SmallCAPS Investment Research

EuroSite Power Inc. (EUSP)

Company Report – December 5, 2015

EuroSite Power installs, owns, and operates Combined Heat & Power (CHP), and cooling systems at smaller industrial and commercial facilities in the United Kingdom. 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.

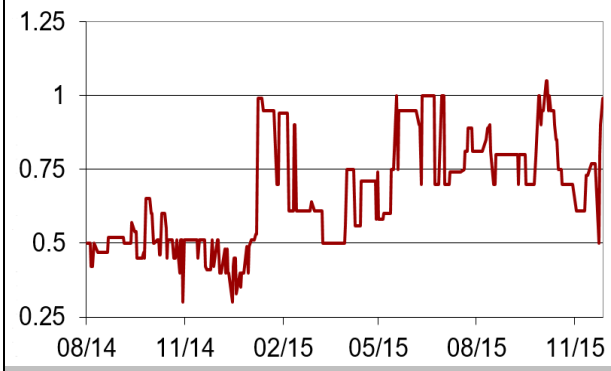
This compelling offer is truly what sets EuroSite Power apart. It takes full responsibility for all expenses, customers get a discount on the energy that's used, and as a bonus, significant government incentives are offered for operating a CHP system.

The Company recorded 20% revenue growth in the third quarter, ended September 30, 2015.

The four "pillars of growth", which EuroSite Power recently announced, and which are extensively described in this report, have laid the foundation for the Company's success in coming years, as they will have a very positive effect on its growth potential and gross margins.

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$2.51, which is 206% above today's stock price.

- With a growing number of CHP systems in operation, EuroSite Power gets closer to becoming cash flow positive. According to the management team, it needs 45 operating units to achieve that feat, while it has 36 contracts signed today.
- The proven CHP systems offer the ability to enter into 15-year long contracts, assuring EuroSite Power of a guaranteed, steady income.
- The Company recently adopted a new measurement and verification program, which will be useful in ensuring only select higher margin projects are pursued. As a rule, EuroSite Power targets an internal rate of return (IRR) on investments of over 20%, producing a payback period of just over four years.



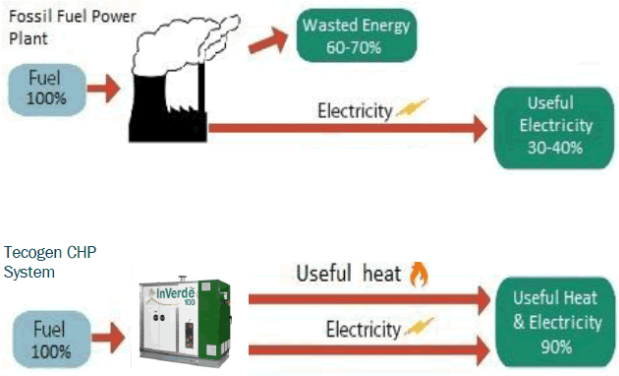
Market Data	
Price	US$0.82
Sector	Technology
52-Week Price Range	US$0.30 - US$1.50
Shares Issued (m)	65.75
Market Cap (m)	US$53.91
Listings	EUSP (OTCQB)
Website	www.EuroSitePower.co.uk

THE COMPANY

EuroSite Power Inc. owns and operates clean, On-Site Utility™ systems that produce electricity, hot water, heat and cooling. EuroSite Power 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 basically installs, pays, 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.

Potential 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.



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

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 or CO2 production. In 2014, for example, the Company's operational fleet reduced UK carbon emissions by 2,047 metric tonnes, equivalent to taking 431 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 failure, it won't result in a power outage.

The Company recorded 20% revenue growth in the third quarter, ended September 30, 2015. Although that's a solid result, the four events below, which were announced along with the financial results, attracted most attention:

- Two banks have submitted terms to provide 100% non-recourse project finance for all of the Company's future projects;
- During the quarter, EuroSite Power reached an agreement with Corona Energy, a leading independent energy supplier in the UK, to buy natural gas at very favorable prices, which it will sell to its customers;
- The Company identified a strategic partner that will help to expand in mainland Europe; and
- As of December 1st, EuroSite has its own in-house maintenance team.

The four "pillars of growth" above have actually laid the foundation for the Company's success in coming years, as they will have a very positive effect on the Company's growth potential and gross margins.

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.

With each additional unit installed, EuroSite Power edges closer to becoming cash flow and net income positive, making it an ideal time for investors to get on board.

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 Combined Heat & Power system being delivered at the Kingfisher Leisure Centre.

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. As a result, 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.

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 foresees an internal rate of return (IRR) on investments of over 20%, which gives a payback 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 48% 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 two related companies, Tecogen Inc. and Ilios Inc., which are the two major equipment suppliers of 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. In general, these companies seek large, diverse projects that include building lighting and controls, and electricity or cooling. Because of their overhead structures, these companies often solicit large projects rather than individual properties. Because EuroSite Power focusses on much smaller projects 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

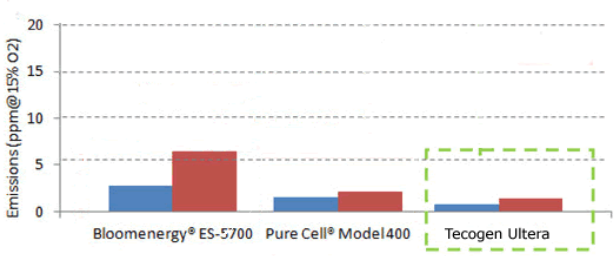
Combined Heat and Power

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.



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

Combined heat and power systems use fuel very efficiently, as it provides 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.

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.

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 some of the most stringent emission control standards in the United States, Tecogen, the manufacturer of EuroSite Power's CHP systems, obtained a patent for its Ultera low-emissions technology.

With this technology, Tecogen's cogeneration products are able to reduce pollutant emission, such as NOx, CO, and VOCs 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.

The synergy of advanced heat pump and engine technologies results in twice the efficiency of a gas-fired boiler.

This clean technology equipment extracts thermal energy from the atmosphere and uses a cutting edge natural gas fueled engine to "pump" this 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

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.

UK map indicating EuroSite Power's 29 operating units.

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.

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 will soon start to offer its services across Europe, as it has identified a

strategic partner that will help expand the Company (also see Growth Drivers).

Incentives

CHP is widely supported by governments in the European Union with many forms of government assistance provided to promote its use.

In the European Union countries, CHP is viewed as a key measure to enable achievement of target reductions in greenhouse gas emissions. 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.

ENHANCED CAPITAL ALLOWANCE

Enhanced Capital Allowances (ECAs) are a straightforward way for a business to improve its cash flow through accelerated tax relief. The ECA scheme for Energy Saving Technologies encourages businesses to invest in energy-saving plant or machinery 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 whole cost of the equipment against taxable profits in the year of purchase. This can provide a cash flow boost and an incentive to invest in energy-saving equipment which normally carries a price premium when compared to less efficient alternatives.

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.

In the European Union countries, CHP is viewed as a key measure to enable achievement of target reductions in greenhouse gas emissions. 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 already enjoying a government incentive related to the energy efficiency of its equipment. Enhanced Capital Allowance (ECA) allows customers to avoid certain taxes associated with CO2 emissions and energy use. Part of this avoided cost is passed onto the Company in the form of revenue.

In May 2015, EuroSite Power received its initial ECA funds for the years 2012 and 2013 in the amount of approximately US$625,000. 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.

RECENT EVENTS

Live Case Study at Wentworth Club

In September 2015, EuroSite Power hosted a live case study at the world famous Wentworth Club. The goal of the event was to provide potential customers the opportunity to learn how EuroSite Power's On-Site Utility Solutions™ offer immediate, risk free savings with zero capital investment or maintenance costs.

Founded in 1926, the Wentworth Club is a privately owned golf and country club in Virginia Water, Surrey, Near Windsor Castle. It is surrounded by the Wentworth Estate – one of the most prestigious estates on the outskirts of London, UK. The club has three championship golf courses, a tennis & health club, and each year hosts the BMW PGA Championship.

In March 2013, a CHP system was taken into operation at Wentworth's Tennis & Health Club. It produces up to 100 kW of power, or approximately 1.5 GWh of total energy per annum, while saving up to 235 tonnes of CO2, each year. The estimated revenue to EuroSite Power of this agreement is US$2.66 million over the fifteen-year contract term.
In February 2015, a second CHP unit was started up at Wentworth, this time for the

main clubhouse. Engineers opted for another 100 kW system, that produces 1.30 GWh of total energy per annum, while saving up to 240 tonnes of CO2 each year. The This fifteen-year long agreement will generate approximately US$1.87 million.

The open house turned out to be informative and productive for the attending potential clients. By seeing how the machines operate, the amount of ingenuity that goes into making it all possible, quickly becomes clear.

The Tennis & Health Club's CHP unit from the outside (top) and part of that unit's engine.

For example, every day the Company automatically receives a detailed overview from each unit how it performed during the past 24 hours. This way, deviating readings can be spotted immediately.

Also, the Company receives alerts by email from each individual unit when, for example, temperature x is too high or pressure y is too low. In such a case, a maintenance crew is sent over to check before the machine breaks down.

ADE Awards

A couple of weeks ago, EuroSite Power was selected as a finalist for the prestigious Association of Decentralized Energy (ADE) Innovation Award. The ADE Annual Conference and Awards are the leading events for the CHP, district heating, energy services and community energy sectors in the UK.

EuroSite Power's nomination in the Innovation category was based on its installation at Clifton Hospital. The 100kW CHP unit at the hospital was installed in 2014. The system produces up to 1,745,283 kWh of total energy per annum, while saving up to 208 tonnes of CO2 – equivalent to taking 44 cars off the road each year. The contract is worth an estimated $2.72 million over its 15-year life.

The agreement with Clifton Hospital was the first for EuroSite Power with the British NHS (National Health Service), a publicly-funded healthcare system with annual expenditures of approximately £127 billion. With up to 200 hospitals in the UK appropriate for this type of scheme, EuroSite Power is able to provide unprecedented cost efficiencies and green benefits for UK healthcare.

Clifton Hospital has reported a 55% reduction in imported electricity over the first 12 months of operation. Paul Jackson, Estates Manager-Engineering with the NHS, said: "Like any business we need to keep our operating costs under control and as energy prices continue to rise we needed to find a solution to keep these rises under control too. EuroSite Power's combination of zero upfront capital cost with pay-as-you-go energy has proven the ideal solution."

Although the Company didn't win the award, the selection is a recognition for its excellent work at Clifton Hospital.

GROWTH DRIVERS

Over the past few weeks, the Company has laid the foundation for its success in coming years. During the third quarter conference

call, EuroSite Power identified the following four pillars of growth.

Solid Bank Financing

Two banks have submitted terms to provide 100% non-recourse project finance for all of the Company's future projects. This is a major accomplishment, as EuroSite Power first finances the equipment and installation costs of a system, and then the property owner pays for the generated electricity, heat and cooling over a set period of time – usually 15 years. This means there won't be any more private placements to finance equipment purchases. It also means the Company can now handle much larger projects in which 5 or 10 units have to be installed.

Apparently, the indicative term sheets are ready to be signed and the Company expects to sign both agreements, as it would give them some more funding flexibility.

Natural Gas Purchase Agreement

During the third quarter, EuroSite Power reached an agreement 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 the Company now has 29 operating units, the combined amount of gas that these machines consume was large enough to negotiate a much lower tariff with a single gas supplier.

Currently each customer buys gas from a gas supplier at a regular (retail) price, and EuroSite Power pays the exact same amount to the customer for the gas consumed by the Combined Heat & Power (CHP) unit. Thanks to this new agreement, EuroSite Power will shortly begin signing up its customers to buy their gas from EuroSite Power at the new lower rates. This includes the gas consumed by EuroSite Power's CHP units, but also the gas the customers use to run their own boilers, or for catering etc.

This new arrangement is a win-win for both EuroSite Power and its customers. The agreement allow EuroSite Power to substantially reduce the price paid to purchase gas consumed by its installed machinery and allows its 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.

European Expansion

Third, EuroSite Power identified a strategic partner that will help expand the Company in mainland Europe. Offering clean, reliable power, cooling, and heating to potential customers in mainland Europe had been on the agenda for a while at EuroSite Power and this will be a key relationship going forward.

When looking for expansion options, the first thing to look for is the so-called Spark Spread. The Spark Spread stands for 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 good.

Country	Spark Spread
Romania	3.53
Ireland	3.46
Italy	3.13
Slovakia	3.10
Turkey	3.05
Latvia	2.71
Estonia	2.34
Lithuania	2.31
Poland	2.10
Germany	2.07

Top 10 European Spark Spreads. Source: Company Presentation.

Note that United Kingdom is intentionally not included in the table above, as it lists the countries in which EuroSite Power could potentially start offering its services.

The second condition to look for when expanding into mainland Europe, is the amount of government support for CHP technologies.

So finding countries with a high Spark Spread and an attractive incentive scheme is key for the Company's expansion in Europe.

Of course, next to getting to know all the details of each country's tariffs and legislation, another important aspect is customer service. If you have a customer in Poland, a couple in Germany, and one in Romania, logistics to maintain the machines soon becomes a costly issue. Therefore, the deal with this partner, that already has an extensive dealer network in Europe, will be very valuable for EuroSite Power.

In-House Maintenance Service Team

Finally, as of December 1st, 2015, EuroSite has its own in-house maintenance team. Previously, maintenance was handled by third party companies, a costly arrangement that sometimes resulted in lower margins (see financials). Next to better control of the equipment on-site, this too will lead to higher margins.

FINANCIALS

Revenues in the third quarter, ended September 30, 2015, reached $421,991, up more than 20% compared to sales of $350,561 in the comparable period of 2014. Net loss for the quarter ended September 30, 2015 was $450,323, or $0.01 per diluted share, compared to a loss of $378,648, or $0.01 per diluted share, for the third quarter in 2014.

The increase in net loss during the quarter can be attributed to three one-time items. First, peripheral equipment on two separate CHP units broke down and had to be replaced. Second, two engines – a CHP unit runs on a regular combustion engine that is modified to run on natural gas – had to be replaced. Finally, a third-party contractor had done some sub-standard work. As a result, some electrical works on site had to be replaced.

Net sales for the nine months ended September 30, 2015 were $1,473,307, compared to $1,117,980 in the comparable period of 2014, an increase of 31%. Net loss for the nine months ended September 30, 2015 was $1,143,143, or $0.02 per diluted share, compared to $1,766,788, or $0.03 per diluted share, in the 2014 comparable period, a 35% improvement in net loss.

In May 2015, the Company received its first UK tax incentive of $625,000. EuroSite Power will continue to receive such incentives annually, at least until 2018.

Amounts in US$000's	09/30/15	09/30/14
Net Sales	422	351
Cost of Sales*	468	403
Operating Expenses	405	326
Loss From Operations	**450**	**378**
Interest Income (Expense)	(8)	(0)
Net Loss	**(458)**	**(379)**
Diluted Shares Outs.	65,747	56,747
Diluted EPS	(0.01)	(0.01)

Most important income statement data for the quarters ending September 30, 2015 and September 30, 2014. Source: Company Filing

* *Note that Cost of Sales includes a depreciation expense of US$102,485 and US$83,430 for the third quarter of 2015 and the third quarter of 2014 respectively.*

During the third quarter of 2015, energy production of all operating systems was slightly under 5.5 million kWh, a 60% increase compared with the same quarter in 2014. In fact, **total energy production for the first nine months of this year has exceeded total production during the whole of 2014.** This reflects more machines being sold and installed in the past twelve months.

In total, the Company now has 29 CHP units up and running, totaling 2,878kW of installed capacity. Currently, there is a backlog of 7 units, for an additional 889kW installed capacity. The total revenue that the Company aims to generate from these 36 On-Site Utility™ agreements is approximately $101 million.

Paul Hamblyn in a recent Smallcaps Investment Research interview commented: "To go from 36 to 45 is not too much of a leap and that's why we are very confident that we can achieve becoming cash flow positive within the short term. In our current pipeline, we have about 68 so-called hot opportunities, that is parties that we are actively negotiating with. In our much broader pipeline, there are over 1,300 potential clients. So that certainly puts our target of 45 in perspective."

Management even expects to sign up several new contracts in the current quarter. Some potential contracts could be very lucrative for EuroSite Power. For example, it's negotiating with a major private healthcare provider to install CHP units at a large number of hospitals and health clubs. The Company is also talking with a mid-sized hotel group in the UK that has 28 properties. Decision points are expected before the end of the year.

Continued Focus on Margin Growth

Although gross margins improved to 13.5% in the third quarter of 2015, compared to 8.9% for the same quarter in 2014, margins fell short of management's expectations. This was mainly due to the three one-time items mentioned above. Without these items, margins would have been 27% in the third quarter.

EuroSite Power's gross margin target is 35%. Although that's still a long way from the 13.5% it achieved in the third quarter, the natural gas purchase agreement with Corona Energy and the in-house maintenance team will contribute to reaching that goal.

EuroSite Power continues to work hard to increase the availability and efficiency of its operational fleet, as it helps to drive up margins. A CHP unit's availability, or up-time, can never reach 100%.

Sometimes the equipment fails, 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. The equipment availability in the third quarter was 69%, which was lower than the 81% in the previous quarter, due to reliability issues mentioned above.

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 third quarter the average efficiency was 77%, compared with 74% in the same period last year. In the spring and summer the average efficiency is traditionally somewhat lower than in autumn or winter, as there's less need for thermal energy in warmer months.

Moreover, the Company has recently adopted a new measurement and verification program to analyze potential opportunities. With the help of this program, EuroSite Power's engineers are able to better determine if a potential project has high enough margins to merit investment. Although the Company won't proceed with some projects that it otherwise might have won, this will clearly be beneficial to combined margins in the future.

Balance Sheet As Of September 30, 2015

As EuroSite Power develops, installs, and owns the energy-producing equipment at its customer's sites, its business model is capital intensive. When the Company spends these funds to add new energy systems, its liquidity decreases and its capital expenditures increase. Generally, when the Company's new energy systems begin producing energy, its revenue increases.

Amounts in US$000's	**09/30/15**	**12/31/14**
Cash and Cash Eq.	1,202	3,777
Accounts Receivable	204	153
UK Tax Incentive Receivable	-	649
Total Current Assets	1,661	4,784
Property & equipment	7,629	6,349
Total Assets	**9,303**	**11,150**
Accounts Payable	517	338
Note Payable	2,000	-
Total Current Liabilities	2,779	468
Convertible Debentures	2,560	2,633
Note Payable	-	3,000
Total Liabilities	**5,340**	**6,101**
Total Stockholder Equity	3,963	5,049

Most important balance sheet data for the periods ending September 30, 2015 and December 31, 2014. Source: Company Filing

EuroSite Power finished the third quarter of 2015 with approximately US$1.2 million in cash. However, because EuroSite Power is getting closer towards being cash flow positive, the Company is confident that its existing cash, future cash flow from operations, and its ECA tax incentives will be

sufficient to meet its current working capital requirements.

Moreover, thanks to the project finance offers from two major banks (see Growth Drivers), the Company won't need to raise any more money to finance equipment purchases.

Cash used in operating activities was $3,449 in the first nine months of 2015. A net loss of $1,143,143 was somewhat offset by depreciation of $291,465 and the receipt of $636,661 of cash for UK tax energy incentives.

To date, the Company has largely financed its growth through private placements of convertible debt and equity. From time-to-time, the Company has relied on Mr. John Hatsopoulos, the Company's Chairman of the Board of Directors, or its parent company, American DG Energy, for resources.

In the first half of 2014, for example, the Company entered into subscription agreements with European investors, American DG Energy, and John Hatsopoulos for the sale of US$1,450,000 in aggregate principal amount of 4% Senior Convertible Notes due 2018. In October 2014, the notes were cancelled and the holders were issued shares of common stock at a conversion price of US$.50 per share.

EuroSite Power also obtained a five year, $3 million loan from Mr. Hatsopoulos, of which $1 million was recently repaid. And during the final quarter of 2014 an additional US$3.0 million was secured through a commitment and a placement of common stock.

In addition, in July 2015, EuroSite Power entered into a Revolving Line of Credit Agreement with Mr. Elias Samaras, the Company's President and CEO to lend the Company up to an aggregate of $1 million. As of September 30, 2015, no amounts were drawn on this line.

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 truly has a compelling offer for potential clients, as it takes full responsibility for all expenses, from the cost to install a unit, gas to run it, through to maintenance. There is no impact on a customer's overhead and no additional staff required.

The customer simply has to pay for the generated energy, which is guaranteed to be cheaper 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.

EuroSite Power's four pillars of growth will significantly increase the Company's ability to grow. With potential project debt finance solutions in place, it now has the ability to take on many and larger projects.

In addition, thanks to its possible new European partner, the Company can also offer its excellent and money saving services to interested parties all over the continent..

EuroSite Power's margins are expected to improve in the coming quarters, especially in light of the new gas supply arrangement with Corona Energy, which it will gradually

implement with all its customers, and the in-house maintenance team, which will save on third party expenditures.

Moreover, the new measurement and verification program will be useful in ensuring only select higher margin projects are pursued. As a rule, EuroSite Power targets an internal rate of return (IRR) on investments of over 20%, producing a payback period of just over four years.

It continues to attract new customers and has plenty of room to grow in a European market that's becoming more and more aware of the technology's significant cost savings and environmental benefits.

While the competition is focused on larger systems, both in footprint size and in kilowatts, EuroSite Power's 100kW CHP system is small enough to fit into smaller buildings. In addition, The Company is able to distinguish itself from its competitors thanks to exclusive access to high efficiency water heater components introduced by Ilios and the unique patented Ultera low emissions technology developed by Tecogen.

With a growing number of CHP systems in operation, EuroSite Power gets closer to becoming cash flow positive. Once the Company is cash flow positive, it will more than likely remain so, as it closes long-term contracts that provide a predictable and reliable income.

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$2.51, which is up from $2.09 in our previous report. This is justified as growth prospects have increased thanks to the four pillars of growth.

Based on these numbers, we issue a buy recommendation for EuroSite Power Inc. with a price target of US$2.51, which is 206% above today's stock price.

SHARE DATA & OWNERSHIP

As of November 12, 2015, 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 4.3 million options mostly with an exercise price of US$0.90. 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 (48.0%), Nettlestone Enterprise (9.4%), John Hatsopoulos (4.6%), Joan Giacinti (2.6%), and RBC Holdings (1.5%).

Note that EuroSite Power and American DG Energy are affiliated companies by virtue of common ownership and leadership. Specifically, as of December 31, 2014, John N. Hatsopoulos who is the Chairman of the Company is also the Co-Chief Executive Officer and a director of American DG Energy and holds 20.3% of the latter's common stock.

MANAGEMENT

- **DR. JOHN N. HATSOPOULOS – CHAIRMAN OF THE BOARD**

Next to being Chairman of the Board at EuroSite Power, Dr. Hatsopoulos is also Co-Chief Executive Officer of American DG Energy. In addition, he is Chairman of the Board of Glenrose Instruments Inc. and Co-Chief Executive Officer of Tecogen Inc. Dr. Hatsopoulos was the President, Chief Financial Officer and Vice Chairman of the Board of Thermo Electron Corporation which is now Thermo Fisher Scientific (NYSE:TMO). He is a member of the Board of Directors of TEI Biosciences Inc., Ilios Inc., and a former "Member of the Corporation" for Northeastern University.

- **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 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 2012 – 9M 2015

All numbers in thousands

PERIOD ENDING	FY 2012	FY 2013	FY 2014	9M 2015
Total Revenue	**81**	**839**	**1,578**	**1,513**
Cost of Revenue	70	763	1,799	1,482
Gross Profit or (Loss)	**11**	**76**	**(221)**	**31**
Operating Expenses				
General & Administrative	1,088	964	877	628
Selling	609	522	492	359
Engineering	94	157	112	162
Total Operating Expenses	1,790	1,644	1,481	1,149
Operating Income or (Loss)	**(1,779)**	**(1,568)**	**(1,702)**	**(1,118)**
Other Income or (Expense)				
Interest & Other Income	13	5	13	5
Interest Expense, net of debt premium amortization	-	(106)	(47)	(33)
Debt Conversion Inducement	-	-	(508)	-
Loss on Extinguishment of Convertible Debt	-	-	(714)	-
Total Other Income (Expense)	13	(100)	(1,256)	(27)
Benefit for Income Taxes	-	-	649	2
Net Income or (Loss)	**(1,765)**	**(1,668)**	**(2,309)**	**(1,143)**

Annual Income Statement FY 2012 – 9M 2015. Source: Company Filings

OTCQB: EUSP

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