SmallCAPS Investment Research

EuroSite Power Inc. (EUSP)

Company Report – June 11, 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.

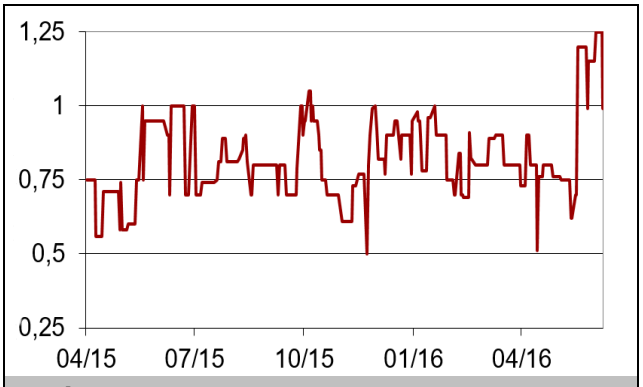
In the first quarter, ended March 31, 2016, EuroSite Power reached revenues of US$687,032, an increase of 25.4% compared to revenues of US$548,054 for the same period in 2015. The strong improvement was driven by both a higher number of systems in operation and by larger units that had been taken into production.

Three onsite utility agreements for leisure centers may be close to signing. Also, a term sheet has been signed for a 400kW unit in a major hotel. Definite agreements for these four units have yet to be signed, but each project did already receive credit approval.

Moreover, thanks to the project financing agreements with Macquarie and Societe Generale, the Company can now handle the installation of larger units. Consequently, it will move towards being cash flow positive faster.

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$2.74, which is 286% above today's stock price.

EuroSite POWER



Market Data	
Price	US$0.71
Sector	Technology

52-Week Price Range	US$0.50 - US$1.25
Shares Issued (m)	65.75
Market Cap (m)	US$46.68
Listings	EUSP (OTCQX)
Website	www.EuroSitePower.co.uk

- The Company's gross margin, excluding depreciation, improved to 37.2% for the first quarter of 2016, compared with 24.3% for the first quarter of 2015; an outstanding performance as this exceeded the target of 35% set by management.

- Last month, the Company raised US$7.25 million in a private placement at US$0.575 per share. Several members of the Company's senior management and its board of directors participated in the offering. There's no better way of showing confidence in the future.

- EuroSite Power aims to grow its number of CHP systems in operation organically. But Dr. Elias Samaras, EuroSite's acting Chairman and CEO, has also expressed that the Company is actively searching to acquire existing CHP or similar installations.

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.

Part of a CHP unit's natural gas engine.

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 (CO_2) 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 first quarter, ended March 31, 2016, EuroSite Power reached revenues of US$687,032, an increase of 25.4% compared to revenues of US$548,054 for the same period in 2015.

The strong improvement was driven by both a higher number of systems in operation and by larger units that had been taken into production. This was also reflected in the higher energy production of all systems combined. In the first quarter of 2016 a total of 9,940,307 kWh of energy was generated, a 40% improvement over prior year results.

Gross margin, excluding depreciation, improved to 37.2% for the first quarter of 2016, compared with 24.3% for the first quarter of 2015; an outstanding performance as this exceeded the target of 35% set by management. Overall gross margin improved by 13.0 percentage points to 20.8% for first quarter of 2016, compared to 7.8% for first quarter of 2015. Gross margin improvements reflect lower gas prices, the switch to an in-house maintenance team, and the optimization of the fleet's operating hours.

In fact, the availability and efficiency of its operational fleet has been one of the Company's main focus points the past few quarters, as it also helps to drive up both margin and revenue.

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. Overall fleet availability in the first quarter of 2016 was 88%, the best score ever achieved and a dramatic improvement over the 72% availability in the comparable period last year. This was realized 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 this case efficiency was 79% in the first quarter of 2016 compared to 80% in last year's first quarter. Although a slight drop, this is not a concern as it reflects the greater number of TEDOM units operational.

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 amount continues to steadily increase as the number 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.

Kingfisher Leisure Center

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

In October 2015, EuroSite Power started up a 125 kW Combined Heat & Power (CHP) 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 CO_2 – equivalent to taking nearly 50 cars off the road each year. This is important, because it enables Kingfisher 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 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.

American DG Energy

American DG Energy (NYSE MKT: ADGE) can be considered the parent of EuroSite Power. It was founded in 2001, and basically has the same strategy as EuroSite Power, except that it offers its services in the United States.

After American DG Energy was in operation for a few years, it spotted an opportunity to implement its business model in Europe. It did so by founding EuroSite Power.

Today, American DG Energy owns approximately 25.7% of EuroSite Power's outstanding common stock and it provides management oversight to the Company. A number of EuroSite Power shareholders are also shareholders of American DG Energy. Additionally, American DG Energy continues to guarantee certain debt obligations of the Company.

Finally, American DG Energy has a related company, Tecogen Inc., which is a major equipment supplier to both American DG Energy and EuroSite Power.

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, or cogeneration, 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 standard generator to produce electricity, which is used by the customer, with any additional electricity needed 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 Ultera low-emissions technology.

The Ultera Emissions System mounted on top of a CHP unit.

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 not only high efficiency but also 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

A third system that EuroSite Power offers is 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.

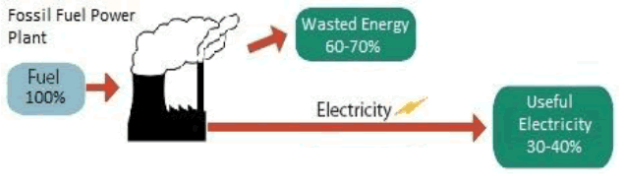
This clean technology equipment extracts thermal energy from the atmosphere and uses a cutting edge natural gas fueled engine to "pump" the heat to useful temperatures. The synergy of advanced heat pump and engine technology results in twice the efficiency of a gas fired boiler.

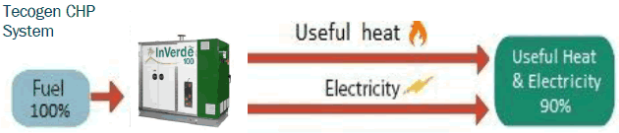
For locations with substantial hot water requirements the cost savings and environmental impact is significant, reducing the carbon footprint with an average of 50% in greenhouse gas emissions.

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.





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

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.

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 CO_2 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 new, 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.

A study, conducted by American DG Energy in 2010 analyzed the entire European market, and particularly focused on the United Kingdom, Spain and Belgium as the primary markets. The study estimated that there were over 13,700 potential sites in those three countries providing a US$900 million annual electricity market plus a US$600 million heat and hot water energy market, for a combined market potential of US$1.5 billion.

EuroSite Power recently 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 is the start of EuroSite's anticipated European expansion (also read Growth Drivers).

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. Legislation forcing companies to reduce their carbon footprint is having a large impact on CHP sales; and there are also planning laws which force new building owners to provide at least 10% of their power supply from renewable sources.

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.

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.

GROWTH DRIVERS

In the summer of 2015, EuroSite Power introduced four goals which laid the foundation for the Company's success in coming years. Today, the four "pillars of growth" have already been completed, and are starting to bear 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.

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.

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.

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, worth approximately US$4.83 (£3.02) million, 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.

In addition, the Company's management mentioned during the first quarter 2016 conference call that three new onsite utility agreements for leisure centers may be close to signing. Also, a term sheet has been signed for a 400kW unit in a major hotel. Definite agreements for these four projects have yet to be signed, but each project did already receive credit approval from one of the two major financial institutions.

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

Moreover, because the Company can now handle the installation of larger units, it will move towards being cash flow positive faster. Before the agreement with the Dome, EuroSite Power needed an additional 1.5 MW of installed power to reach that feat. It's obviously much more economical to realize that goal by selling a few larger units, instead of selling fifteen 100kW units.

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 Abbeycroft Leisure (also read Recent Events), 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 & Power (CHP) unit. Now, EuroSite Power buys gas from Corona Energy and resells it to its customers with a profit.

Natural gas is a very important part of EuroSite's business, 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.

This new arrangement is a win-win for both EuroSite Power and its customers. It allows EuroSite to substantially reduce the price of gas consumed by its installed machinery and allows the customers to purchase gas at a discount for their other applications.

This deal will considerably improve the Company's margins and provide additional revenue in the form of gas sales. In fact, it's estimated that the contract with Abbeycroft Leisure will result in customer specific revenues rising by 21% and margins increasing by as much as 24%.

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 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 long term.

Paul Hamblyn, 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 sometimes resulted in lower margins. Next to better control of the equipment on-site bringing maintenance operations in-house has also contributed to higher margins in 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 will come to the end of that two year warranty period in July 2016. Consequently, EuroSite Power is looking at extending its in-house maintenance program to include servicing those TEDOM units as well. If the economics prove positive this should help to increase margins further.

RECENT EVENTS

Customers for Gas Resale Agreement Lining Up

Early April of this year, the Company signed its first gas resale agreement with an existing on-site utility customer.

The customer, Abbeycroft Leisure, will purchase natural gas from EuroSite Power for three of its sites, two of which have a Combined Heat & Power (CHP) unit installed. The agreement has an initial term of 12 months, beginning May 1, 2016. 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. And 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.

EuroSite Power's Managing Director Paul Hamblyn commented, "Gas resale agreements allow EuroSite Power to offer yet another source of savings to our customers while also improving site economics and margin stability for the Company, a win-win for all parties."

31st CHP Unit Up and Running

EuroSite Power started up its 31st CHP system last month. The 100kW unit was installed at the recently completed Flitwick Leisure Centre, Bedfordshire, UK.

An artist's impression of the new Flitwick Leisure Centre in Bedfordshire, UK.

Under the terms of a 15 year On-Site Utility agreement, the highly efficient TEDOM CHP system will provide annual energy cost savings of about US$25,600 (£16,000) for the customer.

Interesting to note is that the CHP system was installed as part of a new build project, which was a first for EuroSite Power. By opting for EuroSite's CHP solution, the Flitwick Leisure Centre achieved the Target CO_2 Emissions Rate (TER) defined by Part L2A of the Building Regulations 2010 in England and Wales.

The **TER** sets a minimum allowable standard for the energy performance of a building and is defined by the annual CO_2 emissions of a notional building of same type, size and shape to the proposed building. These regulations specifically require building designers to consider the technical, environmental and economic feasibility of using high-efficiency alternative heating systems such as CHP.

With a value to EuroSite Power of approximately US$1.97 (£1.23) million, the contract brings the total portfolio of operational systems in the UK to 31 with a value to the company of US$86.87 (£54.2) million from units totaling 3,178 kW electrical capacity. A further six systems totaling an additional 920 kW are also under construction, bringing EuroSite Power's current contract value to US$105.95 (£66.22) million.

FINANCIALS

Total revenues increased by 25.4% to US$687,032 for the first quarter of 2016, compared to US$548,054 for the first quarter of 2015. GAAP diluted loss per share was US$0.01 for both first quarter of 2016 and first quarter of 2015. Note that no revenues were generated from the gas resale agreement yet, as that commenced in May 2016.

Operating expense improvement initiatives began to show results, delivering a small 1.1% decline in general and administrative expense and containing selling expense growth to a modest 2.7% in the period when compared to prior year results, this despite the Company adding an additional sales person on the quarter.

The Company also received US$369,485 in Enhanced Capital Allowance (ECA) payments related to 2015 activities from the UK government.

Amounts in US$000's	03/31/16	03/31/15
Net Sales	687	548
Cost of Sales	544	505
Operating Expenses	522	464
Loss From Operations	**379**	**421**
Other Income (Expense)	(13)	(10)
Net (Loss)	**(391)**	**(430)**
Diluted Shares Outs.	65,747	65,747
Diluted EPS	(0.01)	(0.01)

Most important income statement data for the quarters ending March 31, 2016 and March 31, 2015. Source: Company Filing

In just one quarter, EuroSite delivered its customers total savings of US$138,967 when the cost of its combined operational fleet of CHP units is compared with the cost of conventional electricity from a utility provider and heat from a boiler.

Next to being more efficient, a CHP unit also provides a greener, lower carbon solution. EuroSite's systems reduced UK carbon emissions by 1,270 metric tons - equivalent to taking 267 cars off the road - delivering both financial and environmental savings.

Balance Sheet As Of March 31, 2016

Last month, the Company raised US$7.25 million in a private placement at US$0.575 per share.

Several members of the Company's senior management and its board of directors participated in the offering. It's always encouraging to see management members participate in a private placement. There's no better way of showing confidence in the future.

Although this financing causes dilution to existing shareholders, the cash inflow is very welcome for a number of reasons. First, late last year EuroSite had less than US$600,000 in cash on its balance sheet. Now, four and a half months later, that number has undoubtedly declined further as the Company isn't cash flow positive yet.

Second, US$2 million of the raised funds will be used to fully pay back a loan to Mr. John Hatsopoulos, the Chairman of the board of directors of the Company.
A third, and very important reason, is that EuroSite needs sufficient funds - roughly between US$200,000 and US$300,000 per unit - to purchase and install CHPs at customer facilities. Although the Company will entirely be refunded by either Macquarie or Societe Generale as soon as the cogeneration unit is up and running, it first needs to advance all costs.

Lastly, the funds will be used to speed up the roll out of the Company's On-Site Utility solutions throughout the UK and Europe.

Amounts in US$000's	03/31/16	03/31/15
Cash and Cash Eq.	439	2,021
Accounts Receivable	372	188
Inventories	203	104
Total Current Assets	1,082	2,989
Property & equipment	7,613	6,805
Total Assets	**8,704**	**9,809**
Accounts Payable	371	439
Note Payable to Third Party	-	2,000
Total Current Liabilities	823	2,551
Convertible Debentures	1,570	1,630
Note Payable	2,000	-
Total Liabilities	**5,335**	**5,160**
Total Stockholder Equity	3,369	4,649

Most important balance sheet data for the periods ending March 31, 2016 and March 31, 2015. Source: Company Filing

Taking the repayment of the US$2 million loan into account, about US$5 million has been added to EuroSite's cash position. The Company now has sufficient funds to fulfill upcoming orders from various customers. In fact, this could have been the last private placement in its history.

OUTLOOK & VALUATION

More and more hotels, leisure centers, and fitness clubs are seeking energy- and environmentally friendly solutions for their electricity, hot water, heat and cooling needs. Because capital budgets have shrunk or disappeared, EuroSite Power's On-Site Utility approach, requiring no customer capital, fits today's market needs very well.
EuroSite Power sells the energy produced from an onsite energy system to an individual property as an alternative to the outright sale of energy equipment. In this scenario, EuroSite Power pays for the cogeneration equipment, installing the unit, the gas to run the installation, and its maintenance.

In return, the customer only has to pay for the generated electricity, heat and cooling over a set period of time – usually 15 years. In addition, the cost of the generated energy is guaranteed to be lower than the displaced energy from the grid.

In addition, while saving money, EuroSite Power's systems help to conserve energy, reduce emissions and improve the environment. Customers are also concerned about electricity prices that are expected to

increase significantly in Europe in the coming years and about potential power cuts, as there is a narrowing between generation capacity and demand for the first time ever. This makes CHP units even more attractive as they can operate independent of the grid.

As a bonus, significant incentives, rebates and support are available for the installation and operation of CHP systems in Europe, as government policy in Europe favors energy-efficient and environmentally friendly technologies and businesses. In May 2015, EuroSite Power received over US$625,000 as a UK tax incentive. And in January of 2016, it received another US$360,000.

The Company achieved a significant rise in both revenues and energy production in the first quarter of 2016. In addition, its gross margins substantially improved, as well as the fleet's availability.

EuroSite Power aims to grow its number of CHP systems in operation organically. These efforts are aided by the project financing agreements which were executed with Societe Generale Equipment Finance and Macquarie Equipment Finance during the first quarter of 2016. These agreements eliminate capital constraints on projects. In other words, any project, no matter what size, which meets the Company's return hurdles, may now be pursued.
Within its current pipeline, the Company has plenty of parties with which it's actively negotiating. During the conference call, following the release of the first quarter financials, it was mentioned that three new onsite utility agreements for leisure centers may be close to signing. Also, a term sheet has been signed for a 400kW unit in a major hotel.

Definite agreements for these four projects have yet to be signed, but each project did already receive credit approval from one of the two major financial institutions. In addition, the Company is competing for a 330kW installation at a major British university, and it's negotiating with a couple of parties for multi-unit installations.

Next to growth within the UK market, the Company signed a collaboration agreement with Czech CHP manufacturer TEDOM to promote EuroSite Power's On-Site Utility solutions via more than 30 TEDOM dealers across the European Union and Turkey. The agreement allows dealers to offer an On-Site Utility solution to their customers as an alternative to buying a CHP system outright. EuroSite's management aims to secure at least one sale in mainland Europe before the end of 2016.

Dr. Elias Samaras, EuroSite's acting Chairman and CEO, has also expressed that the Company is actively searching to acquire existing CHP or similar installations. Funds from the recent US$7.25 million private placement should allow EuroSite to pursue this goal.

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 77 million shares outstanding, the intrinsic value of EuroSite Power's shares derived from our model is US$2.74, which is slightly up from US$2.67 in our previous report. This is justified as gross margins are increasing substantially thanks to the implementation of the four pillars of growth.

Based on these numbers, we reiterate our buy recommendation for EuroSite Power Inc. with a price target of US$2.74, which is 286% above today's stock price.

SHARE DATA & OWNERSHIP

As of May 13, 2016, EuroSite Power had 65,747,100 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 4 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 (25.7%), Tryfon Natsis (22.5%), Elias Samaras (14.6%), John Hatsopoulos (10.3%) and Nettlestone Enterprise (9.4%).

MANAGEMENT

- **DR. ELIAS SAMARAS – ACTING CHAIRMAN & 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 Plefsis 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.

- **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 – 3M 2016

All numbers in thousands

PERIOD ENDING	FY 2013	FY 2014	FY 2015	3M 2016
Total Revenue	**839**	**1,578**	**2,199**	**687**
Cost of Revenue	763	1,799	2,315	544
Gross Profit or (Loss)	**76**	**(221)**	**(116)**	**143**
Operating Expenses				
General & Administrative	964	877	884	300
Selling	522	492	479	133
Engineering	157	112	249	88
Total Operating Expenses	1,644	1,481	1,612	522
Operating Income or (Loss)	**(1,568)**	**(1,702)**	**(1,728)**	**(379)**
Other Income or (Expense)				
Interest & Other Income	5	13	6	-
Interest Expense, net of debt premium amortization	(106)	(47)	(42)	(13)
Debt Conversion Inducement	-	(508)	-	-
Loss on Extinguishment of Convertible Debt	-	(714)	-	-
Total Other Income (Expense)	(100)	(1,256)	(37)	(13)
Net Income or (Loss)	**(1,668)**	**(2,309)**	**(1,384)**	**(391)**

Annual Income Statement FY 2013 – 3M 2016. Source: Company Filings

OTCQX: EUSP

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