form Registrant's Form 10QSB for the nine months ended September 30, 2007
(30) Incorporated by reference from Registrant's form 8K filed on November 15, 2007
(31) Incorporated by reference from Registrant's form 8K filed on December 11, 2007
(32) Incorporated by reference from Registrant's form 8K filed on December 20, 2007
(33) Incorporated by reference from Registrant's form 8K filed on February 25, 2010
(34) Incorporated by reference from Registrant's form 8K filed on March 11, 2010
(35) Incorporated by reference from Registrant's form 8K filed on March 27, 2010
(36) Incorporated by reference from Registrant's form 8K filed on September 3, 2010
(37) Incorporated by reference from Registrant's form 8K filed on November 6, 2010
(38) Incorporated by reference from Registrant's form 8K filed on December 11, 2010
(39) Incorporated by reference from Registrant's form 8K filed on January 13, 2010
(40) Incorporated by reference from Registrant's form 8K filed on January 27, 2010
(41) Incorporated by reference from Registrant's form 8K filed on January 26, 2010
(42) Incorporated by reference from Registrant's form 10K for the twelve months ended December 31, 2010

(43) Incorporated by reference from Registrant's form 8K filed on March 12, 2010
(45) Incorporated by reference from Registrant's form 8K filed on September 30, 2010
(46) Incorporated by reference from Registrant's form 8K filed on November 24, 2010
(47) Incorporated by reference from Registrant's form 8K filed on December 7, 2010
(48) Incorporated by reference from Registrant's form 8K filed on February 3, 2010
(49) Incorporated by reference from Registrant's form 8K filed on March 22, 2010
(50) Incorporated by reference from Registrant's form 8K filed on April 8, 2010
(51) Incorporated by reference from Registrant's form 8K filed on April 13, 2010
(52) Incorporated by reference from Registrant's form 8K filed on May 7, 2010
(53) Incorporated by reference from Registrant's form 8K filed on August 11, 2010
(54) Incorporated by reference from Registrant's form 8K filed on November 11, 2010
(55) Incorporated by reference from Registrant's form 8K filed on December 6, 2010
(56) Incorporated by reference from Registrant's form 8K filed on February 25, 2011
(57) Incorporated by reference form Registrant's form 8K filed on March 7, 2011
(58) Incorporated by reference from Registrant's form 8K filed on March 9, 2011
(59) Incorporated by reference from Registrant's form 8K filed on August 11, 2011
(60) Incorporated by reference from Registrant's form 8K filed on June 9, 2011
(61) Incorporated by reference from Registrant's form 8K filed on August 10, 2011
(62) Incorporated by reference from Registrant's form 8K filed on October 21, 2011
(63) Incorporated by reference from Registrant's form 8K filed on October 25, 2011
(64) Incorporated by reference from Registrant's form 8K filed on December 14, 2011
(65) Incorporated by reference from Registrant's form 8K filed on December 27, 2011
(66) Incorporated by reference from Registrant's form 8K filed on January 4, 2012
(67) Incorporated by reference from Registrant's form 8K filed on January 23, 2012
(68) Incorporated by reference from Registrant's form 8K filed on January 23, 2012
(69) Incorporated by reference from Registrant's form 8K filed on January 23, 2012
(70) Incorporated by reference from Registrant's form 8K filed on February 8, 2012
(71) Incorporated by reference from Registrant's form 8K filed on March 16, 2012
(72) Incorporated by reference from Registrant's form 8K filed on March 20, 2012
(73) Incorporated by reference from Registrant's Form 10K filed on March 30, 2012
(74) Incorporated by reference from Registrant's Form 10K filed on March 30, 2012
(75) Incorporated by reference from Registrant's Form 10K filed on March 22, 2013
(76) Incorporated by reference from Registrant's form 8K filed on August 1, 2013
(77) Incorporated by reference from Registrant's form 8K filed on July 8, 2013
(78) Incorporated by reference from Registrant's form 8K filed on December 20, 2013
(79) Incorporated by reference from Registrant's Form 10K filed on March 17, 2014
(80) Incorporated by reference from Registrant's Form 10K filed on March 17, 2014
(81) Incorporated by reference from Registrant's form 8K filed on July 21, 2014
(82) Incorporated by reference from Registrant's form 8K filed on July 21, 2014
(83) Incorporated by reference from Registrant's form 8K filed on July 21, 2014
(84) Incorporated by reference from Registrant's form 10Q filed on November 10, 2014
(85) Incorporated by reference from Registrant's form 10Q filed on November 10, 2014
(86) Incorporated by reference from Registrant's form 8K filed on December 1, 2015
(87) Incorporated by reference from Registrant's form 8K filed on August 11, 2015

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, hereunto duly authorize.

QS Energy, Inc.

Date: March 15, 2016

By: /s/ Greggory Bigger
Greggory Bigger
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Greggory Bigger as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934 this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

NAME	TITLE	DATE
/s/ Greggory Bigger Greggory Bigger	Chief Executive Officer and Chairman of the Board of Directors	March 15, 2016
/s/ Charles R. Blum Charles R. Blum	Director	March 15, 2016
/s/ Donald Dickson Donald Dickson	Director	March 15, 2016
/s/ Nathan Shelton Nathan Shelton	Director	March 15, 2016
/s/ Mark Stubbs Mark Stubbs	Director	March 15, 2016
/s/ Thomas Bundros Thomas Bundros	Director	March 15, 2016

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

QS ENERGY, INC. AND SUBSIDIARIES
DECEMBER 31, 2015, 2014 AND 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
QS Energy, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of QS Energy, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity (deficiency) and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of QS Energy, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), QS Energy, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2016 expressed an unqualified opinion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2, the Company has experienced recurring operating losses and negative operating cash flows since inception, and has financed its working capital requirements through the recurring sale of its debt and equity securities. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Weinberg & Company, P.A.

Weinberg & Company, P.A.
Los Angeles, California
March 15, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Stockholders of
QS Energy, Inc. and Subsidiaries

We have audited QS Energy, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). QS Energy, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, QS Energy, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of QS Energy, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity (deficiency), and cash flows for each of the three years in the period ended December 31, 2015 and our report dated March 15, 2016 expressed an unqualified opinion, modified for a going concern uncertainty.

Weinberg & Company, P.A.
Los Angeles, California
March 15, 2016

QS ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

	December 31 2015	December 31 2014
ASSETS		
Current assets:		
Cash	$ 349,186	$ 2,247,557
Prepaid expenses and other current assets	50,596	72,225
Total current assets	399,782	2,319,782
Property and equipment, net of accumulated depreciation of $60,242 and $47,180 at December 31, 2015 and December 31, 2014, respectively	21,798	21,946
Other assets	6,480	5,830
Total assets	$ 428,060	$ 2,347,558
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable-license agreements	$ 590,001	$ 405,313
Accounts payable and accrued expenses	207,334	175,228
Accrued expenses and accounts payable-related parties	190,750	259,507
Convertible debentures, net of discounts of $100,833 and $105,542 at December 31, 2015 and December 31, 2014, respectively	222,195	139,098
Total current liabilities	1,210,280	979,146
Commitments and contingencies		
Stockholders' equity (deficiency)		
Common stock, $.001 par value: 300,000,000 shares authorized 183,831,577 and 181,028,244 shares issued and outstanding at December 31, 2015 and December 31, 2014, respectively	183,832	181,028
Additional paid-in capital	100,308,100	98,232,582
Accumulated deficit	(101,274,152)	(97,045,198)
Total stockholders' equity (deficiency)	(782,220)	1,368,412
Total liabilities and stockholders' equity (deficiency)	$ 428,060	$ 2,347,558

See notes to consolidated financial statements.

QS ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31		
	2015	**2014**	**2013**
Revenues	$ –	$ 240,000	$ –
Costs and Expenses			
Operating expenses	2,915,369	3,284,666	11,884,775
Research and development expenses	577,501	893,452	2,011,486
Loss before other income (expense)	(3,492,870)	(3,938,118)	(13,896,261)
Other income (expense)			
Other income (loss)	11,258	(28,598)	(23,549)
Interest and financing expense	(747,342)	(39,619)	(260)
Change in fair value of derivative liabilities	–	–	(220,614)
Gain on extinguishment of derivative liabilities	–	–	3,441,752
Gain on disposition of equipment	–	–	41,923
Net loss	$ (4,228,954)	$ (4,006,335)	$ (10,657,009)
Net loss per common share, basic and diluted	$ (0.02)	$ (0.02)	$ (0.07)
Weighted average common shares outstanding, basic and diluted	182,267,719	180,386,712	160,958,284

See notes to consolidated financial statements.

QS ENERGY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013

	Common Stock		Additional Paid-in	Accumulated	Total Equity
	Shares	Amount	Capital	Deficit	(Deficiency)
Balance, January 1, 2013	143,667,570	$ 143,668	$ 79,340,666	$ (82,381,854)	$ (2,897,520)
Common stock issued upon exercise of warrants and options	29,152,389	29,152	8,448,066	–	8,477,218
Common stock issued for services	50,000	50	48,950	–	49,000
Common stock issued to employees and directors as compensation	325,455	325	369,788	–	370,113
Common stock issued as settlement	3,047,403	3,048	3,105,299	–	3,108,347
Fair value of options and warrants issued as compensation	–	–	4,495,545	–	4,495,545
Fair value of warrants issued to settle payables	–	–	129,622	–	129,622
Net loss	–	–	–	(10,657,009)	(10,657,009)
Balance, December 31, 2013	176,242,817	176,243	95,937,936	(93,038,863)	3,075,316
Common stock issued upon exercise of warrants and options	4,710,947	4,711	1,408,573	–	1,413,284
Common stock issued on conversion of notes payable	74,480	74	35,676	–	35,750
Fair value of warrants and beneficial conversion feature of issued convertible notes	–	–	119,671	–	119,671
Fair value of options and warrants issued as compensation	–	–	730,726	–	730,726
Net loss	–	–	–	(4,006,335)	(4,006,335)
Balance, December 31, 2014	181,028,244	181,028	98,232,582	(97,045,198)	1,368,412
Common stock issued upon exercise of warrants	200,000	200	49,800	–	50,000
Common stock issued on conversion of notes	2,603,333	2,604	666,196	–	668,800
Fair value of warrants and beneficial conversion feature of issued convertible notes	–	–	630,945	–	630,945
Fair value of options and warrants issued as compensation	–	–	728,577	–	728,577
Net loss	–	–	–	(4,228,954)	(4,228,954)
Balance, December 31, 2015	183,831,577	$ 183,832	$100,308,100	$(101,274,152)	$ (782,220)

See notes to consolidated financial statements.

QS ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	2015	**2014**	**2013**
Cash flows from Operating Activities			
Net loss	$ (4,228,954)	$ (4,006,335)	$ (10,657,009)
Adjustments to reconcile net loss to net cash used in operating activities:			
Settlement of litigation and debt	–	–	(346)
Stock based compensation expense	728,577	730,726	4,865,658
Issuance of common stock for services	–	–	49,000
Issuance of common stock as settlement	–	–	3,108,347
Interest added to convertible notes	21,188	–	–
Amortization of debt discounts	701,654	39,619	–
Change in fair value of derivative liabilities	–	–	220,614
Gain on extinguishment of derivative liabilities	–	–	(3,441,752)
Gain on disposition of assets	–	–	(41,923)
Depreciation and amortization	13,062	13,825	15,399
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	21,629	(15,295)	10,202
Other assets	(650)	–	4,500
Accounts payable and accrued expenses	32,106	(107,577)	(43,408)
Accounts payable – license agreements	184,688	219,863	(130,400)
Accounts payable and accrued expenses – related parties	(68,757)	(402,521)	128,750
Net cash used in operating activities	(2,595,457)	(3,527,695)	(5,912,368)
Cash flows from investing activities			
Purchase of equipment	(12,914)	–	(7,573)
Proceeds from sale of equipment	–	–	27,000
Net cash provided by (used in) investing activities	(12,914)	–	19,427
Cash flows from financing activities			
Net proceeds from issuance of convertible notes and warrants	660,000	254,900	–
Net proceeds from exercise of warrants and options	50,000	1,383,284	8,428,218
Net cash provided by financing activities	710,000	1,638,184	8,428,218
Net decrease in cash	(1,898,371)	(1,889,511)	2,535,277
Cash, beginning of period	2,247,557	4,137,068	1,601,791
Cash, end of period	$ 349,186	$ 2,247,557	$ 4,137,068
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	$ –	$ –	$ 260
Income Taxes	$ –	$ –	$ –
Non-cash investing and financing activities			
Conversion of convertible debentures to common stock	668,800	35,750	–
Exercise of options and warrants applied to accounts payable	–	–	49,000
Fair value of warrants issued to settle payables	–	30,000	129,622
Receivable from sale of equipment	–	–	27,000
Fair value of warrants and beneficial conversion feature associated with issued convertible notes	630,945	119,671	–

See notes to consolidated financial statements.

QS ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

1. Description of Business

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 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 subsidiaries 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.

QS Energy, 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"). 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 initial commercial production for the midstream pipeline marketplace.

In 2014, the Company began commercial development of a suite of products based around the Joule Heat technology. The Company began fabrication of prototype equipment to be operated under a joint development agreement with a commercial entity in the fourth quarter of 2014. 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. In addition, the Company filed two additional provisional patents related to the technology's method and apparatus. 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 of 2014. 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. 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.

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 year ended December 31, 2015, the Company incurred a net loss of $4,228,954, used cash in operations of $2,595,457 and had a stockholders' deficiency of $782,220 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 December 31, 2015, the Company had cash on hand in the amount of $349,186. Management estimates that the current funds on hand will be sufficient to continue operations through May 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 stock holders, in case or equity financing.

Revenue Recognition Policy

The Company recognizes lease revenue upon commencement of the lease. Revenue on future product sales will be recognized upon meeting the following criteria: persuasive evidence of an arrangement exists; delivery has occurred or services rendered; the seller's price to the buyer is fixed or determinable; and collectability is reasonably assured.

Property and Equipment and Depreciation

Property and equipment are stated at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, generally ranging from three to ten years. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the lease term.

Impairment of Long-lived Assets

Our long-lived assets, such as property and equipment, are reviewed for impairment at least annually, or when events and circumstances indicate that depreciable or amortizable long lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. When specific assets are determined to be unrecoverable, the cost basis of the asset is reduced to reflect the current value.

We use various assumptions in determining the current fair value of these assets, including future expected cash flows and discount rates, as well as other fair value measures. Our impairment loss calculations require us to apply judgment in estimating future cash flows, including forecasting useful lives of the assets and selecting the discount rate that reflects the risk inherent in future cash flows.

If actual results are not consistent with our assumptions and judgments used in estimating future cash flows and asset fair values, we may be exposed to future impairment losses that could be material to our results. Based upon management’s annual review, no impairments were recorded for the years ended December 31, 2015, 2014 and 2013.

Loss per Share

Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted 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 loss of the Company. In computing diluted 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.

For the years ended December 31, 2015, 2014 and 2013, the dilutive impact of outstanding stock options of 21,535,148, 21,052,030 and 20,309,908; outstanding warrants of 4,411,667, 5,692,087 and 11,763,966; and notes convertible into 509,667, -0- and -0- shares of our common stock, respectively, have been excluded because their impact on the loss per share is anti-dilutive.

Income Taxes

Income taxes are recognized for the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets are recognized for the future tax consequences of transactions that have been recognized in the Company’s consolidated financial statements or tax returns. A valuation allowance is provided when it is more likely than not that some portion or entire deferred tax asset will not be realized.

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 stock options and warrants grant 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 and derivative liabilities. 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 carrying amounts for cash, accounts payable, accrued expenses and convertible debentures approximate their fair value due to their short term nature.

Research and Development Costs

Costs incurred for research and development are expensed as incurred. Purchased materials that do not have an alternative future use are also expensed. Furthermore, costs incurred in the construction of prototypes with no certainty of any alternative future use and established commercial uses are also expensed.

For the years ended December 31, 2015, 2014 and 2013 research and development costs were $577,501, $893,542 and $2,011,486, respectively.

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 year ended December 31, 2015, 2014 and 2013, patent costs were $53,044, $103,434 and $144,326, respectively, and were included as part of operating expenses in the accompanying consolidated statements of operations.

Recent Accounting Pronouncements

On August 27, 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

Accrued Expenses and Accounts Payable - Related Parties

As of December 31, 2015 and December 31, 2014, the Company had accounts payable to related parties in the amount of $76,089 and $80,589, respectively. These amounts are unpaid Directors Fees and unpaid Company expenses incurred by Officers and Directors.

As of December 31, 2015 and December 31, 2014, the Company accrued the unpaid salaries, unused vacation and the corresponding payroll taxes of Officers in the aggregate of $114,661, and $178,468, respectively. Included in these accruals are the unpaid salaries to a former President and current member of the Company's Board of Directors of $75,429, and $135,429, respectively. The Company agreed to a monthly payment of $5,000 to the current Board member until his unpaid salary is fully settled.

Bonus Paid to Officers

General and administrative expenses for the year ended December 31, 2013 include bonuses in the aggregate of $150,000 paid to Officers. There were no such bonuses paid during the years ended December 31, 2015 and 2014.

Consulting Fees Paid to Related Party

General and administrative expenses for the year ended December 31, 2014 and 2013 include consulting fees of $60,000 for services rendered by a consulting firm controlled by a member of our Board of Directors. There were no such costs in 2015.

4. Property and Equipment

At December 31, 2015 and 2014, property and equipment consists of the following:

	December 31,	
	2015	2014
Office equipment	$ 65,051	$ 65,051
Furniture and fixtures	4,075	4,075
Testing Equipment	12,914	–
Subtotal	82,040	69,126
Less accumulated depreciation	(60,242)	(47,180)
Total	$ 21,798	$ 21,946

Depreciation expense for the years ended December 31, 2015, 2014 and 2013 was $13,062, $13,825 and $15,399, respectively.

5. Convertible Notes and Warrants

	December 31,	
	2015	2014
Convertible note	$ 321,024	$ 244,640
Interest	2,004	–
Subtotal	323,028	244,640
Convertible note discount	(100,833)	(105,542)
Total	$ 222,195	$ 139,098

In 2014, the Company conducted a private placement and issued an aggregate of $280,390 of its convertible notes for proceeds of $254,900 or an original issue discount ("OID") of $25,490. The notes do not bear any interest, however, the implied interest rate used was 10% since the notes were issued 10% less than its face value, are unsecured, and will mature in twelve months from issuance. The notes are convertible, at the option of the note holder, into the Company's common stock at a conversion price of $0.48 per share, for a total of 584,146 shares of common stock. 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 146,037 shares of common stock. Each warrant is exercisable on a cash basis only at a price of $0.48 per share, vests immediately upon issuance, and is exercisable for one year from the date of issuance.

As a result, the Company recorded a note discount of $145,160 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, 2014, total outstanding notes payable amounted to $244,640 and unamortized note discount was $105,542.

In 2015, the Company issued similar convertible promissory notes in the aggregate of $726,000 for cash proceeds of $660,000 or a discount of $66,000. The notes do not bear any interest; however, the implied interest rate used was 10% since the notes were issued 10% less than its face value, are unsecured, mature in twelve months from issuance and convertible at $0.30 and $0.10 per share. In addition, the Company also granted these note holders warrants to purchase 1,796,667 shares of the Company' common stock. The warrants are fully vested, exercisable at $0.30 and $0.10 per share and will expire in one year. As a result, the Company recorded a note discount of $696,945 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 year ended December 31, 2015, a total of $668,800 of notes payable were converted into 1.1 million shares of common stock and amortized note discount of $701,654 was recorded as interest expense.

As of December 31, 2015, total outstanding notes payable amounted to $321,024 and unamortized note discount of $100,833. Three notes in the aggregate of $211,024 had reached maturity without conversion as of December 31, 2015. As a result, the Company increased the principal amount of each note by 10% under terms of the notes in the aggregate amount of $19,184, which the Company recorded as an interest expense. As of the date of maturity, each of the notes commenced the accrual of interest thereon at an annual rate of 10% under terms of the notes. As of December 31, 2015, interest accrued for these notes amounted to $2,004.

6. Research and Development

The Company constructs, develops and tests 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 patent fees, U.S. Department of Energy 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 prototypes.

For the years ended December 31, 2015, 2014 and 2013, our research and development expenses were $577,501, $893,452 and $2,011,486, respectively.

AOT and Joule Heat Product Development and Testing

The Company constructs, develops and tests 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 U.S. Department of Energy 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.

Total expenses incurred during the years ended December 31, 2015, 2014 and 2013 on AOT and Joule Heat product development and testing amounted to $215,668, $73,937 and $676,287 respectively and has been reflected as part of Research and Development expenses on the accompanying consolidated statements of operations.

AOT Prototypes

In 2013, the Company entered into a lease agreement with TransCanada Keystone Pipeline, L.P. for the manufacture and delivery of our AOT Prototype Equipment. In 2014, the Company entered into another lease agreement with Kinder Morgan Crude & Condensate, LLC for the manufacture and delivery of our AOT Prototype Equipment. See Note 7 for further discussion.

During the years ended December 31, 2015, 2014 and 2013, the Company incurred total expenses of $109,645, $502,720 and $1,029,143, respectively, in the manufacture and delivery of the AOT prototype equipment. These expenses have been reflected as part of Research and Development expenses on the accompanying consolidated statements 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 agrees 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 year ended December 31, 2015, 2014 and 2013 pursuant to these two agreements amounted to $187,500 and has been reflected in Research and Development expenses on the accompanying consolidated statements of operations.

As of December 31, 2015 and 2014, total unpaid fees due to Temple pursuant to these agreements amounted to $460,625 and $340,625, respectively, which are included as part of Accounts Payable – licensing agreement in the accompanying consolidated balance sheets. As of December 31, 2015, $165,125 of the $460,625 payable has been deferred under terms of the license agreements and $295,500 is deemed past due. The Company is currently in negotiations with Temple to settle this amount.

In 2014, the Company recognized revenues of $240,000 as a result of these two licenses. No royalty payment was due to Temple as the reported revenues did not meet the threshold at which the Company would pay royalties in addition to the annual maintenance agreement. There were no revenues generated from these two licenses during the years ended December 31, 2015 and 2013.

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, will perform ongoing 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 shall be subject 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. A copy of the Temple Research Agreement dated March 19, 2012, as amended March 19, 2013 is attached to this Form 10-K filing as Exhibit 10.121.

In August 2013, the Company and Temple amended the Research Agreement. Under the amended agreement, parties agreed that total cost for Phase 1 of the agreement was $241,408 and total cost for Phase 2 of the agreement was $258,592 payable beginning September 1, 2013 in eight quarterly installments of $32,324.

During the years ended December 31, 2015, 2014 and 2013, the Company recognized a total expense of $64,688, $129,295 and $118,556, respectively, pursuant to this agreement and such costs have been reflected in Research and Development expenses on the accompanying consolidated statements of operations.

As of December 31, 2015 and 2014, total unpaid fees due to Temple pursuant to this agreement amounted to $129,377 and $64,688, respectively, which are included as part of Accounts Payable – licensing agreement in the accompanying consolidated balance sheets. As of December 31, 2015, the entire $129,377 is deemed past due. The Company is currently in negotiations with Temple to settle this amount.

7. Leases

TransCanada Keystone Pipeline, L.P. Lease

On August 1, 2013, the Company entered into an Equipment Lease/Option to Purchase Agreement ("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. The initial term of the lease was for six months at an amount of $60,000 per month. During the initial term, either the Company or TransCanada had the right to terminate the Agreement for any reason on 90-days written notice. TransCanada had an option to purchase the equipment during the term of the lease for approximately $4.3 million.

In June 2014, the equipment was accepted by TransCanada and the lease commenced. The Company accounted the TransCanada Lease as an operating lease, and recognized total lease revenue of $240,000 from June 2014 up to October 2014.

In October 2014, the lease was mutually terminated by the Company and TranCanada and the AOT Equipment was returned to the Company.

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 installed at Kinder Morgan's facility with pre-start testing to begin in March 2016. The Company will account for the lease with Kinder Morgan as an operating lease once the AOT equipment is accepted.

8. Derivative Liability

Pursuant to current accounting pronouncements, instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The FASB's guidance requires the fair value of these liabilities be re-measured at the end of every reporting period. The Company characterized the fair value of these warrants as derivative liabilities upon issuance and re-measured every reporting period with the change in value reported in the accompanying statement of operations.

In 2009 and 2010, in connection with certain convertible note offerings, the Company granted warrants to purchase an aggregate of 8,522,500 shares of the Company's common stock. The warrants are initially exercisable at $0.30 per share with exercise prices that may fluctuate based on the occurrence of future offerings or events. At December 31, 2012, a total of 4.4 million warrants remained outstanding with a fair value of $3,221,138.

In January 2013, the remaining 4.4 million warrants expired or were exercised at which time the warrants had a fair value of $3,441,752, which resulted in a loss of $220,614 due to the change in the fair value of the derivative liability. Furthermore, as a result of the exercise and expiration of these warrants, the Company recorded a gain of $3,441,752 due to the extinguishment of the corresponding derivative liability. There were no similar warrants issued or outstanding in 2015 and 2014.

The derivative liabilities were valued using a probability weighted average of Black-Scholes Option Pricing models as a valuation technique, which approximates the Monte Carlo and other binominal valuation techniques with the following assumptions:

	January 15 2013
Risk-free interest rate	0.12%
Expected volatility	92%
Expected life (in years)	0.75 - 1.00
Expected dividend yield	0%
Fair Value:	
2009 Warrants	3,441,752
Total Fair Value	$ 3,441,752

The risk-free interest rate is based on the yield available on U.S. Treasury securities. The Company estimates volatility based on the historical volatility of its common stock. The expected life warrants are based on the expiration date of the related warrants. The expected dividend yield was based on the fact that the Company has not paid dividends to stockholders in the past nor is it expected to pay any dividends in the foreseeable future.

9. Common Stock Transactions

2015

During the year ended December 31, 2015, the Company issued an aggregate of 2,803,333 shares of its common stock as follows:

- The Company issued 2,603,333 shares of its common stock in exchange for conversion of $668,800 of Convertible Notes pursuant to the convertible notes conversion price ranging from $0.10 to $0.48 per share.

- The Company issued 200,000 shares of its common stock upon exercise of warrants at price of $0.25 per share for total cash proceeds of at $50,000.

2014

During the year ended December 31, 2014, the Company issued an aggregate of 4,785,427 shares of its common stock as follows:

- The Company issued 74,480 shares of its common stock in exchange for conversion of $35,750 of Convertible Notes pursuant to the convertible notes conversion price of $0.48 per share.

- The Company issued 4,710,947 shares of its common stock for exercise of options and warrants at price of $0.30 per share and valued at $1,413,284, of which, $30,000 was applied to an existing accounts payable and $1,383,284 was received in cash.

2013

During the year ended December 31, 2013, the Company issued an aggregate of 32,575,247 shares of its common stock as follows:

- The Company issued 29,152,389 shares of its common stock upon exercise of options and warrants at a price of $0.25 up to $0.98 which resulted in net cash proceeds of $8,428,218 and settlement of unpaid fees recorded in prior years of $49,000 for a total of $8,477,218.

- The Company issued 375,455 shares of its common stock with a fair value of $419,113 or $1.12 per share to employees, officers, members of the Board of Directors and a consultant for service rendered. The shares were valued at market at the date of the agreement.

- In December 2013, the Company issued 3,047,403 shares of common stock with a fair value of $3,108,347 pursuant to a settlement with CEDE & Co (see Note 13). The shares were valued at market at the date of issuance.

In December 2013, the Company's stockholders agreed to increase the authorized shares of common stock of the Company from 200,000,000 to 300,000,000.

10. 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 and warrants vest and expire according to terms established at the grant date.

Options

The Company previously issued stock options to employees, directors and consultants under its 2004 Stock Option Plan (the Plan). The Company could issue options under the Plan to acquire up to 7,000,000 shares of common stock as amended in May 2006. On March 2, 2014, the Plan expired and the Board decided not to extend it.

Employee options vest according to the terms of the specific grant and expire from 5 to 10 years from date of grant. Non-employee option grants vest upon issuance up to 2 years. The weighted-average, remaining contractual life of employee and Non-employee options outstanding at December 31, 2015 was 5.2 years. Stock option activity for the period January 1, 2013 to December 31, 2015, was as follows:

	Weighted Avg. Options	Weighted Avg. Exercise Price
Options, January 1, 2013	27,278,098	$ 0.27
Options granted	207,819	1.17
Options exercised	(115,000)	0.60
Options forfeited	(7,061,009)	0.25
Options, December 31, 2013	20,309,908	$ 0.28
Options granted	852,122	0.80
Options exercised	(20,000)	0.30
Options forfeited	(90,000)	0.91
Options, December 31, 2014	21,052,030	$ 0.20
Options granted	838,552	0.46
Options exercised	–	–
Options forfeited	(355,434)	0.72
Options, December 31, 2015	21,535,148	$ 0.30

The weighted average exercise prices, remaining contractual lives for options granted, exercisable, and expected to vest under the Plan as of December 31, 2015 were as follows:

	Outstanding Options			Exercisable Options	
Option Exercise Price Per Share	Shares	Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 0.21 - $ 0.99	21,343,280	5.2	$ 0.29	20,408,283	$ 0.29
$ 1.00 - $ 1.99	191,868	4.2	$ 1.22	263,229	$ 1.20
	21,535,148		$ 0.30	20,671,512	$ 0.30

As of December 31, 2015 the market price of the Company's stock was $0.19 per share. At December 31, 2015 the aggregate intrinsic value of the options outstanding was $0. Future unamortized compensation expense on the unvested outstanding options at December 31, 2015 is approximately $34,000.

2015

- From January through July 2015, the Company issued options to purchase a total of 838,552 shares of common stock to employees, officers and members of the Board of Directors with a fair value of $323,787 using the Black-Scholes Option Pricing model. The options are exercisable from $0.65 up to $0.99 per share, vesting within one year and expiring in ten years from the date of grant. During the year ended December 31, 2015, the Company recognized compensation costs of $323,787 based on the fair value of options that vested.

- During the year ended December 31, 2015, the Company amortized $366,266 of compensation cost based on the vesting of the options granted to employees and directors in prior years.

2014

- In February 2014, options to purchase 20,000 shares of common stock were exercised resulting in proceeds of $6,000.

- From January up to October 2014, the Company issued options to purchase a total of 852,122 shares of common stock to employees, officers and members of the Board of Directors with an estimated fair value of approximately $454,499 using the Black-Scholes Option Pricing model. The options are exercisable from $0.65 up to $0.99 per share, vesting within two years and expire in two and ten years from the date of grant. During the year ended December 31, 2014, the Company recognized compensation costs of $295,884 based on the fair value of options that vested.

- During the year ended December 31, 2014, the Company amortized $376,247 of compensation cost based on the vesting of the options granted to employees, directors and consultants in prior years.

2013

- From April up to September 2013, options to purchase 115,000 shares of common stock were exercised resulting in net proceeds of $19,500. Included in the exercise was issuance of 50,000 shares of common stock valued at $49,000 pursuant to an exercise of options and accounted for as partial settlement of a liability recorded in prior years.

- From July up to September 2013, the Company issued options to purchase 207,819 shares of common stock to consultants, employees, officers and members of the Board of Directors with a fair value of approximately $201,000 using the Black-Scholes Option Pricing model. The options are exercisable at $1.09/share up to $1.71/share, vest over a period of one year and expire in two years and ten years from the date of grant. During the year ended December 31, 2013, the Company recognized compensation costs of $101,157 based on the fair value of options that vested.

- In November 2013, pursuant to separation agreement with an Officer of the Company, the Company cancelled unvested options to purchase 7,040,000 shares of common stock at $0.25 and modified the vesting period of unvested options to purchase 3,520,000 shares of common stock at $0.25, both granted during 2011.

- During the year ended December 31, 2013, the Company amortized $403,127 of compensation cost based on the vesting of the options granted to employees, directors and consultants in prior years.

Black-Scholes Option Pricing

The Company used the following average assumptions in its calculation using the Black-Scholes Option Pricing model:

	Years Ended		
	2015	**2014**	**2013**
Expected life (years)	5.0 – 5.5	1.5 – 5.5	1.5 – 5.5
Risk free interest rate	1.56 – 1.72%	0.12 – 1.70%	0.34 – 1.65%
Volatility	106 – 121%	123 – 135%	127 – 130%
Expected dividend yield	0%	0%	0%

The expected life is based on the expiration date of the related options. The risk-free interest rate is based on the yield available on U.S. Treasury securities. The Company estimates volatility based on the historical volatility of its common stock. The expected dividend yield was based on the fact that the Company has not paid dividends to stockholders in the past nor is it expected to pay any dividends in the foreseeable future.

The weighted average fair value for options granted in 2015, 2014 and 2013 was $0.39, $0.96 and $0.30, respectively.

Warrants

The following table summarizes certain information about the Company's stock purchase warrants.

	Warrants	Weighted Avg. Exercise Price
Warrants outstanding, January 1, 2013	42,205,507	$ 0.31
Warrants granted	150,000	0.30
Warrants exercised	(29,037,389)	0.29
Warrants cancelled	(1,554,152)	0.33
Warrants outstanding, December 31, 2013	11,763,966	$ 0.34
Warrants granted	761,037	0.71
Warrants exercised	(4,690,947)	0.30
Warrants cancelled	(2,141,969)	0.46
Warrants outstanding, December 31, 2014	5,692,087	$ 0.36
Warrants granted	1,796,667	0.20
Warrants exercised	(200,000)	0.25
Warrants cancelled	(2,877,087)	0.36
Warrants outstanding, December 31, 2015	4,411,667	$ 0.31

At December 31, 2015 the price of the Company's common stock was $0.19 per share and the aggregate intrinsic value of the warrants outstanding was $79,200. Future unamortized compensation expense on the unvested outstanding warrants at December 31, 2015 is approximately $1,867.

	Outstanding Warrants			Exercisable Warrants	
Warrant Exercise Price Per Share	Shares	Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 0.25 - $ 0.99	4,291,667	3.2	$ 0.36	4,291,667	$ 0.34
$ 1.00 - $ 1.99	120,000	0.0	$ 1.01	120,000	$ 1.01
	4,411,667		$ 0.38	4,411,667	$ 0.35

2015

- In January 2015, warrants to acquire 200,000 shares of common stock were exercised resulting in gross proceeds of $50,000.
- In May through December 2015, pursuant to terms of convertible notes issued, the Company granted warrants to purchase 1,796,667 shares with exercise prices of $0.30 per share and $0.10 per share, vesting immediately upon grant and expiring one year from the date of grant. See Note 5 for further discussion.
- During the year ended December 31, 2015, the Company amortized $38,524 of compensation cost based on the vesting of the warrants granted to employees, directors and consultants in prior years.

2014

- In January and February 2014, warrants to acquire 4,690,947 shares of common stock were exercised resulting in gross proceeds of $1,407,284. Furthermore, included in the exercise was issuance of 100,000 shares of common stock valued at $30,000 pursuant to an exercise of warrants and accounted for as partial settlement of unpaid fees recorded in prior years. As a result, the aggregate net proceeds received amounted to $1,377,284.
- From January up to October 2014, the Company granted consultants warrants to purchase a total of 315,000 shares with an average exercise price of $0.84 per share, vesting in six months up to two years and expiring in two years up to ten years from the date of grant. The fair value of the warrants upon vesting amounted to $20,950 using the Black-Scholes Option Pricing model with the following average assumptions: risk-free interest rate of 0.89%; dividend yield of 0%; volatility of 66%; and an expected life of twenty-nine months. During the year ended December 31, 2014, the Company recognized an amortized expense of $20,950 based on the fair value of warrants that vested.

- In May 2014, the Company granted a consultant warrants to purchase 300,000 shares over eighteen months at the rate of 50,000 shares every three months, with an exercise price of equal to the closing stock price on the date of vesting, and expiring two years from the date of grant. The fair value of the warrants that vested at December 31, 2014 amounted to $21,000 using the Black-Scholes Option Pricing model with the following average assumptions: risk-free interest rate of 0.50%; dividend yield of 0%; volatility of 65%; and an expected life of 18 months. During the year ended December 31, 2014, the Company recognized an amortized expense of $21,000 based on the fair value of the warrants that vested.

- In October through December 2014, pursuant to terms of convertible notes issued, the Company granted warrants to purchase 146,037 shares with an exercise price of $0.48 per share, vesting immediately upon grant and expiring one year from the date of grant. See Note 5 for further discussion.

- During the year ended December 31, 2014, the Company amortized $16,645 of compensation cost based on the vesting of the warrants granted to employees, directors and consultants in prior years.

2013

- In March 2013, pursuant to a settlement of debt agreement, the Company granted a consultant a warrant to purchase 150,000 shares of its common stock with an exercise price of $0.30 per share, vesting immediately and expiring in two years from grant date. The fair value of the warrant amounted to $129,622 using the Black-Scholes Option Pricing model with the following average assumptions: risk-free interest rate of 0.26%; dividend yield of 0%; volatility of 132%; and an expected life of two years.

- During the year ended December 31, 2013, warrants to acquire 29,037,389 shares of common stock were exercised resulting in proceeds of $8,408,718, net of direct costs incurred of $78,521.

- During the year ended December 31, 2013, the Company recorded $52,314 of compensation cost based on the vesting of the warrants granted to employees, directors and consultants in prior years.

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.

Leases

On August 1, 2013, the Company entered into a non-cancellable lease with a 5-year term, expiring July 31, 2018 at a monthly rent of $13,075. On February 1, 2014, the Company amended its lease in order to reduce the leased area as well as the monthly lease to $5,830 per month.

Total rent expense during the years ended December 31, 2015, 2014 and 2013, was $69,960, $81,851 and $160,535 respectively which are included as part of Operating Expenses in the attached consolidated statements of operations. The following is a schedule by years of future minimum rental payments required under the non-cancellable office lease as of December 31, 2015.

Year ending December 31,	Non-cancellable Office Leases
2016	69,960
2017	69,960
2018	40,810
Total	$ 180,730

12. Income Taxes

The Company did not record an income tax provision for 2015, 2014 and 2013, other than $800 for the minimum state tax provision. A reconciliation of income taxes with the amounts computed at the statutory federal rate follows:

	December 31,		
	2015	2014	2013
Computed tax provision (benefit) at federal statutory rate (34%)	$ (1,065,000)	$ (1,133,000)	$ (1,993,000)
State income taxes, net of federal benefit	(277,000)	(295,000)	(518,000)
Permanent items	–	–	–
Valuation allowance	1,342,800	1,428,800	2,511,800
Income tax provision	$ 800	$ 800	$ 800

The deferred tax assets and deferred tax liabilities recorded on the balance sheet are as follows:

	December 31,	
	2015	2014
Net operating loss carry forwards	21,000,000	19,600,000
Valuation allowance	(21,000,000)	(19,600,000)
Total deferred taxes net of valuation allowance	$ –	$ –

As of December 31, 2015, the Company had net operating losses available for carry forward for state and federal tax purposes of approximately $51 million expiring through 2035. These carry forward benefits may be subject to annual limitations due to the ownership change limitations imposed by the Internal Revenue Code and similar state provisions. The annual limitation, if imposed, may result in the expiration of net operating losses before utilization.

As of December 31, 2015, the Company recorded valuation allowance of $21,000,000 for its deferred tax assets the Company believes that such assets did not meet the more likely than not criteria to be recoverable through projected future profitable operations in the foreseeable future

Effective January 1, 2007, the Company adopted FASB guidance that addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The FASB also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of December 31, 2015, 2014 and 2013, the Company does not have a liability for unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction and the state of California. The Company is subject to U.S. federal or state income tax examinations by tax authorities for years after 2002. During the periods open to examination, the Company has net operating loss and tax credit carry forwards for U.S. federal and state tax purposes that have attributes from closed periods. Since these net operating losses and tax credit carry forwards may be utilized in future periods, they remain subject to examination. The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2015, the Company has no accrued interest or penalties related to uncertain tax positions. The Company believes that it has not taken any uncertain tax positions that would impact its consolidated financial statements as of December 31, 2015, 2014 or 2013.

13. Settlement with CEDE & Co.

In 2001, a total of 3,047,403 shares of common stock of the Company that were held in street (nominee) name by Cede & Co. of the Depository Trust Co. (the "Cede Shares") were ordered cancelled by a federal district court relating to litigation initiated by the Securities and Exchange Commission against the Company and its former Chief Executive Officer (CEO). Either before or after the court's order (the timing of which is unknown to the Company), the Cede Shares, at that time were held directly or indirectly by the former CEO and were placed with Cede & Co. in nominee name. In furtherance of the court's order, the physical certificates relating to the Cede Shares should have been returned to the Company's stock transfer agent, NATCO, for cancellation. This did not occur. Rather, Cede & Co. retained the stock certificates representing the Cede Shares and continued to treat the Cede Shares as outstanding and free trading shares of the Company. Notwithstanding the foregoing, NATCO, in furtherance of then Company counsel's instructions, cancelled the Cede Shares on the Company's books and records in 2005, and, in furtherance thereof, reduced the Company's outstanding shares of common stock by 3,047,403.

In 2013, Cede & Co. has requested, in effect, that, inasmuch as the Cede Shares continue to be within its system, the Cede Shares be reinstated on the Company's books and records and that the outstanding shares of the Company be increased by 3,047,403. Although the Company believes Cede & Co.'s request is misplaced, particularly since it appears that Cede & Co. had prior notice of the court's order cancelling the Cede Shares, the Company has elected to avoid litigation with Cede & Co. and instead has elected to reinstate the Cede Shares.

In December 2013, the Company approved the reinstatement of 3,047,403 shares of common stock of the Company with a fair value of $3,108,347 and recorded as part of Operating Expenses in 2013 in the accompanying consolidated Statement of Operations. The fair value of the shares was determined based on the trading price of the Company's shares on December 16, 2013, the date of the Company's Board of Directors approved such reinstatement.

14. Settlement with Former Officer

On November 15, 2013, Cecil Kyte voluntarily resigned as a Director, Chairman of the Board, a member of the Nominating and Corporate Governance Committee, and Chief Executive Officer. Pursuant to his separation agreement, the Company recognized expense of $364,315 to account for his severance pay plus corresponding payroll taxes which was recorded as part of Operating Expenses in the accompanying consolidated Statement of Operations for 2013. The entire amount due to Mr. Kyte was paid in full in 2014.

At the time of separation, Mr. Kyte also held unvested options which had been granted in January 2011 to purchase 10,560,000 shares of common stock at $0.25 per share, of which 3,520,000 shares were due to vest in January 2014 and 7,040,000 shares were due to fully vest by January 2016. Under terms of the separation agreement, the Company accelerated the vesting of the 3,520,000 options to November 15, 2013 while the remaining 7,040,000 options were forfeited. As a result, the Company recognized compensation expense of $3,809,325, to account for the fair value of the options that were modified. The fair value was determined using a Black-Scholes Option Pricing model with the following: risk-free interest rate of 2.06%; dividend yield of 0%; volatility of 130%; and an expected life of 7 years. Previously recorded compensation recorded in 2013 related to the original vesting schedule of the 3,520,000 options was reversed, and the $3,809,325 was recorded as part of Operating Expenses in the accompanying consolidated Statement of Operations for 2013.

15. Quarterly Information (unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2015:				
Net sales	$ –	$ –	$ –	$ –
Gross profit	$ –	$ –	$ –	$ –
Net loss	$ (1,174,337)	$ (1,542,944)	$ (825,797)	$ (685,876)
Loss per share, Basic and Diluted (1)	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.00)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2014:				
Net sales	$ –	$ 60,000	$ 180,000	$ –
Gross profit	$ –	$ 60,000	$ 180,000	$ –
Net loss	$ (1,403,474)	$ (1,008,392)	$ (715,774)	$ (878,695)
Loss per share, Basic and Diluted (1)	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.00)

(1) Per share data was computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share information may not equal the annual income per share.

16. Contractual Obligations

The Company has certain contractual commitments 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	$ 69,960	$ 187,500	$ 350,000	$ 607,460
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	$ 180,730	$ 937,500	$ 999,804	$ 2,118,034

(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 $75,429.

17. Subsequent Events

Increase in Outstanding Shares

From January 1, 2016 up to March 15, 2016, the Company issued convertible notes in aggregate of $390,610 in exchange for cash of $355,100. The notes are unsecured, convertible into 3,906,100 shares in common stock of the Company at a conversion price of $0.10 per share and matures in one year. In connection with these notes, the Company also issued warrants to purchase 1,953,050 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 $390,610 to account for the relative fair value of the warrants, the notes' beneficial conversion feature and original issue discount which will be amortized as interest expense over the life of the notes.

From January 1, 2016 up to March 15, 2016, Company issued 3,029,050 shares of common stock upon voluntary conversion of previously issued convertible notes in aggregate value of $302,905.

EXHIBITS

Exhibit No.	Description
10.117	Securities Purchase Agreement
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 10.117

SECURITIES PURCHASE AGREEMENT
Convertible Promissory Notes and
Stock Purchase Warrants

THIS SECURITIES PURCHASE AGREEMENT (this "Agreement") is made and entered into as of the _____ _____, 2014, by and between Save the World Air, Inc., a Nevada corporation (the "Issuer") and those individuals and entities who sign and deliver an executed copy of this Agreement to the Issuer (each, a "Purchaser" and collectively, the "Purchasers"), with reference to the following:

RECITALS

A. Purchasers desire to purchase from Issuer and Issuer desires to sell to Purchaser certain of Issuer's Convertible Notes, in the aggregate face amount up to a maximum of Five Million Dollars ($5,000,000) in the form of Exhibit A attached hereto (individually, a "Note" and collectively, the "Notes"), and certain of Issuer's Stock Purchase Warrants to purchase up to a certain number of shares of the common stock (the "Common Stock") of the Issuer equal to 25% of the number of shares initially issuable on conversion of the Notes, in the form of Exhibit B attached hereto (individually, the "Warrants" and collectively with the Notes, the "Securities"). The face amount of the Note each Purchaser has committed to purchase, and the amount of the purchase price thereof to be paid to the Issuer by the Purchaser (a "Commitment") is listed on the signature page such Purchaser executes and delivers to the Issuer.

B. Issuer's sale of the Securities to the Purchasers may be made in reliance upon the provisions of Section 4(a)(2) under the Securities Act of 1933, as amended (the "Securities Act") or Rule 506 of Regulation D promulgated by the Securities and Exchange Commission (the "SEC") thereunder, or other applicable rules and regulations of the SEC or upon such other exemption from the registration requirements of the Securities Act as may be available with respect to the transactions contemplated hereby.

C. At any time when any amount of principal or interest of the Notes shall be outstanding, such unpaid amounts shall be convertible, at the election of the Purchaser, into shares of the Issuer's Common Stock at a price of $0.48 per share (the "Conversion Price").

D. The Warrants shall be issued at the same time each Note is issued to the Purchaser hereunder and shall be exercisable at $0.48 per share (the "Exercise Price"), for such number of shares equal to 25% of the result obtained by dividing (i) the face amount of the Notes issued simultaneously with the Warrant by (ii) the Conversion Price. The Warrants shall expire one (1) year from the date of issuance thereof.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing recitals, which shall be considered an integral part of this Agreement, the covenants and agreements set forth hereafter, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Purchasers and the Issuer hereby agree as follows

1. Purchase of the Notes and Warrants. On the terms and subject to the conditions set forth in this Agreement and in the Notes and Warrants, the Purchasers shall purchase from the Issuer and the Issuer shall sell to the Purchaser the Securities.

2. Purchaser's Representations, Warranties and Covenants. In order to induce the Issuer to sell and issue the Securities to the Purchaser under one or more exemptions from registration under the Securities Act, the Purchasers, severally and not jointly, represent and warrant to the Issuer, and covenant with the Issuer, that:

(a) (i) Such Purchaser has the requisite power and authority to enter into and perform this Agreement, and each of the other agreements entered into by the parties hereto in connection with the transactions contemplated by this Agreement (collectively, the "Transaction Documents"), and to purchase the Securities in accordance with the terms hereof and thereof.

(ii) The execution and delivery of the Transaction Documents by the Purchaser and the consummation by it of the transactions contemplated thereby have been duly and validly authorized by the Purchaser's organizational documents and no further consent or authorization is required by the Purchaser.

(iii) The Transaction Documents have been duly and validly executed and delivered by the Purchaser.

(iv) The Transaction Documents, and each of them, constitutes the valid and binding obligation of the Purchaser enforceable against the Purchaser in accordance with their respective terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies.

(b) The execution, delivery and performance of the Transaction Documents by the Purchaser and the consummation by the Purchaser of the transactions contemplated thereby will not conflict with or constitute a default under any agreement or instrument to which the Purchaser is a party or by which the Purchaser is bound.

(c) The Purchaser is acquiring the Securities for investment for its own account, and not with a view toward distribution thereof, and with no present intention of dividing its interest with others or reselling or otherwise transferring or disposing of all or any portion of either the Notes or Warrants. The undersigned has not offered or sold a participation in this purchase of either the Notes or Warrants, and will not offer or sell any interest therein. The Purchaser further acknowledges that the Purchaser does not have in mind any sale of either the Notes or Warrants currently or after the passage of a fixed or determinable period of time or upon the occurrence or non-occurrence of any predetermined events or consequence; and that it has no present or contemplated agreement, undertaking, arrangement, obligation, indebtedness or commitment providing for or which is likely to compel a disposition of either the Notes or Warrants and is not aware of any circumstances presently in existence that are likely in the future to prompt a disposition thereof.

(e) The Purchaser acknowledges that the Securities have been offered to it in direct communication between itself and the Issuer and not through any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or on the Internet or broadcast over television or radio or presented in any seminar or any other general solicitation or general advertisement.

(f) The Purchaser acknowledges that the Issuer has given it access to all information relating to the Issuer’s business that it has requested. The Purchaser has reviewed all materials relating to the Issuer's business, finance and operations which it has requested and the Purchaser has reviewed all of such materials as the Purchaser, in the Purchaser’s sole and absolute discretion shall have deemed necessary or desirable. The Purchaser has had an opportunity ask questions of and to discuss the business, management and financial affairs of the Issuer with the Issuer's management. Specifically but not by way of limitation, the Purchaser acknowledges the Issuer’s publicly available filings made periodically with the SEC, which filings are available at www.sec.gov and which filings the Purchaser acknowledges reviewing or having had the opportunity of reviewing.

(g) The Purchaser acknowledges that it has, by reason of its business and financial experience, knowledge, sophistication and experience in financial and business matters and in making investment decisions of this type that it is capable of (i) evaluating the merits and risks of an investment in the Securities and making an informed investment decision in connection therewith; (ii) protecting its own interest; and (iii) bearing the economic risk of such investment for an indefinite period of time for Securities which are not transferable or freely tradable. The undersigned hereby agrees to indemnify the Issuer thereof and to hold each of such persons and entities, and the officers, directors and employees thereof harmless against all liability, costs or expenses (including reasonable attorneys’ fees) arising by reason of or in connection with any misrepresentation or any breach of warranties of the undersigned contained in this Agreement, or arising as a result of the sale or distribution of the Securities or the Common Stock issuable upon conversion of the Notes or exercise of the Warrants, by the undersigned in violation of the Securities Act, the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or any other applicable law, either federal or state. This subscription and the representations and warranties contained herein shall be binding upon the heirs, legal representatives, successors and assigns of the Purchaser.

(h) The Purchaser is familiar with the definition of an "accredited investor" as that term is defined in Rule 501(a) of Regulation D of the Securities Act and represents and warrants to the Issuer that it is either (i) an accredited investor at such time it was offered the Securities and will be on each date which it converts any of the Notes or exercises any of the Warrants as so defined or (ii) a "qualified institutional buyer" as defined in Rule 144A under the Securities Act. Such Purchaser is not required to be registered as a broker-dealer under Section 15 of the Exchange act. If the Purchaser is not a resident of the United States, the Purchaser is not a "U.S. person[s]" as that term is defined in Rule 902 of Regulation S promulgated under the Securities Act of 1933, as amended.

(i) During the term of this Agreement and the other Transaction Documents, the Purchaser will comply with the provisions of Section 9 of the Exchange Act, and the rules and regulations promulgated thereunder, with respect to transactions involving the Common Stock. Commencing on the date on which the Purchaser received a term sheet from the Company or any representative or agent of the Company (written or oral) setting forth the material terms of the transactions contemplated hereunder until the date hereof and during the term of this Agreement and the other Transaction Documents, the Purchaser agrees not to sell the Issuer's Common Stock short or engage in any hedging transactions in the Issuer's Common Stock, either directly or indirectly, through its affiliates, principals, agents or advisors.

(j) The Purchaser is aware that the Notes and the Warrants, and the shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants are restricted securities as defined under federal securities laws and are not freely tradeable and may only be disposed of in compliance with state and federal securities laws. In connection with any transfer of the Notes and the Warrants, and the shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, other than pursuant to an effective registration statement or Rule 144, the Issuer may require the transferor thereof to provide to the Issuer an opinion of counsel, the form and substance of which opinion shall be reasonably satisfactory to the Issuer, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. Further, the Purchaser understands and acknowledges that any certificates evidencing the Notes, the Warrants or the shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants will be restricted securities and not freely tradeable and will bear the legend in substantially the following form:

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR QUALIFIED FOR SALE UNDER ANY STATE SECURITIES LAWS (COLLECTIVELY, "SECURITIES LAWS") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED FOR SALE UNDER ALL APPLICABLE SECURITIES LAWS OR UNLESS, IN THE OPINION OF COUNSEL SATISFACTORY TO THE ISSUER, IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, ANY SUCH OFFER, SALE OR OTHER TRANSFER IS EXEMPT FROM THE REGISTRATION OR QUALIFICATION REQUIREMENTS OF SUCH SECURITIES LAWS.

(k) The Purchaser understands and acknowledges that following the purchase of the Notes, the Warrants and any shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, each may only be disposed of pursuant to either (i) an effective registration statement under the Securities Act or (ii) an exemption from the registration requirements of the Securities Act.

(l) The Purchaser understands and acknowledges that the Issuer has neither filed a registration statement with the SEC or any state authorities nor agreed to do so, nor contemplates doing so in the future for the transactions contemplated by this Agreement or the other Transaction Documents, and in the absence of such a registration statement or exemption, the undersigned may have to hold the Notes, the Warrants and any shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, indefinitely and may be unable to liquidate any of them in case of an emergency.

(m) The Purchaser is purchasing the Notes and Warrants, and will acquire any shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, for its own account for investment purposes and not with a view towards distribution and agrees to resell or otherwise dispose of any of the Notes or the Warrants, or any shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, in accordance with the registration provisions of the Securities Act (or pursuant to an exemption from such registration provisions).

(n) The Purchaser is not and will not be required to be registered as a "dealer" under the Exchange Act, either as a result of its execution and performance of its obligations under this Agreement or otherwise.

(o) The Purchaser understands and acknowledges that proceeds raised in connection with this Agreement will be used by Issuer for general working capital purposes, including without limitation, the payment of salaries and professional fees, overhead and general administrative expenses.

(p) The Purchaser understands that it is liable for its own tax liabilities and has obtained no tax advice from the Issuer in connection with the purchase of the Securities.

(q) The Purchaser will not pay or receive any finder's fee or commission in respect of the consummation of the transactions contemplated by this Agreement.

(r) Purchaser hereby agrees and acknowledges that it has been informed of the following: (i) there are factors relating to the subsequent transfer of any of the Securities or shares of Common Stock underlying the Notes and Warrants that could make the resale of such Securities or shares of Common Stock underlying the Notes and Warrants difficult; and (ii) there is no guarantee that the Purchaser will realize any gain from the purchase of the Securities. The purchase of the Securities involves a high degree of risk and is subject to many uncertainties. These risks and uncertainties may adversely affect the Company's business, operating results and financial condition. In such an event, the trading price for the Common Stock could decline substantially and Purchaser could lose all or part of its investment. Purchaser is urged to review the risks identified under the Risk Factors section of Issuer's Form 10-K for the year ended December 31, 2013, as filed with the SEC on March 17, 2014.

(s) Purchaser understands and acknowledges that the Notes have an implied annual interest rate of 10%, inasmuch as the Notes will be issued and paid in an amount equal to 110% of the Commitment, except that if a Note is not paid on the Maturity Date, which is twelve (12) months from the date of issue of the Note, then the balance of the unpaid amount of the Note shall be increased by 10% and the Issuer shall then commence paying interest thereon at the rate of 10% per annum until all sums due under the Note are paid.

3. Issuer's Representations, Warranties and Covenants. The Issuer represents and warrants to the Purchaser that:

(a) The Issuer is a corporation duly organized and validly existing in good standing under the laws of the State of Nevada, and has the requisite corporate power and authorization to own its properties and to carry on its business as now being conducted.

(b) (i) The Issuer has the requisite corporate power and authority to enter into and perform this Agreement, and each of the other agreements entered into by the parties hereto in connection with the transactions contemplated by the Transaction Documents, and to issue the Notes and Warrants in accordance with the terms hereof and thereof.

(ii) the execution and delivery of the Transaction Documents by the Issuer and the consummation by it of the transactions contemplated hereby and thereby, including without limitation the reservation for issuance and the issuance of the Notes and Warrants pursuant to this Agreement, have been duly and validly authorized by the Issuer's Board of Directors and no further consent or authorization is required by the Issuer, its Board of Directors, or its shareholders.

(iii) The Transaction Documents have been duly and validly executed and delivered by the Issuer.

(iv) The Transaction Documents, and each of them, constitutes the valid and binding obligation of the Issuer enforceable against the Issuer in accordance with their respective terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies.

(c) The execution, delivery and performance of the Transaction Documents by the Issuer and the consummation by the Issuer of the transactions contemplated thereby will not conflict with or constitute a default under any agreement or instrument to which the Issuer is a party or under any organizational documents of the Purchaser.

4. Closing and Deliverables.

(a) Subject to the provisions of Section 4(b) below, provided that the Issuer shall have received on or prior to October 31, 2014, (but the Company has the option to extend this date to November 30, 2014), copies of this Agreement executed by Purchaser, there shall be a closing or closings (each, a "Closing Date") at which:

(i) Purchaser shall deliver to the Issuer immediately available funds, by check or by wire transfer (bank wiring instructions to be provided by Issuer on request) in an amount equal to the amount of the Purchaser's Commitment as set forth beside the name of the Purchaser on the Purchaser's signature page hereto. Funds paid to Issuer under this Agreement will be deposited in Issuer's operating account and used as working capital.

(ii) The Issuer shall deliver to the Purchaser (x) a Note, in the face amount equal to 110% of the Purchaser's Commitment and (y) a Warrant to purchase the exercisable amount of the Issuer's Common Stock at the Exercise Price. The Note and Warrant will be dated as of the Closing Date, as such date may be extended by us.

(b) The Issuer may continue to accept Commitments from Purchasers and issue and sell Securities to Purchasers at Closings on the terms and subject to the conditions set forth in this Agreement until (i) the aggregate amount of the Commitments equals $5,000,000 or (ii) on or before October 31, 2014, but the Company has the option to extend this date to November 30, 2014, whichever shall first occur.

5. Miscellaneous.

(a). Each party shall pay the fees and expenses of its own advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of the Transactions Documents.

(b) This Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party; provided that a facsimile signature or signature transmitted by e-mail shall be considered due execution and shall be binding upon the signatory thereto with the same force and effect as if the signature were an original signature.

(c) The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement. Whenever required by the context of this Agreement, the singular shall include the plural and neutral shall include the masculine and feminine.

(d) If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction.

(e) This Agreement and the Notes and Warrants represent the final agreement between the Purchasers and the Issuer with respect to the terms and conditions set forth herein, and, the terms of this Agreement and the Notes and Warrants may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. No provision of this Agreement and the Notes and Warrants may be amended other than by an instrument in writing signed by the Purchaser and the Issuer, and no provision hereof or thereof may be waived other than by an instrument in writing signed by the party against whom enforcement is sought.

(f) Any notices or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one (1) day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Issuer:

Save the World Air, Inc.
735 State Street, Suite 500
Santa Barbara, CA 93101
Telephone: 805-845-3581
Facsimile: 805-845-4377

If to a Purchaser:

To the address set forth on the Purchaser's signature page hereto.

Each party shall provide five (5) days prior written notice to the other party of any change in address or facsimile number.

(g) This Agreement may not be assigned by Purchaser.

(h) This Agreement is intended for the benefit of the parties hereto and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

(i) The representations and warranties of the Purchaser and the Issuer contained herein shall survive each of the Closings and the termination of this Agreement and the other Transaction Documents.

(j) The Purchaser and the Issuer shall consult with each other in issuing any press releases or otherwise making public statements with respect to the transactions contemplated hereby, except that no consultation shall be required if such disclosure is required by law or the rules and regulations of the SEC.

(k). Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby.

(l) The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party, as the parties mutually agree that each has had a full and fair opportunity to review this Agreement and the other Transaction Documents and seek the advice of counsel on it and them.

(m) The Purchaser and the Issuer each shall have all rights and remedies set forth in this Agreement and all rights and remedies which such holders have been granted at any time under any other agreement or contract and all of the rights which the Purchaser has by law. Any person having any rights under any provision of this Agreement shall be entitled to enforce such rights specifically (without posting a bond or other security), to recover damages by reason of any default or breach of any provision of this Agreement, including the recovery of reasonable attorneys' fees and costs, and to exercise all other rights granted by law.

(n) This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed wholly within such state.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF the Purchasers and the Issuer have executed this Agreement as of the date first above written.

THE ISSUER

SAVE THE WORLD AIR, INC.

By: /s/ Greggory Bigger
Greggory Bigger
Its: Chief Executive Officer

THE PURCHASER

_____	_____
Name (signature)	Amount of Commitment (U.S. Dollars)
_____	_____
Print Name	Date

_____
Address

_____
Address

_____
Phone Number

_____
Fax Number

_____
Social Security Number

_____
E-mail Address

CONVERTIBLE NOTE

THE SECURITIES EVIDENCED BY THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR QUALIFIED FOR SALE UNDER ANY STATE SECURITIES LAWS (COLLECTIVELY, "SECURITIES LAWS") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED FOR SALE UNDER ALL APPLICABLE SECURITIES LAWS OR UNLESS, IN THE OPINION OF COUNSEL SATISFACTORY TO THE ISSUER, IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, ANY SUCH OFFER, SALE OR OTHER TRANSFER IS EXEMPT FROM THE REGISTRATION OR QUALIFICATION REQUIREMENTS OF SUCH SECURITIES LAWS.

$_____ _____, 2014 ("Issuance Date")

FOR VALUE RECEIVED, **SAVE THE WORLD AIR, INC.** , a corporation organized under the laws of the State of Nevada (the "Company"), promises to pay to the order of "Investor", as that term is defined on the Acknowledgement and Acceptance page of this Convertible Note ("Note") (hereafter, together with any subsequent holder hereof, called "Holder"), at "Investor's Address", as that term is set forth on such page or at such other place as Holder may direct, the amount noted above, payable in full Twelve (12) Months from the Issuance Date (the "Maturity Date").

If this Note is not paid in full on or prior to the Maturity Date the remaining balance shall be increased by 10% and the Company shall pay interest thereon at the rate of 10% per annum until all sums due hereunder are paid in full.

Payments of both principal and interest will be made in immediately available funds in lawful money of the United States of America to the Holder at the Investor's Address.

The Note is subject to the following additional provisions:

1. The Company shall be entitled to withhold from all payments of principal and/or interest of this Note any amounts required to be withheld under the applicable provisions of the U.S. Internal Revenue Code of 1986, as amended, or other applicable laws at the time of such payments.

2. This Note has been issued subject to representations, warranties and covenants of the original Holder hereof as contained in that certain Securities Purchase Agreement ("Agreement") of even date herewith, and may be transferred or exchanged only in compliance with the Securities Act of 1933, as amended, and applicable state and other securities laws. Prior to the due presentment for such transfer of this Note, the Company and any agent of the Company may treat the person in whose name this Note is duly registered on the Company's Note register as the owner hereof for the purpose of receiving payment as herein provided and all other purposes, whether or not this Note is overdue, and neither the Company nor any such agent shall be affected by notice to the contrary. The transferee shall be bound, as the original Holder by the same representations and terms described herein and under the Agreement.

3. The Holder may, at such Holder's option, at any time while any sums are outstanding and unpaid hereunder, convert the then-outstanding principal amount of this Note or any portion thereof, and any interest and any penalties accrued and unpaid thereon (the "Conversion Amount"), into a number shares of fully paid and nonassessable Common Stock of the Company (the "Conversion Shares") pursuant to the following formula: the Conversion Amount divided by $0.48 (the "Conversion Price"). The Holder may exercise the right to convert all or any portion of the Conversion Amount by delivering to the Company (i) an executed and completed notice of conversion in the form attached to this Note (the "Notice of Conversion") to the Company and (ii) this Note. The business day on which a Notice of Conversion and this Note are delivered to the Company in accordance with the provisions hereof shall be deemed a "Conversion Date". The Company will transmit the certificates representing Conversion Shares issuable upon such conversion of this Note (together with the certificates representing the amount of this Note not so converted) to the Holder via express courier within ten Business Days after the Conversion Date. No fractional shares shall be issued upon conversion of this Note. The amount of any of the Conversion Amount which is less than a whole share of Common Stock shall be paid to the Holder in cash. Any delay due to such circumstance shall not be an event of default under this Note.

4. The principal amount of this Note, and any accrued interest thereon, shall be reduced as per that principal amount indicated on the Notice of Conversion upon the proper receipt by the Holder of such Conversion Shares due upon such Notice of Conversion.

5. The number of Conversion Shares shall be adjusted as follows:

a. If the Company shall at any time after the Issuance Date subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock, the number of Conversion Shares in effect immediately prior to such subdivision shall be proportionately increased, and conversely, in case the outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Conversion Price in effect immediately prior to such combination shall be proportionately reduced.

b. If the Company shall at any time or from time to time after the Issuance Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the number of Conversion Shares issuable upon conversion of this Note shall be proportionately increased; provided, however, that if such record date is fixed and such dividend is not fully paid, or if such distribution is not fully made on the date fixed therefor, the number of Conversion Shares shall be recomputed to reflect that such dividend was not fully paid or that such distribution was not fully made.

c. If Company at any time or from time to time after the Issuance Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of Company other than shares of Common Stock, then and in each such event provision shall be made so that Holder shall receive upon exercise of the conversion right of this Note, in addition to the number of shares of Common Stock receivable thereupon, the amount of securities of Company which Holder would have received had the Conversion Amount of this Note been exercised on the date of such event and had it thereafter, during the period from the date of such event to and including the date of conversion or purchase, retained such securities receivable during such period.

d. If the Common Stock issuable upon the conversion of this Note or option to purchase is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than a transaction described elsewhere in Section 5 of this Note), then, and in any such event, each Holder shall have the right thereafter, upon conversion of this Note or purchase pursuant to option to receive the kind and amount of stock and other securities and property receivable upon such reorganization or other change, in an amount equal to the amount that Holder would have been entitled to had it immediately prior to such reorganization, reclassification or change converted this Note, but only to the extent this Note is actually converted, all subject to further adjustment as provided herein.

6. No provision of this Note shall alter or impair the obligation of the Company, which is absolute and unconditional, upon an Event of Default (as defined below), to pay the principal of, and interest on this Note at the place, time, and rate, and in the coin or currency herein prescribed.

a. Events of Default. Each of the following occurrences is hereby defined as an “Event of Default”:

Nonpayment. The Company shall fail to make any payment of principal, interest, or other amounts payable hereunder when and as due; or

Dissolutions, etc. The Company or any subsidiary shall fail to comply with any provision concerning its existence or any prohibition against dissolution, liquidation, merger, consolidation or sale of assets; or

Noncompliance with this Agreement. The Company shall fail to comply in any material respect with any provision hereof, which failure does not otherwise constitute an Event of Default; or

Insolvency. The institution of bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against Company, which proceedings shall not have been vacated by appropriate court order within sixty (60) days of such institution.

If one or more "Events of Default" shall occur, then, or at any time thereafter, and in each and every such case, unless such Event of Default shall have been waived in writing by the Holder (which waiver shall not be deemed to be a waiver of any subsequent default) or cured as provided herein, at the option of the Holder, and in the Holder's sole discretion, the Holder may elect to consider this Note (and all interest through such date) immediately due and payable. In order to so elect, the Holder must deliver written notice of the election and the amount due to the Company via certified mail, return receipt requested, at the Company's address as set forth herein (or any other address provided to the Holder), and thereafter the Company shall have thirty (30) business days upon receipt to cure the Event of Default or pay this Note, or convert the amount due on the Note pursuant to the conversion formula set forth above.

7. In case any provision of this Note is held by a court of competent jurisdiction to be excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, so that it is enforceable to the maximum extent possible, and the validity and enforceability of the remaining provisions of this Note will not in any way be affected or impaired thereby.

8. This Note does not entitle the Holder hereof to any voting rights or other rights as a shareholder of the Company prior to the conversion into Common Stock thereof, except as provided by applicable law. If, however, at the time of the surrender of this Note and conversion the Holder hereof shall be entitled to convert this Note, the Conversion Shares so issued shall be and be deemed to be issued to such holder as the record owner of such shares as of the close of business on the Conversion Date.

9. The Holder shall pay all issue and transfer taxes and other incidental expenses in respect of the issuance of certificates for Conversion Shares upon the conversion of this Note, and such certificates shall be issued in the name of the Holder of this Note.

10. This Note may be prepaid in whole or in part at any time or from time to time without premium or penalty upon 10 days' prior written notice from the Company to the Holder.

11. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Note, and in case of loss, theft or destruction of this Note, upon delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of such Note, and upon reimbursement to the Company of all reasonable expenses incidental thereto, the Company will make and deliver to the Holder, in lieu thereof, a new Note in substantially identical form.

12. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday in the United States or the State of California, then such action may be taken or such right may be exercised on the next succeeding business day.

13. (a) This Note shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed wholly within such state.

(b) Except as otherwise provided herein, any notice or demand which, by the provisions hereof, is required or which may be given to or served upon the parties hereto shall be in writing and, if by telegram, telecopy or telex, shall be deemed to have been validly served, given or delivered when sent, if by personal delivery, shall be deemed to have been validly served, given or delivered upon actual delivery and, if mailed, shall be deemed to have been validly served, given or delivered three (3) business days after deposit in the United States mails, as registered or certified mail, with proper postage prepaid and addressed to the party or parties to be notified.

(c) The Holder acknowledges that the Conversion Shares acquired upon the exercise of this Note will have restrictions upon its resale imposed by state and federal securities laws.

(d) With regard to any power, remedy or right provided herein or otherwise available to any party hereunder (i) no waiver or extension of time shall be effective unless expressly contained in a writing signed by the waiving party; and (ii) no alteration, modification or impairment shall be implied by reason of any previous waiver, extension of time, delay or omission in exercise, or other indulgence.

(e) This Note may not be amended, altered or modified except by a writing signed by the Company and the Holder.

IN WITNESS WHEREOF, the Company has caused this Convertible Note to be duly executed by an officer thereunto duly authorized.

SAVE THE WORLD AIR, INC.
735 State Street, Suite 500
Santa Barbara, California 93101

By /s/ Greggory Bigger
Name: Greggory Bigger
Title: Chief Executive Officer

ACKNOWLEDGED AND ACCEPTED:

_____
Investor Name (Signature)

_____
Print Name

_____

_____
Investor Address

NOTICE OF EXERCISE OF CONVERSION RIGHT

TO: SAVE THE WORLD AIR, INC.

(1) The undersigned hereby elects to convert $_____ of the attached Note into _____ shares of Common Stock (the "Shares") of Save the World Air, Inc. (“Company”) pursuant to the terms of the attached Note.

(2) Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)

Address:
_____
_____
_____

(3) The undersigned confirms that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or selling the Shares.

(4) The undersigned accepts such shares subject to the restrictions on transfer and other terms and conditions set forth in the attached Note and set forth in that certain Securities Purchase Agreement between the Company and the undersigned dated as of the date of the attached Note.

_____ _____
(Date) (Signature)

_____
(Print Name)

STOCK PURCHASE WARRANT

THIS WARRANT AND ANY SHARES ISSUED UPON ITS EXERCISE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF* 1933, *AS AMENDED (THE "ACT"), AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISPOSITION OF ANY SHARES ISSUED UPON EXERCISE HEREOF MAY BE AFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL SATISFACTORY IN FORM AND SUBSTANCE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE ACT. THE TRANSFER OF THIS WARRANT IS RESTRICTED AS SET FORTH HEREIN.

No. _____ _____, 2014

SAVE THE WORLD AIR, INC.
WARRANT TO PURCHASE COMMON STOCK

VOID AFTER 5:00 P.M. P.S.T. ON _____, 20___

THIS CERTIFIES that, for the value received, the holder identified on the last page of this Warrant (the "Holder") is entitled, upon the terms and subject to the conditions hereinafter set forth, at any time on or after the date of this Warrant and on or prior to 5:00 p.m. P.S.T. on the first anniversary of the date of this Warrant (the "Expiration Time"), but not thereafter, to subscribe for and purchase, from SAVE THE WORLD AIR, INC., a Nevada corporation (the "Company"), up to _____ shares of the Company's Common Stock (the "Shares") at a purchase price per share equal to $0.48 (the "Exercise Price").

1. Exercise of Warrant.

(a) The purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, at any time after the date of this Warrant and before the Expiration Time by the surrender of this Warrant and the Notice of Exercise annexed hereto duly executed at the office of the Company, in Santa Barbara, California (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company), and upon payment of an amount equal to the aggregate Exercise Price for the number of Shares thereby purchased (by cash or by check or certified bank check payable to the order of the Company in an amount equal to the purchase price of the shares thereby purchased); whereupon the Holder shall be entitled to receive a stock certificate representing the number of Shares so purchased. The Company agrees that if at the time of the surrender of this Warrant and purchase of the Shares, the Holder shall be entitled to exercise this Warrant, the Shares so purchased shall be and be deemed to be issued to such holder as the record owner of such Shares as of the close of business on the date on which this Warrant shall have been exercised as aforesaid.

Upon partial exercise of this Warrant, the Holder shall be entitled to receive from the Company a new Warrant in substantially identical form for the purchase of that number of Shares as to which this Warrant shall not have been exercised. Certificates for Shares purchased hereunder shall be delivered to the Holder within a reasonable time after the date on which this Warrant shall have been exercised as aforesaid.

2. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon the exercise of this Warrant, an amount equal to such fraction multiplied by the then current fair market value at which each Share may be purchased hereunder shall be paid in cash to the Holder.

(a) For purposes of this Section 2, the fair market value of the Shares shall mean the closing price of a share of the Company's Common Stock on the OTC Bulletin Board on which the Common Stock is listed at the time of exercise on the last business day prior to the date of exercise of this Warrant pursuant to Section l or, if the Company's Common Stock is not then listed or quoted on the OTC Bulletin Board, the closing price of the Company’s Common Stock as reported on the “Pink Sheets” published by the Pink OTC Markets, Inc. (or a similar organization or agency succeeding to its functions of reporting prices) or in all other cases, the fair market value of the Common Stock (without regard to the restrictions on transfer or number of Shares) as determined in good faith by the Company's Board of Directors.

3. Charges, Taxes and Expenses. The Holder shall pay all issue and transfer taxes and other incidental expenses in respect of the issuance of certificates for Shares upon the exercise of this Warrant, and such certificates shall be issued in the name of the Holder of this Warrant.

4. No Rights as a Stockholder. This Warrant does not entitle the Holder to any voting rights or other rights as a stockholder of the Company prior to the exercise hereof.

5. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in case of loss, theft or destruction of this Warrant, upon delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, and upon reimbursement to the Company of all reasonable expenses incidental thereto, the Company will make and deliver to the Holder, in lieu thereof, a new Warrant in substantially identical form and dated as of such cancellation.

6. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday in the United States or the State of California, then such action may be taken or such right may be exercised on the next succeeding business.

7. Merger, Reclassification, etc.

(a) Merger, etc. If at any time the Company proposes (A) the acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any reorganization, merger, consolidation or stock issuance) that results in the transfer of fifty percent (50%) or more of the then outstanding voting power of the Company; or (B) a sale of all or substantially all of the assets of the Company, then the Company shall give the Holder ten (10) days notice of the proposed effective date of the transaction. If, in the case of such acquisition of the Company, and the Warrant has not been exercised by the effective date of the transaction, this Warrant shall be exercisable into the kind and number of shares of stock or other securities or property of the Company or of the entity resulting from such merger or acquisition to which such Holder would have been entitled if immediately prior to such acquisition or merger, it had exercised this Warrant. The provisions of this Section 7(a) shall similarly apply to successive consolidations, mergers, sales or conveyances.

(b) Reclassification, etc. If the Company at any time shall, by subdivision, combination or reclassification of securities or otherwise, change any of the securities to which purchase rights under this Warrant exist into the same or a different number of securities of any class or classes, this Warrant shall thereafter be to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities which were subject to the purchase rights under this Warrant immediately prior to such subdivision, combination, reclassification or other change. If the Shares are subdivided or combined into a greater or smaller number of Shares, the Exercise Price under this Warrant shall be proportionately reduced in case of subdivision of shares or proportionately increased in the case of combination of shares, in both cases by the ratio which the total number of Shares to be outstanding immediately after such event bears to the total number of Shares outstanding immediately prior to such event.

(c) Cash Distributions. No adjustment on account of cash dividends or interest on the Shares or other securities purchasable hereunder will be made to the Exercise Price under this Warrant.

8. Restrictions on Transfer.

(a) Restrictions on Transfer of Shares. In no event will the Holder make a disposition of this Warrant or the Shares unless and until, if requested by the Company, it shall have furnished the Company with an opinion of counsel satisfactory to the Company and its counsel to the effect that appropriate action necessary for compliance with the Securities Act of 1933, as amended (the "Act") relating to sale of an unregistered security has been taken. Notwithstanding the foregoing, the restrictions imposed upon the transferability of the Shares shall terminate as to any particular Share when (i) such security shall have been sold without registration in compliance with Rule 144 under the Act, or (ii) a letter shall have been issued to the Holder at its request by the staff of the Securities and Exchange Commission or a ruling shall have been issued to the Holder at its request by such Commission stating that no action shall be recommended by such staff or taken by such Commission, as the case may be, if such security is transferred without registration under the Act in accordance with the conditions set forth in such letter or ruling and such letter or ruling specifies that no subsequent restrictions on transfer are required, or (iii) such security shall have been registered under the Act and sold by the Holder thereof in accordance with such registration.

(b) Subject to the provisions of Section 8(a) hereof, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of the Warrant with a properly executed assignment at the principal office of the Company.

(c) Restrictive Legends. The stock certificates representing the Shares and any securities of the Company issued with respect thereto shall be imprinted with legends restricting transfer except in compliance with the terms hereof and with applicable federal and state securities laws substantially as follows:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND MAY NOT BE SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 OR AN OPINION OF COUNSEL SATISFACTORY TO THE ISSUER OF THIS CERTIFICATE THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT".

9. Miscellaneous.

(a) Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed wholly within such state.

(b) Restrictions. The Holder acknowledges that the Shares acquired upon the exercise of this Warrant may have restrictions upon its resale imposed by state and federal securities laws.

(c) Waivers Strictly Construed. With regard to any power, remedy or right provided herein or otherwise available to any party hereunder (i) no waiver or extension of time shall be effective unless expressly contained in a writing signed by the waiving party; and (ii) no alteration, modification or impairment shall be implied by reason of any previous waiver, extension of time, delay or omission in exercise, or other indulgence.

(d) Modifications. This Warrant may not be amended, altered or modified except by a writing signed by the Company and the Holder of this Warrant.

IN WITNESS WHEREOF, SAVE THE WORLD AIR, INC. has caused this Warrant to be executed by its duly authorized representative dated as of the date first set forth above.

SAVE THE WORLD AIR, INC.
735 State Street, Suite 500
Santa Barbara, California 93101

By: /s/ Greggory Bigger
Name: Greggory Bigger
Title: Chief Executive Officer

NOTICE OF EXERCISE

TO: SAVE THE WORLD AIR, INC., a Nevada corporation

(1) The undersigned hereby elects to purchase _____ shares of Common Stock (the "Shares") of Save the World Air, Inc. ("Issuer") pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price in full, together with all applicable transfer taxes, if any.

(2) Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)

Address:

_____

_____

_____

(3) The undersigned confirms that he is an "accredited investor" as defined by Rule 501(a) under the Securities Act of 1933, as amended, at the time of execution of this Notice.

(4) The undersigned confirms that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or selling the Shares.

(5) The undersigned accepts such Shares subject to the restrictions on transfer set forth in the attached Warrant.

(6) The undersigned acknowledges that the Issuer has given it access to all information relating to the Issuer's business that the undersigned has requested. The undersigned has reviewed all materials relating to the Issuer's business, financial condition and operations which it has requested and the undersigned has reviewed all of such materials as the undersigned, in the undersigned's sole and absolute discretion has deemed necessary or desirable. The undersigned has had an opportunity to ask questions of and discuss the business, management and financial affairs of the Issuer with the Issuer's management. Specifically but not by way of limitation, the undersigned acknowledges the Issuer's publicly available filings made periodically with the SEC, which filings are available at www.sec.gov and which filings the undersigned acknowledges reviewing or having had the opportunity of reviewing.

(7) The undersigned acknowledges that it has, by reason of its business and financial experience, such knowledge, sophistication and experience in financial and business matters and in making investment decisions of this type that it is capable of (i) evaluating the merits and risks of an investment in the Shares and making an informed investment decision in connection therewith; (ii) protecting its own interest; and (iii) bearing the economic risk of such investment for an indefinite period of time for shares which are not transferable or freely tradable. The undersigned hereby agrees to indemnify the Issuer and the officers, directors and employees thereof harmless against all liability, costs or expenses (including reasonable attorneys' fees) arising by reason of or in connection with any misrepresentation or any breach of warranties or representations of the undersigned contained in this Notice, or arising as a result of the sale or distribution of the Shares issuable upon exercise of the Warrants. The representations and warranties contained herein shall be binding upon the heirs, legal representatives, successors and assigns of the undersigned.

_____
(Signature)

_____
(Date)

_____
(Print Name)

Exhibit 10.118

SECURITIES PURCHASE AGREEMENT
Convertible Promissory Notes and
Stock Purchase Warrants

THIS SECURITIES PURCHASE AGREEMENT (this "Agreement") is made and entered into as of the _____ _____, 2015, by and between Save the World Air, Inc., a Nevada corporation (the "Issuer") and those individuals and entities who sign and deliver an executed copy of this Agreement to the Issuer (each, a "Purchaser" and collectively, the "Purchasers"), with reference to the following:

RECITALS

A. Purchasers desire to purchase from Issuer and Issuer desires to sell to Purchaser certain of Issuer's Convertible Notes, in the aggregate face amount up to a maximum of Five Million Dollars ($5,000,000), in the form of Exhibit A attached hereto (individually, a "Note" and collectively, the "Notes"), and certain of Issuer's Stock Purchase Warrants to purchase up to a certain number of shares of the common stock (the "Common Stock") of the Issuer equal to 50% of the number of shares initially issuable on conversion of the Notes, in the form of Exhibit B attached hereto (individually, the "Warrants" and collectively with the Notes, the "Securities"). The face amount of the Note each Purchaser has committed to purchase, and the amount of the purchase price thereof to be paid to the Issuer by the Purchaser (a "Commitment") is listed on the signature page the Purchaser executes and delivers to the Issuer. Minimum Commitment shall be no less than $50,000.

B. Issuer's sale of the Securities to the Purchasers may be made in reliance upon the provisions of Section 4(a)(2) under the Securities Act of 1933, as amended (the "Securities Act"), or Rule 506 of Regulation D promulgated by the Securities and Exchange Commission (the "SEC") thereunder, or other applicable rules and regulations of the SEC or upon such other exemption from the registration requirements of the Securities Act as may be available with respect to the transactions contemplated hereby.

C. At any time when any amount of principal or interest of the Notes shall be outstanding, such unpaid amounts shall be convertible, at the election of the Purchaser, into shares of the Issuer's Common Stock at a price of $0.30 per share (the "Conversion Price").

D. The Warrants shall be issued at the same time each Note is issued to the Purchaser hereunder and shall be exercisable at $0.30 per share (the "Exercise Price"), for such number of shares equal to 50% of the result obtained by dividing (i) the face amount of the Notes issued simultaneously with the Warrant by (ii) the Conversion Price. The Warrants shall expire one (1) year from the date of issuance thereof.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing recitals, which shall be considered an integral part of this Agreement, the covenants and agreements set forth hereafter, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Purchasers and the Issuer hereby agree as follows

1. Purchase of the Notes and Warrants. On the terms and subject to the conditions set forth in this Agreement and in the Notes and Warrants, the Purchasers shall purchase from the Issuer and the Issuer shall sell to the Purchaser the Securities.

2. Purchaser's Representations, Warranties and Covenants. In order to induce the Issuer to sell and issue the Securities to the Purchaser under one or more exemptions from registration under the Securities Act, the Purchasers, severally and not jointly, represent and warrant to the Issuer, and covenant with the Issuer, that:

(a) (i) Such Purchaser has the requisite power and authority to enter into and perform this Agreement, and each of the other agreements entered into by the parties hereto in connection with the transactions contemplated by this Agreement (collectively, the "Transaction Documents"), and to purchase the Securities in accordance with the terms hereof and thereof.

(ii) The execution and delivery of the Transaction Documents by the Purchaser and the consummation by it of the transactions contemplated thereby have been duly and validly authorized by the Purchaser's organizational documents and no further consent or authorization is required by the Purchaser.

(iii) The Transaction Documents have been duly and validly executed and delivered by the Purchaser.

(iv) The Transaction Documents, and each of them, constitutes the valid and binding obligation of the Purchaser enforceable against the Purchaser in accordance with their respective terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies.

(b) The execution, delivery and performance of the Transaction Documents by the Purchaser and the consummation by the Purchaser of the transactions contemplated thereby will not conflict with or constitute a default under any agreement or instrument to which the Purchaser is a party or by which the Purchaser is bound.

(c) The Purchaser is acquiring the Securities for investment for its own account, and not with a view toward distribution thereof, and with no present intention of dividing its interest with others or reselling or otherwise transferring or disposing of all or any portion of either the Notes or Warrants. The undersigned has not offered or sold a participation in this purchase of either the Notes or Warrants, and will not offer or sell any interest therein. The Purchaser further acknowledges that the Purchaser does not have in mind any sale of either the Notes or Warrants currently or after the passage of a fixed or determinable period of time or upon the occurrence or non-occurrence of any predetermined events or consequence; and that it has no present or contemplated agreement, undertaking, arrangement, obligation, indebtedness or commitment providing for or which is likely to compel a disposition of either the Notes or Warrants and is not aware of any circumstances presently in existence that are likely in the future to prompt a disposition thereof.

(e) The Purchaser acknowledges that the Securities have been offered to it in direct communication between itself and the Issuer and not through any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or on the Internet or broadcast over television or radio or presented in any seminar or any other general solicitation or general advertisement.

(f) The Purchaser acknowledges that the Issuer has given it access to all information relating to the Issuer’s business that it has requested. The Purchaser has reviewed all materials relating to the Issuer's business, finance and operations which it has requested and the Purchaser has reviewed all of such materials as the Purchaser, in the Purchaser’s sole and absolute discretion shall have deemed necessary or desirable. The Purchaser has had an opportunity to ask questions of and to discuss the business, management and financial affairs of the Issuer with the Issuer's management. Specifically but not by way of limitation, the Purchaser acknowledges the Issuer’s publicly available filings made periodically with the SEC, which filings are available at www.sec.gov and which filings the Purchaser acknowledges reviewing or having had the opportunity of reviewing.

(g) The Purchaser acknowledges that it has, by reason of its business and financial experience, knowledge, sophistication and experience in financial and business matters and in making investment decisions of this type that it is capable of (i) evaluating the merits and risks of an investment in the Securities and making an informed investment decision in connection therewith; (ii) protecting its own interest; and (iii) bearing the economic risk of such investment for an indefinite period of time for Securities which are not transferable or freely tradable. The undersigned hereby agrees to indemnify the Issuer thereof and to hold each of such persons and entities, and the officers, directors and employees thereof harmless against all liability, costs or expenses (including reasonable attorneys’ fees) arising by reason of or in connection with any misrepresentation or any breach of warranties of the undersigned contained in this Agreement, or arising as a result of the sale or distribution of the Securities or the Common Stock issuable upon conversion of the Notes or exercise of the Warrants, by the undersigned in violation of the Securities Act, the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or any other applicable law, either federal or state. This subscription and the representations and warranties contained herein shall be binding upon the heirs, legal representatives, successors and assigns of the Purchaser.

(h) The Purchaser is familiar with the definition of an "accredited investor" as that term is defined in Rule 501(a) of Regulation D of the Securities Act and represents and warrants to the Issuer that it is either (i) an accredited investor at such time it was offered the Securities and will be on each date which it converts any of the Notes or exercises any of the Warrants as so defined or (ii) a "qualified institutional buyer" as defined in Rule 144A under the Securities Act. Such Purchaser is not required to be registered as a broker-dealer under Section 15 of the Exchange act. If the Purchaser is not a resident of the United States, the Purchaser is not a "U.S. person[s]" as that term is defined in Rule 902 of Regulation S promulgated under the Securities Act of 1933, as amended.

(i) During the term of this Agreement and the other Transaction Documents, the Purchaser will comply with the provisions of Section 9 of the Exchange Act, and the rules and regulations promulgated thereunder, with respect to transactions involving the Common Stock. Commencing on the date on which the Purchaser received a term sheet from the Company or any representative or agent of the Company (written or oral) setting forth the material terms of the transactions contemplated hereunder until the date hereof and during the term of this Agreement and the other Transaction Documents, the Purchaser agrees not to sell the Issuer's Common Stock short or engage in any hedging transactions in the Issuer's Common Stock, either directly or indirectly, through its affiliates, principals, agents or advisors.

(j) The Purchaser is aware that the Notes and the Warrants, and the shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants are restricted securities as defined under federal securities laws and are not freely tradeable and may only be disposed of in compliance with state and federal securities laws. In connection with any transfer of the Notes and the Warrants, and the shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, other than pursuant to an effective registration statement, the Issuer may require the transferor thereof to provide to the Issuer an opinion of counsel, the form and substance of which opinion shall be reasonably satisfactory to the Issuer, to the effect that such transfer does not require registration of such transferred Securities or Common Stock issuable thereunder, under the Securities Act. Further, the Purchaser understands and acknowledges that any certificates evidencing the Notes, the Warrants or the shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants will be restricted securities and not freely tradeable and will bear the legend in substantially the following form:

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR QUALIFIED FOR SALE UNDER ANY STATE SECURITIES LAWS (COLLECTIVELY, "SECURITIES LAWS") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED FOR SALE UNDER ALL APPLICABLE SECURITIES LAWS OR UNLESS, IN THE OPINION OF COUNSEL SATISFACTORY TO THE ISSUER, IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, ANY SUCH OFFER, SALE OR OTHER TRANSFER IS EXEMPT FROM THE REGISTRATION OR QUALIFICATION REQUIREMENTS OF SUCH SECURITIES LAWS.

(k) The Purchaser understands and acknowledges that following the purchase of the Notes, the Warrants and any shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, each may only be disposed of pursuant to either (i) an effective registration statement under the Securities Act or (ii) an exemption from the registration requirements of the Securities Act.

(l) The Purchaser understands and acknowledges that the Issuer has neither filed a registration statement with the SEC or any state authorities nor agreed to do so, nor contemplates doing so in the future for the transactions contemplated by this Agreement or the other Transaction Documents, and in the absence of such a registration statement or exemption, the undersigned may have to hold the Notes, the Warrants and any shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, indefinitely and may be unable to liquidate any of them in case of an emergency.

(m) The Purchaser is purchasing the Notes and Warrants, and will acquire any shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, for its own account for investment purposes and not with a view towards distribution and agrees to resell or otherwise dispose of any of the Notes or the Warrants, or any shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, in accordance with the registration provisions of the Securities Act (or pursuant to an exemption from such registration provisions).

(n) The Purchaser is not and will not be required to be registered as a "dealer" under the Exchange Act, either as a result of its execution and performance of its obligations under this Agreement or otherwise.

(o) The Purchaser understands and acknowledges that proceeds raised in connection with this Agreement will be used by Issuer for general working capital purposes, including without limitation, the payment of salaries and professional fees, overhead and general administrative expenses.

(p) The Purchaser understands that it is liable for its own tax liabilities and has obtained no tax advice from the Issuer in connection with the purchase of the Securities.

(q) The Purchaser will not pay or receive any finder's fee or commission in respect of the consummation of the transactions contemplated by this Agreement.

(r) Purchaser hereby agrees and acknowledges that it has been informed of the following: (i) there are factors relating to the subsequent transfer of any of the Securities or shares of Common Stock underlying the Notes and Warrants that could make the resale of such Securities or shares of Common Stock underlying the Notes and Warrants difficult; and (ii) there is no guarantee that the Purchaser will realize any gain from the purchase of the Securities. The purchase of the Securities involves a high degree of risk and is subject to many uncertainties. These risks and uncertainties may adversely affect the Company's business, operating results and financial condition. In such an event, the trading price for the Common Stock could decline substantially and Purchaser could lose all or part of its investment. Purchaser is urged to review the risks identified under the Risk Factors section of Issuer's Form 10-K for the year ended December 31, 2014, as filed with the SEC on March 16, 2015.

(s) Purchaser understands and acknowledges that the Notes have an implied annual interest rate of 10%, inasmuch as the Notes will be issued and paid in an amount equal to 110% of the Commitment, except that if a Note is not paid on the Maturity Date, which is twelve (12) months from the date of issue of the Note, then the balance of the unpaid amount of the Note shall be increased by 10% and the Issuer shall then commence paying interest thereon at the rate of 10% per annum until all sums due under the Note are paid.

3. Issuer's Representations, Warranties and Covenants. The Issuer represents and warrants to the Purchaser that:

(a) The Issuer is a corporation duly organized and validly existing in good standing under the laws of the State of Nevada, and has the requisite corporate power and authorization to own its properties and to carry on its business as now being conducted.

(b) (i) The Issuer has the requisite corporate power and authority to enter into and perform this Agreement, and each of the other agreements entered into by the parties hereto in connection with the transactions contemplated by the Transaction Documents, and to issue the Notes and Warrants in accordance with the terms hereof and thereof.

(ii) the execution and delivery of the Transaction Documents by the Issuer and the consummation by it of the transactions contemplated hereby and thereby, including without limitation the reservation for issuance and the issuance of the Notes and Warrants pursuant to this Agreement, have been duly and validly authorized and/or ratified by the Issuer's Board of Directors and no further consent or authorization is required by the Issuer, its Board of Directors, or its shareholders.

(iii) The Transaction Documents have been duly and validly executed and delivered by the Issuer.

(iv) The Transaction Documents, and each of them, constitutes the valid and binding obligation of the Issuer enforceable against the Issuer in accordance with their respective terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies.

(c) The execution, delivery and performance of the Transaction Documents by the Issuer and the consummation by the Issuer of the transactions contemplated thereby will not conflict with or constitute a default under any agreement or instrument to which the Issuer is a party or under any organizational documents of the Purchaser.

4. Closing and Deliverables.

(a) Subject to the provisions of Section 4(b) below, provided that the Issuer shall have received on or prior to July 31, 2015, (but the Company has the option to extend this date to August 30, 2015), copies of this Agreement executed by Purchaser, there shall be a closing or closings for each individual Purchaser (each, a "Closing Date") at which:

(i) Purchaser shall deliver to the Issuer immediately available funds, by check or by wire transfer (bank wiring instructions to be provided by Issuer on request) in an amount equal to the amount of the Purchaser's Commitment as set forth beside the name of the Purchaser on the Purchaser's signature page hereto. Funds paid to Issuer under this Agreement will be deposited in Issuer's operating account and used as working capital.

(ii) The Issuer shall deliver to the Purchaser (x) a Note, in the face amount equal to 110% of the Purchaser's Commitment and (y) a Warrant to purchase the exercisable amount of the Issuer's Common Stock at the Exercise Price. The Note and Warrant will be dated as of the Closing Date.

(b) The Issuer may continue to accept Commitments from Purchasers and issue and sell Securities to Purchasers at Closings on the terms and subject to the conditions set forth in this Agreement until (i) the aggregate amount of the Commitments equals $5,000,000 or (ii) on or before July 31, 2015, but the Company has the option to extend this date to August 30, 2015, whichever shall first occur.

5. Miscellaneous.

(a). Each party shall pay the fees and expenses of its own advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of the Transactions Documents.

(b) This Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party; provided that a facsimile signature or signature transmitted by e-mail shall be considered due execution and shall be binding upon the signatory thereto with the same force and effect as if the signature were an original signature.

(c) The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement. Whenever required by the context of this Agreement, the singular shall include the plural and neutral shall include the masculine and feminine.

(d) If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction.

(e) This Agreement and the Notes and Warrants represent the final agreement between the Purchasers and the Issuer with respect to the terms and conditions set forth herein, and, the terms of this Agreement and the Notes and Warrants may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. No provision of this Agreement and the Notes and Warrants may be amended other than by an instrument in writing signed by the Purchaser and the Issuer, and no provision hereof or thereof may be waived other than by an instrument in writing signed by the party against whom enforcement is sought.

(f) Any notices or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one (1) day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Issuer:

Save the World Air, Inc.
735 State Street, Suite 500
Santa Barbara, CA 93101
Telephone: 805-845-3581
Facsimile: 805-845-4377

If to a Purchaser:

To the address set forth on the Purchaser's signature page hereto.

Each party shall provide five (5) days prior written notice to the other party of any change in address or facsimile number.

(g) This Agreement may not be assigned by Purchaser.

(h) This Agreement is intended for the benefit of the parties hereto and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

(i) The representations and warranties of the Purchaser and the Issuer contained herein shall survive each of the Closings and the termination of this Agreement and the other Transaction Documents.

(j) The Purchaser and the Issuer shall consult with each other in issuing any press releases or otherwise making public statements with respect to the transactions contemplated hereby, except that no consultation shall be required if such disclosure is required by law or the rules and regulations of the SEC.

(k). Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby.

(l) The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party, as the parties mutually agree that each has had a full and fair opportunity to review this Agreement and the other Transaction Documents and seek the advice of counsel on it and them.

(m) The Purchaser and the Issuer each shall have all rights and remedies set forth in this Agreement and all rights and remedies which such holders have been granted at any time under any other agreement or contract and all of the rights which the Purchaser has by law. Any person having any rights under any provision of this Agreement shall be entitled to enforce such rights to recover damages by reason of any default or breach of any provision of this Agreement and to exercise all other rights granted by law.

(n) This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed wholly within such state.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF the Purchaser and the Issuer have executed this Agreement as of the date first above written.

THE ISSUER

SAVE THE WORLD AIR, INC.

By /s/ Greggory Bigger
Greggory Bigger
Its: Chief Executive Officer

THE PURCHASER

_____	_____
Name (signature)	Amount of Commitment (U.S. Dollars)
_____	_____
Print Name	Date
_____	
Address	
_____	
Address	
_____	
Phone Number	
_____	
Fax Number	
_____	
Social Security Number	
_____	
E-mail Address	

CONVERTIBLE NOTE

THE SECURITIES EVIDENCED BY THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR QUALIFIED FOR SALE UNDER ANY STATE SECURITIES LAWS (COLLECTIVELY, "SECURITIES LAWS") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED FOR SALE UNDER ALL APPLICABLE SECURITIES LAWS OR UNLESS, IN THE OPINION OF COUNSEL SATISFACTORY TO THE ISSUER, IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, ANY SUCH OFFER, SALE OR OTHER TRANSFER IS EXEMPT FROM THE REGISTRATION OR QUALIFICATION REQUIREMENTS OF SUCH SECURITIES LAWS.

$_____ _____, 2015 ("Issuance Date")

FOR VALUE RECEIVED, **SAVE THE WORLD AIR, INC.** , a corporation organized under the laws of the State of Nevada (the "Company"), promises to pay to the order of "Investor", as that term is defined on the Acknowledgement and Acceptance page of this Convertible Note ("Note") (hereafter, together with any subsequent holder hereof, called "Holder"), at "Investor's Address," as that term is set forth on such page or at such other place as Holder may direct, the amount noted above, payable in full Twelve (12) Months from the Issuance Date (the "Maturity Date").

If this Note is not paid in full on or prior to the Maturity Date the remaining balance shall be increased by 10% and the Company shall pay interest thereon at the rate of 10% per annum until all sums due hereunder are paid in full.

Payments of both principal and interest will be made in immediately available funds in lawful money of the United States of America to the Holder at the Investor's Address.

This Note is subject to the following additional provisions:

1. The Company shall be entitled to withhold from all payments of principal and/or interest of this Note any amounts required to be withheld under the applicable provisions of the U.S. Internal Revenue Code of 1986, as amended, or other applicable laws at the time of such payments.

2. This Note has been issued subject to representations, warranties and covenants of the original Holder hereof as contained in that certain Securities Purchase Agreement ("Agreement") of even date herewith, and subject to all restrictions, terms, conditions and disclosures in the Agreement, and may be transferred or exchanged only in compliance with the Securities Act of 1933, as amended, and applicable state and other securities laws. Prior to the due presentment for such transfer of this Note, the Company and any agent of the Company may treat the person in whose name this Note is duly registered on the Company's Note register as the owner hereof for the purpose of receiving payment as herein provided and all other purposes, whether or not this Note is overdue, and neither the Company nor any such agent shall be affected by notice to the contrary. The transferee shall be bound, as the original Holder, by the same representations and terms described herein and under the Agreement.

3. The Holder may, at such Holder's option, at any time while any sums are outstanding and unpaid hereunder, convert the then-outstanding principal amount of this Note or any portion thereof, and any interest and any penalties accrued and unpaid thereon (the "Conversion Amount"), into a number shares of fully paid and nonassessable Common Stock of the Company (the "Conversion Shares") pursuant to the following formula: the Conversion Amount divided by $0.30 (the "Conversion Price"). The Holder may exercise the right to convert all or any portion of the Conversion Amount by delivering to the Company (i) an executed and completed notice of conversion in the form attached to this Note (the "Notice of Conversion") to the Company and (ii) this Note. The business day on which a Notice of Conversion and this Note are delivered to the Company in accordance with the provisions hereof shall be deemed a "Conversion Date." The Company will transmit the certificates representing Conversion Shares issuable upon such conversion of this Note to the Holder via express courier within a reasonable time after the Conversion Date. No fractional shares shall be issued upon conversion of this Note. The amount of any of the Conversion Amount which is less than a whole share of Common Stock shall be paid to the Holder in cash. Any delay due to such circumstance shall not be an event of default under this Note.

4. The principal amount of this Note, and any accrued interest thereon, shall be reduced as per that principal amount indicated on the Notice of Conversion upon the proper receipt by the Holder of such Conversion Shares due upon such Notice of Conversion.

5. The number of Conversion Shares shall be adjusted as follows:

a. If the Company shall at any time after the Issuance Date subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock, the number of Conversion Shares in effect immediately prior to such subdivision shall be proportionately increased, and conversely, in case the outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Conversion Price in effect immediately prior to such combination shall be proportionately reduced.

b. If the Company shall at any time or from time to time after the Issuance Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the number of Conversion Shares issuable upon conversion of this Note shall be proportionately increased; provided, however, that if such record date is fixed and such dividend is not fully paid, or if such distribution is not fully made on the date fixed therefor, the number of Conversion Shares shall be recomputed to reflect that such dividend was not fully paid or that such distribution was not fully made.

c. If Company at any time or from time to time after the Issuance Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of Company other than shares of Common Stock, then and in each such event provision shall be made so that Holder shall receive upon exercise of the conversion right of this Note, in addition to the number of shares of Common Stock receivable thereupon, the amount of securities of Company which Holder would have received had the Conversion Amount of this Note been exercised on the date of such event and had it thereafter, during the period from the date of such event to and including the date of conversion or purchase, retained such securities receivable during such period.

d. If the Common Stock issuable upon the conversion of this Note or option to purchase is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than a transaction described elsewhere in Section 5 of this Note), then, and in any such event, each Holder shall have the right thereafter, upon conversion of this Note or purchase pursuant to option to receive the kind and amount of stock and other securities and property receivable upon such reorganization or other change, in an amount equal to the amount that Holder would have been entitled to had it immediately prior to such reorganization, reclassification or change converted this Note, but only to the extent this Note is actually converted, all subject to further adjustment as provided herein.

6. No provision of this Note shall alter or impair the obligation of the Company, which is absolute and unconditional, upon an Event of Default (as defined below), to pay the principal of, and interest on this Note at the place, time, and rate, and in the coin or currency herein prescribed.

a. Events of Default. Each of the following occurrences is hereby defined as an “Event of Default:”

Nonpayment. The Company shall fail to make any payment of principal, interest, or other amounts payable hereunder when and as due; or

Dissolutions, etc. The Company or any subsidiary shall fail to comply with any provision concerning its existence or any prohibition against dissolution, liquidation, merger, consolidation or sale of assets; or

Noncompliance with this Agreement. The Company shall fail to comply in any material respect with any provision hereof, which failure does not otherwise constitute an Event of Default; or

Insolvency. The institution of bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against Company, which proceedings shall not have been vacated by appropriate court order within sixty (60) days of such institution.

If one or more "Events of Default" shall occur, then, or at any time thereafter, and in each and every such case, unless such Event of Default shall have been waived in writing by the Holder (which waiver shall not be deemed to be a waiver of any subsequent default) or cured as provided herein, at the option of the Holder, and in the Holder's sole discretion, the Holder may elect to consider this Note (and all interest through such date) immediately due and payable. In order to so elect, the Holder must deliver written notice of the election and the amount due to the Company via certified mail, return receipt requested, at the Company's address as set forth herein (or any other address provided to the Holder), and thereafter the Company shall have thirty (30) business days upon receipt to cure the Event of Default or pay this Note, or, convert the amount due on the Note pursuant to the conversion formula set forth above.

7. In case any provision of this Note is held by a court of competent jurisdiction to be excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, so that it is enforceable to the maximum extent possible, and the validity and enforceability of the remaining provisions of this Note will not in any way be affected or impaired thereby.

8. This Note does not entitle the Holder hereof to any voting rights or other rights as a shareholder of the Company prior to the conversion into Common Stock thereof, except as provided by applicable law. If, however, at the time of the surrender of this Note and conversion the Holder hereof shall be entitled to convert this Note, the Conversion Shares so issued shall be and be deemed to be issued to such holder as the record owner of such shares as of the close of business on the Conversion Date.

9. The Holder shall pay all issue and transfer taxes and other incidental expenses in respect of the issuance of certificates for Conversion Shares upon the conversion of this Note, and such certificates shall be issued in the name of the Holder of this Note.

10. This Note may be prepaid in whole or in part at any time or from time to time without premium or penalty upon 10 days' prior written notice from the Company to the Holder.

11. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Note, and in case of loss, theft or destruction of this Note, upon delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of such Note, and upon reimbursement to the Company of all reasonable expenses incidental thereto, the Company will make and deliver to the Holder, in lieu thereof, a new Note in substantially identical form.

12. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday in the United States or the State of California, then such action may be taken or such right may be exercised on the next succeeding business day.

13. (a) This Note shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed wholly within such state.

(b) Except as otherwise provided herein, any notice or demand which, by the provisions hereof, is required or which may be given to or served upon the parties hereto shall be in writing and, if by e-mail or facsimile transmission, shall be deemed to have been validly served, given or delivered when sent, and if by personal delivery, shall be deemed to have been validly served, given or delivered upon actual delivery and, if mailed, shall be deemed to have been validly served, given or delivered three (3) business days after deposit in the United States mails, as registered or certified mail, with proper postage prepaid and addressed to the party or parties to be notified.

(c) The Holder acknowledges that the Conversion Shares acquired upon the exercise of this Note will have restrictions upon its resale imposed by state and federal securities laws, together with other restrictions, terms, conditions and disclosures as fully set forth in the Agreement.

(d) With regard to any power, remedy or right provided herein or otherwise available to any party hereunder (i) no waiver or extension of time shall be effective unless expressly contained in a writing signed by the waiving party; and (ii) no alteration, modification or impairment shall be implied by reason of any previous waiver, extension of time, delay or omission in exercise, or other indulgence.

(e) This Note may not be amended, altered or modified except by a writing signed by the Company and the Holder.

IN WITNESS WHEREOF, the Company has caused this Convertible Note to be duly executed by an officer thereunto duly authorized.

SAVE THE WORLD AIR, INC.
735 State Street, Suite 500
Santa Barbara, California 93101

By /s/ Greggory Bigger
Name: Greggory Bigger
Title: Chief Executive Officer

ACKNOWLEDGED AND ACCEPTED:

_____
Investor Name (Signature)

_____
Print Name

_____

_____
Investor Address

NOTICE OF EXERCISE OF CONVERSION RIGHT

TO: SAVE THE WORLD AIR, INC.

(1) The undersigned hereby elects to convert $_____ of the attached Note into _____ shares of Common Stock (the "Shares") of Save the World Air, Inc. (“Company”) pursuant to the terms of the attached Note.

(2) Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)

Address:
_____
_____
_____

(3) The undersigned confirms that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or selling the Shares.

(4) The undersigned accepts such shares subject to the restrictions on transfer and other terms, conditions and disclosures set forth in the attached Note and set forth in that certain Securities Purchase Agreement between the Company and the undersigned dated as of the date of the attached Note.

_____ _____
(Date) (Signature)

_____
(Print Name)

STOCK PURCHASE WARRANT

THIS WARRANT AND ANY SHARES ISSUED UPON ITS EXERCISE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF* 1933, *AS AMENDED (THE "ACT"), AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISPOSITION OF ANY SHARES ISSUED UPON EXERCISE HEREOF MAY BE AFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL SATISFACTORY IN FORM AND SUBSTANCE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE ACT. THE TRANSFER OF THIS WARRANT IS RESTRICTED AS SET FORTH HEREIN.

No. _____ _____, 2015

SAVE THE WORLD AIR, INC.
WARRANT TO PURCHASE COMMON STOCK

VOID AFTER 5:00 P.M. (Pacific Time) ON _____, 20___

THIS CERTIFIES that, for the value received, the holder identified on the last page of this Warrant (the "Holder") is entitled, upon the terms and subject to the conditions hereinafter set forth, at any time on or after the date of this Warrant and on or prior to 5:00 p.m. P.S.T. on the first anniversary of the date of this Warrant (the "Expiration Time"), but not thereafter, to subscribe for and purchase, from SAVE THE WORLD AIR, INC., a Nevada corporation (the "Company"), up to _____ shares of the Company's Common Stock (the "Shares") at a purchase price per share equal to $0.30 (the "Exercise Price").

1. Exercise of Warrant.

The purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, at any time after the date of this Warrant and before the Expiration Time by the surrender of this Warrant and the Notice of Exercise annexed hereto duly executed at the office of the Company, in Santa Barbara, California (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company), and upon payment of an amount equal to the aggregate Exercise Price for the number of Shares thereby purchased (by cash or by check or certified bank check payable to the order of the Company in an amount equal to the purchase price of the shares thereby purchased); whereupon the Holder shall be entitled to receive a stock certificate representing the number of Shares so purchased. The Company agrees that if at the time of the surrender of this Warrant and purchase of the Shares, and the Holder shall be entitled to exercise this Warrant, the Shares so purchased shall be and be deemed to be issued to such holder as the record owner of such Shares as of the close of business on the date on which this Warrant shall have been exercised as aforesaid.

Upon partial exercise of this Warrant, the Holder shall be entitled to receive from the Company a new Warrant in substantially identical form for the purchase of that number of Shares as to which this Warrant shall not have been exercised. Certificates for Shares purchased hereunder shall be delivered to the Holder within a reasonable time after the date on which this Warrant shall have been exercised as aforesaid.

2. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon the exercise of this Warrant, an amount equal to such fraction multiplied by the Exercise Price shall be paid in cash to the Holder.

3. Charges, Taxes and Expenses. The Holder shall pay all issue and transfer taxes and other incidental expenses in respect of the issuance of certificates for Shares upon the exercise of this Warrant, and such certificates shall be issued in the name of the Holder of this Warrant.

4. No Rights as a Stockholder. This Warrant does not entitle the Holder to any voting rights or other rights as a stockholder of the Company prior to the exercise hereof.

5. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in case of loss, theft or destruction of this Warrant, upon delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, and upon reimbursement to the Company of all reasonable expenses incidental thereto, the Company will make and deliver to the Holder, in lieu thereof, a new Warrant in substantially identical form and dated as of such cancellation.

6. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday in the United States or the State of California, then such action may be taken or such right may be exercised on the next succeeding business.

7. Merger, Reclassification, etc.

(a) Merger, etc. If at any time the Company proposes (A) the acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any reorganization, merger, consolidation or stock issuance) that results in the transfer of fifty percent (50%) or more of the then outstanding voting power of the Company; or (B) a sale of all or substantially all of the assets of the Company, then the Company shall give the Holder ten (10) days notice of the proposed effective date of the transaction. If, in the case of such acquisition of the Company, and the Warrant has not been exercised by the effective date of the transaction, this Warrant shall be exercisable into the kind and number of shares of stock or other securities or property of the Company or of the entity resulting from such merger or acquisition to which such Holder would have been entitled if immediately prior to such acquisition or merger, it had exercised this Warrant. The provisions of this Section 7(a) shall similarly apply to successive consolidations, mergers, sales or conveyances.

(b) Reclassification, etc. If the Company at any time shall, by subdivision, combination or reclassification of securities or otherwise, change any of the securities to which purchase rights under this Warrant exist into the same or a different number of securities of any class or classes, this Warrant shall thereafter be to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities which were subject to the purchase rights under this Warrant immediately prior to such subdivision, combination, reclassification or other change. If the Shares are subdivided or combined into a greater or smaller number of Shares, the Exercise Price under this Warrant shall be proportionately reduced in case of subdivision of shares or proportionately increased in the case of combination of shares, in both cases by the ratio which the total number of Shares to be outstanding immediately after such event bears to the total number of Shares outstanding immediately prior to such event.

(c) Cash Distributions. No adjustment on account of cash dividends or interest on the Shares or other securities purchasable hereunder will be made to the Exercise Price under this Warrant.

8. Restrictions on Transfer.

(a) Restrictions on Transfer of Shares. In no event will the Holder make a disposition of this Warrant or the Shares unless and until, if requested by the Company, it shall have furnished the Company with an opinion of counsel satisfactory to the Company and its counsel to the effect that appropriate action necessary for compliance with the Securities Act of 1933, as amended (the "Act") relating to sale of an unregistered security has been taken. Notwithstanding the foregoing, the restrictions imposed upon the transferability of the Shares shall terminate as to any particular Share when (i) such security shall have been sold without registration in compliance with Rule 144 under the Act, or (ii) a letter shall have been issued to the Holder at its request by the staff of the Securities and Exchange Commission or a ruling shall have been issued to the Holder at its request by such Commission stating that no action shall be recommended by such staff or taken by such Commission, as the case may be, if such security is transferred without registration under the Act in accordance with the conditions set forth in such letter or ruling and such letter or ruling specifies that no subsequent restrictions on transfer are required, or (iii) such security shall have been registered under the Act and sold by the Holder thereof in accordance with such registration.

(b) Subject to the provisions of Section 8(a) hereof, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of the Warrant with a properly executed assignment at the principal office of the Company.

(c) Restrictive Legends. The stock certificates representing the Shares and any securities of the Company issued with respect thereto shall be imprinted with legends restricting transfer except in compliance with the terms hereof and with applicable federal and state securities laws substantially as follows:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND MAY NOT BE SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 OR AN OPINION OF COUNSEL SATISFACTORY TO THE ISSUER OF THIS CERTIFICATE THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT".

9. Miscellaneous.

(a) Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed wholly within such state.

(b) Restrictions. The Holder acknowledges that the Shares acquired upon the exercise of this Warrant will have restrictions upon its resale imposed by state and federal securities laws.

(c) Waivers Strictly Construed. With regard to any power, remedy or right provided herein or otherwise available to any party hereunder (i) no waiver or extension of time shall be effective unless expressly contained in a writing signed by the waiving party; and (ii) no alteration, modification or impairment shall be implied by reason of any previous waiver, extension of time, delay or omission in exercise, or other indulgence.

(d) Modifications. This Warrant may not be amended, altered or modified except by a writing signed by the Company and the Holder of this Warrant.

IN WITNESS WHEREOF, SAVE THE WORLD AIR, INC. has caused this Warrant to be executed by its duly authorized representative dated as of the date first set forth above.

Holder:

_____

SAVE THE WORLD AIR, INC.
735 State Street, Suite 500
Santa Barbara, California 93101

By: /s/ Greggory Bigger
Name: Greggory Bigger
Title: Chief Executive Officer

NOTICE OF EXERCISE

TO: SAVE THE WORLD AIR, INC., a Nevada corporation

(1) The undersigned hereby elects to purchase _____ shares of Common Stock (the "Shares") of Save the World Air, Inc. (“Issuer”) pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price in full, together with all applicable transfer taxes, if any.

(2) Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)

Address:

_____

_____

_____

(3) The undersigned confirms that he is an “accredited investor” as defined by Rule 501(a) under the Securities Act of 1933, as amended, at the time of execution of this Notice.

(4) The undersigned confirms that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or selling the Shares.

(5) The undersigned accepts such Shares subject to the restrictions on transfer set forth in the attached Warrant.

(6) The undersigned acknowledges that the Issuer has given it access to all information relating to the Issuer’s business that the undersigned has requested. The undersigned has reviewed all materials relating to the Issuer’s business, financial condition and operations which it has requested and the undersigned has reviewed all of such materials as the undersigned, in the undersigned’s sole and absolute discretion has deemed necessary or desirable. The undersigned has had an opportunity to ask questions of and discuss the business, management and financial affairs of the Issuer with the Issuer’s management. Specifically but not by way of limitation, the undersigned acknowledges the Issuer’s publicly available filings made periodically with the SEC, which filings are available at www.sec.gov, and which filings the undersigned acknowledges reviewing or having had the opportunity of reviewing.

(7) The undersigned acknowledges that it has, by reason of its business and financial experience, such knowledge, sophistication and experience in financial and business matters and in making investment decisions of this type that it is capable of (i) evaluating the merits and risks of an investment in the Shares and making an informed investment decision in connection therewith; (ii) protecting its own interest; and (iii) bearing the economic risk of such investment for an indefinite period of time for shares which are not transferable or freely tradable. The undersigned hereby agrees to indemnify the Issuer and the officers, directors and employees thereof harmless against all liability, costs or expenses (including reasonable attorneys’ fees) arising by reason of or in connection with any misrepresentation or any breach of warranties or representations of the undersigned contained in this Notice, or arising as a result of the sale or distribution of the Shares issuable upon exercise of the Warrants. The representations and warranties contained herein shall be binding upon the heirs, legal representatives, successors and assigns of the undersigned.

_____
(Signature)

_____
(Date)

_____
(Print Name)

Exhibit 10.119

SECURITIES PURCHASE AGREEMENT
Convertible Promissory Notes and Stock Purchase Warrants

THIS SECURITIES PURCHASE AGREEMENT (this "Agreement") is made and entered into as of the November 6, 2015, by and between QS Energy, Inc., a Nevada corporation (the "Issuer") and those individuals and entities who sign and deliver an executed copy of this Agreement to the Issuer (each, a "Purchaser" and collectively, the "Purchasers"), with reference to the following:

RECITALS

A. Purchasers desire to purchase from Issuer and Issuer desires to sell to Purchaser certain of Issuer's Convertible Notes, in the aggregate face amount up to a maximum of Five Million Dollars ($5,000,000) in the form of Exhibit A attached hereto (individually, a "Note" and collectively, the "Notes"), and certain of Issuer's Stock Purchase Warrants to purchase up to a certain number of shares of the common stock (the "Common Stock") of the Issuer equal to 50% of the number of shares initially issuable on conversion of the Notes, in the form of Exhibit B attached hereto (individually, the "Warrants" and collectively with the Notes, the "Securities"). The face amount of the Note each Purchaser has committed to purchase, and the amount of the purchase price thereof to be paid to the Issuer by the Purchaser (a "Commitment") is listed on the signature page such Purchaser executes and delivers to the Issuer. Minimum Commitment shall be no less than $25,000.

B. Issuer's sale of the Securities to the Purchasers may be made in reliance upon the provisions of Section 4(a)(2) under the Securities Act of 1933, as amended (the "Securities Act") or Rule 506 of Regulation D promulgated by the Securities and Exchange Commission (the "SEC") thereunder, or other applicable rules and regulations of the SEC or upon such other exemption from the registration requirements of the Securities Act as may be available with respect to the transactions contemplated hereby.

C. At any time when any amount of principal or interest of the Notes shall be outstanding, such unpaid amounts shall be convertible, at the election of the Purchaser, into shares of the Issuer's Common Stock at a price of $0.10 per share (the "Conversion Price").

D. The Warrants shall be issued at the same time each Note is issued to the Purchaser hereunder and shall be exercisable at $0.10 per share (the "Exercise Price"), for such number of shares equal to 50% of the result obtained by dividing (i) the face amount of the Notes issued simultaneously with the Warrant by (ii) the Conversion Price. The Warrants shall expire one (1) year from the date of issuance thereof.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing recitals, which shall be considered an integral part of this Agreement, the covenants and agreements set forth hereafter, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Purchasers and the Issuer hereby agree as follows

1. Purchase of the Notes and Warrants. On the terms and subject to the conditions set forth in this Agreement and in the Notes and Warrants, the Purchasers shall purchase from the Issuer and the Issuer shall sell to the Purchaser the Securities.

2. Purchaser's Representations, Warranties and Covenants . In order to induce the Issuer to sell and issue the Securities to the Purchaser under one or more exemptions from registration under the Securities Act, the Purchasers, severally and not jointly, represent and warrant to the Issuer, and covenant with the Issuer, that:

(a) (i) Such Purchaser has the requisite power and authority to enter into and perform this Agreement, and each of the other agreements entered into by the parties hereto in connection with the transactions contemplated by this Agreement (collectively, the "Transaction Documents"), and to purchase the Securities in accordance with the terms hereof and thereof.

(ii) The execution and delivery of the Transaction Documents by the Purchaser and the consummation by it of the transactions contemplated thereby have been duly and validly authorized by the Purchaser's organizational documents and no further consent or authorization is required by the Purchaser.

(iii) The Transaction Documents have been duly and validly executed and delivered by the Purchaser.

(iv) The Transaction Documents, and each of them, constitutes the valid and binding obligation of the Purchaser enforceable against the Purchaser in accordance with their respective terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies.

(a) The execution, delivery and performance of the Transaction Documents by the Purchaser and the consummation by the Purchaser of the transactions contemplated thereby will not conflict with or constitute a default under any agreement or instrument to which the Purchaser is a party or by which the Purchaser is bound.

(b) The Purchaser is acquiring the Securities for investment for its own account, and not with a view toward distribution thereof, and with no present intention of dividing its interest with others or reselling or otherwise transferring or disposing of all or any portion of either the Notes or Warrants. The undersigned has not offered or sold a participation in this purchase of either the Notes or Warrants, and will not offer or sell any interest therein. The Purchaser further acknowledges that the Purchaser does not have in mind any sale of either the Notes or Warrants currently or after the passage of a fixed or determinable period of time or upon the occurrence or non-occurrence of any predetermined events or consequence; and that it has no present or contemplated agreement, undertaking, arrangement, obligation, indebtedness or commitment providing for or which is likely to compel a disposition of either the Notes or Warrants and is not aware of any circumstances presently in existence that are likely in the future to prompt a disposition thereof.

(e) The Purchaser acknowledges that the Securities have been offered to it in direct communication between itself and the Issuer and not through any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or on the Internet or broadcast over television or radio or presented in any seminar or any other general solicitation or general advertisement.

(f) The Purchaser acknowledges that the Issuer has given it access to all information relating to the Issuer’s business that it has requested. The Purchaser has reviewed all materials relating to the Issuer's business, finance and operations which it has requested and the Purchaser has reviewed all of such materials as the Purchaser, in the Purchaser’s sole and absolute discretion shall have deemed necessary or desirable. The Purchaser has had an opportunity ask questions of and to discuss the business, management and financial affairs of the Issuer with the Issuer's management. Specifically but not by way of limitation, the Purchaser acknowledges the Issuer’s publicly available filings made periodically with the SEC, which filings are available at www.sec.gov and which filings the Purchaser acknowledges reviewing or having had the opportunity of reviewing.

(g) The Purchaser acknowledges that it has, by reason of its business and financial experience, knowledge, sophistication and experience in financial and business matters and in making investment decisions of this type that it is capable of (i) evaluating the merits and risks of an investment in the Securities and making an informed investment decision in connection therewith; (ii) protecting its own interest; and (iii) bearing the economic risk of such investment for an indefinite period of time for Securities which are not transferable or freely tradable. The undersigned hereby agrees to indemnify the Issuer thereof and to hold each of such persons and entities, and the officers, directors and employees thereof harmless against all liability, costs or expenses (including reasonable attorneys’ fees) arising by reason of or in connection with any misrepresentation or any breach of warranties of the undersigned contained in this Agreement, or arising as a result of the sale or distribution of the Securities or the Common Stock issuable upon conversion of the Notes or exercise of the Warrants, by the undersigned in violation of the Securities Act, the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or any other applicable law, either federal or state. This subscription and the representations and warranties contained herein shall be binding upon the heirs, legal representatives, successors and assigns of the Purchaser.

(h) The Purchaser is familiar with the definition of an "accredited investor" as that term is defined in Rule 501(a) of Regulation D of the Securities Act and represents and warrants to the Issuer that it is either (i) an accredited investor at such time it was offered the Securities and will be on each date which it converts any of the Notes or exercises any of the Warrants as so defined or (ii) a “qualified institutional buyer” as defined in Rule 144A under the Securities Act. Such Purchaser is not required to be registered as a broker-dealer under Section 15 of the Exchange act. If the Purchaser is not a resident of the United States, the Purchaser is not a “U.S. person[s]” as that term is defined in Rule 902 of Regulation S promulgated under the Securities Act of 1933, as amended.

(i) During the term of this Agreement and the other Transaction Documents, the Purchaser will comply with the provisions of Section 9 of the Exchange Act, and the rules and regulations promulgated thereunder, with respect to transactions involving the Common Stock. Commencing on the date on which the Purchaser received a term sheet from the Company or any representative or agent of the Company (written or oral) setting forth the material terms of the transactions contemplated hereunder until the date hereof and during the term of this Agreement and the other Transaction Documents, the Purchaser agrees not to sell the Issuer's Common Stock short or engage in any hedging transactions in the Issuer's Common Stock, either directly or indirectly, through its affiliates, principals, agents or advisors.

(j) The Purchaser is aware that the Notes and the Warrants, and the shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants are restricted securities as defined under federal securities laws and are not freely tradeable and may only be disposed of in compliance with state and federal securities laws. In connection with any transfer of the Notes and the Warrants, and the shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, other than pursuant to an effective registration statement or Rule 144, the Issuer may require the transferor thereof to provide to the Issuer an opinion of counsel, the form and substance of which opinion shall be reasonably satisfactory to the Issuer, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. Further, the Purchaser understands and acknowledges that any certificates evidencing the Notes, the Warrants or the shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants will be restricted securities and not freely tradeable and will bear the legend in substantially the following form:

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR QUALIFIED FOR SALE UNDER ANY STATE SECURITIES LAWS (COLLECTIVELY, "SECURITIES LAWS") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED FOR SALE UNDER ALL APPLICABLE SECURITIES LAWS OR UNLESS, IN THE OPINION OF COUNSEL SATISFACTORY TO THE ISSUER, IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, ANY SUCH OFFER, SALE OR OTHER TRANSFER IS EXEMPT FROM THE REGISTRATION OR QUALIFICATION REQUIREMENTS OF SUCH SECURITIES LAWS.

(k) The Purchaser understands and acknowledges that following the purchase of the Notes, the Warrants and any shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, each may only be disposed of pursuant to either (i) an effective registration statement under the Securities Act or (ii) an exemption from the registration requirements of the Securities Act.

(l) The Purchaser understands and acknowledges that the Issuer has neither filed a registration statement with the SEC or any state authorities nor agreed to do so, nor contemplates doing so in the future for the transactions contemplated by this Agreement or the other Transaction Documents, and in the absence of such a registration statement or exemption, the undersigned may have to hold the Notes, the Warrants and any shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, indefinitely and may be unable to liquidate any of them in case of an emergency.

(m) The Purchaser is purchasing the Notes and Warrants, and will acquire any shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, for its own account for investment purposes and not with a view towards distribution and agrees to resell or otherwise dispose of any of the Notes or the Warrants, or any shares of Common Stock issuable upon conversion of the Notes or exercise of the Warrants, in accordance with the registration provisions of the Securities Act (or pursuant to an exemption from such registration provisions).

(n) The Purchaser is not and will not be required to be registered as a "dealer" under the Exchange Act, either as a result of its execution and performance of its obligations under this Agreement or otherwise.

(o) The Purchaser understands and acknowledges that proceeds raised in connection with this Agreement will be used by Issuer for general working capital purposes, including without limitation, the payment of salaries and professional fees, overhead and general administrative expenses.

(p) The Purchaser understands that it is liable for its own tax liabilities and has obtained no tax advice from the Issuer in connection with the purchase of the Securities.

(q) The Purchaser will not pay or receive any finder's fee or commission in respect of the consummation of the transactions contemplated by this Agreement.

(r) Purchaser hereby agrees and acknowledges that it has been informed of the following: (i) there are factors relating to the subsequent transfer of any of the Securities or shares of Common Stock underlying the Notes and Warrants that could make the resale of such Securities or shares of Common Stock underlying the Notes and Warrants difficult; and (ii) there is no guarantee that the Purchaser will realize any gain from the purchase of the Securities. The purchase of the Securities involves a high degree of risk and is subject to many uncertainties. These risks and uncertainties may adversely affect the Company's business, operating results and financial condition. In such an event, the trading price for the Common Stock could decline substantially and Purchaser could lose all or part of its investment. Purchaser is urged to review the risks identified under the Risk Factors section of Issuer's Form 10-K for the year ended December 31, 2014, as filed with the SEC on March 16, 2015.

(s) Purchaser understands and acknowledges that the Notes have an implied annual interest rate of 10%, inasmuch as the Notes will be issued and paid in an amount equal to 110% of the Commitment, except that if a Note is not paid on the Maturity Date, which is twelve (12) months from the date of issue of the Note, then the balance of the unpaid amount of the Note shall be increased by 10% and the Issuer shall then commence paying interest thereon at the rate of 10% per annum until all sums due under the Note are paid.

3. Issuer's Representations, Warranties and Covenants. The Issuer represents and warrants to the Purchaser that:

(a) The Issuer is a corporation duly organized and validly existing in good standing under the laws of the State of Nevada, and has the requisite corporate power and authorization to own its properties and to carry on its business as now being conducted.

(b) (i) The Issuer has the requisite corporate power and authority to enter into and perform this Agreement, and each of the other agreements entered into by the parties hereto in connection with the transactions contemplated by the Transaction Documents, and to issue the Notes and Warrants in accordance with the terms hereof and thereof.

(ii) the execution and delivery of the Transaction Documents by the Issuer and the consummation by it of the transactions contemplated hereby and thereby, including without limitation the reservation for issuance and the issuance of the Notes and Warrants pursuant to this Agreement, have been duly and validly authorized by the Issuer's Board of Directors and no further consent or authorization is required by the Issuer, its Board of Directors, or its shareholders.

(iii) The Transaction Documents have been duly and validly executed and delivered by the Issuer.

(iv) The Transaction Documents, and each of them, constitutes the valid and binding obligation of the Issuer enforceable against the Issuer in accordance with their respective terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies.

(c) The execution, delivery and performance of the Transaction Documents by the Issuer and the consummation by the Issuer of the transactions contemplated thereby will not conflict with or constitute a default under any agreement or instrument to which the Issuer is a party or under any organizational documents of the Purchaser.

4. Closing and Deliverables.

(a) Subject to the provisions of Section 4(b) below, provided that the Issuer shall have received on or prior to December 31, 2015, (but the Company has the option to extend this date to January 31, 2016), copies of this Agreement executed by Purchaser, there shall be a closing or closings (each, a "Closing Date") at which:

(i) Purchaser shall deliver to the Issuer immediately available funds, by check or by wire transfer (bank wiring instructions to be provided by Issuer on request) in an amount equal to the amount of the Purchaser's Commitment as set forth beside the name of the Purchaser on the Purchaser's signature page hereto. Funds paid to Issuer under this Agreement will be deposited in Issuer's operating account and used as working capital.

(ii) The Issuer shall deliver to the Purchaser (x) a Note, in the face amount equal to 110% of the Purchaser's Commitment and (y) a Warrant to purchase the exercisable amount of the Issuer's Common Stock at the Exercise Price. The Note and Warrant will be dated as of the Closing Date, as such date may be extended by us.

(b) The Issuer may continue to accept Commitments from Purchasers and issue and sell Securities to Purchasers at Closings on the terms and subject to the conditions set forth in this Agreement until (i) the aggregate amount of the Commitments equals $5,000,000 or (ii) on or before December 31, 2015, but the Company has the option to extend this date to January 31, 2016, whichever shall first occur.

5. Miscellaneous.

(a). Each party shall pay the fees and expenses of its own advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of the Transactions Documents.

(b) This Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party; provided that a facsimile signature or signature transmitted by e-mail shall be considered due execution and shall be binding upon the signatory thereto with the same force and effect as if the signature were an original signature.

(c) The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement. Whenever required by the context of this Agreement, the singular shall include the plural and neutral shall include the masculine and feminine.

(d) If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction.

(e) This Agreement and the Notes and Warrants represent the final agreement between the Purchasers and the Issuer with respect to the terms and conditions set forth herein, and, the terms of this Agreement and the Notes and Warrants may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. No provision of this Agreement and the Notes and Warrants may be amended other than by an instrument in writing signed by the Purchaser and the Issuer, and no provision hereof or thereof may be waived other than by an instrument in writing signed by the party against whom enforcement is sought.

(f) Any notices or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one (1) day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Issuer:

QS Energy, Inc.
735 State Street, Suite 500
Telephone: 805-845-3581
Facsimile: 805-845-4377

If to a Purchaser:

To the address set forth on the Purchaser's signature page hereto.

Each party shall provide five (5) days prior written notice to the other party of any change in address or facsimile number.

(g) This Agreement may not be assigned by Purchaser.

(h) This Agreement is intended for the benefit of the parties hereto and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

(i) The representations and warranties of the Purchaser and the Issuer contained herein shall survive each of the Closings and the termination of this Agreement and the other Transaction Documents.

(j) The Purchaser and the Issuer shall consult with each other in issuing any press releases or otherwise making public statements with respect to the transactions contemplated hereby, except that no consultation shall be required if such disclosure is required by law or the rules and regulations of the SEC.

(k). Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby.

(l) The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party, as the parties mutually agree that each has had a full and fair opportunity to review this Agreement and the other Transaction Documents and seek the advice of counsel on it and them.

(m) The Purchaser and the Issuer each shall have all rights and remedies set forth in this Agreement and all rights and remedies which such holders have been granted at any time under any other agreement or contract and all of the rights which the Purchaser has by law. Any person having any rights under any provision of this Agreement shall be entitled to enforce such rights specifically (without posting a bond or other security), to recover damages by reason of any default or breach of any provision of this Agreement, including the recovery of reasonable attorneys' fees and costs, and to exercise all other rights granted by law.

(n) This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed wholly within such state.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF the Purchasers and the Issuer have executed this Agreement as of the date first above written.

THE ISSUER

QS ENERGY, INC.

By: /s/ Greggory Bigger
Greggory Bigger
Its: Chief Executive Officer

THE PURCHASER

_____	_____
Name (signature)	Amount of Commitment (U.S. Dollars)
_____	_____
Print Name	Date
_____	
Address	
_____	
Address	
_____	
Phone Number	
_____	
Fax Number	
_____	
Social Security Number	
_____	
E-mail Address	

CONVERTIBLE NOTE

THE SECURITIES EVIDENCED BY THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR QUALIFIED FOR SALE UNDER ANY STATE SECURITIES LAWS (COLLECTIVELY, "SECURITIES LAWS") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED FOR SALE UNDER ALL APPLICABLE SECURITIES LAWS OR UNLESS, IN THE OPINION OF COUNSEL SATISFACTORY TO THE ISSUER, IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, ANY SUCH OFFER, SALE OR OTHER TRANSFER IS EXEMPT FROM THE REGISTRATION OR QUALIFICATION REQUIREMENTS OF SUCH SECURITIES LAWS.

$_____ _____, 2015 ("Issuance Date")

FOR VALUE RECEIVED, **QS ENERGY, INC.**, a corporation organized under the laws of the State of Nevada (the "Company"), promises to pay to the order of _____ "Investor", as that term is defined on the Acknowledgement and Acceptance page of this Convertible Note ("Note") (hereafter, together with any subsequent holder hereof, called "Holder"), at "Investor's Address," as that term is set forth on such page or at such other place as Holder may direct, the amount noted above, payable in full Twelve (12) Months from the Issuance Date (the "Maturity Date").

If this Note is not paid in full on or prior to the Maturity Date the remaining balance shall be increased by 10% and the Company shall pay interest thereon at the rate of 10% per annum until all sums due hereunder are paid in full.

Payments of both principal and interest will be made in immediately available funds in lawful money of the United States of America to the Holder at the Investor's Address.

This Note is subject to the following additional provisions:

1. The Company shall be entitled to withhold from all payments of principal and/or interest of this Note any amounts required to be withheld under the applicable provisions of the U.S. Internal Revenue Code of 1986, as amended, or other applicable laws at the time of such payments.

2. This Note has been issued subject to representations, warranties and covenants of the original Holder hereof as contained in that certain Securities Purchase Agreement ("Agreement") of even date herewith, and subject to all restrictions, terms, conditions and disclosures in the Agreement, and may be transferred or exchanged only in compliance with the Securities Act of 1933, as amended, and applicable state and other securities laws. Prior to the due presentment for such transfer of this Note, the Company and any agent of the Company may treat the person in whose name this Note is duly registered on the Company's Note register as the owner hereof for the purpose of receiving payment as herein provided and all other purposes, whether or not this Note is overdue, and neither the Company nor any such agent shall be affected by notice to the contrary. The transferee shall be bound, as the original Holder, by the same representations and terms described herein and under the Agreement.

3. The Holder may, at such Holder's option, at any time while any sums are outstanding and unpaid hereunder, convert the then-outstanding principal amount of this Note or any portion thereof, and any interest and any penalties accrued and unpaid thereon (the "Conversion Amount"), _____ (#) into a number shares of fully paid and nonassessable Common Stock of the Company (the "Conversion Shares") pursuant to the following formula: the Conversion Amount divided by $0.10 (the "Conversion Price"). The Holder may exercise the right to convert all or any portion of the Conversion Amount by delivering to the Company (i) an executed and completed notice of conversion in the form attached to this Note (the "Notice of Conversion") to the Company and (ii) this Note. The business day on which a Notice of Conversion and this Note are delivered to the Company in accordance with the provisions hereof shall be deemed a "Conversion Date." The Company will transmit the certificates representing Conversion Shares issuable upon such conversion of this Note to the Holder via express courier within a reasonable time after the Conversion Date. No fractional shares shall be issued upon conversion of this Note. The amount of any of the Conversion Amount which is less than a whole share of Common Stock shall be paid to the Holder in cash. Any delay due to such circumstance shall not be an event of default under this Note.

4. The principal amount of this Note, and any accrued interest thereon, shall be reduced as per that principal amount indicated on the Notice of Conversion upon the proper receipt by the Holder of such Conversion Shares due upon such Notice of Conversion.

5. The number of Conversion Shares shall be adjusted as follows:

a. If the Company shall at any time after the Issuance Date subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock, the number of Conversion Shares in effect immediately prior to such subdivision shall be proportionately increased, and conversely, in case the outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Conversion Price in effect immediately prior to such combination shall be proportionately reduced.

b. If the Company shall at any time or from time to time after the Issuance Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the number of Conversion Shares issuable upon conversion of this Note shall be proportionately increased; provided, however, that if such record date is fixed and such dividend is not fully paid, or if such distribution is not fully made on the date fixed therefor, the number of Conversion Shares shall be recomputed to reflect that such dividend was not fully paid or that such distribution was not fully made.

c. If Company at any time or from time to time after the Issuance Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of Company other than shares of Common Stock, then and in each such event provision shall be made so that Holder shall receive upon exercise of the conversion right of this Note, in addition to the number of shares of Common Stock receivable thereupon, the amount of securities of Company which Holder would have received had the Conversion Amount of this Note been exercised on the date of such event and had it thereafter, during the period from the date of such event to and including the date of conversion or purchase, retained such securities receivable during such period.

d. If the Common Stock issuable upon the conversion of this Note or option to purchase is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than a transaction described elsewhere in Section 5 of this Note), then, and in any such event, each Holder shall have the right thereafter, upon conversion of this Note or purchase pursuant to option to receive the kind and amount of stock and other securities and property receivable upon such reorganization or other change, in an amount equal to the amount that Holder would have been entitled to had it immediately prior to such reorganization, reclassification or change converted this Note, but only to the extent this Note is actually converted, all subject to further adjustment as provided herein.

6. No provision of this Note shall alter or impair the obligation of the Company, which is absolute and unconditional, upon an Event of Default (as defined below), to pay the principal of, and interest on this Note at the place, time, and rate, and in the coin or currency herein prescribed.

a. Events of Default. Each of the following occurrences is hereby defined as an “Event of Default:”

Nonpayment. The Company shall fail to make any payment of principal, interest, or other amounts payable hereunder when and as due; or

Dissolutions, etc. The Company or any subsidiary shall fail to comply with any provision concerning its existence or any prohibition against dissolution, liquidation, merger, consolidation or sale of assets; or

Noncompliance with this Agreement. The Company shall fail to comply in any material respect with any provision hereof, which failure does not otherwise constitute an Event of Default; or

Insolvency. The institution of bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against Company, which proceedings shall not have been vacated by appropriate court order within sixty (60) days of such institution.

If one or more "Events of Default" shall occur, then, or at any time thereafter, and in each and every such case, unless such Event of Default shall have been waived in writing by the Holder (which waiver shall not be deemed to be a waiver of any subsequent default) or cured as provided herein, at the option of the Holder, and in the Holder's sole discretion, the Holder may elect to consider this Note (and all interest through such date) immediately due and payable. In order to so elect, the Holder must deliver written notice of the election and the amount due to the Company via certified mail, return receipt requested, at the Company's address as set forth herein (or any other address provided to the Holder), and thereafter the Company shall have thirty (30) business days upon receipt to cure the Event of Default or pay this Note, or convert the amount due on the Note pursuant to the conversion formula set forth above.

7. In case any provision of this Note is held by a court of competent jurisdiction to be excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, so that it is enforceable to the maximum extent possible, and the validity and enforceability of the remaining provisions of this Note will not in any way be affected or impaired thereby.

8. This Note does not entitle the Holder hereof to any voting rights or other rights as a shareholder of the Company prior to the conversion into Common Stock thereof, except as provided by applicable law. If, however, at the time of the surrender of this Note and conversion the Holder hereof shall be entitled to convert this Note, the Conversion Shares so issued shall be and be deemed to be issued to such holder as the record owner of such shares as of the close of business on the Conversion Date.

9. The Holder shall pay all issue and transfer taxes and other incidental expenses in respect of the issuance of certificates for Conversion Shares upon the conversion of this Note, and such certificates shall be issued in the name of the Holder of this Note.

10. This Note may be prepaid in whole or in part at any time or from time to time without premium or penalty upon 10 days' prior written notice from the Company to the Holder.

11. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Note, and in case of loss, theft or destruction of this Note, upon delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of such Note, and upon reimbursement to the Company of all reasonable expenses incidental thereto, the Company will make and deliver to the Holder, in lieu thereof, a new Note in substantially identical form.

12. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday in the United States or the State of California, then such action may be taken or such right may be exercised on the next succeeding business day.

13. (a) This Note shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed wholly within such state.

(b) Except as otherwise provided herein, any notice or demand which, by the provisions hereof, is required or which may be given to or served upon the parties hereto shall be in writing and, if by e-mail or facsimile transmission, shall be deemed to have been validly served, given or delivered when sent, and if by personal delivery, shall be deemed to have been validly served, given or delivered upon actual delivery and, if mailed, shall be deemed to have been validly served, given or delivered three (3) business days after deposit in the United States mails, as registered or certified mail, with proper postage prepaid and addressed to the party or parties to be notified.

(c) The Holder acknowledges that the Conversion Shares acquired upon the exercise of this Note will have restrictions upon its resale imposed by state and federal securities laws, together with other restrictions, terms, conditions and disclosures as fully set forth in the Agreement.

(d) With regard to any power, remedy or right provided herein or otherwise available to any party hereunder (i) no waiver or extension of time shall be effective unless expressly contained in a writing signed by the waiving party; and (ii) no alteration, modification or impairment shall be implied by reason of any previous waiver, extension of time, delay or omission in exercise, or other indulgence.

(e) This Note may not be amended, altered or modified except by a writing signed by the Company and the Holder.

IN WITNESS WHEREOF, the Company has caused this Convertible Note to be duly executed by an officer thereunto duly authorized.

QS ENERGY, INC.
735 State Street, Suite 500
Santa Barbara, CA 93101

By /s/ Greggory Bigger
Name: Greggory Bigger
Title: Chief Executive Officer

ACKNOWLEDGED AND ACCEPTED:

_____
Investor Name (Signature)

_____
Print Name

_____

_____
Investor Address

NOTICE OF EXERCISE OF CONVERSION RIGHT

TO: (Company Name)

(1) The undersigned hereby elects to convert $_____ of the attached Note into _____ shares of Common Stock (the "Shares") of QS Energy, Inc. (“Company”) pursuant to the terms of the attached Note.

(2) Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)

Address:
_____
_____
_____

(3) The undersigned confirms that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or selling the Shares.

(4) The undersigned accepts such shares subject to the restrictions on transfer and other terms, conditions and disclosures set forth in the attached Note and set forth in that certain Securities Purchase Agreement between the Company and the undersigned dated as of the date of the attached Note.

_____ _____
(Date) (Signature)

_____
(Print Name)

STOCK PURCHASE WARRANT

THIS WARRANT AND ANY SHARES ISSUED UPON ITS EXERCISE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF* 1933, *AS AMENDED (THE "ACT"), AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISPOSITION OF ANY SHARES ISSUED UPON EXERCISE HEREOF MAY BE AFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL SATISFACTORY IN FORM AND SUBSTANCE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE ACT. THE TRANSFER OF THIS WARRANT IS RESTRICTED AS SET FORTH HEREIN.

No. _____ _____, 2015

QS ENERGY, INC.
WARRANT TO PURCHASE COMMON STOCK

VOID AFTER 5:00 P.M. (Pacific Time) ON _____, 2016

THIS CERTIFIES that, for the value received, the holder identified on the last page of this Warrant _____ (the "Holder") is entitled, upon the terms and subject to the conditions hereinafter set forth, at any time on or after the date of this Warrant and on or prior to 5:00 p.m. P.S.T. on the first anniversary of the date of this Warrant (the "Expiration Time"), but not thereafter, to subscribe for and purchase, from QS ENERGY, INC., a Nevada corporation (the "Company"), up to _____ (#) shares of the Company's Common Stock (the "Shares") at a purchase price per share equal to $0.10 (the "Exercise Price").

1. Exercise of Warrant.

The purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, at any time after the date of this Warrant and before the Expiration Time by the surrender of this Warrant and the Notice of Exercise annexed hereto duly executed at the office of the Company, in Santa Barbara, California (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company), and upon payment of an amount equal to the aggregate Exercise Price for the number of Shares thereby purchased (by cash or by check or certified bank check payable to the order of the Company in an amount equal to the purchase price of the shares thereby purchased); whereupon the Holder shall be entitled to receive a stock certificate representing the number of Shares so purchased. The Company agrees that if at the time of the surrender of this Warrant and purchase of the Shares, and the Holder shall be entitled to exercise this Warrant, the Shares so purchased shall be and be deemed to be issued to such holder as the record owner of such Shares as of the close of business on the date on which this Warrant shall have been exercised as aforesaid.

Upon partial exercise of this Warrant, the Holder shall be entitled to receive from the Company a new Warrant in substantially identical form for the purchase of that number of Shares as to which this Warrant shall not have been exercised. Certificates for Shares purchased hereunder shall be delivered to the Holder within a reasonable time after the date on which this Warrant shall have been exercised as aforesaid.

2. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon the exercise of this Warrant, an amount equal to such fraction multiplied by the Exercise Price shall be paid in cash to the Holder.

3. Charges, Taxes and Expenses. The Holder shall pay all issue and transfer taxes and other incidental expenses in respect of the issuance of certificates for Shares upon the exercise of this Warrant, and such certificates shall be issued in the name of the Holder of this Warrant.

4. No Rights as a Stockholder. This Warrant does not entitle the Holder to any voting rights or other rights as a stockholder of the Company prior to the exercise hereof.

5. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in case of loss, theft or destruction of this Warrant, upon delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, and upon reimbursement to the Company of all reasonable expenses incidental thereto, the Company will make and deliver to the Holder, in lieu thereof, a new Warrant in substantially identical form and dated as of such cancellation.

6. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday in the United States or the State of California, then such action may be taken or such right may be exercised on the next succeeding business.

7. Merger, Reclassification, etc.

(a) Merger, etc. If at any time the Company proposes (A) the acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any reorganization, merger, consolidation or stock issuance) that results in the transfer of fifty percent (50%) or more of the then outstanding voting power of the Company; or (B) a sale of all or substantially all of the assets of the Company, then the Company shall give the Holder ten (10) days notice of the proposed effective date of the transaction. If, in the case of such acquisition of the Company, and the Warrant has not been exercised by the effective date of the transaction, this Warrant shall be exercisable into the kind and number of shares of stock or other securities or property of the Company or of the entity resulting from such merger or acquisition to which such Holder would have been entitled if immediately prior to such acquisition or merger, it had exercised this Warrant. The provisions of this Section 7(a) shall similarly apply to successive consolidations, mergers, sales or conveyances.

(b) Reclassification, etc. If the Company at any time shall, by subdivision, combination or reclassification of securities or otherwise, change any of the securities to which purchase rights under this Warrant exist into the same or a different number of securities of any class or classes, this Warrant shall thereafter be to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities which were subject to the purchase rights under this Warrant immediately prior to such subdivision, combination, reclassification or other change. If the Shares are subdivided or combined into a greater or smaller number of Shares, the Exercise Price under this Warrant shall be proportionately reduced in case of subdivision of shares or proportionately increased in the case of combination of shares, in both cases by the ratio which the total number of Shares to be outstanding immediately after such event bears to the total number of Shares outstanding immediately prior to such event.

(c) Cash Distributions. No adjustment on account of cash dividends or interest on the Shares or other securities purchasable hereunder will be made to the Exercise Price under this Warrant.

8. Restrictions on Transfer.

(a) Restrictions on Transfer of Shares. In no event will the Holder make a disposition of this Warrant or the Shares unless and until, if requested by the Company, it shall have furnished the Company with an opinion of counsel satisfactory to the Company and its counsel to the effect that appropriate action necessary for compliance with the Securities Act of 1933, as amended (the "Act") relating to sale of an unregistered security has been taken. Notwithstanding the foregoing, the restrictions imposed upon the transferability of the Shares shall terminate as to any particular Share when (i) such security shall have been sold without registration in compliance with Rule 144 under the Act, or (ii) a letter shall have been issued to the Holder at its request by the staff of the Securities and Exchange Commission or a ruling shall have been issued to the Holder at its request by such Commission stating that no action shall be recommended by such staff or taken by such Commission, as the case may be, if such security is transferred without registration under the Act in accordance with the conditions set forth in such letter or ruling and such letter or ruling specifies that no subsequent restrictions on transfer are required, or (iii) such security shall have been registered under the Act and sold by the Holder thereof in accordance with such registration.

(b) Subject to the provisions of Section 8(a) hereof, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of the Warrant with a properly executed assignment at the principal office of the Company.

(c) Restrictive Legends. The stock certificates representing the Shares and any securities of the Company issued with respect thereto shall be imprinted with legends restricting transfer except in compliance with the terms hereof and with applicable federal and state securities laws substantially as follows:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND MAY NOT BE SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 OR AN OPINION OF COUNSEL SATISFACTORY TO THE ISSUER OF THIS CERTIFICATE THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT".

9. Miscellaneous.

(a) Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed wholly within such state.

(b) Restrictions. The Holder acknowledges that the Shares acquired upon the exercise of this Warrant will have restrictions upon its resale imposed by state and federal securities laws.

(c) Waivers Strictly Construed. With regard to any power, remedy or right provided herein or otherwise available to any party hereunder (i) no waiver or extension of time shall be effective unless expressly contained in a writing signed by the waiving party; and (ii) no alteration, modification or impairment shall be implied by reason of any previous waiver, extension of time, delay or omission in exercise, or other indulgence.

(d) Modifications. This Warrant may not be amended, altered or modified except by a writing signed by the Company and the Holder of this Warrant.

IN WITNESS WHEREOF, QS ENERGY, INC. has caused this Warrant to be executed by its duly authorized representative dated as of the date first set forth above.

Holder:

_____

QS ENERGY, INC.
735 State Street, Suite 500
Santa Barbara, CA 93101

By: /s/ Greggory Bigger
Name: Greggory Bigger
Title: Chief Executive Officer

NOTICE OF EXERCISE

TO: QS ENERGY, INC., a Nevada corporation

(1) The undersigned hereby elects to purchase _____ shares of Common Stock (the "Shares") of QS Energy, Inc. (“Issuer”) pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price in full, together with all applicable transfer taxes, if any.

(2) Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)

Address:

_____

_____

_____

(3) The undersigned confirms that he is an “accredited investor” as defined by Rule 501(a) under the Securities Act of 1933, as amended, at the time of execution of this Notice.

(4) The undersigned confirms that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or selling the Shares.

(5) The undersigned accepts such Shares subject to the restrictions on transfer set forth in the attached Warrant.

(6) The undersigned acknowledges that the Issuer has given it access to all information relating to the Issuer’s business that the undersigned has requested. The undersigned has reviewed all materials relating to the Issuer’s business, financial condition and operations which it has requested and the undersigned has reviewed all of such materials as the undersigned, in the undersigned’s sole and absolute discretion has deemed necessary or desirable. The undersigned has had an opportunity to ask questions of and discuss the business, management and financial affairs of the Issuer with the Issuer’s management. Specifically but not by way of limitation, the undersigned acknowledges the Issuer’s publicly available filings made periodically with the SEC, which filings are available at www.sec.gov, and which filings the undersigned acknowledges reviewing or having had the opportunity of reviewing.

(7) The undersigned acknowledges that it has, by reason of its business and financial experience, such knowledge, sophistication and experience in financial and business matters and in making investment decisions of this type that it is capable of (i) evaluating the merits and risks of an investment in the Shares and making an informed investment decision in connection therewith; (ii) protecting its own interest; and (iii) bearing the economic risk of such investment for an indefinite period of time for shares which are not transferable or freely tradable. The undersigned hereby agrees to indemnify the Issuer and the officers, directors and employees thereof harmless against all liability, costs or expenses (including reasonable attorneys’ fees) arising by reason of or in connection with any misrepresentation or any breach of warranties or representations of the undersigned contained in this Notice, or arising as a result of the sale or distribution of the Shares issuable upon exercise of the Warrants. The representations and warranties contained herein shall be binding upon the heirs, legal representatives, successors and assigns of the undersigned.

_____
(Signature)

_____
(Date)

_____
(Print Name)

Exhibit 10.120

SECOND AMENDMENT TO EMPLOYMENT AGREEMENT

This Second Amendment to Employment Agreement (the "2nd Amendment") is made and entered into by and between QS Energy, Inc. (the "Company") and Greggory M. Bigger ("Executive"), effective as of March 10, 2016 (the "2nd Amendment Effective Date"), with reference to the following:

RECITALS

A. Effective as of February 1, 2012, the Company and Executive entered into that certain Employment Agreement (the "Employment Agreement");

B. Effective as of September 1, 2013, the Company and Executive entered into that certain First Amendment to Employment Agreement (the "1st Amendment");

C. It is the desire of the Company and Executive to amend the Employment Agreement again, pursuant to the terms and conditions of this 2nd Amendment, effective as of the 2nd Amendment Effective Date.

NOW, THEREFORE, the parties hereto agree further to amend the Employment Agreement, as follows: (All capitalized terms used herein shall have the meanings ascribed to such terms in the Employment Agreement.)

I. Section 1 of the Employment Agreement is hereby amended and restated as follows:

Effective Date and Term. Unless sooner terminated as provided in this Agreement, including as a result of the Company's early termination of this Agreement as provided in Section 4 below, the Company shall continue to employ Executive for an initial term commencing on March 10, 2016 (the "Effective Date"), and continuing thereafter until the close of business on the day immediately preceding the third anniversary of the Effective date (the "Expiration Date"). This Agreement shall in all respects terminate on the Expiration Date, except for those obligations of either party that are expressly stated to continue after such time or by nature will continue after such time. The period beginning on the Effective Date and ending on the earlier of the Expiration Date or the date Executive's employment under this Agreement actually terminates is referred to as the "Term." No less than ninety (90) days prior to the Expiration Date, the Company and the Executive hereby undertake to meet and negotiate a mutually acceptable extension of the Expiration Date.

II. If there are any inconsistencies between the Employment Agreement and the 1st Amendment and the terms and conditions of this 2nd Amendment, the terms and conditions of this 2nd Amendment shall control.

III. Except for the changes set forth in this 2nd Amendment, all terms and conditions in the Employment Agreement and 1st Amendment shall remain unchanged and in full force and effect.

Executed effective as of the 2nd Amendment Effective Date.

QS ENERGY, INC.

By: /s/ MARK STUBBS
Mark Stubbs,
Director and Chairman of the Audit Committee, on behalf of the Board of Directors

/s/ GREGGORY M. BIGGER
Greggory M. Bigger

Exhibit 10.121

AMENDMENT NO. 1

THIS Amendment No. 1 (hereinafter the "Amendment") to the Sponsored Research Agreement effective March 19, 2013 (hereinafter the "Agreement") between Save The World Air, Inc. ("Sponsor") and Temple University—Of The Commonwealth System of Higher Education ("University") is now agreed to by the parties as follows:

WHEREAS, the parties wish to replace the original scope-of-work and budget as described in "Appendix A" of the Agreement with "Exhibit A" (Revised Scope of Work and Budget) attached hereto.

WHEREAS, the Revised Scope of Work and Budget in Exhibit A is the result of the parties' decision to redirect efforts to support testing related to the technology licensed by University to Sponsor, which was not in the Agreement scope of work;

WHEREAS, the parties wish to continue research on the originally agreed-upon Agreement scope-of-work while establishing a process for Sponsor to request additional support related to the technology licensed by University to Sponsor;

WHEREAS, the parties wish to reaffirm the terms of the original Agreement which protect Proprietary Information between the parties;

NOW, THEREFORE, in consideration of the premises and mutual covenants set forth below, the parties hereto agree to the following:

1. The revision to the original scope-of-work and budget in Appendix A of the Agreement: The project shall include additional activities ("Licensed Product Support") related to continued testing and development of intellectual property licensed to Sponsor by University, which is otherwise beyond the original scope-of-work related to new technology development (hereinafter "Research"). Such additional Licensed Product Support shall be described in the Revised Scope of Work and Budget.
2. The Agreement is amended by replacing Appendix A of the Agreement with Exhibit A (Revised Scope-of-Work and Budget) attached to this Amendment.
3. Amendment to Article 2 of the Agreement, Period of Performance: Temple, in order to meet the new demands of the Licensed Product Support, will require an extension to the Period of Performance, as defined in Article 2 of the Agreement.
4. The Agreement is amended by extending the end date of the Period of Performance from April 1, 2014, to August 31, 2015.
5. Agreement Article 5, Fiscal Considerations: Prior Licensed Product Support has resulted in an additional cost of Two Hundred Forty One Thousand Four Hundred and Eight U.S. Dollars ($241,408.00). Payment of such amount shall be made in two consecutive steps. The first payment has been made in the amount of One Hundred Thousand U.S. Dollars ($100,000.00) and is duly acknowledged by Temple. The second payment in the amount One Hundred Forty One Thousand Four Hundred Eight U.S. Dollars ($141,408.00) shall be made within ten (10) signature days of this Agreement. Thereafter, Sponsor shall make payments according to the quarterly Payment Schedule in Exhibit A to support the Research. The parties mutually agree that any and all additional accrual(s) from April 1, 2013, owed to Temple, will be suspended until ten (10) days after the last signature date of this Agreement. For any remaining balance from any prior research agreement, currently estimated at Two Hundred Fifty Eight Thousand Five Hundred Ninety Two U.S. Dollars ($258,592.00), such balance shall be paid over an eight fiscal quarter period, to begin on September 1, 2013, and in accordance with such event, the principal investigator, Rongjia Tao, shall provide monthly reports no later than the beginning of each following month.

6. Article 5, Fiscal Considerations: If additional Licensed Product Support is requested by Sponsor during the Period of Performance and is not included in die Revised Scope of Work and Budget, such Licensed Product Support requests shall be made to University and approved in writing using the form in Exhibit B attached hereto and payment shall be made by Sponsor to University according to the terms set forth in Section 5.1 of the Agreement.
7. The parties agree that any future work not specifically defined in Exhibit A, shall be mutually agreed to, in writing, through an amendment to the Agreement, or through a Licensed Product Support Request (Exhibit B) prior to the initiation of any work and that University will provide timely monthly reports, at least every thirty (30) days, to ensure that the Research or Licensed Product Support is progressing timely and as mutually agreed to. Reports concerning the Research or Licensed Product Support shall be delivered by University to Sponsor using the Report Template as provided in Exhibit C.
8. The parties acknowledge that University personnel funded by Sponsor will not engage in competitive research related to Sponsor's business activities.
9. All business development activity related to Research, conducted by University on behalf of Sponsor, shall be solely directed for the benefit of Sponsor.
10. University acknowledges and agrees that all researchers working for University on the Research supported by Sponsor shall continue to be bound by all terms of the Agreement not amended hereto, specifically the terms regarding Confidentiality.

The parties having agreed to modify the Agreement through the aforementioned terms and now manifest their intent to execute such amended terms by their respective signatures below:

Temple University - Of The Commonwealth System of Higher Education

_____

Kenneth **H.** Kaiser Date
Vice-president, Human Resources and Finance

Acknowledged and Agreed

_____

Rongjia Tao, Ph.D. Date
Principal Investigator

Save The World Air, Inc.

/s/ Cecil Bond Kyte

Cecil Bond Kyte Date
Chief Executive Officer, Save The World Air, Inc.

Exhibit A

Revised Scope-of-Work and Budget

Licensed Product Support.

(1) **The mesh screen hole size.** In this project, we will investigate how big holes we can have on the screen. The finite element calculation shows that with proper spacing for the grid screens such as in Fig.1, the pressure loss from the grids is moderate. For a heavy crude oil with viscosity 210 cSt, moving at 5ft/s in 6-in diameter pipeline, the pressure loss is 0.26Psi per screen. For a device with 41 screens, the pressure loss is about 10.66 psi, moderate. For the screen in Fig.1, the rocks with diameters less than 0.3125in (0.793cm) should have no problem to pass the device.

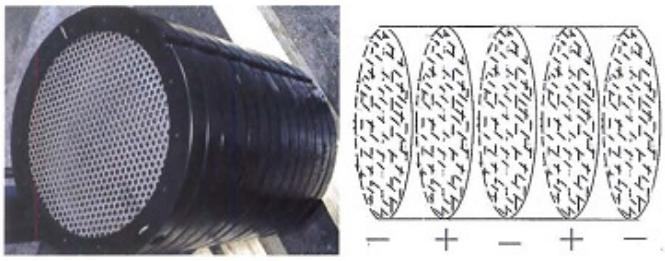


Fig.1, (a) The grid pack of the first AOT device. (b) The outline of the arrangement of electrodes.

With increasing the size of screen holes, the pressure loss will be further reduced. On the other hand, the electric field will become non-uniform. Therefore, we need to study how the electric field is affected by large screen holes. Through this study, we should be able to find the best screen design for our device.

(2) **Reducing the current through our device.** During our lab tests and field tests, we have found that the current in our high voltage device is very small for most crude oil. However, for some crude oil, the current is quite high once the high voltage power supply is turned on. This is because that the crude oil contains some metallic particles or high concentration of water. We need to find a way to reduce the current even with such crude oils. We have carried out some new design of electrodes. Some of them are working. We need to carry out thorough study about this issue, which is very important for our technology.

(3). **Ring Electrodes.** In addition, we will explore the alternative design of the viscosity reduction device: use rings for the electrodes. The new design is illustrated in Fig. 3. The electric field is produced by a set of rings, instead of screens. It is clear that the issue to jam the crude oil is disappeared with the rings. However, there are many important questions to be answered for this design before it can be applied on the device.

bA CK

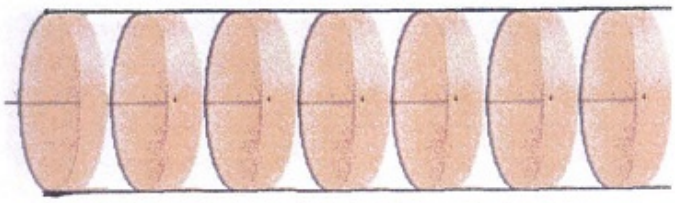


Fig.3. The ring system for the viscosity reduction device.

First, we need to find the electric field between the rings, inside the device. For a device with metallic screens as shown in Fig.2, the electric field is quite uniform between the screens. Therefore, the required voltage to be applied on the electrodes is easy to determine. For a device made of rings, the electric field will not be uniform inside the device: it will be stronger at some places than that at other places. In addition, the electric field strength is not a simple function of the gap between the two neighboring rings. The ring's width and the ring's diameter also affect the electric field inside the device. Therefore, in this project, we will investigate how the electric field distribution inside the device is related to the gap between the neighboring rings, the ring width, and the ring diameter.

Second, we also need to find the electric field outside the device, i.e. outside the pipeline. For a device in Fig.2, the electric field outside the device is negligible; therefore, the device is safe. For the ring device in Fig.4, there is certainly an electric field outside the pipeline. Therefore, we need to determine it and relate it to the safety of our device.

We will carry out both experimental research and theoretical/numerical research to investigate this issue.

Budget.

The project will be for two years, $258,592.
Period of Performance: 9/1/2013 – 8/31/2015

Labor Costs:	120,928
Fringe Benefits:	29,323
Travel:	7,000
Lab Supplies:	11,763
Indirect Costs (Overhead):	89,578
Total:	$258,592

Payment Schedule
Payments of $32,344 shall be due to Temple on the first day of each quarter, starting September 1, 2013.

BD CK

Exhibit B

Licensed Product Support Request

Licensed Product Support ("Support") to be conducted by University at the request of Sponsor is descried as follows:

University Budget to perform Support is included below.

Total	Salary	Travel	Equipment Development	Data analysis	Sample Testing

SPONSOR ACKNOWLEDGES AND AGREES THAT UNIVERSITY HAS MADE NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO, WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. SPONSOR AGREES THAT RESEARCH IS BEING OFFERED ON AN "AS IS", "WHERE IS" BASIS, AND UNIVERSITY DOES NOT MAKES ANY WARRANTY AS TO ITS USE OR PERFORMANCE.

Both University and Sponsor agree that Support is to be performed on strict guidelines restricted to time and budget, as identified herein. As such, both parties agree that should any additional work be required beyond the scope of Support stated herein, the parties will engage in mutually agreeable discussion(s) to allow for additional sources of funding for any additional work that is to be performed beyond the scope of Support.

Acknowledged and agreed by:

Kenneth H. Kaiser Date
Senior Associate Vice President for Finance and Human Resources

8.20.13

Gregg Bigger Date
President & Chief Financial Officer, Save The World Air, Inc.

CK

Exhibit C

Report Template

CONFIDENTIAL REPORT

This Report must be submitted through an encrypted transmission

Completed by: Rongjia Tao, Ph.D. (PI)

Date Submitted:

Period of Activity:

Research Results Achieved:

Analysis of Research

Progress Toward Achieving Research Goals

Allocation of Efforts by PI and Personnel under PI's Direction

GB CR

TEMPLE
UNIVERSITY

SPONSORED
RESEARCH AGREEMENT

THIS AGREEMENT, effective this day of 19 March 2012, by and between Temple University – Of the Commonwealth System of Higher Education (hereinafter referred to as "University") and Save The World Air, Inc. , having a principal place of business at: 735 State Street, Suite 500, Santa Barbara, CA 93101 (hereinafter referred to as "Sponsor").

RECITALS:

1. The research program contemplated by this Agreement is of mutual interest and benefit to University and Sponsor, will further the multiple missions of University (instruction, Research, and Public Service) in a manner consistent with its status as a non-profit, tax-exempt, educational institution, and may derive benefits for Sponsor, University, and society by the advancement of science and engineering through discovery;

2. Sponsor has expressed a desire to engage University to create or enhance technologies that will assist in Sponsor's development and commercialization of new products and/or processes;

3. University's research capabilities reflect a substantial public investment which University, as a part of its mission, wishes to utilize in a cooperative and collaborative research effort with Sponsor in order to meet the above stated needs;

NOW, THEREFORE, in consideration of the premises and mutual covenants set forth below, the parties hereto agree to the following:

Article 1 – Definitions

As used herein, the following terms shall have the following meanings:

1.1 "Project" shall mean the research described in Appendix A hereof, under the direction of Dr. Rongjia Tao, Ph.D. (hereinafter referred to as "Principal Investigator").

1.2 "Intellectual Property" shall mean certain inventions and/or discoveries conceived and/or reduced to practice in performance of this Project and resulting in patents, divisions, continuations, or substitutions of such patent applications and all reissues thereof, upon which a University employee or agent is a named inventor.

1.3 "Proprietary Information" shall mean any written information and data marked proprietary or non-written information and data disclosed which is identified at the time of disclosure as proprietary and is reduced to writing and transmitted to the other party within sixty (60) days of such non-written disclosure.

Article 2 - Period of Performance

Period of performance shall be from April 1, 2012 to April 1, 2014 (hereinafter referred to as "Period of Performance").

Article 3 - Research Work

University shall commence the performance of Project on the first day of Period of Performance and shall use reasonable efforts to perform Project substantially in accordance with the terms and conditions of this Agreement.

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TEMPLE UNIVERSITY

Article 4 - Reports

Upon receipt by University of the fiscal consideration identified in Section 5, the Principal Investigator shall furnish Sponsor with subsequent quarterly reports regarding Project as specified in Appendix A.

Article 5 - Fiscal Considerations

5.1 This is a Sponsor-funded Agreement. Total cost to Sponsor shall not exceed Five Hundred Thousand Dollars ($500,000.00) and payable in quarterly installments of Sixty-Two Thousand and Five Hundred Dollars ($62,500.00) by Sponsor to University. Payments shall be made by Sponsor within thirty (30) days of receipt of monthly invoices.

5.2 University shall retain title to any equipment purchased with funds provided by Sponsor under this Agreement.

5.3 In the event of early termination of this Agreement pursuant to Article 10 hereof, Sponsor shall pay all existing costs and non-cancelable obligations incurred by University as of the date of termination.

Article 6 - Publicity

Neither party to this Agreement will use the name of the other party, nor of any member of the other party's employees, in any publicity, advertising, or news release without the prior written approval of an authorized representative of that party.

Article 7 - Publication

7.1 It is the purpose of this clause, in conjunction with Article 8 - Confidentiality, to balance Sponsor's need to protect commercially feasible technologies, products, or processes with University's public responsibility to freely disseminate scientific findings for the advancement of knowledge. University recognizes that the public dissemination of information based upon Research performed under this Agreement cannot contain Proprietary Information nor should it jeopardize Sponsor's ability to commercialize Intellectual Property developed hereunder. Further, University acknowledges that commercially sensitive information related to the design or composition of specified products or processes is not of general interest, while its confidentiality may be critical to the commercialization of said products or processes. Similarly, Sponsor recognizes that the scientific results of Project must be publishable and, subject to the confidentiality provisions of the Agreement, may be presented in forums such as symposia or international, national or regional professional meetings, or published in vehicles such as books, journals, websites, theses, or dissertations.

7.2 University agrees not to publish or otherwise disclose Proprietary Information. Sponsor agrees that University, subject to review by Sponsor, shall have the right to publish results of Project which are not proprietary to the design or composition of specified products or processes derived from Project. Sponsor shall be furnished copies of any proposed publication or presentation at least thirty (30) days before submission of such proposed publication or presentation. During that time, Sponsor shall have the right to review the material for Proprietary Information provided by Sponsor and to assess the patentability of any invention described in the material. If Sponsor decides that a patent application should be filed, the publication or presentation shall be delayed an additional sixty (60) days or until a patent application is filed, whichever is sooner. At Sponsor's request, Proprietary Information provided by Sponsor shall be deleted.

Article 8 - Confidentiality

8.1 Prior to disclosure of Proprietary Information to University by Sponsor, Sponsor shall notify Principal Investigator of its intent to disclose Proprietary Information; and Principal Investigator shall have the right to decline receipt of said information. Said Proprietary Information shall be sent only to Principal Investigator.

8.2 Each party to this Agreement agrees to treat Proprietary Information received from the other with the same degree of care with which it treats its own Proprietary Information and further agrees not to disclose such

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Proprietary Information to a third party without prior written consent from the party disclosing Proprietary Information.

8.3 The foregoing obligations of non-disclosure do not apply to Proprietary Information which:

(a) was known to the recipient prior to the disclosure hereunder;

(b) was received from a third party not under an obligation of confidence to recipient;

(c) is in the public domain at the time of disclosure hereunder or subsequently entered the public domain without the fault of the recipient;

(d) has been independently developed by a third party that has not had access directly or indirectly to Proprietary Information, and such third party can substantiate any claim of independent development by written evidence; or

(e) is required to be disclosed by law.

8.4 Unless otherwise agreed to in writing, neither party hereto shall have any obligation of confidentiality under this Agreement after the earliest of either the fifth anniversary of the conclusion of Period of Performance or termination in accordance with Article 10.

Article 9 - Intellectual Property

9.1 The purpose of this clause is to balance Sponsor's ability to reasonably exploit, with due competitive advantage, the commercial viability of technologies, products, or processes that may arise from this Agreement with University's responsibility to ensure the broadest public benefit from the results of University research. University recognizes that one of the prime reasons Sponsor has entered into this Agreement is an effort to secure, through the creation or enhancement of technologies, a market position with regard to its products or processes. At the same time, Sponsor recognizes that University has an obligation to utilize the knowledge and technology generated by University research in a manner which maximizes societal benefit and economic development and which provides for the education of graduate and undergraduate students.

9.2 Pursuant to Article 4, University will disclose to Sponsor in writing any information that University deems may be relevant to Intellectual Property made during the Project performed hereunder. Such disclosure shall be provided and maintained by Sponsor in confidence pursuant to the terms of Article 8.
Sponsor shall have up to sixty (60) days from the receipt of the disclosure to inform University whether it elects to have University file a patent application thereon pursuant to the procedures set forth below.

9.3 All rights and title to Intellectual Property shall be subject to that Exclusive License Agreement between Temple and Company (as defined therein) dated August 1, 2011.

9.4 University shall file and prosecute patent applications, using counsel of University's choice after due consultation with Sponsor. University shall keep Sponsor advised as to all developments with respect to application(s) and shall supply copies of all papers received and filed in connection with the prosecution to Sponsor. Sponsor shall reimburse University for all costs incurred in connection with such preparation, filing, and prosecution of patent(s).

9.5 Within nine (9) months of the filing date of a U.S. patent application, the Sponsor shall provide to University a written list of foreign countries in which applications should be filed. If Sponsor elects to discontinue financial support of any patent prosecution, in any country, University shall, independent of Sponsor, be free to continue prosecution at University's expense. In such event, University shall have no further obligation to Sponsor in regard to such patent applications or patents.

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9.6 Copyright to copyrightable materials, including computer software, resulting from Project shall vest in University with a royalty-free license to Sponsor for its non-commercial use. Upon Sponsor's written request, University shall grant to Sponsor an option to license any such material(s) it wishes to develop for commercial purposes on reasonable terms and conditions, including a reasonable royalty, as the parties hereto agree in a subsequent writing.

9.7 Sponsor understands that University must comply with the provisions of the Bayh-Dole Act. To the extent that U. S. Government's approval may be deemed necessary to transfer license rights hereunder to Sponsor, Sponsor shall provide whatever reasonable assistance is required, and will reimburse University for all external costs associated therewith.

Article 10 - Termination

10.1 Either party may terminate this Agreement upon ninety (90) days prior written notice to the other.

10.2 In the event that either party hereto shall commit any material breach of or default in any terms or conditions of this Agreement, and also shall fail to reasonably remedy such default or breach within sixty (60) days after receipt of written notice thereof by the non-breaching party, the non-breaching party may, at its option and in addition to any other remedies which it may have at law or in equity, terminate this Agreement by sending notice of termination in writing to the other party to such effect. Termination shall be effective as of the day of the receipt of such notice.

10.3 Termination of this Agreement by either party for any reason shall not affect the rights and obligations of the parties accrued prior to the effective date of termination of this Agreement, except insofar as Sponsor's breach of contract for failure to make payments under Article 5 shall cause Sponsor to forfeit its rights under Article 9. The rights and obligations of Article 8 of this Agreement shall survive termination.

Article 11 - Independent Contractor

11.1 In the performance of the Project, both parties shall be deemed to be and shall be independent contractors.

11.2 Neither party hereto is authorized or empowered to act as agent for the other for any purpose and shall not on behalf of the other enter into any contract, warranty, or representation as to any matter. Neither party shall be bound by the acts or conduct of the other.

Article 12 - Indemnity

Each party assumes all risks of personal injury, bodily injury including death, and property damage caused by the negligent acts or omissions of that party. Except as provided above, Sponsor shall fully indemnify and hold harmless University against all claims and costs (including counsel fees) arising out of Sponsor's use and/or mis-use, commercialization, or distribution of information, materials or products which result in whole or in part from the research performed pursuant to this Agreement. Sponsor will hold University harmless from any claims arising from third party claims that the work performed hereunder infringes third party intellectual property rights. University has no knowledge of any such claims.

Article 13 - Notices

Notices, invoices, communications, and payments hereunder shall be deemed made if given by overnight courier or by registered or certified envelope, post prepaid, and addressed to the party to receive such notice, invoice or communication at the address given below or such other address as may hereafter be designated by notice in writing:

If to Sponsor:
Name/Title Cecil Bond Kyte, CEO
Address 735 STATE STREET
SUITE 500
City/State/Zip SANTA BARBARA, CA
93101
Phone: 805 845 3581
Fax: 805 845 4377
Email: KYTE@STWA.COM

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If to University: Eleanor M. Cicinsky
Senior Grants and Contracts Administrator
Office of Sponsored Programs
1938 Liacouras Walk, 2nd Floor
Philadelphia, PA 19122-6023

Phone: 215-204-8691
Fax: 215-204-7486
Email: ecicinsk@temple.edu

If Payment Matters: Research Accounting Services
Jeanette Pastelak, Director
RAS: 1852 N. 10th Street, 083-11
Philadelphia, PA 19122-6023

Phone: 215-962-2050
Email: pastelak@temple.edu

If Technical Issue:
PI Dr.Rongjia Tao, Ph.D.
Title Professor of Physics
Campus Address BA212, Barton Hall
Temple University
City/State/Zip Philadelphia, PA 19122-6082

Phone: 215-204-7651
Fax: 215-204-5652
Email: rtao@temple.edu

Notice given pursuant to this Article shall be effective as of the day of receipt of notice.

Article 14 - Governing Law

Both parties agree to comply with all applicable federal, state, and local laws and regulations in the performance of this Project, as well as any requirements under any applicable protocol or statement of work. This Agreement shall be governed and construed in accordance with the laws of the Commonwealth of Pennsylvania.

Article 15 - Dispute Resolution

In the event of any claim, dispute or controversy arising under, out of, or in connection with this Agreement, the parties shall appoint a representative and negotiate in good faith for a period of not less than sixty (60) days. If the representatives of the parties have not been able to resolve the dispute within such sixty (60) days, the parties shall have the right to pursue any other remedies legally and equitably available to resolve such dispute in either the Courts of the Common Pleas of Philadelphia County of Pennsylvania or in the United States District Court for the Eastern District of Pennsylvania, to whose jurisdiction for such purposes the University and Sponsor each hereby irrevocably consents and submits.

Notwithstanding the foregoing, nothing in this clause shall be construed to waive any rights or timely performance of any obligations existing under this Agreement.

Article 16 - General Provisions

16.1 *Non-assignability* -- The rights and obligations of the parties under this Agreement shall not be assignable without the prior written permission of the other party.

16.2 *Severability* -- If any provision hereof is held unenforceable or void, the remaining provisions shall be enforced to the extent possible in accordance with the terms herein.

16.3 *Entire Agreement* -- This Agreement contains the entire and only agreement between the parties respecting the subject matter hereof and supersedes or cancels all previous negotiations, agreements, commitments and writings between the parties on the subject of this Agreement. Should processing of this Agreement require issuance of a purchase order or other contractual document, all terms and conditions of said document are hereby deleted in

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entirety. This Agreement may not be amended in any manner except by an instrument in writing signed by the duly authorized representatives of each of the parties hereto.

16.4 *Export Control Regulations* – Sponsor agrees that it shall comply with all applicable export control regulations of the United States of America. Sponsor shall be responsible for obtaining all information regarding such regulations that is necessary for Sponsor to comply with such regulations.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be executed in duplicate as of the day and year first above written.

By An Authorized Official of University.

Name: Kenneth H. Kaiser

Title: Senior Associate Vice President for Finance and Human Resources

Date: 3/22/12

By An Authorized Official of Sponsor

Name: Cecil Boad Kyte

Title: CEO

Date: 3-19-2012

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APPENDIX A
PROJECT

A Research Proposal Submitted to:

Save The World Air, Inc. (STWA)

By

Rongjia Tao, Ph.D.

Professor of Physics

Department of Physics, Temple University

1900 N 13th Street, Philadelphia, PA 19122

Tel: (215) 204-7651; Fax: (215) 2-4-5652

E-mail: rtao@temple.edu

1. Introduction

Recent successful test of crude oil viscosity reduction device at RMOTC makes it urgent to further develop the applied oil technology (AOT) and make it ready for the demands from pipelines. In this project, we will investigate the new design of the viscosity reduction device.

Our technology is illustrated in Fig.1. The crude oil flows from left to right along a pipe. Initially at the left, the viscosity is high. When the oil passes a strong local electric field, the suspended particles

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are polarized by the electric field. The induced dipolar interaction forces the nanoscale particles to aggregate into micrometer-size short chains or ellipsoids. They are of streamline shape since the electric field is parallel to the flow direction. The local electric field is produced by metallic grids in Fig.1, which is the design of the first AOT.

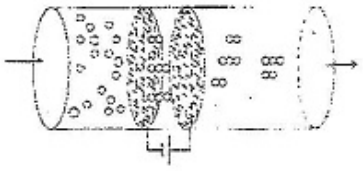

Fig.1 As the fuel flow passes a strong local electric field, the suspended particles aggregate along the field direction, and the viscosity is reduced.

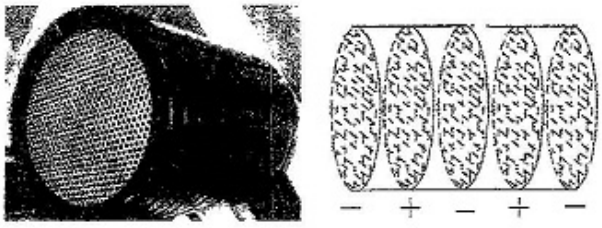

Fig. 2. (a) The grid pack of the first AOT device. (b) The outline of the arrangement of electrodes.

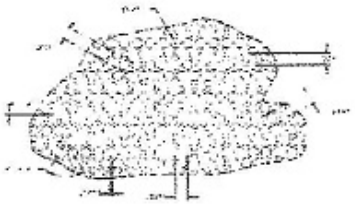

Fig.3. The screen in has hole diameters of 0.3125 inches that are spaced at 7/16 inches on center in all directions. The screen is 0.1196 inches thick (11 gage steel).

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In fact, the first AOT device used the multiple grids as shown in Fig.2. The grid system shown in Fig2b has alternative negative and positive electrodes. The negative electrodes are grounded. The test at RMOTC shows that such a device works very well. On the other hand, some oil companies are concerned with the screens used in the device. They are afraid that in case there are rocks inside the oil, the screen holes may not be big enough for the rocks to pass. This project will address these issues.

In addition, we will also carry out research to improve our diesel fuel injection device.

2. Research Project

(a) In this project, we will first investigate how big holes we can have on the screen. The finite element calculation shows that with proper spacing for the grid screens such as in Fig.3, the pressure loss from the grids is moderate. For crude oil with viscosity 210 cSt, moving at 5ft/s in 6-in diameter pipeline, the pressure loss is 0.26Psi per screen. For a device with 41 screens, the pressure loss is about 10.66 psi, moderate. For the screen in Fig.3, the rocks with diameters less than 0.3125in (0.793cm) should have not problem to pass the device.

With increasing the size of screen holes, the pressure loss will be further reduced. On the other hand, the electric field will become non-uniform. Therefore, we need to study how the electric field is affected by large screen holes. Through this study, we should be able to find the best screen design for our device.

(b) In addition, in this project, we will explore the alternative design of the viscosity reduction device: use rings for the electrodes. The new design is illustrated in Fig. 4. The electric field is produced by a set of internal and/or external rings, instead of screens. It is clear that the issue to jam the crude oil is disappeared with the rings. However, there are many important questions to be answered for this design before it can be applied on the device.

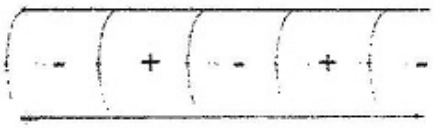

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Fig.4. The ring system for the viscosity reduction device.

First, we need to find the electric field between the rings, inside the device. For a device with metallic screens as shown in Fig.2, the electric field is quite uniform between the screens. Therefore, the required voltage to be applied on the electrodes is easy to determine. For a device made of rings, the electric field will not be uniform inside the device: it will be stronger at some places than that at other places. In addition, the electric field strength is not a simple function of the gap between the two neighboring rings. The ring's width and the ring's diameter also affect the electric field inside the device. Therefore, in this project, we will investigate how the electric field distribution inside the device is related to the gap between the neighboring rings, the ring width, and the ring diameter.

Second, we also need to find the electric field outside the device, i.e. outside the pipeline. For a device in Fig.2, the electric field outside the device is negligible; therefore, the device is safe. For the ring device in Fig.4, there is certainly an electric field outside the pipeline. Therefore, we need to determine it and relate it to the safety of our device.

We will carry out both experimental research and theoretical/numerical research to investigate this issue.

(c). Our diesel fuel injection device (Elektra) has demonstrated that it improves the engine efficiency. Recently, a test by Verdantec Company shows that at 28,000V, the Elektra improves the truck engine efficiency by 4.2%; while with a further increasing the voltage to 35,000V, the Elektra produces electromagnetic noise, making the dynometer impossible to work properly.

In this project, we will address this issue. We will design and manufacture a screening box to isolate our high voltage fuel injection device. With this screening box, there will be no electromagnetic noise to interfere with the dynometer. Afterwards, we will carry out tests at voltage 35,000 or above. In addition, we will try to find the optimal voltage for our device with ultra-low sulfur diesel fuel.

3. Budget.

The project will be for two years, $250,000 each year, and $500,000 in total.

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	3/1/12 – 2/28/13	3/1/13-2/28/14
Labor Costs:	112,796	116,180
Fringe Benefits:	24,834	25,579
Travel:	8,000	8,000
Lab Supplies:	17,769	13,640
Indirect Costs: (Overhead)	86,601	86,601
Total:	$250,000	$250,000

END OF DOCUMENT

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Office of Technology Transfer
1938 Liacouras Walk, 2nd Floor
Philadelphia, PA 19122

phone 215-204-5732
fax 215-204-7486
web www.temple.edu/ott

via UPS Next Day Air Confirmation Letter

March 26, 2012

Mr. Cecil Bond Kyte, CEO
Save the World Air, Inc. (STWA)
735 State Street
Suite 500
Santa Barbara, CA 93101

Re: Sponsored Research Agreement

Mr. Kyte:

Enclosed you will find one (1) original fully executed for your files.

Please let me know if you have concerns or questions.

Best regards,

Renita A. Fields

Renita A. Fields, Coordinator
Office of Technology Transfer

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, Greggory Bigger, certify that:

1. I have reviewed this 10-K Report 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) and 15d-15(e) and internal control over financial reporting) as defined in Exchange Act Rules 13a-15(f) and 15d-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: March 15, 2016

/s/ GREGGORY BIGGER
Greggory 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, Greggory Bigger, certify that:

1. I have reviewed this 10-K Report 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) and 15d-15(e) and internal control over financial reporting) as defined in Exchange Act Rules 13a-15(f) and 15d-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: March 15, 2016

/s/ GREGGORY BIGGER
Greggory Bigger
Chief Financial Officer

Exhibit 32

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 Annual Report on Form 10-K of the Company for the year ended December 31, 2015 (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: March 15, 2016

/s/ GREGGORY BIGGER
Greggory Bigger
Chief Executive Officer

Date: March 15, 2016

/s/ GREGGORY BIGGER
Greggory Bigger
Chief Financial Officer