

EuroSite Power Inc. (EUSP)

Company Report – August 27, 2016

EuroSite Power installs, owns, and operates Combined Heat & Power (CHP), and cooling systems at smaller industrial and commercial facilities. It provides these facilities with clean, reliable power, cooling, heat and hot water without any capital or start-up costs to the customer and at lower costs than charged by conventional energy suppliers.

In the second quarter, ended June 30, 2016, EuroSite Power reached revenues of \$640,437, a solid increase of 18%, compared to \$542,973 for the same period in 2015. Not taking into account the recent decline of the British pound, sales growth was 26%.

Another highlight of the second quarter was the improvement in gross margin. From 24.1% in 2015 to 34.4% this year, up 10.3 percentage points, or more than 40%.

According to our estimates, EuroSite Power only needs around an additional 800 kW of installed power to become cash flow positive. This should be a strong catalyst for the Company's share price, making it an ideal time for investors to get on board.

Based on the intrinsic value of EuroSite Power's shares derived from our model, we reiterate our buy recommendation for the Company with a price target of US\$2.77, which is 246% above today's stock price.



- ▣ These are clearly very exciting times for EuroSite Power. With just \$300,000 in convertible debt remaining and a very strong cash position, the balance sheet of the Company has never been better. This fact, along with the project financing arrangements with Macquarie and Societe Generale give EuroSite the flexibility to aggressively grow its business across Europe.
- ▣ EuroSite Power has identified its initial acquisition target. We have the impression from management's comments on the quarterly earnings call that the acquisition could be closed fairly soon.
- ▣ Finally, the considerable participation of EuroSite's top management in the recent private placement is a very strong demonstration of insiders' confidence in the Company's future and potential. After all, no one knows a company better than its insiders.



THE COMPANY

EuroSite Power Inc. owns and operates clean, On-Site Utility systems that produce electricity, hot water, heat and cooling. The Company has developed an innovative financial solution that provides significant economic and operational benefits to properties, such as healthcare facilities, hotels, multi-family housing facilities, leisure centers, schools, and colleges.

It installs, pays for, owns, operates and maintains highly efficient low carbon technologies such as natural gas fueled Combined Heat and Power (CHP) units, chillers, and heat pumps. These CHP, or cogeneration, systems produce electricity from an internal combustion engine that drives a generator, while the heat from the engine and exhaust is recovered and used for heating purposes at the site and to produce hot water.

Customers opt for EuroSite Power’s solutions for several reasons. First, its systems operate at up to 90% efficiency, versus less than 33% for the existing power grid. This means the Company can sell the produced energy at prices which are 5% to 15% lower than these charged by a regular energy provider, saving customers between US\$250,000 and US\$3,250,000 per building over the term of the agreement.

Second, customers benefit from a reduction in their energy bills without the capital costs and risks associated with owning and operating a CHP system. Also, by outsourcing the management and financing of an on-site energy facility to EuroSite Power, customers reap the economic advantages without the need to retain specialized in-house staff with skills unrelated to their core business.

In addition, by simultaneously providing electricity, hot water and heat, CHP systems have a positive impact on the environment as they reduce carbon dioxide (CO₂) production. In 2015, for example, the Company’s operational fleet reduced UK carbon emissions by 3,680 metric tonnes, equivalent to taking 775 cars off the road.

Finally, reliability is enhanced with a CHP unit because the customer also remains connected to the electric grid. Therefore, if the grid experiences a blackout, it won’t necessarily result in a power outage at the customer’s site.

The proven CHP systems offer the ability to enter into 15-year long contracts, assuring EuroSite Power of a guaranteed, steady income. Revenue from energy contracts is recognized when electricity, heat, and chilled water is produced by the systems on-site. Customers are billed monthly.

In the second quarter, ended June 30, 2016, EuroSite Power reached revenues of \$640,437, an increase of 18%, compared to \$542,973 for the same period in 2015.

Although that’s an impressive growth rate, in local currency the Company performed even better with revenues of GBP£446,718 for the second quarter of 2016, versus revenues of GBP£354,514 in the comparable quarter last year, an increase of 26%. The difference is due to the recent decline of the British pound versus the US dollar as a result of the so-called Brexit. So although the Company reports in US dollars, it’s important to look at the results in British pounds as well to get an exact picture of its performance.



The graph above indicates how the British pound depreciated more than 15% against the US dollar.

The strong revenue improvement was driven by the higher number of operational systems at quarter end of 31, compared to just 27 operational systems on June 30, 2015. This was also reflected in a higher energy production of all systems combined. In the second quarter of 2016 a total of 9,438,567

kWh of energy was generated, a 34.4% improvement over prior year results.

Another highlight of the second quarter was the improvement of gross margin, excluding depreciation, by over 40% compared with the second quarter of 2015 (10.3 percentage points improvement) to a strong 34.4%. Just a few points shy of management's target of 35%.

This is the true beauty of EuroSite Power. Its revenues are mostly predictable as the biggest contributing factor to sales is the number of cogeneration units in operation. That number continues to steadily increase as the amount of contracted customers and potential new customers grows both in the UK and mainland Europe. In addition, each unit that's taken into operation comes with a 15-year contract, assuring EuroSite Power of a guaranteed, steady income. All of this makes the Company's revenues grow almost on a quarter to quarter basis.

In addition, EuroSite Power's margins are growing, which will make it turn profitable sooner. It's just a matter of time before the Company reaches that magic number of operational installations to make it become cash flow and net income positive.

EuroSite Power Business Model

The Company's business model, and benefits for all parties involved, will become even clearer on the basis of an example.

A few months ago, EuroSite Power started up a 125 kW Combined Heat and Power system at the Kingfisher Leisure Centre in Sudbury, UK. Kingfisher includes a large leisure pool, sauna, spa, 37-station gym, Power Plate studio, café and a children's play center, making it particularly applicable to CHP, as demand for heating, hot water, and electricity is high.

The cost to install the unit, about US\$238,000, was entirely funded by EuroSite Power. The Company also pays for the gas to run the CHP system and its maintenance.

Consequently, there is no impact on the customer's overhead and no additional staff required.

Kingfisher simply has to pay for the generated energy by the CHP unit, which is guaranteed to be cheaper than the displaced energy from the grid. Estimated savings for the customer are in excess of US\$20,156 per year. During the 15-year contract term, even excluding inflation, Kingfisher is expected to save approximately US\$300,000.



The CHP system at the Kingfisher Leisure Centre provides heating, hot water, and electricity to the facility.

In addition to saving money, EuroSite Power's systems help to conserve energy, reduce emissions and improve the environment. The particular system installed at the leisure facility will produce up to 1,484,021 kWh of total energy per year, while saving up to 234 tonnes of CO₂ – equivalent to taking nearly 50 cars off the road each year. This is important, because it enables EuroSite Power to benefit from government incentives, such as Enhanced Capital Allowances, that are in place in the UK.

EuroSite Power expects the Kingfisher unit to generate revenues of approximately US\$153,000 per annum, or a total of US\$2.41 (based on current exchange rates) million over the 15-year contract term.

This compelling offer is truly what sets EuroSite Power apart. It takes full responsibility for all expenses, customers get a discount on the energy that's used, and as a bonus, significant government incentives are offered for operating a CHP system.

In its business model EuroSite Power targets an internal rate of return (IRR) on investments of over 20%, which produces a project payback period of just over four years on average.

Competition

EuroSite Power competes with utilities that provide electricity, with companies that provide similar services, and with other forms of alternative energy.

Companies that provide similar services include Siemens AG, Honeywell International Inc. and Johnson Controls Inc. Because of their overhead structures, these companies often solicit large, diverse projects rather than individual properties. Because EuroSite Power focusses on much smaller projects solely for energy supply, these giants, in most cases, are potential suppliers of equipment and not competitors.

In addition, there are a few local emerging cogeneration developers and contractors that are attempting to offer similar services as EuroSite Power. There's a relatively high barrier to enter the market though as they need to have the proper experience in equipment and technology, installation contracting, equipment maintenance and operation, site economic evaluation, project financing and energy sales plus the capability to cover a broad region.

TECHNOLOGY

Combined Heat and Power

Combined Heat and Power is the simultaneous production of two types of energy – electricity and heat – from a single source.

Most of EuroSite Power's CHP units utilize a low-cost, mass-produced, internal combustion engine from General Motors, used primarily in light trucks and sport utility vehicles, that is modified to run on natural gas.

The engine spins a generator to produce electricity, which is used by the customer, with any additional electricity needed by the

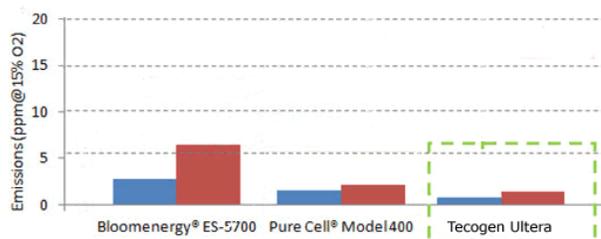
customer's facility simply being delivered as normal from the grid.

The heat that's generated during this process is captured from the engine's water cooling circuit, the exhaust gases and even the engine oil. A heat exchanger is then connected to the existing heating system to supply space heating, heat domestic hot water, and to provide heat for swimming pools and spas.

With these features, CHP units are ideally suited for organizations such as hotels, leisure centers, fitness clubs, and healthcare facilities, as they can supply nearly all of their hot water needs and simultaneously cover a considerable portion of the facility's electrical demand.

Combined Heat and Power systems use fuel very efficiently, as they provide electricity and heat at a combined efficiency approaching 90%. This is a significant improvement over the 30 to 35% efficiency of electricity generated by a power station.

Next to being more efficient, a CHP unit also provides a greener, lower carbon solution than conventional electricity from a utility provider and heat from a boiler. In compliance with the most stringent emission control standards worldwide, Tecogen, the manufacturer of some of EuroSite Power's CHP systems, obtained a patent for its Ultra low-emissions technology.



CHP systems used by EuroSite Power emit significantly less NOx (blue) and CO (red) than other leading systems.

With this technology, Tecogen's cogeneration products are able to reduce pollutant emission, such as NOx, CO, and HCs to a level comparable to fuel cells at a much lower cost and higher efficiency. **By having access to Tecogen's exclusive technology, EuroSite**

Power separates itself from all of its competitors.

Chillers

EuroSite Power also offers a number of gas-engine driven chillers across a range of outputs from 90kW to 1,400kW. Unlike conventional chillers that use an electric motor to power a compressor, a gas-engine driven chiller uses an internal combustion engine to power the compressor.

The change in how the chiller is powered creates high efficiency and the opportunity to recover the heat from the engine itself. As such, a gas-engine driven chiller can provide both chilled water and hot water simultaneously for greater energy efficiency. In effect this becomes a form of cogeneration that's called Combined Heat and Cooling (CHC).



A gas-engine driven chiller in operation. The proven engine design of these chillers, have over 80 million hours of reliable operation.

Although an electric compressor driven chiller is a very efficient system for cooling a building, using a gas-engine to drive the compressor makes it 2.5 times more efficient than the most efficient absorption chiller.

Heat Pumps

Finally, EuroSite Power offers high efficiency heat pumps which use a combination of technologies designed to boost efficiency, save money, and reduce impact on the environment. Comprised of a natural gas

fueled hot water heater, the heat pump systems combine traditional boiler technology with the power of the heat pump to make a dramatic leap in heating efficiency.



Ilios heat pump

This clean technology equipment extracts thermal energy from the atmosphere and uses a cutting edge natural gas fueled engine to "pump" the heat to useful temperatures. The synergy of advanced heat pump and engine technology results in twice the efficiency of a gas fired boiler.

For locations with substantial hot water requirements the cost savings and environmental impact is significant, reducing the carbon footprint with an average of 50% in greenhouse gas emissions.

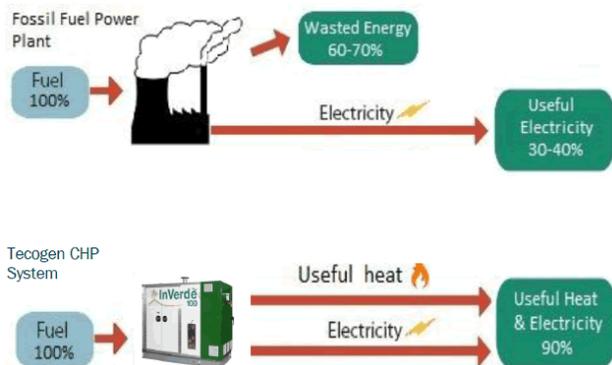
THE MARKET

CHP vs. Power Stations

The delivery of energy services to commercial and residential customers has evolved over many decades into an inefficient and increasingly unreliable structure. Power for lighting, air conditioning, refrigeration, communications and computing is almost exclusively generated by centralized power plants serving users through a complex grid of transmission and distribution lines and substations.

Conventional power stations are in effect CHP systems as they also produce electricity and heat. Unfortunately power stations are inherently inefficient as most of the heat is

wasted in cooling towers and chimneys. In addition, as power stations are located away from where the electricity is consumed, further energy is lost simply by transmitting the electricity over high voltage cables and across pylons to our cities and towns.



Fossil fuel power plants reach a maximum efficiency of about 40%, while CHPs approach 90%.

Even with continuous improvements in central station generation and transmission technologies, today's power industry discharges to the environment roughly twice as much heat as the amount of electrical energy delivered to end-users. Since coal accounts for a large part of electric power generation, these inefficiencies are a major contributor to rising atmospheric CO₂ emissions.

Most thermal energy for space heating and hot water services is produced by on-site boilers and furnaces that burn either natural gas or petroleum distillate fuels. The separation of thermal and electrical energy supply services has persisted despite a general recognition that CHP is significantly more energy efficient than central generation of electricity only.

CHP – The Preferred Technology

While CHP systems have been used in pulp and paper mills for years – the heat recovered is used to process steam or for drying duties – the technology has yet to reach critical mass across all industries. This is due, in part, to the long-established monopoly-like structure of the regulated utility industry.

Also, the technologies previously available for small on-site cogeneration systems were

incapable of delivering the reliability, cost and environmental performance necessary to displace, or even substantially modify, the established power industry structure.

This has radically changed in recent years due to reduced reliability of the utility grid, increasing cost pressures experienced by energy users, advances in low-cost technologies, and favorable legislation.

As a result, Combined Heat and Power systems are growing in popularity across Europe. By simultaneously generating electricity and useful heat, CHP systems have the capability of reducing carbon emissions by up to 30% and saving end users about 20% on energy bills.

Because the market for small CHP units – less than 500kW – is still relatively young, there are plenty of opportunities in hospitals, hotels, schools, recreational facilities, etc.

The CODE 2 project estimates that in 2030 CHP could generate 20% of the EU's electricity using a range of increasingly renewable fuels. The CHP Roadmap projections estimate that new and upgraded CHP capacity would reduce CO₂ emissions by 350 Mt in 2030. 15% of the EU's heat today comes from CHP (850 TWh). The CODE 2 project estimates that this heat volume will increase by around half to 1,264 TWh in 2030.

THE CODE 2 PROJECT – jointly funded by the EU and industry under Intelligent Energy Europe (IEE) programme – developed 27 National Cogeneration Roadmaps and one European Cogeneration Roadmap.

Incentives

In the European Union countries, CHP is viewed as a key measure to enable achievement of target reductions in greenhouse gas emissions. Consequently, it's widely supported by governments in the EU.

In the UK, EuroSite Power is enjoying a government incentive coined Enhanced Capital Allowance (ECA). The ECA program

provides a tax incentive to UK businesses that invest in energy-saving equipment that meets published energy-saving criteria. Basically, it encourages businesses to invest in environmentally friendly equipment specified on the Energy Technology List which is managed by the Carbon Trust on behalf of the UK Government.

	Feed-in Tariff	Feed-in Premium	Certificates Scheme	CAPEX support	Tax incentives	Other	No support
Austria				✓			
Czech Republic		✓			✓		
Denmark							✓
Finland		✓		✓	✓		
Flanders (Belgium)			✓	✓	✓		
France	✓	✓	✓		✓		✓
Germany	✓	✓			✓		
Greece	✓						
Hungary							✓
Ireland	✓				✓		
Italy			✓		✓		✓
Netherlands				✓	✓		
Poland			✓	✓			
Portugal	✓						
Slovak Republic		✓					
Slovenia							✓
Spain							✓
United Kingdom					✓		

CHP Support Schemes by country in 2016. Source: COGEN Europe National Snapshot Survey.

The ECA scheme allows businesses to write off the entire cost of the equipment against taxable profits in the year of purchase. For example, if a business pays income tax at 20%, every US\$10,000 spent on qualifying equipment would reduce its tax bill in the year of purchase by US\$2,000. As such ECAs are a straightforward way for a business to improve its cash flow through accelerated tax relief.

Combined Heat and Power equipment does not automatically qualify for an ECA benefit. In order to qualify, a machine needs to meet certain standards. Once a certificate of energy efficiency has been granted, the installation can qualify for an ECA incentive payment. EuroSite Power is exceptionally efficient in this matter, as in fact all its installed units meet or exceed the quality standard and have qualified for an ECA. This is a true quality standard and adds credibility to the Company’s team and its installed units.

In May 2015, EuroSite Power received its initial Enhanced Capital Allowance funds from

the UK government for the years 2012 and 2013 in the amount of approximately US\$625,000. And in January of this year the Company received close to US\$360,000 cash in ECA incentives for 2014. The tax break currently runs through the end of tax year 2018. So EuroSite Power expects to continue to benefit from Enhanced Capital Allowances at least through the end of April 2018.

4 PILLARS OF GROWTH

In the summer of 2015, EuroSite Power introduced four goals which laid the foundation for the Company’s success in coming years. In a matter of months, the four “pillars of growth” were completed, and are now bearing fruit.

Pillar 1 – Project Financing

EuroSite Power has recently closed project financing agreements with Macquarie Equipment Finance and Societe Generale Equipment Finance, two major financials groups.

This is a significant accomplishment, because before these agreements were in place, the Company entirely self-funded the cost of the CHP and the installation of the unit, roughly between US\$200,000 and US\$300,000. In order to do so, it relied on equity financing, which limited the Company’s ability to grow.

Under the new structure, as soon as the cogeneration unit is up and running, the lender, either Macquarie or Societe Generale, will refund EuroSite Power all costs associated with the purchase and the installation of the unit. From then on, the project will pay off the loan in monthly installments, typically over 5 years. This is obviously a major advantage for the Company, as it now has an almost unlimited access to funds from two major financial institutions for projects which meet the financing criteria.

In general, Macquarie will finance projects worth over US\$1.45 (£1) million and Societe Generale will finance the smaller value ones. Thanks to these two agreements, the Company can handle much larger projects both in system size (kW) and in terms of the number of sites.

MACQUARIE GROUP is a global financial services provider with offices in 27 countries. Since 2002, Macquarie Energy Leasing, which is part of Macquarie Group, has been assisting businesses by providing specialized and tailored leasing and finance products in the energy asset space.

SOCIETE GENERALE EQUIPMENT FINANCE (SGEF) is the international equipment and vendor finance specialist of Societe Generale group. SGEF is a worldwide leading player and a key partner for manufacturers and vendors in Europe, Africa, Asia and Americas. Societe Generale Equipment Finance manages more than EUR 22.2 billion end managed assets. With 3,100 people across 35 countries, SGEF serves more than 230,000 customers thanks to its sound industry knowledge in the Transportation, Industrial Equipment and High-Tech markets.

Mid-March of this year, the first project win financed by Societe Generale, was announced. A 331kW CHP system will be installed in The Dome leisure center, in Doncaster, UK. The agreement, is worth approximately US\$4.83 (£3.02) million.

And in July of 2016, the Company signed an agreement with Celtic Manor Resort for a 400 kW system. Also this project will be funded by Societe Generale Equipment Finance (also read Recent Events).

Both The Dome and Celtic Manor would most likely have been too large for EuroSite Power to handle without the financing structure. This shows that the financing process works, and also that the Company is ready to manage much larger projects both in system size (kW) and in terms of the number of sites.

Because the Company can now handle the installation of larger systems, it will move towards being cash flow positive faster. According to our estimates, the Company only needs around an additional 800 kW of installed power to reach that feat. It's just a matter of time before the Company achieves that magic number of operational installations,

making it an ideal time for investors to get on board.

Pillar 2 – Natural Gas Purchase Agreement

In November of last year, EuroSite Power reached an arrangement with Corona Energy, a leading independent energy supplier in the UK, to buy natural gas at very favorable prices on a site by site basis. Because EuroSite had 30 operating units at the time, the combined amount of gas that these machines consume was large enough to negotiate a much lower tariff with a single gas supplier.

Before the agreement with Corona Energy, each of EuroSite Power's customers bought gas from a gas supplier at a regular (retail) price, and EuroSite Power paid the exact same amount to the customer for the gas consumed by the Combined Heat and Power unit. Now, EuroSite Power buys gas from Corona Energy and is able to resell it to its customers with a profit.



Natural gas is a very important part of EuroSite's cost structure, as its CHPs convert natural gas into electricity and heat. In fact, the price which EuroSite pays for gas constitutes around 60% of the Company's total operating cost.

So by lowering the cost of gas at each customer's site, EuroSite Power enjoys reliably higher gross margins. The Company also has the opportunity to increase its revenues by selling gas to its customers for other uses, like catering or boiler feed. Notably, the gas used for non-CHP purposes is sold at a higher rate, which again is beneficial to EuroSite's margins.

In early April of this year, the Company signed its first gas resale agreement with Abbeycroft Leisure. As of May 1st, the customer started purchasing natural gas from EuroSite Power for three of its sites, two of which have a Combined Heat and Power unit installed. Abbeycroft is expected to save over US\$113,000 (£80,000) on their total annual gas and heat bills for the three sites.

Given these extraordinary savings, the Company feels confident that many more of its customers will execute similar gas resale agreements in the coming months. In fact, two additional customers that want to make the switch from their current gas supplier to EuroSite Power have been identified. These two customers combined have six operating CHP units.

Pillar 3 – European Expansion

In March 2016, EuroSite Power signed a collaboration agreement with the Czech CHP manufacturer TEDOM, to promote the Company's on-site utility solutions through more than thirty TEDOM dealers across the EU and Turkey.

The agreement will allow the dealers to offer an on-site utility solution to their customers as an alternative to buying a CHP system outright. With more than 3,500 CHP units sold and 25 years' experience, TEDOM is one of the world's leading CHP manufacturers.

TEDOM will introduce EuroSite to all of its 31 dealers and help promote the Company's on-site utility services. When a dealer identifies a potential customer who is interested in CHP, but doesn't have the financial means to install such a unit, an on-site utility agreement may be a good solution.

Although it's still early days, initial target countries are Germany and Italy as market conditions there are most suited to EuroSite's offer. The first thing to look for is the so-called Spark Spread. The Spark Spread represents the ratio between the price charged for electricity and the price charged for the fuel used to generate that electricity, which in EuroSite Power's case is natural gas. In countries where the Spark Spread is high,

the commercial viability for Combined Heat and Power is compelling.

The second condition to look for is the amount of government support for CHP technologies. Countries with a high Spark Spread and an attractive incentive scheme are key targets for the Company's expansion in Europe.



Part of the CHP production hall at Czech company TEDOM.

Of course, another important aspect of the agreement is customer service. If EuroSite Power were to have a customer in Poland, a couple in Germany, and one in Romania, logistics to maintain the machines soon would become a costly affair. Therefore, the deal with TEDOM, that already has an extensive dealer network in Europe, is very valuable for EuroSite Power in its European expansion plans as the TEDOM dealers will maintain and service the equipment.

Talking about the cooperation with TEDOM Paul Hamblin, Managing Director of EuroSite Power, commented, "The agreement works for all parties as the customer gets a solution without the upfront cost, the dealer gets a sale that may otherwise have been lost due to a lack of capital and also the contract to provide installation and maintenance services, TEDOM gets the order for the CHP unit, all paid for by EuroSite Power, which then delivers ongoing cheaper energy to the customer over 15 years via an On-Site Utility agreement."

Pillar 4 – In-House Maintenance Service Team

As of December 1st, 2015, EuroSite has its own in-house UK maintenance team.

Previously, maintenance of the installed cogeneration units was handled by third party companies, a costly arrangement that resulted in lower margins. Bringing maintenance operations in-house has been a strong contributor to the Company's higher margins since the fourth quarter of 2015.

Currently, EuroSite has 31 machines in operation, of which 11 are TEDOM units. These come with a two year warranty when installed. In order to retain their warranty, they must be maintained by TEDOM's UK dealer.

However, the first unit came to the end of its two year warranty period last month. Consequently, EuroSite Power has started servicing the first TEDOM unit as well. In fact, it has hired a new service technician to maintain the TEDOM fleet. This should help to increase margins further.

PIPELINE OF OPPORTUNITIES

EuroSite Power's total number of operational systems on June 30, 2016 was 31, with a total installed capacity of 3,178 kW. This favorably compares with just 27 systems totalling 2,705 kW of installed capacity a year ago.

The current contracted project backlog is 7 systems for a total of 1,320 kW in capacity. So the total systems under contract (both operating and in backlog) currently stands at 38, totaling 4,498 kW of capacity for a combined lifetime contract value of approximately \$102.12 (GBP£70.3) million on a local currency basis.

Within its current pipeline, the Company has plenty of parties with which it's actively negotiating. For example, it's negotiating with a couple of parties for multi-unit installations. There is also a steady stream of opportunities in the public sector. These are attractive projects although they involve a lot of paperwork as they always have to go through a European bidding process.

In addition, the Company has been targeting the NHS in the United Kingdom. EuroSite Power has identified approximately 2,000 kW of opportunities in that area.

Next to growth in the UK market, the Company is actively seeking to grow in mainland Europe. It's doing this by collaborating with the Czech CHP manufacturer TEDOM. Through the latter's extensive dealer network across Europe, the Company aims to identify potential customers. EuroSite Power representatives have already had an initial meeting with TEDOM's German dealer, and a few smaller opportunities have been identified.

Talking about opportunities in mainland Europe, EuroSite Power Chief Executive Officer Dr. Elias Samaras mentioned during the second quarter conference call that the Company was potentially going to participate in a large project in Europe.

Dr. Samaras also said that they have made an offer to acquire a UK company and that they are still searching for other acquisition candidates in Europe.

A final prospect in the pipeline was detailed by EuroSite Power's Managing Director Paul Hamblyn, who explained that he recently met with an Energy Efficiency Certificates dealer in Amsterdam. This company acts as an intermediary between companies that offer clean energy solution, such as EuroSite Power, and companies that potentially can benefit from using those solutions, such as hotel chains.

RECENT EVENTS

Another Major Contract Win

In early July, EuroSite Power signed an On-Site Utility agreement with the prestigious Celtic Manor Resort, in Newport, UK. The contract is worth approximately US\$5.32 (£4.11) million over a 15-year long period.

The 400 kW system is estimated to produce up to 2,174,960 kW of electricity and 2,579,990 kW of heat per year, while saving up to 751 tonnes of carbon dioxide (CO₂) – equivalent to taking 159 cars off the road. The CHP system at Celtic Manor will be EuroSite Power's largest in its history. The Company aims to have the CHP system up and running in the fourth quarter of 2016.

The Company has opted to install two 200 kW TEDOM CHP units, instead of just one 400 kW machine. Two separate units not only fit better in the resort's machine room, there is also a very good economical reason; Celtic Manor requires much less thermal load during the Summer. So by installing two machines, there is greater flexibility to match demand while also providing redundancy in the event of maintenance or other service issues.



Home of the 2010 Ryder Cup and host venue of the NATO Summit in 2014, the five-star Celtic Manor Resort is set in more than 2,000 acres of panoramic parkland.

The Celtic Manor Resort consists of three hotels – a 334-room luxury Resort Hotel, a historic 19th century Manor House with 67 rooms, and a 148-bedroom hotel – two exceptional spas, two state-of-the-art health clubs, a shooting school, tennis courts, fishing, adventure golf facilities, etc. It has no less than seven restaurants and was voted the UK's best hotel for four years running.

The contract with Celtic Manor was won through a competitive process, indicating that EuroSite Power offered a better and more cost effective solution than its competitors. Also noteworthy is that EuroSite Power for the first time used a term sheet with a potential customer in its sales process. Designed to get an early commitment and allow negotiation to take place in a period of exclusivity it proved very useful as it kept the project moving forward towards the signing of the final agreement.

New Director with Impressive Credentials

A few days ago, Stelios Zavvos joined the Board of Directors of EuroSite Power and was appointed Chair of the Audit Committee.

Mr. Zavvos is the Founder and Chief Executive Officer of Zeus Capital Management, a private equity group operating in Central Eastern Europe, South Eastern Europe, and the USA, and has over 35 years of corporate, finance and real estate experience.

Previously, he was the Founder and Chief Executive Officer of Continental American Capital, an investment group that focused on real estate investment and financing in the USA.

Mr. Zavvos was a Member of the Board of Directors of the NASDAQ listed Star Bulk Carriers Corp, serving on the Board's Audit Committee. He has also held executive positions in blue-chip companies such as Citibank, Johnson & Johnson and Procter & Gamble.

Mr. Zavvos holds an MBA from Harvard Business School and an MSc in Civil Engineering from Polytechnic University of Athens. He is a Member of the European Council on Foreign Relations and the Founder and President of the Harvard Business School Club of Greece. In addition, he is the Chairman of Solidarity Net Foundation, a philanthropic organization established by the Open Society Foundations to support society groups that are severely affected by the economic crisis in Greece.

FINANCIALS

Total revenues for the second quarter of 2016 were \$640,437, compared to \$542,973 for the same period in 2015, an increase of 18.0%. GAAP diluted loss per share (EPS) was \$0.01 for the second quarter of 2016 and \$0.00 second quarter of 2015.

Operating expenses were higher as the Company invested in additional engineering personnel, advertising and marketing initiatives.

Selling expense was adversely impacted by a one-time write down of a project-related bad debt while General and Administrative expense includes a nearly \$75,000 adverse swing related the impact of currency exchange rate fluctuations in the period.

Amounts in US\$000's	06/30/16	06/30/15
Net Sales	640	543
Cost of Sales	537	509
Operating Expenses	583	281
Loss From Operations	479	247
Debt Conversion Expense	(225)	-
Net (Loss)	(708)	(255)
Diluted Shares Outs.	72,622	65,747
Diluted EPS	(0.01)	(0.00)
Most important income statement data for the quarters ending June 30, 2016 and June 30, 2015. Source: Company Filing		

Impressive Margin Growth

Overall gross margin grew by 9.8 percentage points to 16.1% for the second quarter of 2016, a significant improvement over the 6.3% overall gross margin reported last year. Second quarter gross margins especially benefited from lower gas prices and the switch to an in-house maintenance team. Note that an additional in-house service technician has now been hired to specifically service the TEDOM cogeneration units as they exit their warranty periods. Management expects that this will help to increase margins even further.

Also good to know is that gas resale agreements, such as the one that was signed with Abbeycroft Leisure a few months ago, increased margins by up to a third. More gas resale agreements are expected to be closed in the coming months.

A final important item when looking at EuroSite Power's margins is the availability and efficiency of its operational fleet. This has been one of the Company's main focus points the past few quarters.

A CHP unit's availability, or up-time, can never reach 100%. Sometimes the equipment fails or it needs maintenance, or it might even be temporarily shut down because the electricity tariff from the grid is too low at certain times of the day, or year, to make sufficient margins. Units also switch off at times of low demand for heat such as during the warmer summer months. Overall fleet availability in the second quarter of 2016 was 87%, a significant improvement over the 81% availability in the comparable period last year.

This was achieved mainly thanks to several updates to the CHP units and improved system management due to in-house maintenance.

Efficiency, on the other hand, measures how much of a unit's input fuel is converted to energy which can then be sold to the customer. In the second quarter of 2016 efficiency reached 77%, compared to 78% in last year's second quarter. Although a slight drop, this is not a concern as it reflects the greater number of TEDOM units operational.

Balance Sheet As Of June 30, 2016

EuroSite Power eliminated most of its outstanding debt during the second quarter of 2016. In May of 2016, the Company raised \$7.25 million via a private placement of its common stock. A portion of these funds were used first to pay down \$2 million in debt outstanding.

Very interesting to note is that Mr. de Saussure, EuroSite Power's new Chairman of the Board, participated for \$2.5 million in the Company's recent private placement. Also, this investment was alongside ones from both Dr. Elias Samaras, EuroSite Power's CEO and Mr. John Hatsopoulos, the former Chairman of the Company.

Amounts in US\$000's	06/30/16	06/30/15
Cash and Cash Eq.	5,127	2,187
Accounts Receivable	252	181
Inventories	189	110
Total Current Assets	5,596	2,576
Property & equipment	7,618	6,996
Total Assets	13,222	9,586
Accounts Payable	212	383
Note Payable to Third Party	-	2,000
Total Current Liabilities	487	2,582
Convertible Debentures	-	1,615
Convertible Debentures – Third Party	311	969
Total Liabilities	798	5,166
Total Stockholder Equity	12,424	4,420
Most important balance sheet data for the periods ending June 30, 2016 and June 30, 2015. Source: Company Filing		

On June 28, 2016 the Company further strengthened its balance sheet via a substantial reduction in outstanding convertible debt. In total 3,909,260 common shares were issued at \$0.54 per share in exchange for \$2.1 million in senior notes. Following the conversion, only \$300,000 in 4% senior convertible debt, due June 2017, remains outstanding.

As a result of these financing activities, EuroSite Power's balance sheet has radically improved compared with a year ago. The Company now has over \$5 million in cash, which will be used to fund ongoing activities and growth initiatives.

The Company's consolidated working capital on June 30, 2016 was \$5,109,626 compared with a negative working capital of \$5,509 on June 30, 2015. In addition, at the end of the second quarter, EuroSite Power had an impressive current ratio of 11.50.

OUTLOOK & VALUATION

Both revenue and energy production were up considerably in the second quarter of 2016 compared with the same period in 2015. If it hadn't been for the sharp decline of the British pound, which obviously is out of the Company's control, sales growth would have been even higher.

Also, similar to the first quarter of this year, the Company again saw a strong improvement in its gross margins. Cost of sales benefited from a 10.5 percentage point improvement as a percent of total revenues when compared with the second quarter 2015. The Company continued to benefit from lower fuel prices, the gas purchase arrangement with Corona Energy, and cost savings related to bringing maintenance in house.

These are clearly very exciting times for EuroSite Power. With just \$300,000 in convertible debt remaining and a very strong cash position, the balance sheet of the Company has never been better. This fact, along with the project financing arrangements with Macquarie and Societe Generale give

EuroSite the flexibility to aggressively grow its business across Europe.

The Company has been hired additional sales personnel to support the expanded effort, as it's confident that plenty more opportunities are now within its reach.

More installations and growing margins will help EuroSite Power become cash flow positive and ultimately profitable in the foreseeable future. This should be a strong catalyst for the Company's share price.

Moreover, EuroSite Power has identified its initial acquisition target. We have the impression that the acquisition could be closed fairly soon.

Finally, the considerable participation of EuroSite's top management in the recent private placement is a very strong demonstration of insiders' confidence in the Company's future and potential. After all, no one knows a company better than its insiders. When they want to put their money on the line, why wouldn't other investors?

Valuation

Given the still emerging nature of EuroSite Power's earnings, a multiple-based valuation is challenging. Instead, we apply a Discounted Cash Flow (DCF) model.

Based on our estimate of 90 million shares outstanding, the intrinsic value of EuroSite Power's shares derived from our model is US\$2.77. This is justified as gross margins are increasing thanks to the implementation of the four pillars of growth. In addition, the Company has a substantial pipeline of opportunities.

Based on these numbers, we reiterate our buy recommendation for EuroSite Power Inc. with a price target of US\$2.77, which is 246% above today's stock price.

SHARE DATA & OWNERSHIP

As of August 11, 2016, EuroSite Power had 82,265,056 common shares outstanding.

In addition, the Company has 3 million warrants outstanding with an exercise price of US\$0.60 and 4.11 million options with an exercise price of US\$0.84. Finally, EuroSite Power has 0.3 million convertible debt, which is convertible at US\$0.60 per share.

The principal owners of the Company's common stock are American DG Energy (20.5%), Tryfon Natsis (17.5%), Elias Samaras (15.8%), Nettlestone Enterprise (12.3%), and John Hatsopoulos (11.2%).

MANAGEMENT

▣ DR. ELIAS SAMARAS - CHIEF EXECUTIVE OFFICER

Dr. Samaras is the founder, president and managing director of Digital Security Technologies S.A. He was also the founder and president of Pleafs Information Systems S.A. and City Messengers. Dr. Samaras holds a Master of Science degree from MIT, a Doctor of Philosophy from Columbia University in New York, where he was also a professor for several years and an OPM from Harvard Business School.

▣ JACQUES DE SAUSSURE- CHAIRMAN OF THE BOARD

As an expert in asset management and wealth management, Mr. de Saussure joined Pictet Group in 1980 and was elected partner in 1987. He served as Senior Managing Partner of the Pictet Group from 2010 until June 2016. Founded in Geneva in 1805, Pictet is

today one of Europe's leading independent wealth and asset managers, with EUR 437 billion of assets under management and custody as of year-end 2015. He is a member of the board of the Swiss Bankers Association, and has also served as vice chairman of the Swiss Stock Exchange.

▣ PAUL HAMBLYN - MANAGING DIRECTOR

Mr. Hamblyn is Managing Director of EuroSite Power Limited. He is also a Council Member of the Energy Services and Technology Association (ESTA). Prior to joining EuroSite Power, Mr. Hamblyn was Head of Energy Services for Corona Energy, a major B2B gas supplier, where he directed the creation of their energy services offer. Mr. Hamblyn previously held a series of positions with the ENER-G Group including 3 years as the Managing Director of ENER-G Efficiency, a company he took from a simple idea to become a leading provider of energy management solutions based on BEMS technology.

▣ BONNIE BROWN - CHIEF FINANCIAL OFFICER

Ms. Brown is a senior level executive with over 20 years of hands-on experience in finance, management, tax, information systems and business leadership. She earned a B.S. in Accountancy from Bentley College, a M.S. in Computer Information Systems from Boston University, and is a Chartered Public Accountant (CPA).

ANNUAL INCOME STATEMENT FY 2013 – 6M 2016

All numbers in thousands

PERIOD ENDING	FY 2013	FY 2014	FY 2015	6M 2016
Total Revenue	839	1,578	2,199	1,327
Cost of Revenue	763	1,799	2,315	1,081
Gross Profit or (Loss)	76	(221)	(116)	246
Operating Expenses				
General & Administrative	964	877	884	632
Selling	522	492	479	293
Engineering	157	112	249	178
Total Operating Expenses	1,644	1,481	1,612	1,104
Operating Income or (Loss)	(1,568)	(1,702)	(1,728)	(858)
Other Income or (Expense)				
Interest & Other Income	5	13	6	3
Interest Expense, net of debt premium amortization	(106)	(47)	(42)	(20)
Debt Conversion Expense	-	(508)	-	(225)
Loss on Extinguishment of Convertible Debt	-	(714)	-	-
Total Other Income (Expense)	(100)	(1,256)	(37)	(242)
Net Income or (Loss)	(1,668)	(2,309)	(1,384)	(1,100)

Annual Income Statement FY 2013 – 6M 2016. Source: Company Filings



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