SmallCAPS Investment Research

EuroSite Power Inc. (EUSP)

Company Report – April 16, 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.

2015 established EuroSite Power as a leading on-site utility solutions provider. The Company saw a solid rise in revenues (+39%) and energy production (+59%) compared with 2014, while delivering improvement in all Key Performance Indicators.

The four "pillars of growth" that the Company introduced last year are starting to bear fruit. In Q4 of 2015, EuroSite's adjusted gross margins reached 31.5%, versus 18.6% in Q4 of 2014. Moreover, the Company is adding new on-site utility agreements that it probably wouldn't have been able to close before due to lack of available capital.

In 2016, EuroSite Power is expected to take full advantage of these growth opportunities. It can meet the needs of many more potential customers and its margins are trending upwards. A very attractive combination.

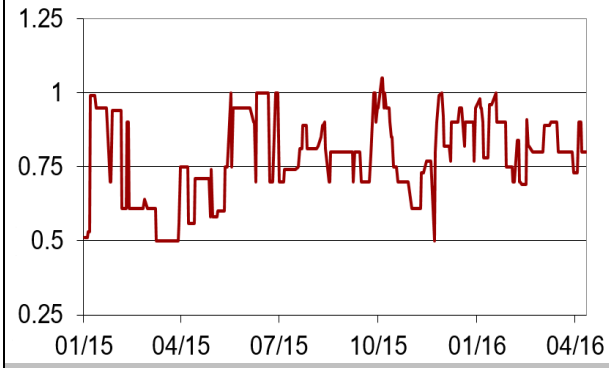
Based on the intrinsic value of EuroSite Power's shares derived from our model, we reiterate our buy recommendation for the Company with a price target of US$2.67, which is 251% above today's stock price.

EuroSite POWER

- 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 37 contracts signed today.

- EuroSite is also expected to close its first on-site utility agreements outside the United Kingdom in 2016 with the help of the well-known equipment manufacturer TEDOM, which has a large dealer network across Europe.

- The new gas supply arrangement with Corona Energy is a win-win for both EuroSite Power and its customers. It allows the Company to substantially reduce the price paid for gas consumed by its installed machinery and allows customers to purchase gas at a discount for their other applications.



Market Data	
Price	US$0.76
Sector	Technology
52-Week Price Range	US$0.50 - US$1.05
Shares Issued (m)	65.75
Market Cap (m)	US$59.97
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. 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.

In 2015, EuroSite reported total revenues of US$2,198,721 compared to US$1,577,873 for 2014, an increase of 39.3%. Net loss in 2015 was US$1,384,122 or US$0.02 per share, a meaningful improvement when compared with a loss of US$2,308,861 or US$0.04 per share in 2014.

Next to the strong financial improvement, the Company also made some extraordinary progress businesswise (Also read Growth Drivers).

- It closed **finance arrangements** with Macquarie and Societe Generale, two major banking groups, to provide finance for future projects. These agreements allow the Company to target more and larger customers. A major on-site utility contract was signed a couple of weeks ago thanks to these financing possibilities;

- EuroSite Power also reached a **gas resale agreement** with Corona Energy, a leading independent energy supplier in the UK, to buy natural gas at very favorable prices. EuroSite will resell this gas to its customers. An initial customer has signed up for this service, which will increase the Company's revenues and gross margins;

- Next to the UK, the Company started offering its **services across Europe**. In order to do so, it entered into 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. These are the Company's first steps into the vast CHP market in mainland Europe; and

- As of December 1st, 2015 EuroSite Power has its **own in-house maintenance team**, which will handle preventive maintenance of the fleet, together with any fixes of breakdowns. This will help to increase gross margins.

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.

Currently, the Company has 30 systems in operation, and 7 more will be installed in coming quarters. 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 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 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 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. 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 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.

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.

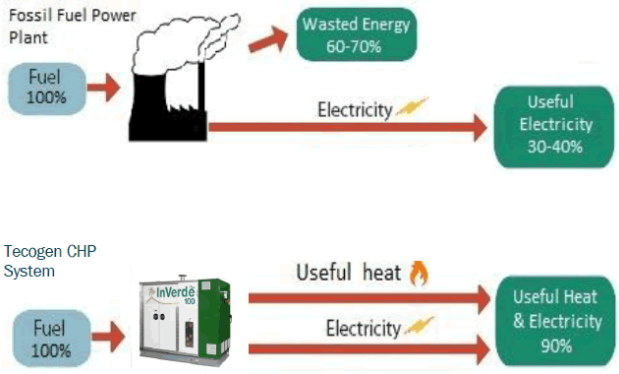
For locations with substantial hot water requirements the cost savings and environmental impact is significant, reducing the carbon footprint with an average of 50% in greenhouse gas emissions.

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 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 whole 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

Last summer, EuroSite Power introduced four goals which laid the foundation for the Company's success in coming years.

Today, less than nine months later, the four "pillars of growth" have already been completed, and are starting to bear fruit. For example, in the fourth quarter of 2015, EuroSite's adjusted gross margins reached 31.5%, versus 18.6% in the comparable period of 2014. Moreover, the Company is adding new on-site utility agreements that it probably wouldn't have been able to close before due to lack of available capital.

Pillar 1 – Project Financing

SOCIETE GENERALE Equipment Finance

MACQUARIE

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.

A couple of weeks ago, 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 fourth quarter conference call that a term sheet was signed for a prospective 400kW solution and that good progress was being made with three other potential projects.

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, 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

A couple of weeks ago, 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.

Initially, EuroSite Power will concentrate on the countries in which its services make most sense. 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 when expanding into mainland Europe, 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.

At the end of 2015, the Company had 29 machines in operation, of which it maintained 17. Nine TEDOM units come with a two year warranty. 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 expects to extend its in-house maintenance program to include servicing those units as well. This should help to increase margins further.

RECENT EVENTS

First Gas Resale Agreement Signed

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.

This is the first EuroSite Power customer to take advantage of the Company's natural gas purchase arrangement with Corona Energy. The major advantage is that EuroSite is able to purchase gas at much lower rates than most of its customers. In fact, compared with its current tariffs, Abbeycroft Leisure will pay 42% less for its consumed gas after May 1st, 2016.

Given these extraordinary savings, the Company feels confident that many more of its customers will execute similar gas resale agreements in the coming months.

While the customer benefits from lower gas tariffs EuroSite Power benefits as it sells the gas to its customers with a markup. It also lowers the cost of the gas used in its CHP units and consequently, the Company increases both its revenues and margins. In fact it's estimated that the contract with Abbeycroft Leisure will result in revenues rising by 21% and margins increasing by as much as 24%.

Part of the gas heat pump at the Haverhill Leisure Centre in Suffolk, UK.

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."

Significant 331kW Project Win

Only a few weeks after EuroSite Power secured financing from Societe Generale Equipment Finance for its future projects, the Company signed an On-Site Utility agreement with Doncaster Culture & Leisure Trust for The

Dome leisure center, in Doncaster, UK. The agreement is worth approximately US$4.83 (£3.02) million.

Under the terms of the 15-year On-Site Utility agreement, a highly efficient TEDOM Combined Heat and Power system will be installed at the leisure center, which will be owned and operated by EuroSite Power. The 331kW unit will produce up to 1,848,470 kW of electricity and 2,038,343 kW of heat per annum.

With over 1 million visitors per year, The Dome is one of the UK's top 5 sports and leisure attractions. It features a swimming complex, an ice skating rink, bars, and a sports area that is also used as an event venue.

The center will then buy the energy produced by the system at a guaranteed lower rate than available directly from the grid. Estimated savings for the customer are in excess of US$56,800 (£35,500) per year, with no capital outlay or maintenance costs.

The new agreement brings the total number of systems under contract to 37, and EuroSite Power another step closer to becoming cash flow positive. The Company aims to have the CHP system up and running in the fourth quarter of 2016.

The Dome's Head of Facilities Terry Parker said, "Controlling costs, particularly the impact of Carbon Taxes like the CRC is essential to ensuring The Dome is able to provide the very best facilities for all our users. Cash flow is also obviously a vital concern so, with zero upfront costs, and immediate, guaranteed, risk-free savings, the EuroSite Power solution makes perfect sense."

It's very promising that so soon after announcing the financing arrangement with Societe Generale a first deal is announced. In addition, with a 331kW unit, Doncaster Dome is a much larger than usual project.

30th CHP System Started Up

In January 2016, EuroSite installed and started up a 200 kW CHP system at the Littledown Centre, in Bournemouth, United Kingdom.

It's important to know that the contract was won through a public procurement process, in which EuroSite Power was up against its major competitors. It testifies that EuroSite Power is a Company to be reckoned with in the European on-site utility industry.

Set in 47 acres of parkland, Littledown Centre is one of the finest leisure, swimming, football and gym facilities in the UK. It is managed and operated by BH Live, the leading operator of leisure and event venues in the south of England.

The CHP unit will be owned, maintained and operated by EuroSite Power at the leisure facility for the next 15 years. The forecasted revenue for the Company over the entire contract period is approximately US$3.18 million, while estimated savings for the customer are in excess of $64,000 per year.

Moreover, the newly installed unit will produce up to 1,209,975 kW of electricity and 1,433,820 kWh of heat per year, while saving up to 375 metric tonnes of CO_2, the equivalent to taking 79 cars off the road each year.

Mike Lyons, BH Live's Director of Leisure Facilities, said, "Maintaining control of energy consumption and managing cost is very important for the efficient running of Littledown Centre which has more than 1.5 million visits a year. With zero upfront costs, the EuroSite Power solution provides immediate, guaranteed, risk-free savings, with costs guaranteed to be lower than if we were to buy our electricity directly from the national grid."

FINANCIALS

EuroSite Power generated revenues of US$2,198,721 in fiscal year 2015, ended December 31, 2015, an increase of 39% compared with revenues of US$1,577,873 in fiscal year 2014.

The strong rise in revenues was mainly due to a higher number of machines in operation compared with a year ago. Eight new installations were commissioned in 2015, bringing total operational systems at year end to 29 with a total installed capacity of 2,878 kW and long term total contract value of operational systems of approximately US$81 million.

Amounts in US$000's	12/31/15	12/31/14
Net Sales	686	379
Cost of Sales	833	600
Operating Expenses	463	440
Loss From Operations	**610**	**662**
Interest Expense	9	21
Debt Conversion Inducement Expense	-	508
Net Loss	**(241)**	**(542)**
Diluted Shares Outs.	65,747	56,747
Diluted EPS	(0.00)	(0.01)

Most important income statement data for the quarters ending December 31, 2015 and December 31, 2014. Source: Company Filing

A direct result of the higher number of operational units is the sharp increase in total energy production. For the full year 2015, that number came in at just under 29 million kWh, a 59% improvement over 2014. During the fourth quarter of 2015, energy production almost doubled versus the comparable quarter in 2014, thanks both to more operational units and improved reliability of the fleet.

Gross margins excluding depreciation and site impairments improved to 24.4% for full year 2015 compared with 18.9% in 2014. These margin improvements reflect the benefits from adding the in-house maintenance team, lower gas prices, and other cost saving initiatives.

Speaking about the full year results, EuroSite Power Chief Executive Officer Dr. Elias Samaras noted, "Not only have we delivered compelling financial results for the period, we have achieved a number of key milestones that have laid the foundation for strong future growth."

Extraordinary Margin Growth Expected

EuroSite Power's gross margin target is 35%. Although that number hasn't been achieved yet, the 31.5% reached in the fourth quarter of 2015 came pretty close. Also, the four pillars of growth should all help contribute to further margin improvement.

As a result of the gas supply deal with Corona Energy, for example, EuroSite's overall gross margins are estimated to increase by around 24%. In addition, bringing the maintenance of the CHP units in-house helps to grow margins.

Moreover, the Company continues to work hard to increase the availability and efficiency of its operational fleet, as it also 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. Overall fleet availability in 2015 was 85%, the highest fleet availability achieved to date.

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 2015, efficiency for the entire fleet combined was 78%, up from 76% in 2014.

In order to improve margins even more, 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.

All these small wins will help the Company become cash flow positive and ultimately profitable.

Balance Sheet As Of December 31, 2015

As EuroSite Power develops, installs, and owns the energy-producing equipment at its customer's sites, its business model is capital intensive.

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 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.

Amounts in US$000's	**12/31/15**	**12/31/14**
Cash and Cash Eq.	588	3,777
Accounts Receivable	304	153
UK Tax Incentive Receivable	369	649
Total Current Assets	1,450	4,784
Property & equipment	7,516	6,349
Total Assets	**8,977**	**11,150**
Accounts Payable	412	338
Total Current Liabilities	699	468
Convertible Debentures	2,536	2,633
Note Payable	2,000	3,000
Total Liabilities	**5,236**	**6,101**
3,742	3,963	5,049

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

EuroSite Power also obtained a five year, US$3 million loan from Mr. Hatsopoulos, of which US$1 million was repaid in 2015. 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 US$1 million. As of December 31, 2015, no amounts were drawn on this line.

However, thanks to the project finance agreements from the two major banks, the Company shouldn't need to raise any more money to finance equipment purchases.

EuroSite Power finished 2015 with approximately US$588,000 in cash. The Company is confident that its existing cash, future cash flow from operations, its ECA tax incentives, the project financing arrangements with Societe Generale and Macquarie, the line of credit available from its CEO, and the use of capital from American DG Energy, will be sufficient to meet the working capital requirements of its existing business for the foreseeable future.

Cash used in operating activities was US$365,186 for the year ended December 31, 2015 compared to US$796,024 in 2014. For 2015, the net loss of $1,384,122 was offset by several non-cash operating expenses, including depreciation and amortization of US$409,555, site impairments of US$246,935 and stock based compensation of US$77,059.

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 project financing agreements recently announced with Societe Generale and Macquarie set the stage for more rapid roll out of the Company's solutions across the UK and Europe. Thanks to these financing options, an initial agreement for a 331 kW unit, worth approximately US$4.8 million over the full life of the contract, was signed. More deals appear to be in the pipeline.

Similarly, the new gas supply arrangement is a win-win for both EuroSite Power and its customers. The agreement allows the Company to substantially reduce the price paid for gas consumed by its installed machinery and allows the customers to purchase gas at a discount for their other applications.

Moreover, margins have already improved significantly thanks to the in-house maintenance team. This trend is expected to continue in 2016.

Finally, we expect EuroSite to close its first on-site utility agreements outside the UK in 2016 with the help of the well-known equipment manufacturer TEDOM.

In 2016, EuroSite Power is expected to take full advantage of these growth opportunities. It can meet the needs of many more potential customers and its margins are trending upwards. A very attractive combination.

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$2.67, which is up from US$2.51 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$2.67, which is 251% above today's stock price.

SHARE DATA & OWNERSHIP

As of March 29, 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 (48.0%), RBC Holdings (11.1%), Nettlestone Enterprise (9.4%), Elias Samaras (5.2%), and John Hatsopoulos (4.6%).

Note that EuroSite Power and American DG Energy are affiliated companies by virtue of common ownership and leadership. Specifically, as of December 31, 2015, 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 20.5% 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).

- **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 – FY 2015

All numbers in thousands

PERIOD ENDING	FY 2012	FY 2013	FY 2014	FY 2015
Total Revenue	**81**	**839**	**1,578**	**2,199**
Cost of Revenue	70	763	1,799	2,315
Gross Profit or (Loss)	**11**	**76**	**(221)**	**(116)**
Operating Expenses				
General & Administrative	1,088	964	877	884
Selling	609	522	492	479
Engineering	94	157	112	249
Total Operating Expenses	1,790	1,644	1,481	1,612
Operating Income or (Loss)	**(1,779)**	**(1,568)**	**(1,702)**	**(1,728)**
Other Income or (Expense)				
Interest & Other Income	13	5	13	6
Interest Expense, net of debt premium amortization	-	(106)	(47)	(42)
Debt Conversion Inducement	-	-	(508)	-
Loss on Extinguishment of Convertible Debt	-	-	(714)	-
Total Other Income (Expense)	13	(100)	(1,256)	(37)
Benefit for Income Taxes	-	-	649	380
Net Income or (Loss)	**(1,765)**	**(1,668)**	**(2,309)**	**(1,384)**

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

OTCQX: EUSP

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