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

FORM 10-Q

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

For the quarterly period ended September 30, 2026

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: **000-29185**

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.)

23902 FM 2978
Tomball, TX 77375
(Address, including zip code, of principal executive offices)

(775) 300-7647
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	**N/A**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of the Registrant's Common Stock outstanding as of November 6, 2026 was 568,898,876.

Forward-Looking Statements

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

- revenues and profits;
- customers, contracts, leases, and other potential arrangements for the potential commercial exploitation of our AOT technology and products;
- 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.

QS ENERGY, INC.
FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

QS ENERGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2026	December 31, 2025
	(unaudited)	
ASSETS		
Current assets:		
Cash	$ 8,000	$ 6,000
Prepaid expenses	56,000	49,000
Total current assets	64,000	55,000
Total assets	$ 64,000	$ 55,000
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable - license agreements - past due	$ 3,167,000	$ 3,167,000
Accounts payable and accrued expenses	1,615,000	1,416,000
Convertible notes payable, net of discounts of $0 and $16,000 respectively; includes $1,229,000 and $1,116,000, respectively, in default	1,229,000	1,351,000
Total liabilities	6,011,000	5,934,000
Commitments and contingencies		
Stockholders' deficit		
Common stock, $0.001 par value: 750,000,000 shares authorized, 567,407,854 and 543,350,596 shares issued and outstanding at September 30, 2026 and December 31, 2025, respectively	567,409	543,351
Additional paid-in capital	139,927,591	136,182,649
Accumulated deficit	(146,442,000)	(142,605,000)
Total stockholders' deficit	(5,947,000)	(5,879,000)
Total liabilities and stockholders' deficit	$ 64,000	$ 55,000

See notes to condensed consolidated financial statements.

QS ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS, UNAUDITED

	Three months ended September 30,		Nine months ended September 30,	
	2026	**2025**	**2026**	**2025**
Revenues	$ –	$ –	$ –	$ –
Costs and Expenses				
Operating expenses	723,000	646,000	3,583,000	12,050,000
Research and development expenses	142,000	1,244,000	153,000	1,395,000
Loss from operations	(865,000)	(1,890,000)	(3,736,000)	(13,445,000)
Other income (expense)				
Interest expense	(28,000)	(74,000)	(101,000)	(332,000)
Net Loss	$ (893,000)	$ (1,964,000)	$ (3,837,000)	$ (13,777,000)
Net loss per common share, basic and diluted	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.03)
Weighted average common shares outstanding, basic and diluted	565,594,332	525,140,131	556,617,785	486,610,294

See notes to condensed consolidated financial statements.

QS ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT, UNAUDITED
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2026

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Deficit
Balance, July 1, 2026	564,555,854	$ 564,557	$ 139,486,443	$ (145,549,000)	$ (5,498,000)
Common stock issued upon exercise of stock options and warrants	2,852,000	2,852	226,148	–	229,000
Fair value of vested stock options and warrants	–	–	184,000	–	184,000
Fair value of vest stock options issued to officers and directors	–	–	31,000	–	31,000
Net loss				(893,000)	(893,000)
Balance, September 30, 2026	567,407,854	$ 567,409	$ 139,927,591	$ (146,442,000)	$ (5,947,000)

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Deficit
Balance, January 1, 2026	543,350,596	$ 543,351	$ 136,182,649	$ (142,605,000)	$ (5,879,000)
Common stock issued on conversion of notes payable	2,733,513	2,734	220,266	–	223,000
Common stock issued upon exercise of stock options and warrants	16,923,747	16,924	1,554,076	–	1,571,000
Common stock issued upon cashless exercise of warrants to settle vendor payables	199,998	200	24,800	–	25,000
Fair value of vested stock options issued for services	–	–	940,000	–	940,000
Fair value of vested warrants issued for services	–	–	471,000	–	471,000
Fair value of vest stock options issued to officers and directors	–	–	94,000	–	94,000
Stock-based compensation expense – warrant modification	–	–	25,000	–	25,000
Fair value of common stock issued for services	4,200,000	4,200	415,800	–	420,000
Net loss	–	–	–	(3,837,000)	(3,837,000)
Balance, September 30, 2026	567,407,854	$ 567,409	$ 139,927,591	$ (146,442,000)	$ (5,947,000)

See notes to condensed consolidated financial statements.

QS ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT, UNAUDITED
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2025

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Deficit
Balance, July 1, 2025	519,215,177	$ 519,216	$ 134,511,784	$ (139,113,000)	$ (4,082,000)
Common stock issued upon conversion of convertible notes	2,718,637	2,719	144,281	–	147,000
Common stock issued upon exercise of stock options and warrants	7,227,119	7,227	281,773	–	289,000
Common stock issued upon cashless exercise of warrants to settle vendor payables	33,333	33	4,967	–	5,000
Fair value of vested stock options and warrants	–	–	50,000	–	50,000
Net loss	–	–	–	(1,964,000)	(1,964,000)
Balance, September 30, 2025	529,194,266	$ 529,195	$ 135,101,805	$ (141,077,000)	$ (5,446,000)

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Deficit
Balance, January 1, 2025	428,424,880	$ 428,425	$ 121,173,575	$ (127,300,000)	$ (5,698,000)
Common stock issued on conversion of notes payable	65,523,469	65,524	2,312,476	–	2,378,000
Relative fair value of warrants issued with convertible notes	–	–	1,430,000	–	1,430,000
Common stock issued upon exercise of stock options and warrants	22,645,924	22,646	993,354	–	1,016,000
Common stock issued upon cashless exercise of warrants to settle vendor payables	2,049,993	2,050	101,950	–	104,000
Fair value of vested stock options and warrants	–	–	6,899,000	–	6,899,000
Stock-based compensation expense – warrant modification	–	–	511,000	–	511,000
Fair value of common stock issued for services	9,050,000	9,050	1,441,950	–	1,451,000
Fair value of common stock issued as compensation	1,500,000	1,500	238,500	–	240,000
Net loss	–	–	–	(13,777,000)	(13,777,000)
Balance, September 30, 2025	529,194,266	$ 529,195	$ 135,101,805	$ (141,077,000)	$ (5,446,000)

See notes to condensed consolidated financial statements.

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

	Nine months ended September 30,	
	2026	**2025**
Cash flows from Operating Activities		
Net loss	$ (3,837,000)	$ (13,777,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Fair value of vested stock options and warrants	1,506,000	6,899,000
Stock-based compensation expense – warrant modification	25,000	511,000
Fair value of common stock issued for services	345,000	1,451,000
Fair value of common stock issued as compensation	75,000	240,000
Amortization of debt discount	5,000	175,000
Accrued interest expense	95,000	118,000
Depreciation and amortization	–	2,000
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(7,000)	(43,000)
Accounts payable and accrued expenses	224,000	312,000
Accounts payable – license agreements	–	734,000
Net cash used in operating activities	(1,569,000)	(3,378,000)
Cash flows from financing activities		
Net proceeds from exercise of options and warrants	1,571,000	1,016,000
Net proceeds from issuance of convertible notes and warrants	–	2,285,000
Principal payment on PPP loan payable	–	(24,000)
Net cash provided by financing activities	1,571,000	3,277,000
Net increase in cash	2,000	(101,000)
Cash, beginning of period	6,000	150,000
Cash, end of period	$ 8,000	$ 49,000
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ –	$ –
Income Taxes	$ 1,600	$ 1,600
Non-cash investing and financing activities		
Conversion of convertible notes and accrued interest into common stock	223,000	3,803,000
Cashless exercise of warrants applied to settlement of accounts payable	25,000	104,000
Relative fair value of warrants issued with convertible notes	–	1,430,000

See notes to condensed consolidated financial statements.

1. Description of Business

QS Energy, Inc. ("QS Energy", "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.

QS Energy develops and is seeking to commercialize 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 properties include a portfolio of 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 is engineered specifically to reduce pipeline pressure loss, increase pipeline flow rate and capacity, and reduce shippers' reliance on diluents and drag reducing agents to meet pipeline maximum viscosity requirements. AOT is a 100% solid-state system that has shown to reduce crude oil viscosity by applying a high intensity electrical field to crude oil feedstock while in transit. The AOT product is seeking to transition from the testing, research and development stage to initial production for continued testing in advance of our goal of seeking acceptance and adoption by the midstream pipeline marketplace and the commercialization of AOT.

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2025, filed with the SEC on March 31, 2026. The condensed consolidated balance sheet as of December 31, 2025, included herein was derived from the audited consolidated financial statements as of that date, but does not include all disclosures, including notes, required by GAAP.

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

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.

2. Summary of Significant Accounting Policies

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 nine-months ended September 30, 2026, the Company incurred a net loss of $3,837,000, used cash in operations of $1,569,000 and had a stockholders' deficit of $5,947,000 as of September 30, 2026. In addition, as of September 30, 2026, 46 notes payable with an aggregate balance of $1,229,000, license agreement payables of $3,167,000 and certain obligations to a former officer are past due. These factors raise substantial doubt about the Company's ability to continue as a going concern. In addition, the Company's independent registered public accounting firm, in its report on the Company's December 31, 2025, financial statements, has raised 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 September 30, 2026, the Company had cash on hand in the amount of $8,000. In October and November 2026, the Company issued convertible promissory notes in the aggregate of $160,000 for cash proceeds of $145,000, net of OID $15,000 (see Note 11, below). Management estimates that the current funds on hand will be sufficient to continue operations through approximately November 2026. 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 technologies; costs to manufacture and ship the products; costs to design and implement an effective system of internal controls and disclosure of controls and procedures; costs of maintaining our status as a public company by filing periodic reports with the SEC, including without limitation legal, accounting, quarterly reviews, and annual audits, and costs required to protect our intellectual property. In addition, as discussed below, the Company has substantial contractual commitments, including without limitation, certain payments to a former officer and consulting fees, during the remainder of 2026 and beyond.

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

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 accruals for potential liabilities, assumptions used in valuing equity instruments issued for financing and services and realization of deferred tax assets, among others. Actual results could differ from those estimates.

Basic and Diluted Income (loss) per share

Our computation of earnings per share ("EPS") includes basic and diluted EPS. Basic EPS is measured as the income (loss) available to common stockholders divided by the weighted average common shares outstanding for the period. Diluted income (loss) per share reflects the potential dilution, using the treasury stock method, that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income (loss) of the Company as if they had been converted at the beginning of the periods presented, or issuance date, if later.

At September 30, 2026 and 2025, we excluded the following dilutive shares as their effect would have been anti-dilutive.

	September 30, 2026	September 30, 2025
Options	72,662,246	69,015,001
Warrants	16,766,412	59,679,059
Common stock issuable upon conversion of notes payable	14,797,096	16,029,193
Total	104,225,754	144,723,253

Stock-Based Compensation

The Company periodically issues stock options and restricted stock awards to employees and non-employees in non-capital raising transactions for services and for financing costs. Stock option grants, which are generally time or performance vested, are measured at the grant date fair value and depending on the conditions associated with the vesting of the award, compensation cost is recognized on a straight-line or graded basis over the vesting period. Recognition of compensation expense for non-employees is in the same period and manner as if the Company had paid cash for the services. The fair value of stock options granted is estimated using the Black-Scholes option-pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life, and future dividends. The assumptions used in the Black-Scholes option pricing model could materially affect compensation expense recorded in future periods.

Research and Development Costs

Research and development costs are expensed as incurred and consist primarily of fees paid to consultants and outside service providers, and other expenses relating to the acquisition, design, development and testing of the Company's products. Certain research and development activities are incurred under contract. In those instances, research and development costs are charged to operations ratably over the life of the underlying contracts, unless the achievement of milestones, the completion of contracted work, or other information indicates that a different expensing schedule is more appropriate. Payments made pursuant to research and development contracts are initially recorded as advances on research and development contract services in the Company's consolidated balance sheet and then charged to research and development costs in the Company's consolidated statement of operations as those contract services are performed. For the nine-month periods ended September 30, 2026 and 2025 research and development costs were $153,000 and $1,395,000 respectively.

Fair Value of Financial Instruments

Accounting standards require certain assets and liabilities to be reported at fair value in the financial statements and provide a framework for establishing that fair value. Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which it transacts and considers assumptions that market participants would use when pricing the asset or liability. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value:

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 observable market data if such data is available without undue cost and effort.

The carrying amounts for cash, accounts payable, accrued expenses and convertible notes payable approximate their fair value due to the short-term nature of such instruments.

Warrants

The Company accounts for warrants as either equity-classified or liability-classified instruments based on an assessment of the warrant's specific terms and applicable authoritative guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 480, Distinguishing Liabilities from Equity ("ASC 480"), and ASC 815, Derivatives and Hedging ("ASC 815"). The assessment considers whether the warrants are freestanding financial instruments pursuant to ASC 480, meet the definition of a liability pursuant to ASC 480, and whether the warrants meet all of the requirements for equity classification under ASC 815, including whether the warrants are indexed to the Company's own common stock and whether the warrant holders could potentially require "net cash settlement" in a circumstance outside of the Company's control, among other conditions for equity classification. At September 30, 2026 and December 31, 2025, the Company has determined that the warrants issued and outstanding meet the requirements for equity classification. This assessment, which requires the use of professional judgment, is conducted when the warrants are issued and at the end each subsequent quarterly period while the warrants are outstanding. For issued or modified warrants that meet all of the criteria for equity classification, the warrants are required to be recorded as a component of additional paid-in capital at the time of issuance. For issued or modified warrants that do not meet all of the criteria for equity classification, the warrants are required to be liability-classified and recorded at their initial fair value on the date of issuance and remeasured at fair value at each balance sheet date thereafter. Changes in the estimated fair value of the warrants that are liability-classified are recognized as a non-cash gain or loss in the statement of operations at each balance sheet date. At September 30, 2026 and December 31, 2025, the Company not have any liability-classified warrants.

Recent Accounting Pronouncements

In November 2024, the FASB issued ASU No. 2024-03 "Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses." This ASU requires public business entities to disclose, for interim and annual reporting periods, additional information about certain income statement expense categories. The requirements are effective for fiscal years beginning after December 15, 2026, and for interim periods beginning after December 15, 2027. Entities are permitted to apply either the prospective or retrospective transition methods. The Company is currently evaluating the impact that the adoption of this ASU will have on its consolidated financial statements.

The Company's management has evaluated all other the recently issued, but not yet effective, accounting standards and guidance that have been issued or proposed by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission through the filing date of these financial statements and does not believe the future adoption of any such pronouncements will have a material effect on the Company's financial position and results of operations.

3. Accounts Payable and Accrued Expenses

As of September 30, 2026 and December 31, 2025, the Company owed $197,000 and $197,000, respectively, pursuant to a separation agreement with a former executive officer effective April 1, 2017 as amended by letter agreements dated effective August 16, 2018 and March 31, 2019, (the "Letter Agreements") which have been included as part of accounts payable and accrued expenses on the accompanying condensed consolidated balance sheet. The payments are to be made at $10,000 per month. During the nine months ended September 30, 2026 the Company made no payments.

4. Convertible Notes Payable

	September 30, 2026	December 31, 2025
	(unaudited)	
Convertible notes	$ 609,000	$ 822,000
Accrued interest	620,000	545,000
Total outstanding debt, including $1,229,000 and $1,116,000 in default at September 30, 2026 and December 31, 2025, respectively	1,229,000	1,367,000
Convertible note discount	–	(16,000)
Balance on convertible notes, net of note discounts	$ 1,229,000	$ 1,351,000

Convertible notes

At December 31, 2025, total outstanding convertible notes payable totaled $822,000. During the nine-month period ended September 30, 2026, the Company issued no convertible promissory notes.

During the period ended September 30, 2026, convertible notes of $211,000, net of unamortized discount of $10,000, were converted into 2,557,500 shares of common stock (see related accrued interest below). At September 30, 2026, total outstanding convertible notes payable totaled $609,000. As of September 30, 2026, convertible notes payable and accrued interest are convertible into approximately 14,797,096 shares of common stock at conversion rates ranging from $0.03 to $0.48 per share. As of September 30, 2026, a total of 46 convertible notes and accrued interest in the aggregate of $1,229,000 have reached maturity and are past due.

Accrued interest

At December 31, 2025, accrued interest on convertible notes payable totaled $545,000. During the nine-month period ended September 30, 2026, accrued interest of $95,000 was recorded and accrued interest of $21,000 was converted into 176,011 shares of common stock. At September 30, 2026, accrued interest on convertible notes payable totaled $619,000.

Debt discount

At December 31, 2025, the unamortized debt discount was $16,000. During the nine-month period ended September 30, 2026, debt discount amortization of $6,000 was recorded, and $10,000 of debt discount was removed and included in the carrying amount of related convertible notes payable that were converted into shares of common stock. At September 30, 2026, the unamortized debt discount was $0.

5. Research and Development

The Company constructs, develops and tests the AOT technologies with internal resources and through the assistance of various third-party entities. Costs incurred and expensed include fees such as license 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.

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 nine-month periods ended September 30, 2026, and 2025, our research and development expenses were $153,000 and $1,395,000, respectively, including $153,000 and $697,000 respectively, in the manufacture and testing of the AOT prototype equipment.

Temple University Licensing Agreements-amount past due

On August 1, 2011, the Company entered into two Exclusive License Agreements with Temple University ("Temple"). One license agreement covered technology to reduce crude oil viscosity (referred to as the "AOT-1 Agreement") and the second license agreement covered technology associated with an electric and/or magnetic field assisted fuel injector system (referred to as the "AOT-2 Agreement", and together with the AOT-1 Agreement, the "License Agreements"). The License Agreements provide the Company with exclusive, worldwide rights to Temple's patents, patent applications, and technical information related to the respective technologies. Pursuant to the original terms of the License Agreements, the Company paid Temple a non-refundable license maintenance fee of $300,000 and agreed to pay (i) annual maintenance fees of $187,500, (ii) royalty fees ranging from 4% to 7% on net sales and extended term net sales, and (iii) 25% of all revenues generated from sublicenses.

Effective as of September 26, 2025, the Company and Temple executed Amendment No. 2 to the AOT-1 Agreement and Amendment No. 1 to the AOT-2 Agreement, under which the Company and Temple agreed that total outstanding fees due to Temple through July 31, 2025, were $2,236,000 and $931,000, respectively, for an aggregate amount of $3,167,000 (collectively, the "Outstanding Amounts"). The Outstanding Amounts were required to be paid by October 11, 2025. As of the date of this filing, the Outstanding Amounts have not been paid to Temple. As of September 30, 2026 and December 31, 2025, total unpaid fees due to Temple under the License Agreements amounted to $3,167,000, which are included in accounts payable – license agreements in the accompanying consolidated balance sheets.

Under the amended agreements, royalty rates are structured as follows: 7% on the first $20 million of applicable net sales, 6% on sales between $20 million and $40 million, 5% on sales between $40 million and $100 million, and 4% on sales in excess of $100 million. These rates apply both during the initial term of the agreements and throughout the "Extended Term," defined as a period of at least ten (10) years beginning upon the expiration of the last to expire patent (including continuations, extensions, and foreign counterparts), or upon early termination, whichever occurs earlier. During the Extended Term, royalties remain payable on all extended term net sales, regardless of patent expiration or the existence of valid claims.

The amended agreements also clarified that the Company shall retain exclusive rights to any improvements developed solely by the Company during or after the Extended Term, and Temple shall have no ownership interest in such improvements. Notwithstanding this, the Company remains obligated to pay royalties on such sales during the Extended Term. The above description of the Temple Licensing Agreement Amendments is qualified in its entirety by reference to the amendments, copies of which were filed as exhibits to our report on Form 10-K, filed with the SEC on March 31, 2026.

No revenues were recognized from these License Agreements or amendments thereto during the periods ended September 30, 2026, and 2025, nor during any period.

6. Common Stock

During the nine months ended September 30, 2026, the Company issued 24,057,258 shares of its common stock as follows:

- The Company issued 2,733,513, shares of its common stock upon the conversion of $211,000 in convertible notes and $21,000 of accrued interest, net of unamortized discount of $10,000, pursuant to convertible notes with a conversion price of $0.08 to $0.15.
- The Company issued 16,923,747 shares of its common stock upon the exercise of stock options and warrants resulting in proceeds to the Company of $1,571,000 based on conversion prices ranging from $0.03 to $0.10 per share.
- The Company issued 199,998 shares of its common stock upon the cashless exercise of warrants at $0.09 to $0.16 per share for $25,000, which were applied to the settlement of vendor accounts payable.
- The Company issued 3,450,000 shares of its common stock for services of $345,000 valued at $0.10 per share.
- The Company issued 750,000 shares of its common stock to an employee as compensation with a fair value of $75,000.

During the nine months ended September 30, 2025, the Company issued 100,769,386 shares of its common stock as follows:

- The Company issued 65,523,469 shares of its common stock upon the conversion of $3,344,000 in convertible notes and $607,000 of accrued interest, net of unamortized discount of $1,572,000, pursuant to convertible notes conversion prices of $0.02 to $0.15 per share.
- The Company issued 22,645,924 shares of its common stock upon the exercise of stock options and warrants for gross proceeds of $1,016,000 with conversion prices of $0.02 to $0.15 per share.
- The Company issued 9,050,000 shares of its common stock for services of $1,451,000 valued at $0.04 to $0.19 per share based on the closing price of the Company's common stock on the dates granted.
- The Company issued 1,500,000 shares of its common stock to its corporate secretary as compensation of $240,000 valued at $0.16 per share.
- The Company issued 2,049,993 shares of its common stock upon the cashless exercise of warrants at $0.03 to $0.15 per share for $104,000, which were applied to the settlement of vendor accounts payable.

7. 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

Options vest according to the terms of the specific grant and expire from 1 to 10 years from date of grant. The weighted-average, remaining contractual life of employee and non-employee options outstanding at September 30, 2026 was 5.9 years. Stock option activity for the period January 1, 2026, up to September 30, 2026, was as follows:

	Options	Weighted Avg. Exercise Price
January 1, 2026	69,015,001	$ 0.07
Granted (including 833,333 options granted to related parties)	7,733,333	0.09
Exercised	(1,835,561)	0.03
Expired	(2,250,527)	0.19
September 30, 2026	72,662,246	$ 0.07

The weighted average exercise prices, remaining contractual lives for options granted, exercisable, and expected to vest as of September 30, 2026 were as follows:

	Outstanding Options			Exercisable Options	
Option Exercise Price Per Share	Shares	Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$0.02 - $0.24	70,162,246	6.1	$ 0.06	69,328,913	$ 0.06
$0.25 - $0.49	2,500,000	0.5	$ 0.33	2,500,000	$ 0.33
	72,662,246	5.9	$ 0.07	71,828,913	$ 0.07

As of September 30, 2026, the market price of the Company's stock was $0.10 per share. At September 30, 2026, the aggregate intrinsic value of the options outstanding at September 30, 2026 was $3,321,000.

During the nine-month period ended September 30, 2026, options to acquire 1,835,561 shares of common stock were exercised resulting in proceeds to the Company of $62,000.

Options issued to Officers and Directors

In the nine-month period ending September 30, 2026, the Company issued options to purchase 833,333 shares of common stock to members of the Board of Directors, including 500,000 options issued to the Company's CEO/CFO pursuant to the Director Compensation Policy. 833,333 options are exercisable at $0.15 per share and vest over one year. Total fair value of these options at grant date was $125,000 using the Black-Scholes Option Pricing model with the following assumptions: expected life of 5 years; risk free interest rate of 4.19%; volatility of 189% and dividend yield of 0%. During the nine-month period ended September 30, 2026, the Company recognized compensation costs based on the fair value of options that vested of $94,000 to these officers and directors.

Options issued for services

In the nine-month period ending September 30, 2026, the Company issued options to purchase 1,000,000 shares of common stock to its corporate secretary as compensation. The options are exercisable at a price of $0.10, fully vested, and expire three years from the date of grant. Total fair value of these options at grant date was $60,000 using the Black-Scholes Option Pricing model with the following assumptions: expected life of 1.5 years; risk free interest rate of 3.84%; volatility of 144% and dividend yield of 0%. During the nine-month period ended September 30, 2026, the Company recognized compensation costs based on the fair value of options that vested of $60,000.

In the nine-month period ending September 30, 2026, the Company issued options to purchase 5,900,000 shares of common stock in exchange for services. The options are exercisable at prices ranging from $0.03 to $0.10, were fully vested at date of grant, and expire one to ten years from the date of grant. Total fair value of these options at grant date was $482,000 using the Black-Scholes Option Pricing model with the following assumptions: expected life of 1 to 10 years; risk free interest rate of 3.84% to 4.53%; volatility of 97% to 179% and dividend yield of 0%. During the nine-month period ended September 30, 2026, the Company recognized compensation costs based on the fair value of options that vested of $482,000.

During the nine-month period ended September 30, 2026 and 2025, the Company recognized compensation costs on the vested fair value of the option awards described above and on options granted in prior periods for an aggregate amount of $1,034,000 and $6,853,000, respectively.

Warrants

The following table summarizes certain information about the Company's stock purchase warrants activity for the period starting January 1, 2026 up to September 30, 2026.

	Warrants	Weighted Average Exercise Price
January 1, 2026	45,622,728	$ 0.08
Granted	5,299,997	0.10
Exercised	(15,288,184)	0.10
Expired	(18,868,129)	0.10
September 30, 2026	16,766,412	$ 0.05

The weighted average exercise prices, remaining contractual lives for warrants granted, exercisable, and expected to vest as of September 30, 2026 were as follows:

	Outstanding Warrants			Exercisable Warrants	
Warrant Exercise Price Per Share	Shares	Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$0.02 - $0.24	16,633,080	1.0	$ 0.05	16,599,747	$ 0.05
$0.25 - $0.49	133,332	0.9	$ 0.28	133,332	$ 0.28
	16,766,412	1.0	$ 0.05	16,733,079	$ 0.05

At September 30, 2026, the market price of the Company's common stock was $0.10 per share. At September 30, 2026, the aggregate intrinsic value of warrants outstanding was $834,000.

In the nine-month period ending September 30, 2026, the Company issued warrants to purchase 5,299,997 shares of common stock in exchange for services. The warrants are exercisable at a prices ranging from $0.09 to $0.15, vest up to one month from the date of grant, and expire two to three years from the date of grant. Total fair value of these warrants at grant date was $471,000 using the Black-Scholes Option Pricing model with the following assumptions: life of 2 to 3 years; risk free interest rate of 3.48% to 4.76%; volatility of 110% to 141% and dividend yield of 0%. During the nine-month period ended September 30, 2026, the Company recognized compensation costs based on the fair value of warrants that vested of $470,000.

During the period ended September 30, 2026, warrants to acquire 15,088,186 shares of common stock were exercised resulting in cash proceeds of $1,508,000 to the Company. In addition, 199,998 shares were issued upon the cashless exercise of warrants at $0.09 to $0.16 per share for $25,000, which were applied to the settlement of vendor accounts payable.

8. Related Party Transactions

Employment Agreement with CEO/CFO

On February 19, 2025, effective January 1, 2025, the Company entered into an employment agreement (the "Employment Agreement") with Mr. Cecil Bond Kyte to serve as the Company's CEO and CFO, with an annual base salary of $420,000. In addition, the Employment Agreement provides for the payment of a retention bonus ("Bonus") in the amount of $1,557,500 to Mr. Kyte, $519,167 of which was paid in January 2025 to Mr. Kyte on execution of the Employment Agreement; $519,167 of the Bonus was paid in part in May 2025 in anticipation of the execution of a customer contract with VIPS Petroleum, and the balance of that payment was paid in June and July 2025 to Mr. Kyte; and, $519,166 of the Bonus will be paid to Mr. Kyte upon the execution, closing, and effective date of debt or equity financing in favor of the Company in the amount of no less than $5,000,000.

As of September 30, 2026, certain payroll taxes of approximately $300,000 related to this bonus had not been remitted by either the employee or the Company to the applicable taxing authorities. Although these payroll taxes are the responsibility of the employee, the Company could become contingently liable in the event of nonpayment.

As part of the Employment Agreement, Mr. Kyte was also issued in 2025 a stock option exercisable into 20,817,500 shares of the Company's restricted common stock at an exercise price of $0.03 per share, and a stock option exercisable into 3,500,000 shares of the Company's restricted common stock at an exercise price of $0.03 per share. The stock options had a fair value of $3,614,000 and vested immediately and expire in ten years. Mr. Kyte was also issued stock options exercisable into 7,218,750 shares of the Company's restricted stock with a fair value of $1,072,000 in his capacity as a member of the Board of Directors and as a Chairman of the Board who oversees financial and audit functions, which vest up to one year, and have an exercise price of $0.02 to $0.15 per share. The above description of Mr. Kyte's Employment Agreement is qualified in its entirety by reference to Mr. Kyte's Employment Agreement, a copy of which was filed as part of our report on Form 8-K, filed with the SEC on February 21, 2025.

During the nine months ended September 30, 2026, Mr. Kyte received 500,000 options with a fair value of $75,000 at an exercisable price of $0.15 per share pursuant to the Company's Director Compensation Policy which will vest over 1 year from issuance. (See Note 7, above.)

Reimbursements for Rent

The Company reimburses Mr. Kyte in rent expenses for a home office and partial storage space in Carson City, Nevada at a rate of $1,000 per month under a month-to-month rental agreement. Under Mr. Kyte's Employment Agreement, he receives a rent allowance of $1,000 per month, which is included as part of his compensation. Total rent expense during the nine-month period ended September 30, 2026, and 2025 were $9,000 and $9,000, respectively which are included as part of operating expenses in the attached consolidated statement of operations.

9. Commitments and Contingencies

We may be involved in certain legal proceedings that arise from time to time in the ordinary course of our business. Except for income tax contingencies, we record accruals for contingencies to the extent that our management concludes that the occurrence is probable and that the related amounts of loss can be reasonably estimated. Legal expenses associated with the contingency are expensed as incurred. 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.

At September 30, 2026 and 2025, the Company has recorded $197,000 related to certain contractually provided benefits to a former executive officer pursuant to a severance agreement. The former executive officer disputes the amount of $197,000, claiming the amount is less than the amount to which he believes he is owed. Absent an agreement to settle the dispute, and in the event the former executive officer elects to initiate litigation regarding the dispute, including claims for interest and penalties to which the former executive officer believes he is entitled, the Company has reserved, and if necessary and appropriate will assert, all factual and legal defenses, counter-claims, rights, and remedies it may have in any such suit. The Company believes it has recorded an appropriate accrual for the matter.

Collaboration Agreement

In 2024, the Company entered into a Collaboration Agreement with VIPS Petroleum, LLC ("VIPS") to collaborate with them in facilitating the deployment of our AOT technology and products to VIPS' customers. On June 25, 2025, the Company entered into a Distributor Agreement with VIPS, providing for VIPS to serve as our exclusive distributor to promote, sell, and lease our AOT product in the territories of Malaysia, Ghana, and India, among other territories. To date, we have not received any purchase orders under the Distributor Agreement, nor has our AOT product been placed with, nor currently being used by, any of VIPS' customers or anyone else.

The Distributor Agreement, as amended, provides that upon the Company's receipt of payment for the purchase of two AOT Units, the Company shall issue VIPS/Stephen Bosco a stock purchase warrant exercisable into 25,000,000 restricted shares of the Company's common stock, at a price of $0.07 cents per share (the "Exercise Price"). The warrant will vest on issuance and expire three years from the date of issuance. VIPS' payment of the Exercise Price shall be rebate-based, meaning, for every AOT Unit sold by the Company to VIPS, the Company will process a post-sale rebate of 15% of the purchase price to VIPS. Post-sale rebates due VIPS, up to a maximum of $1,750,000, will be applied to, and be deemed payment of, the Exercise Price.

To date, we have not received any purchase orders, nor generated any revenue, under the Distributor Agreement, as amended, nor has our AOT product been placed with, nor is it currently being used by, any of VIPS' customers or anyone else, and we can provide no assurances that our AOT product will be accepted or purchased by VIPS, or any of its customers, or anyone else.

As reported in our Form 10-K filed on March 31, 2026, the Company, together with VIPS and stakeholders identified under the VIPS Distributor Agreement, advanced the India potential commercialization pathway as reflected in the non-binding Laksel LOI.

10. Segment Information

The Company operates and manages its business as one reportable and operating segment dedicated to the oil and gas industry. The measure of segment assets is reported on the balance sheet as total consolidated assets. In addition, the Company manages the business activities on a consolidated basis.

The Company's CODM reviews financial information presented on a consolidated basis and decides how to allocate resources based on consolidated net income (loss).

Significant segment expenses include research and development, salaries, insurance, and stock-based compensation. Operating expenses include all remaining costs necessary to operate our business, which primarily include external services and other administrative expenses. The following table presents the significant segment expenses and other segment items regularly reviewed by our CODM:

	Period ended September 30,	
	2026	**2025**
Revenue	$ –	$ –
Less:		
Research and development	(153,000)	(1,395,000)
Payroll and related	(540,000)	(1,642,000)
Share-based compensation	(1,950,000)	(9,100,000)
Consulting related to intellectual property	(652,000)	(781,000)
Insurance	(199,000)	(84,000)
Operating expenses	(242,000)	(443,000)
Interest expense	(101,000)	(332,000)
Net loss	$ (3,837,000)	$ (13,777,000)

11. Subsequent Events

In October and November 2026, the Company issued convertible promissory notes in the aggregate of $160,000 for cash proceeds of $145,000, net of OID $15,000. The notes are unsecured, mature in twelve months from issuance, and are convertible into 2,001,625 shares of the Company's common stock at $0.08 per share. In addition, the Company granted the note holders warrants to purchase 2,001,625 shares of the Company's common stock at $0.10 per share. The warrants are fully vested and expire one year from the date of issuance.

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

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

This discussion contains forward-looking statements that involve risks and uncertainties. Such statements, which include statements concerning future revenue sources and concentration, selling, general and administrative expenses, research and development expenses, capital resources, additional financings and additional losses, are subject to risks and uncertainties, including, but not limited to, those discussed elsewhere in this Form 10-Q, and in the "Risk Factors" that could cause actual results to differ materially from those projected. Unless otherwise expressly indicated, the information set forth in this Form 10-Q is as of September 30, 2026, and, except as required under applicable rules and regulations, we undertake no duty to update this information.

Available Information

The Company's common stock is quoted under the symbol "QSEP" on the Over-the-Counter bulletin board-pink sheets. More information including the Company's updates, fact sheet, logos and media articles are available at our corporate website, www.qsenergy.com.

Overview

QS Energy, Inc. ("QS Energy" or "Company" or "we" or "us" or "our") develops and seeks to commercialize energy efficiency technologies that assist in meeting increasing global energy demands, improving the economics of oil transport, and reducing greenhouse gas emissions. The Company's intellectual properties include a portfolio of domestic and international patents, a substantial portion of which have been developed in conjunction with and exclusively licensed by us from Temple University of Philadelphia, PA ("Temple"). QS Energy's primary technology (and for now only technology) is called Applied Oil Technology (AOT), a commercial-grade crude oil pipeline transportation flow-assurance product. Engineered specifically to reduce pipeline pressure loss, increase pipeline flow rate and capacity, and reduce shippers' reliance on diluents and drag reducing agents to meet pipeline maximum viscosity requirements, AOT is a 100% solid-state system that in lab and other tests has shown to reduce crude oil viscosity by applying a high intensity electrical field to crude oil while in transit. AOT technology has shown to deliver reductions in crude oil viscosity and pipeline pressure loss as demonstrated in independent third-party tests performed by the U.S. Department of Energy, the PetroChina Pipeline R&D Center, and ATS RheoSystems, a division of CANNON™, at full-scale test facilities in the U.S. and China, and under commercial operating conditions on one of North America's largest high-volume crude oil pipelines. Prior testing on a commercial crude oil condensate pipeline demonstrated high correlation between laboratory analysis and full-scale AOT operations under commercial operating conditions with onsite measurements and data collected by the pipeline operator on its supervisory control and data acquisition ("SCADA") system. The AOT product is still in development and testing and has transitioned from laboratory testing to initial demonstration and continued testing in advance of our goal of seeking commercial acceptance and adoption by the upstream and midstream pipeline marketplace. Such commercial acceptance and adoption have not been achieved. We continue to devote the bulk of our efforts to the promotion, design, testing and the commercial manufacturing and test operations of our crude oil AOT pipeline product in the upstream and midstream energy sector. Our efforts in the foregoing regard have been substantially hampered by our lack of capital. We believe we should be able to continue our efforts to commercialize our AOT product during 2026 only if we are able to raise sufficient capital to do so. We can provide no assurances that we will be able to raise the capital we need to continue our efforts in 2026, or that any such capital will be available to us on acceptable terms and conditions. Nor can we provide assurances our technology will be accepted and deployed by the pipeline industry. See "Risk Factors," below in Item 1A.

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 affected 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. To date, QS Energy Pool has not entered into any acquisition transaction. However, the Company will still consider, if appropriate to do so, and subject to the availability of adequate and acceptable capital and financing, entering into potential beneficial acquisitions. The Company is considering dissolving QS Energy Pool to reduce costs associated with operating this subsidiary. The Company's common stock is quoted under the symbol "QSEP" on the Over-the-Counter Bulletin Board (Pink Sheets).

A history of important events associated with our goals and efforts to develop, test, and achieve commercialization of our AOT technology, as well as our efforts to achieve acceptance of our AOT technology by the oil and gas pipeline industry, has been reported in our prior SEC filings, including in our Form 10-K for the period ended December 31, 2025, filed with the SEC on March 31, 2026. As previously reported, our goals in the foregoing regard have not been achieved, and despite our ongoing efforts we can provide no assurances that we will be able to achieve our goals. See "Item 1A-Risk Factors," below, and our Form 10-K filed with the SEC on March 31, 2026, and our prior SEC filings.

In our ongoing effort to commercialize our AOT technology, as announced in our press release of June 12, 2024, we entered into a letter of intent on June 11, 2024, with VIPS Petroleum, LLC ("VIPS") to collaborate on and outline preliminary terms of a memorandum of understanding ("MOU") regarding the commercial deployment of our AOT technology on one or more pipeline networks owned and operated by VIPS' customer/clients. The MOU was completed and signed with VIPS on September 25, 2024, as reported in our press release of September 26, 2024. We have now entered into a Collaboration Agreement with VIPS as of August 1, 2024 to collaborate with them in facilitating the deployment of our AOT technology and products to VIPS' customers. We hope to finalize a definitive agreement with a VIPS customer or customers to demonstrate the efficacy of our AOT product within the operating goals and requirements of the customer. If those customers' goals and requirements are satisfied, we hope next to deploy our AOT product on the customer's pipeline networks. As of the date of this filing, we have not entered into any agreement with any of VIPS' customers for the deployment of our AOT technology and products, nor can we provide any assurances that we will ever be able to enter into any such agreements with VIPS' customers or anyone else. While we believe we have an opportunity to seek deployment of our AOT product on a VIPS customer's pipeline network, we can offer no assurances that agreements will be signed with VIPS' customers or that such customers, if any, will approve or seek installation of our AOT product.

We believe the partnership between VIPS and QS Energy has strengthened. This collaboration has advanced to the signing of a Memorandum of Understanding (MOU) with the Australia Asia India Business Organization (AAIBO), as disclosed in our December 10, 2024, website update, "QS Energy Achieves Phase 4 Milestone with Southeast Asia's Leading Energy Producer." Engagements with AAIBO and stakeholders in Malaysia have led to progress toward formalizing a contract. Still, no contract has been entered into between AAIBO and stakeholders in Malaysia and the Company.

As reported in our form 8-K, filed with the SEC on June 25, 2025, we entered into a Distributor Agreement with VIPS, providing for VIPS to serve as our exclusive distributor to promote, sell, and lease our AOT product in the territories of Malaysia, Ghana, and India, among other territories. To date, and as previously reported, we have not received any purchase orders under the Distributor Agreement, nor has our AOT product been placed with, nor is it currently being used by, any of VIPS' customers or anyone else. As previously reported, we have also amended the Distributor Agreement, as follows:

Section 3.2 (Additional Revenue), Section 3.3 (Order Process & Payment Terms), and Section 3.5 (Additional Consideration) of the Distributor Agreement was amended, effective September 3, 2025 ("Amended Distributor Agreement").

Amendment No. 1 referenced in Section 3.3 of the Amended Distributor Agreement now provides for, among other things and conditions, an initial pre-phase purchase order of two (2) AOT units for a total purchase price of ten million dollars ($10,000,000), payment of which has not been made. Thereafter, Amendment No.1 of Section 3.3 provides for five (5) purchase order phases, the first of which (Phase 1) provides for an order of ten (10) AOT units for a total purchase price of $50,000,000 ($5,000,000 per unit), payable with a down payment of $25,000,000 followed by two payments of $12,500,000 each. These orders and payments are subject to satisfaction of several conditions including, without limitation, compliance and verification with SBLC and FAT conditions (defined and discussed in the paragraph below). Amendment No. 1 of Section 3.3 also provides for phase 2 through phase 5 order, payment, and funding conditions, as well as approval conditions and compliance. Sample purchase orders for pre-phase and phases 1 through 5 are, attached to the Amended Distribution Agreement, together with other sample invoices and sample orders. The samples do not represent actual orders or payments but establish only the form pursuant to which future orders and payments may be made. We can provide no assurances that conditions will be satisfied triggering any purchase or payment under the Amended Distributor Agreement or its attachments.

Amendment No. 3 referenced in Section 3.5 of the Amended Distributor Agreement now provides that upon the Company's receipt of payment of ten million dollars ($10,000,000) for the purchase of two (2) AOT Units, the Company shall issue VIPS/Stephen Bosco a Stock Purchase Warrant ("Warrant") providing VIPS the right to purchase 25,000,000 million restricted shares of common stock of the Company, at a price of $0.07 cents per share ("Exercise Price"). The Warrant will vest on issuance and expire three (3) years from the date of issuance. VIPS' payment of the Exercise Price of $1,750,000 for all 25,000,000 shares shall be rebate-based, meaning, as previously reported in the Company's Form 8-K filing on June 25, 2025, for every AOT Unit sold by the Company to VIPS for a purchase price per unit of $5,000,000, the Company will process a post-sale rebate of 15% of the purchase price, or $750,000, to VIPS. Post-sale rebates due VIPS, up to a maximum of $1,750,000, will be applied to, and be deemed payment of, the Exercise Price.

Amendment No. 2 referenced in Section 3.2 of the Amended Distributor Agreement now provides a formula for the sharing of additional revenue between the Company and VIPS based on incremental barrels and carbon credits achieved through the use of the Company's AOT Units.

A copy of the Amended Distributor Agreement, together with amendments and samples attached thereto are included in our Form 10-K filed with the SEC on March 31, 2026. The above summary of the Amended Distributor Agreement provides selected information only and is qualified in its entirety by the Amended Distributor Agreement. The Amended Distributor Agreement and attachments thereto should be carefully read in their entirety.

Additionally, QS Energy, in coordination with VIPS, VIPS' customer counterparties, and associated financial institutions, is engaged in negotiations seeking execution of an initial commercial deployment plan for the 3.0 generation AOT Units. The parties maintain active alignment on the master schedule, which incorporates a five-point Standby Letter of Credit (SBLC) trigger framework tied to Factory Acceptance Testing (FAT), completion of manufacturing by specified dates, scheduled delivery to destination countries, and defined installation windows coordinated with crude oil operators. Activities to date have resulted in some progress across all workstreams associated with the 3.0 deployment plan, but no definitive agreements in furtherance of the 3.0 deployment plan have been executed, and, as previously reported, no revenue has been realized nor AOT purchases have been made under such deployment plan, nor can we provide any assurances that any such agreements will ever be executed and implemented.

The multi-phase potential deployment of up to 400 AOT units previously disclosed under the VIPS Distributor Agreement was structured as an aggregate, multi territory framework across VIPS's priority regions, including India, Malaysia and Ghana, rather than as a country specific order. This multi-territory framework has not yet produced any sales or revenue for the Company. As previously reported, we have been focused, and continue to focus, on a potential sale of 150 units as an initial purchase order under the so-called Laksel LOI (discussed below). This represents a defined India focused initial program within our broader framework, targeting the region's largest crude pipeline market, while the Amended VIPS Distributor Agreement continues to provide the contractual basis for pursuing additional opportunities in other territories, including potential applications in Malaysia where certain offshore to onshore crude transportation systems and related subsea infrastructure may, subject to further engineering evaluation, present longer term deployment use cases for the Company's AOT technology.

As previously reported, the Company's commercialization efforts in India, initiated through its collaboration and distribution arrangements with VIPS have progressed with the formalization of a relationship with Laksel Corporation Pte Ltd ("Laksel"), which will serve as the designated EPC partner for the region — a role Laksel has held since the inception of the VIPS India initiative by virtue of its regional expertise, longstanding relationships with the Indian public sector oil and gas enterprises, and extensive prior project execution experience across Asia Pacific and the Middle East. As previously reported in Notes 11 and 13 of the financial statements attached to our 10-K report filed with the SEC on March 31, 2026, our relationship with Laksel is reflected in the non-binding Laksel letter of intent ("Laksel LOI"). The Laksel LOI outlines a potential large-scale AOT deployment program ("Program") on crude oil pipeline infrastructure in India but remains subject to financing, other conditions, and definitive documentation. As of the date of this filing there has been some progress made in the preparation and review of definitive documentation and agreements in furtherance of the Laksel LOI. In this regard, effective August 10, 2026, Laksel and the Company executed an amendment to the non-binding Laksel LOI ("Amendment"). The Amendment provides for one change to the Laksel LOI. The senior secured financing contemplated in the Laksel LOI has now been replaced with a different finance structure for the purchase, installment, maintenance, and operation of the Company's AOT product. This new financing structure contemplates the creation of a revenue stream profit participation pool to be shared among pipeline operators. Implementation of the Amendment, just as the case with the initial Laksel LOI, continues to be subject to and conditioned on the execution of definitive agreements and documents, as well as financing commitments. To date, no such documentation or agreements or financing commitments have been completed, signed, delivered, or funded. We can provide no assurances that such funding, documentation or agreements will be finalized, or that the Program will be funded under the new financing structure set forth in the Amendment.

To date, we have not received any purchase orders, nor generated any revenue, under the Amended Distributor Agreement or the Laksel LOI as amended, nor has our AOT product been placed with, nor is it currently being used by, any of VIPS' or Laksel's customers or anyone else, and we can provide no assurances that our AOT product will be accepted or purchased by VIPS or Laksel, or any of their customers, or anyone else.

Since September 30, 2026, we have made further progress toward the Program, which remains subject to financing, other conditions and definitive documentation.

While we have not yet entered into any customer, operator, or user contracts or generated any revenue from the sale, use, or placement of our AOT product, we have nonetheless executed supply and release agreements with five manufacturers for the 150 AOT units contemplated by the Program. Forward-MFG will supply the programmable logic controller and sensor package. ReadyFlo Systems will perform vessel fabrication, assembly, electrical-rack integration and factory acceptance testing. Precision Urethane & Machine, Inc. will supply urethane components. Spellman High Voltage Electronics Corporation will supply high-voltage power supplies under a supply confirmation executed October 27, 2026. Industrial Screen & Maintenance, Inc. will supply screens and associated hardware under an agreement executed October 30, 2026.

As a result of our partnership with VIPS, we have also executed agreements with Laksel Engineering and Technologies Private Limited, an affiliate of Laksel, for installation, commissioning and ten years of maintenance of the 150 AOT units. A separate agreement covers support for operator contracts and sales origination. Performance under both is conditioned on binding financing for the overall Program.

Proposed agreements with the pipeline operators have been prepared and provided to the operators for review, but have not yet been executed. We can provide no assurances that any such agreements will be signed or delivered. The operators are Oil India Limited, Indian Oil Corporation Limited, Numaligarh Refinery Limited and Oil and Natural Gas Corporation Limited. Laksel is working with the operators to verify the site data required for installation.

On October 2, 2026, we executed a consulting agreement with Magestic Advisors Group Inc. (“MAGI”) to arrange financing and insurance for the Program and to provide related risk-management services. We have not yet confirmed nor received any such financing or insurance and can provide no assurances that we will.

Prospective lenders are conducting due diligence and underwriting of the Program. They include a global alternative asset manager with a growing India investment program, working alongside an India-focused private credit and structured finance firm. Prospective insurers, including a global specialty insurance market and Indian insurance carriers, are reviewing the Program's proposed insurance structure and its monitoring and reporting system.

We have executed an agreement with Overwatch Grid Systems for field monitoring of the AOT units. Under the proposed financing structure, an independent engineer appointed by the lenders would certify operating results against the pipeline operators' meter records.

We have also executed a services agreement with NeuroCore, which has built and launched QS Command, our program management system. QS Command is designed to track each pipeline, unit, milestone and payment against the Program schedule for lenders, insurers and operators. A demonstration of QS Command is available upon request.

The Program’s closing and funding are subject to several conditions, including financing commitments, insurance, completion of due diligence, completion of lender underwriting, insurer validation of QS Command, and final site verification and execution of definitive agreements by the operators, lenders, and insurers. We continue to work with Laksel, MAGI and the prospective lenders and insurers to satisfy the conditions within our control, including supporting due diligence, as well as underwriting and insurer validation. Satisfaction of several conditions, including financing commitments and execution of agreements are subject to the independent, discretionary decisions of prospective lenders, insurers, and pipeline operators. Upon satisfaction of these conditions, execution of agreements, and closing of the Program, we anticipate receiving initial installment payments due to us under the Program. We can provide no assurances that the aforementioned conditions will be satisfied, or that agreements will be executed, or that we will receive any payments under the Program.

QS Energy has collaborated with its manufacturing partners to ensure readiness for anticipated production demands. This proactive approach positions us to efficiently scale operations and support anticipated growth if we are able to secure contacts for the deployment and use of our AOT products and technology.

We believe the supply chain is ready for production of our AOT product if we are able to secure a contract for its deployment. We also believe investments are being made by potential third-party users of our AOT product in technology and data analysis, which we hope will lead to contracts for the deployment and use of our AOT product and technology.

As part of our ongoing commitment to advancing QS Energy's strategic objectives, we have initiated preparations to deploy an AOT™ Midstream Viscosity Reduction Unit in Corpus Christi, Texas in collaboration with ReadyFlo Systems. Final engineering and design work was performed for a 300-meter flow loop, which will enable us to conduct operational trials of the AOT™ under live-flow conditions utilizing customer crude oil streams.

The development of this flow loop marks a significant milestone in enhancing our customer support infrastructure and demonstrates our continued investment in operational excellence. We plan to repurpose the vessel from the demonstration site and integrate it with an upgraded stack, ensuring alignment with potential customer project requirements. Importantly, this flow loop will serve not only as a resource for customer-driven projects but also as a platform for ongoing product improvement and innovation initiatives. This proactive approach supports our objective to deliver robust, value-added solutions to our clients and stakeholders.

The design and implementation of the flow loop have been successfully completed. The system is operational and has delivered positive initial results, validating, we believe, its utility for future testing and qualification efforts.

We have initiated consultations with the Environmental Protection Agency (EPA) and other relevant stakeholders to evaluate the requirements for operating the loop with crude oil. These discussions have been constructive, and as anticipated, only minor system modifications are necessary to accommodate crude oil safely and compliantly.

It is important to note that the decision to construct the flow loop was a strategic initiative—not a requirement. Our team identified the loop as a proactive investment to improve testing fidelity, accelerate development timelines, and strengthen stakeholder confidence. To mark this milestone, we invited key stakeholders to participate in a christening event on September 8, 2025, reinforcing our commitment to transparency, collaboration, and continuous improvement.

Our manufacturing partners have collectively invested approximately $2,000,000 in equipment and dedicated space to support production of up to 40 AOT units per month. Our Corpus Christi, Texas manufacturing location can hold up to four manufacturing lines, with warehouse capacity for parts and yard space for finished units and loaded containers.

Proprietary engineering changes made in 2025 improved the reliability, manufacturability and shipping cost of the AOT. These include improvements to stack assembly and stability, a production process that increases output of key internal components several-fold, a power-supply configuration with half the prior footprint, and a skid that ships two units in the space of one. We also updated the vessel design to the current certification standard. Parts of this work were validated through independent engineering review and modeling.

The AOT installed in the Corpus Christi flow loop is AOT 2.99, which pairs the AOT 2.0 pressure vessel with upgraded internals. It is our latest hardware generation after the pilot unit, AOT 1.0 and AOT 2.0, all of which are now at Corpus Christi following the July 2025 move of the pilot unit from Tomball, Texas. At the September 8, 2025 christening, we ran AOT 2.99 at full voltage in the loop, which was built in approximately eight weeks at a third-party cost of approximately $272,000. The unit's control system reads loop data and controls pump speed.

AOT 3.0 builds on AOT 2.99, carrying forward the existing vessel design with further proprietary refinements to the internals for assembly and crude oil service. We are also evaluating an improved high-voltage connection that may simplify the unit's electrical housing. The control system is designed to resist tampering and supports cellular or satellite telemetry. Our remaining steps are UL testing of our new sensor for Class I, Division 1 certification, estimated at approximately $50,000, and completing the AOT 3.0 upgrades to the AOT 2.99 unit.

Our expenses to date have been funded 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 2026, and beyond, to fund work on our AOT, our sales and marketing efforts, continuing research and development, and certain other expenses, including without limitation, legal and accounting expenses, until we are able to achieve a revenue base. We can provide no assurances that additional capital will be available to us, or if it is, that such additional capital will be offered at acceptable terms.

There are significant risks associated with our business, our technology, our Company, and our stock. See "Risk Factors," below.

We are 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. The greatest impact on oil transport volume may be realized through reductions in pipeline operator reliance on diluent for viscosity reduction utilizing AOT technology; a process sometimes the Company refers to as electronic diluent, or "eDiluent". We also seek to provide the oil industry with a way to reduce emissions from operating equipment. We believe our goals may be realizable via viscosity reduction using our AOT product line.

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. Key players in the pipeline industry continue to demonstrate 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.

Results of Operations for Three months ended September 30, 2026 and 2025

	Three months ended September 30,		
	2026	**2025**	**Change**
Revenues	$ –	$ –	$ –
Costs and expenses			
Operating expenses	723,000	646,000	77,000
Research and development expenses	142,000	1,244,000	(1,102,000)
Loss from operations	(865,000)	(1,890,000)	1,025,000
Other income (expense)			
Interest and financing expense	(28,000)	(74,000)	46,000
Net Loss	$ (893,000)	$ (1,964,000)	$ 1,071,000

Operating expenses were $723,000 for the three-month period ended September 30, 2026, compared to $646,000 for the three-month period ended September 30, 2025, an increase of $77,000. This is due to an increase in non-cash expenses of $57,000, and an increase in cash expenses of $20,000. Specifically, the increase in non-cash expenses are attributable to increases in stock compensation expense attributable to vested options and warrants issued as compensation of $38,000, and options issued under the Company's Director Compensation Policy of $19,000. The increase in cash expense is attributable to increases in salaries and benefits of $24,000, insurance of $12,000, consulting expenses of $9,000, office expenses of $1,000 and other expenses of $1,000, offset by decreases in legal and accounting of $14,000, corporate expenses of $7,000, travel expenses of $4,000, rent expense of $1,000, and bank fees of $1,000.

Research and development expenses were $142,000 for the three-month period ended September 30, 2026, compared to $1,244,000 for the three-month period ended September 30, 2025.

Other income and expense were $28,000 expense for the three-month period ended September 30, 2026, compared to $74,000 expense for the three-month period ended September 30, 2025, a net decrease in other expenses of $46,000. This decrease is attributable to a decrease in non-cash other expenses of $46,000. The decrease in non-cash other expense is due to a decrease in expense attributable to interest, beneficial conversion factors and warrants associated with convertible notes issued in the amount of $46,000.

The Company had a net loss of $893,000, or $0 per share, for the three-month period ended September 30, 2026, compared to a net loss of $1,964,000, or $0 per share, for the three-month period ended September 30, 2025.

Results of Operations for Nine months ended September 30, 2026 and 2025

	Nine months ended September 30,		
	2026	**2025**	**Change**
Revenues	$ –	$ –	$ –
Costs and Expenses			
Operating expenses	3,583,000	12,050,000	(8,467,000)
Research and development expenses	153,000	1,395,000	(1,242,000)
Loss from operations	(3,736,000)	(13,445,000)	9,709,000
Other income (expense)			
Interest and financing expense	(101,000)	(332,000)	231,000
Net Loss	$ (3,837,000)	$ (13,777,000)	$ 9,940,000

Operating expenses were $3,583,000 for the nine-month period ended September 30, 2026, compared to $12,050,000 for the nine-month period ended September 30, 2025, a decrease of $8,467,000. This is due to decreases in non-cash expenses of $7,150,000 and cash expenses of $1,317,000. Specifically, the decrease in non-cash expenses is attributable to decreases in vested options issued to employees as compensation of $3,644,000, options issued for the Company's Director Compensation Policy of $1,771,000, common stock as compensation of $1,271,000 and vested options and warrants issued as compensation for services of $464,000. The decrease in cash expense is attributable to decreases in salaries and benefits of $1,103,000, consulting expenses of $129,000, corporate expenses of $96,000, legal and accounting of $64,000, office expenses of $13,000, travel expenses of $14,000, rent expenses of $7,000, patent expenses of $3,000, auto expenses of $3,000, public and investor relations of $1,000, offset by increases in insurance expenses of $115,000, and bank fees of $1,000.

Research and development expenses were $153,000 for the nine-month period ended September 30, 2026, compared to $1,395,000 for the nine-month period ended September 30, 2025, a decrease of $1,242,000. This decrease is attributable to decreases in prototype product development costs of $1,242,000.

Other income and expense were $101,000 expense for the nine-month period ended September 30, 2026, compared to $332,000 expense for the nine-month period ended September 30, 2025, a net decrease in other expenses of $231,000. This decrease is attributable to a decrease in non-cash other expenses of $231,000. The decrease in non-cash other expense is due to decreases in expense attributable to interest, beneficial conversion factors and warrants associated with convertible notes issued in the amount of $231,000.

The Company had a net loss of $3,837,000 or $0.01 per share, for the nine-month period ended September 30, 2026, compared to a net loss of $13,777,000 or $0.03 per share, for the nine-month period ended September 30, 2025.

Liquidity and Capital Resources

Going concern

As reflected in the accompanying condensed consolidated financial statements, the Company has not yet generated revenues and has incurred recurring net losses. We have incurred negative cash flow from operations since our inception in 1998 and a stockholders' deficit of $5,947,000 as of September 30, 2026. Our negative operating cash flow for the period ended September 30, 2026 was funded primarily through execution of options and warrants to purchase common stock.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying condensed consolidated financial statements, the Company had a net loss of $3,837,000 and a negative cash flow from operations of $1,569,000 for the nine-month period ended September 30, 2026. In addition, as of September 30, 2026, 46 notes payable with an aggregate balance of $1,229,000, license agreement payables of $3,167,000 and certain obligations to a former officer are past due. These factors raise substantial doubt about our ability to continue as a going concern. In addition, the Company's independent registered public accounting firm, in its report on the Company's December 31, 2025 financial statements, has raised substantial doubt about the Company's ability to continue as a going concern.

Our ability to continue as a going concern is dependent upon our ability to raise additional funds and implement our business plan. The consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

Summary

During the period ended September 30, 2026, we received cash from financing activities of $1,571,000 from the exercise of options and warrants, and used cash in operating activities of $1,569,000. At September 30, 2026, we had cash on hand in the amount of $8,000. We will need additional funds to operate our business, including without limitation the expenses we will incur in connection with the license agreements with Temple University; costs associated with product development and commercialization of the AOT and related technologies; costs to manufacture and ship our products; costs to design and implement an effective system of internal controls and disclosure controls and procedures; costs of maintaining our status as a public company by filing periodic reports with the SEC, including without limitation, costs of legal, accounting, quarterly reviews, and annual audits, and costs required to protect our intellectual property. In addition, as discussed above and below, we have substantial contractual commitments, including without limitation, certain severance payments to a former officer, ongoing salary payments to our CEO, independent contractor payments, consulting fee payments, payments due under notes, and license payments due to Temple, during the remainder of 2026 and beyond.

No assurance can be given that any revenues or future financing will be available to cover these payments and contractual commitments or to cover the costs of the development, commercialization, and sale of AOT, or, if available, that any such future financing will be on terms that are satisfactory to the Company.

Licensing Fees to Temple University

For details of the licensing agreements with Temple University, see Financial Information, Part I, Note 5 (Research and Development) above.

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

Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying consolidated financial statements, during the nine-months ended September 30, 2026, the Company incurred a net loss of $3,837,000, used cash in operations of $1,569,000 and had a stockholders' deficit of $5,947,000 as of September 30, 2026. In addition, as of September 30, 2026, 46 notes payable with an aggregate balance of $1,229,000, license agreement payables of $3,167,000 and certain obligations to a former officer are past due. These factors raise substantial doubt about the Company's ability to continue as a going concern. In addition, the Company's independent registered public accounting firm, in its report on the Company's December 31, 2025, financial statements, has raised 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.

Recent Accounting Polices

See Part I, Note 2, above, in the accompanying financial statements for a discussion of recent accounting policies.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

We are a smaller reporting company and are not required to provide information under this Item 3.

Item 4. Controls and Procedures

1. Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive and Financial Officer, evaluated, as of September 30, 2026, the effectiveness of the Company's disclosure controls and procedures, as such term is defined under Securities and Exchange Act of 1934 Rules 13a-15(f), which were designed to be effective at the reasonable assurance level. Based on this evaluation, the Company's Chief Executive and Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2026. As of September 30, 2026, management's assessment identified the material weaknesses in the Company's internal control over financial reporting:

We continue to have a material weakness in our internal control over financial reporting as disclosed in our 2025 Form 10-K, filed with the SEC on March 31, 2026, in that the Company has (i) inadequate segregation of duties consistent with control objectives; and (ii) the Company has an insufficient number of personnel with an appropriate level of U.S. GAAP knowledge and experience and ongoing training in the application of U.S. GAAP and SEC disclosure requirements commensurate with the Company's financial reporting requirements.

(a) Changes in Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the nine-month period ended September 30, 2026, that has materially changed or affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in our Form 10-K for the period ended December 31, 2025, which we filed with the SEC on March 31, 2026.

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

Issuances

The Company did not have any private offerings exempt from registration during the nine months ended September 30, 2026.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

The Company provides updates on its website in the section thereunder labeled “Recent Updates” at https://qsenergy.com/updates.

During the quarter ended September 30, 2026, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

Exhibit No.	Description
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	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in iXBRL, and included in exhibit 101).

SIGNATURES

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

QS ENERGY, INC.

Date: November 16, 2026

By: /s/ Cecil Bond Kyte
Cecil Bond Kyte
Chief Executive Officer, Chief Financial Officer,
and Chairman of the Board of Directors

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, Cecil Bond Kyte, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 16, 2026

/s/ CECIL BOND KYTE
Cecil Bond Kyte
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, Cecil Bond Kyte, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 16, 2026

/s/ CECIL BOND KYTE
Cecil Bond Kyte
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 Chief Executive Officer and the Chief Financial Officer of QS Energy, Inc. (the "Company"), hereby certify, based on our knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2026 (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: November 16, 2026

/s/ CECIL BOND KYTE
Cecil Bond Kyte
Chief Executive Officer

Date: November 16, 2026

/s/ CECIL BOND KYTE
Cecil Bond Kyte
Chief Financial Officer