corac

innovation and technology engineering

Corac Group plc

Annual Report and Accounts for the year ended 31 December 2010

Stock Code: CRA

Corac is an innovative research and development group, specialising in compressor and power electronics technology, developing patented applications creating value for end customers.

Contents

The Directors' Report on pages 12 to 13 and the Remuneration Report on pages 16 to 17 have been drawn up in accordance with the requirements of English law and liability in respect thereof is also governed by English law. In particular, the responsibility of the directors for these reports is owed solely to Corac Group plc.

The directors submit to the members their Annual Report and audited financial statements of the Parent Company and Group for the year ended 31 December 2010. Pages 4 to 17, including the Executive Chairman & Chief Executive Officer's Report, Commercial & Finance Director's Report, Chief Technical Officer's Report, Board of Directors, Directors' Report, Corporate Governance Report and Remuneration Report form part of the report of the directors.

Highlights

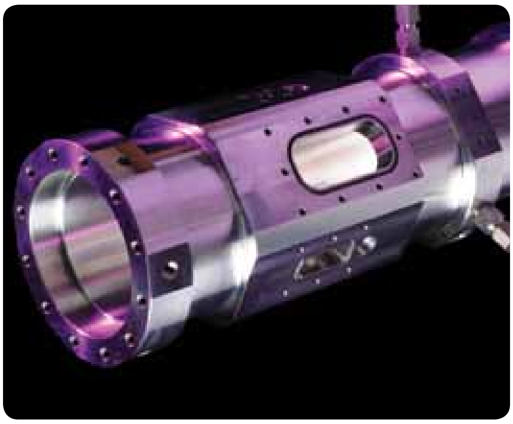
Operational Highlights

- Completion of the first full system test of the integrated Downhole Gas Compressor ("DGC")
- Second DGC project with North American partners progressing well
- DGC feasibility study signed with OMV Austria Exploration & Production GmbH, part of the OMV Group after year end
- DGC marketing and sales agreement signed with Baker Hughes
- MoU signed with new global industrial compressor partner after year end
- Two additional industrial clean air booster compressors delivered to Austria
- Three new patent applications filed
- Successful firm placing and placing and open offer
- Board and senior management team strengthened

Financial Highlights

- Revenues of £0.66m (2009: £1.34m)
- Total R&D* spend £3.22m (2009: £3.38m)
- Net loss after tax £4.00m (2009: £2.93m)
- Loss per share 3.5p (2009: loss per share 3.1p)
- £19.49m net cash raised from investors during the year
- £21.76m cash at year end (2009: £5.34m)

(* Total R&D spend includes cost of sales.)



Pictured:

Component parts and single Downhole Gas Compressor stage assembly for the ENI field trial

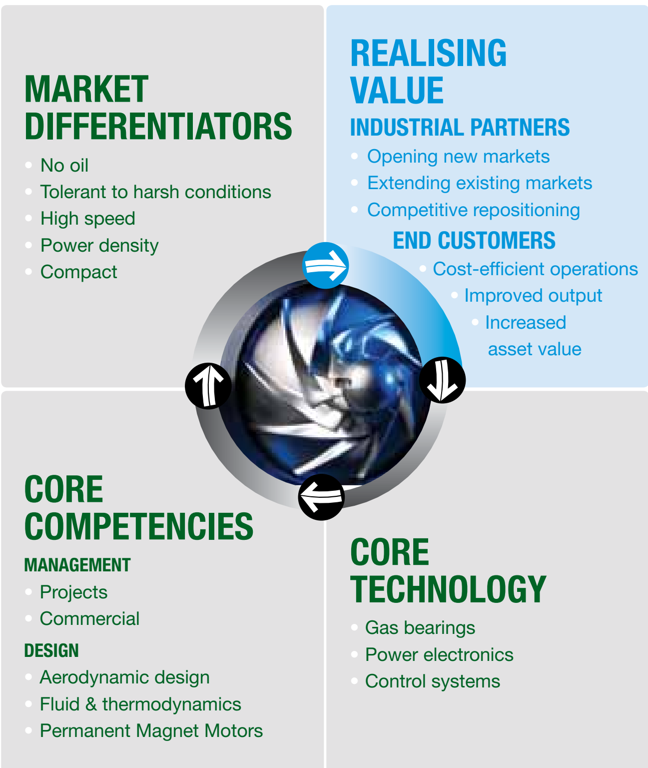
Corac at a Glance

Technology

Corac is an innovative research and development ("R&D") group, specialising in compressor and power electronics technology, developing patented applications and creating value for end customers.

Through more than a decade of experience and development, Corac has successfully combined "know-how" and technology within gas bearings, motor, aerodynamics, thermal heat transfer design and power electronics. This provides fully integrated solutions and systems based on high speed, high power density, "no oil" turbo machinery with integrated power electronics and control systems.

Corac's development has been underpinned by the creation of patented Intellectual Property ("IP") and internal "know-how" and has been validated by laboratory trials at our Uxbridge facility, our test site in Spadeadam and in worldwide factory trials.



Intellectual Property

Corac has protected the key features of its technology and potential systems applications through 45 granted patents, generated from over 65 applications. Corac continues to develop relevant IP, applying for patents which protect and complement its existing technology and solutions. As these innovative solutions develop, they provide a basis for future licensing opportunities to create further value.

Business Streams

Corac's development is directed towards a range of customer driven applications which are grouped into three business streams:

Gas in Harsh Environments

This development focuses on the movement of gases with difficult environmental characteristics such as high temperatures, water content and contaminants. Corac's high speed compact compressors are tolerant of a wide range of harsh environments. This includes the development of Corac's Downhole Gas Compressor ("DGC").

The DGC is a compact and robust implementation of the Corac motor, compressor elements and power electronics for use in gas wells with the objective of enhancing the production rate and overall recovery from a variety of reservoirs. The compressor system is packaged within a 7 inch diameter well casing, positioned several thousand metres below ground in the hostile and hot environment of a flowing gas well.

Through the projects currently underway, Corac's DGC is being developed and tested to deliver productivity improvements under different well conditions. Corac plans to secure additional partners to deploy DGC's under a variety of test conditions in live wells. This is likely to follow the route of a financed feasibility study followed by full design and development, build then deployment for the live testing phases.

This process will enhance our understanding of well behaviour and the predicted impact on gas flows from deployment of a DGC. The resulting in-service data will demonstrate the capability for commercial exploitation of this application as well as increase the rate of adoption of Corac's DGC technology.

Within the other business streams, testing and proof of the core compressor technology in factory environments has continued in order to secure global industrial partnerships to exploit potential compressor applications.

Clean Air Supply

There are a number of significant industrial sectors where there is a critical requirement for cleanliness, for example in water treatment and in the production and handling of foods and pharmaceuticals. Corac's "no oil" compressors eliminate lubricants from the gas stream for this purpose. In addition, Corac's low maintenance and low life cycle costs are becoming an important factor for the compressed air industry.

Efficient Air Power

The "fourth utility" in factories demands a simple, low maintenance uncontaminated yet highly efficient supply of compressed gas. Traditional fixed rate air supplies do not allow for the management of the peaks and troughs of air demand. Corac's high speed compressors provide controllable high performance from a very small package with low maintenance and low life cycle cost. Variations in demand are met without the wasted energy cost of today's fixed rate delivery compressors.

Business Model

Corac's strategy is to build on its core technology and continue to develop its existing applications as well as identify future applications and suitable partners to help finance the development of Corac patented applications.

The strategic approach is to combine customer driven needs with Corac's internal expertise and know-how to create concept ideas. Following initial design and evaluation of commercial potential, patent applications are made to create and protect new IP.

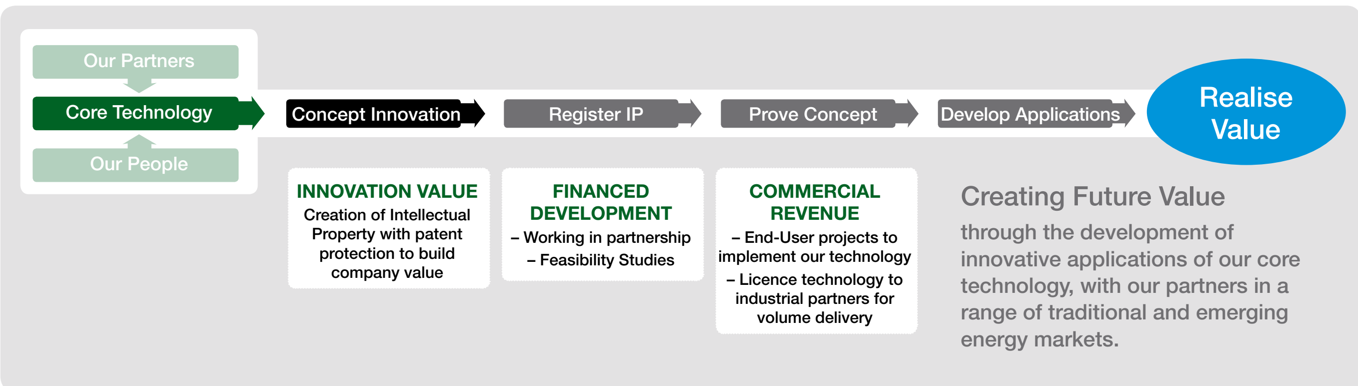
Partner financing supports the detailed design, build and testing stages to prove the concept, which in return may provide partners with preferential terms after commercialisation of any resulting applications. Once applications have sufficient proof of commercial viability with end users, Corac intends to license the technology to industrial partners in order to realise value.

An important part of Corac's strategy is to secure global "route to market" partners that provide the necessary scale and infrastructure to support the commercialisation of individual applications. These partnerships, such as the marketing and sales agreement with Baker Hughes and the recent Memorandum of Understanding agreement with a global market leader in the compressed air industry, not only provide an introduction to potential development partners, they also facilitate a scalable route to market with their existing global customers.

From the team:

"... I came to Corac from the aerospace industry and found similar technology that manages power, temperature and space, but in an entirely new application. It feels like we are on the edge of something really big ..."

Terry Mercer, Team Leader
Power Electronics and Control



Executive Chairman & Chief Executive Officer's Report

"The Board is committed to commercialising Corac's technology, whilst retaining its core R&D credentials, by realising future value through the delivery of innovative applications for use within the global energy marketplace."

Introduction

During 2010 Corac built a strong platform, supporting the move towards a more dynamic commercial business approach. This involved strengthening the Company's financial position, investing in restructuring and implementing a cultural change throughout the business.

We have made significant advances with Corac's DGC technology throughout the year culminating in the first full system test of the integrated DGC at our facilities in Uxbridge. In addition, a second field trial partner financed development programme was secured.

Changes were made during the year to the Corac organisation at Board level and throughout the Company in order to establish the discipline, accountability and controls necessary to support our R&D activities and build a business with commercial values.

In December 2010 net proceeds of £19.49m were raised from investors through the firm placing and placing and open offer. We appreciate the continued support of our shareholders.

Financial Review

The financial results for the year ended 31 December 2010 show a loss before tax of £4.77 million (2009: £3.69m). Revenue in the period was £0.66m (2009: £1.34m) representing work done on the ENI SpA ("ENI") and North American DGC projects as well as payment for two final industrial booster machines delivered to Austria.

Cash at the year end amounted to £21.7m (2009: £5.34m), supported by the successful raising of £19.49m net of costs through a firm placing and placing and open offer, which was completed on 6 December 2010.

At 31 December 2010, there were 247,404,225 ordinary shares of 10p each in issue with voting rights.

The financial review is covered in more detail in the Commercial & Finance Director's report.

Strengthened Financial Platform

The fundraising strengthened Corac's balance sheet and the improved working capital position provides the security to support continued investment in Corac's R&D activities. This includes the intended recruitment of additional high quality engineers and scientists to support technical innovation, solutions architects to drive application development and additional projects and trials.

Now, with a strong balance sheet and secure financial footing, Corac is in a vastly improved position to negotiate more effectively with large multinational potential partners.

In the coming year Corac intends to relocate its facilities at Uxbridge to an alternative site that is able to meet Corac's specific requirements for power, noise control and harsh gas management as well as being in the right catchment area to attract suitably skilled personnel.

Investment in equipment will provide high precision engineering tooling and measurement equipment, systems and unit test capability as well as analysis and simulation systems to support ongoing technology development.

Operational Highlights

In 2010 management renegotiated contract terms with a number of our major partners which are now much better aligned with maximising shareholder value.

There has been significant progress made on our DGC development project with our partner ENI, in Southern Italy. In December, following the completion of the first full system test of the integrated DGC at our Uxbridge site, Corac completed a two week test programme at the Company's methane test facility at Spadeadam in Cumbria. This represented the first time that three compressors had been tested together in the downhole configuration.

We encountered technical challenges in the tests at Spadeadam which have previously been reported and have since identified resolutions for these issues. We completed our rectification work and testing at Uxbridge in early March 2011, and also ran successful initial tests of the fully integrated DGC at our dedicated flow loop in Spadeadam. Further work is required to prepare the DGC and flow loop in order to simulate and test a range of operating scenarios in preparation for partner acceptance. We expect this work and subsequent tests to be completed by the end of May 2011 and if successful, ENI will make arrangements for the transfer of the DGC to Italy for field trials. This is addressed in more detail in the Chief Technical Officer's report.

In August we secured an agreement with a new development partner in the USA for a well completion deployment system that is less expensive and more flexible than that adopted for the ENI field trial.

The agreement has a maximum value of $1.5m, based on achieving milestones over a period of eighteen months, with an upfront payment of $0.7m. Progress to date is on track to complete the development phase in 2011.

In November we formalised a marketing and sales collaboration agreement with Baker Hughes which enables them to market and sell the DGC alongside Baker Hughes' related technology, providing Corac with a scalable route to a worldwide gas market.

Subsequent to the year end, Corac successfully secured two important additional partnerships which are covered in more detail in the Commercial & Finance Director's report. We signed our first funded DGC feasibility study with OMV Austria Exploration & Production GmbH ("OMV"). This route provides a lower barrier to entry for Corac to secure partners to support the development and testing of the DGC technology. We also agreed an MoU with a global market leader in the compressed air industry to jointly develop Corac's existing core technology for applications within the Clean Air and Efficient Air Power business streams.

Both of these agreements are significant for Corac and in line with our stated strategy to strengthen and broaden the commercial application opportunities for our core technology. In addition, the partners that we are working with are market leaders and offer a combination of financial support as well as technical and commercial experience that are necessary for Corac as we head into the commercialisation phase of our strategy.

Towards the end of 2010, a Business Development Team was established to build relationships and business networks across a number of different industrial and energy markets in order to profile Corac's core technology. The team works alongside Corac's Innovation Team ensuring that both business and technology decision makers are reached in existing and new global industrial operators. Through this approach, increased interest is now being seen in the existing and new technology applications and markets where the technology has potential.

Our Industrial Air business is now part of the Clean Air and Efficient Air Power business streams. The Business Development and Innovation Teams are seeking to identify future global partners to further develop applications in these areas, in addition to the MoU signed at the end of March 2011.

We continue to focus on our internal technology development with three additional applications for patents made in 2010 to complement the 45 patents already held.

Board Changes

As previously reported, the Board was strengthened in the first half of 2010, to better support the commercialisation phase of the Company's growth. This started with the appointment of Rohan Courtney OBE, following the departure of the previous Non-Executive directors.

In June 2010 Professor Gerry Musgrave, the Group's former Executive Chairman, stepped down from the Board.

In February 2011 Richard King was appointed to the Board as Non-Executive director. Richard was previously Managing Partner of UK and Ireland for Ernst & Young LLP and his experience will support the Company's strategic development and monitor corporate governance.

Strategy

The Board is committed to commercialising Corac's technology, whilst retaining its core R&D credentials, by realising future value through the delivery of innovative applications for use within the global energy marketplace.

Corac's approach is to continue to develop its core technology and IP through externally financed development projects as well as internally funded R&D. This will ensure that Corac not only delivers on the existing technology applications of the DGC and core compressor, but importantly continues to develop new patented technology across broader application areas.

Following the fundraising in December, we have strengthened our management team with Heads of Operations, Business Development and Finance in place reporting directly to the Executive Board. This team works directly with the Executive directors to run and manage the day-to-day business.

Markets

We continue to see growing interest in Corac's technology and applications across a number of markets and applications. Individual elements of Corac's core technology such as our power electronics module are already generating interest from global industrial operators with identified opportunities for a variety of uses in the gas industry and broader clean air and efficient air power marketplaces.

Methods

Significant progress has been made through the development of the Programme Management Office established last year. Corac has now created the culture and infrastructure to manage and deliver multiple complex projects. In addition, tighter financial and operational controls have been embedded in the Corac organisation.

These will be critical in 2011 and beyond as we look to deliver the existing development projects as well as work on and conclude a broader range of projects to prove the commercial value of the core technology.

Staff

Corac currently employs 37 staff, mostly involved directly in the R&D of our technology. We have recently recruited engineers into the electrical and mechanical teams, reducing the reliance on long term contractors in 2010. We also invested in business development resource and in 2011 we will seek to attract high calibre individuals to join the Corac team in order to meet our growing development and commercial requirements.

Innovation

Innovation is at the heart of our business and in order to ensure that this focus continues, a new Innovation Team has been created headed by our Chief Technical Officer. Led by both internal and external ideas, the innovation team drives the ongoing technology development to create new IP as well as supporting existing development projects.

From the team:

"...we've shown that we can produce the aero performance in our early development. Now I'm looking forward to the chance of solving a growing range of new and interesting customer challenges with different conditions and configurations..."

Adrian Alford, Chief Aerodynamicist

Value Creation

We plan to continue investing in R&D projects, the development of technical skills as well as the commercialisation of our technology applications across an extended market through relationships with key partner organisations

Our commitment is that we will continue to develop our sustainable talented workforce that creates wide-ranging patented IP. Through a strong and diverse partner network providing global access to markets and users we will commercialise our technology applications.

I believe this will generate greater enterprise and shareholder value by way of income growth through financed development partnerships and future royalties from licensed IP.

Summary

We have built a strong platform across the key areas of Innovation, Operations, Business Development and Finance. We now have clarity of purpose with a clear strategy and business model and an internal culture aligned to deliver it. Importantly, Corac is ready to drive the next commercialisation phase through strong relationships and a clear customer focus together with a positioning that is broader than just a DGC business.

Phil Cartmell
Executive Chairman & Chief Executive Officer
28 March 2011

Commercial & Finance Director's Report

"With the team and capabilities within the Company, we are able to develop our core technology and then protect and control ownership of our IP, whilst developing scalable routes to global markets that can deliver future value for shareholders."

Finance

Revenues of £0.66m (2009: £1.34m) were lower than the prior year largely driven by the cessation of JIP partner revenues, but in line with forecast. 2010 revenues derived from the completion of work relating to the ENI and North American DGC projects as well as income from the two booster compressors delivered to Austria.

Total R&D spend of £3.22m (2009: £3.38m) includes cost of sales which represents that proportion of R&D spend financed by partners. The spend in 2010 was lower than the prior year due to lower materials spend on the ENI project during the completion stage and better project cost controls. This included investment in the Head of Operations role.

Administration costs of £2.27m (2009: £1.73m) were higher than in 2009 due in part to investment in Board and senior management and also £0.25m of one-off restructuring costs associated with commercial and employee contracts.

Operating losses of £4.81m (2009: £3.73m) were broadly in line with expectations with the increased loss a direct result of reduced revenue combined with investment in operating infrastructure and one-off costs.

R&D Tax Credits of £0.77m (2009: £0.75m) were claimed, consistent with prior years, linked to our investment in ongoing technology development.

Cash used in operating activities was broadly in line with prior year at £3.06m (2009: £3.09m). The increase in cash of £16.42m (2009: £3.22m) was driven by £19.49m of net cash proceeds from the issue of shares in December 2010.

From the team:

"...in my early career I have seen long term projects delivered successfully in oil and gas, and at Corac we have had to build upon our technical development progress to focus on practical delivery – that is what our partners expect and we are much stronger now to work with them and share the project successes..."

Noel Bernatt, Project Manager

Operations

The focus for 2010 has been to establish a commercial infrastructure combined with a delivery culture to facilitate future value creation. Discipline has been created within core support areas of the business such as financial control, supply chain management, IT and project management to support the business as we take on more projects to prove the value of our core technology.

Critically, every part of the business has now been reviewed including contracts, IP, systems and office administration and many parts of the business have subsequently been improved to better meet current and future demands.

Tighter budgetary control is now in place to meet project requirements including planning and control processes to more accurately support multiple large-scale projects.

Improved cash management has been implemented to provide direct relationships with established high profile, low risk, banking institutions. These were previously managed by a third party.

Commercial

2010 was a year of challenging commercial negotiations to resolve contractual and legal issues with agreements initiated by the previous management. These were successfully concluded in two key areas: finalising the second DGC development project in North America as well as formalising the marketing and sales agreement with Baker Hughes, providing Corac with a scalable route to market for our DGC application.

During the year, we engaged in extensive negotiations with a potential partner in the Middle East looking to apply Corac's core technology through the development of an in-pipe gas compressor located above ground to optimise network gas pipeline pressures. These are ongoing and have taken considerably longer than anticipated. One of the fundamental factors in the delay has been ensuring Corac retains protection of its core technology and IP generated in the development stages.

In each case, key lessons have been learned and processes improved so that Corac is better placed with improved legal templates and a more commercial approach to progress future agreements more efficiently both in terms of costs and time.

In the first quarter of 2011, Corac secured two significant new agreements. A first phase DGC feasibility study was secured with OMV, the leading oil and gas corporation of Central Europe which if successful will lead to two further phases comprising detailed design, build and test and finally field deployment and monitoring. This is an important third DGC project for Corac as it will develop and test the DGC in a significantly different well environment to our existing projects and specifically looks to deploy the DGC earlier in the wells life cycle, which could extend the commercial application of Corac's DGC.

In March 2011, an MoU was agreed with a global market leader in the compressed air industry. Through the partnership, Corac intends to build on the efficiency and low maintenance characteristics of its high speed industrial compressors to identify opportunities within water treatment, pneumatic conveying and boosting of conventional compressor arrangements. We believe that this offers Corac a partnership that may lead to the manufacture, marketing and selling of end applications providing Corac with a global market leading partner to commercialise our technology within our Clean Air and Efficient Air Power business streams.

Corac is now positioned to combine the core R&D activities with a business approach. With the team and capabilities within the Company, we are able to develop our core technology and then protect and control ownership of our IP, whilst developing scalable routes to global markets. We have demonstrated that this is possible even when negotiating with major global oil and gas operators.

Following the fundraising, we established a Business Development Team and the structure is now in place to open up new markets for Corac's core technology across each of the business streams as well as broaden the horizons for Corac into new markets.

We are now raising the profile of Corac by building commercial networks across a number of significant market sectors as opposed to focusing wholly on the initial DGC project and we are consistently gaining interest from global industrial operators.

Mark Crawford
Commercial & Finance Director
28 March 2011

Chief Technical Officer's Report

"The Innovation Team, formed in 2010, is tasked with using our technology to identify further and wider application opportunities. Corac clearly recognises that future growth will be dependent on licensable technology and "know-how."

Technology

The Technical team at Corac entered the year with objectives to stabilise the delivery of our core projects, learn the necessary lessons to improve our future capability, stimulate the further innovation of our core technologies and connect with the markets and users that will drive demand for our ideas.

The priority for much of the year has been in ensuring the delivery of the ENI field trial DGC, which led to the first assembly of the complete system in the downhole configuration, which was tested at Spadeadam in the latter part of the year.

We encountered and resolved many technical challenges en route. In power electronics, we have developed new encapsulation methods for the reliable insulation of high power devices. New techniques for managing the distortion and interference of control signals by the close proximity of high speed, high power circuits and power units were also required. Within the compressor itself, we overcame challenges regarding the reliable operation of gas bearings at high speed and the development of motor windings to withstand high temperature operation.

The December test at Spadeadam was compromised by leakage of insulating oil into the compressor bearings. Testing proved the viability of the system as a whole and established that fundamentally, the technology works.

Whilst one motor failed to start due to a soldered contact failure, an issue which has since been corrected, another motor only ran at slow speed due to oil leakage. The leakage issue has now been resolved, and is a further reminder that Corac's technology operates at the limits of knowledge in conventional sealing systems.

At the end of March 2011, Corac completed a series of re-engineering and test activities at Uxbridge to resolve the technical challenges identified at Spadeadam, previously reported in December. As a result, the integrated DGC was transported to Cumbria where it completed a series of tests in Corac's dedicated flow loop. The DGC reached full speed at representative operating temperatures and pressures and completed a number of stop and start sequences to simulate operating events in the field. Further proof and endurance testing will follow in preparation for partner acceptance.

The Project Management Office ("PMO") has enhanced our ability to capture and organise development information and lessons from past projects are already being applied to refine the technical architecture of the North American DGC project announced in August.

Innovation

The Innovation Team, formed in 2010 is tasked with using our technology to identify further and wider application opportunities. The team is also responsible for assessing and executing preliminary feasibility studies on specific applications of Corac technology, typically financed by customers.

The Innovation Team is closely integrated with the Business Development Team to jointly identify, assess and secure new project opportunities.

Working closely with the project engineering teams managed by the PMO, the Innovation Team then ensures close alignment of project output to meet end user requirements including specification, execution and successful delivery of the resulting solution.

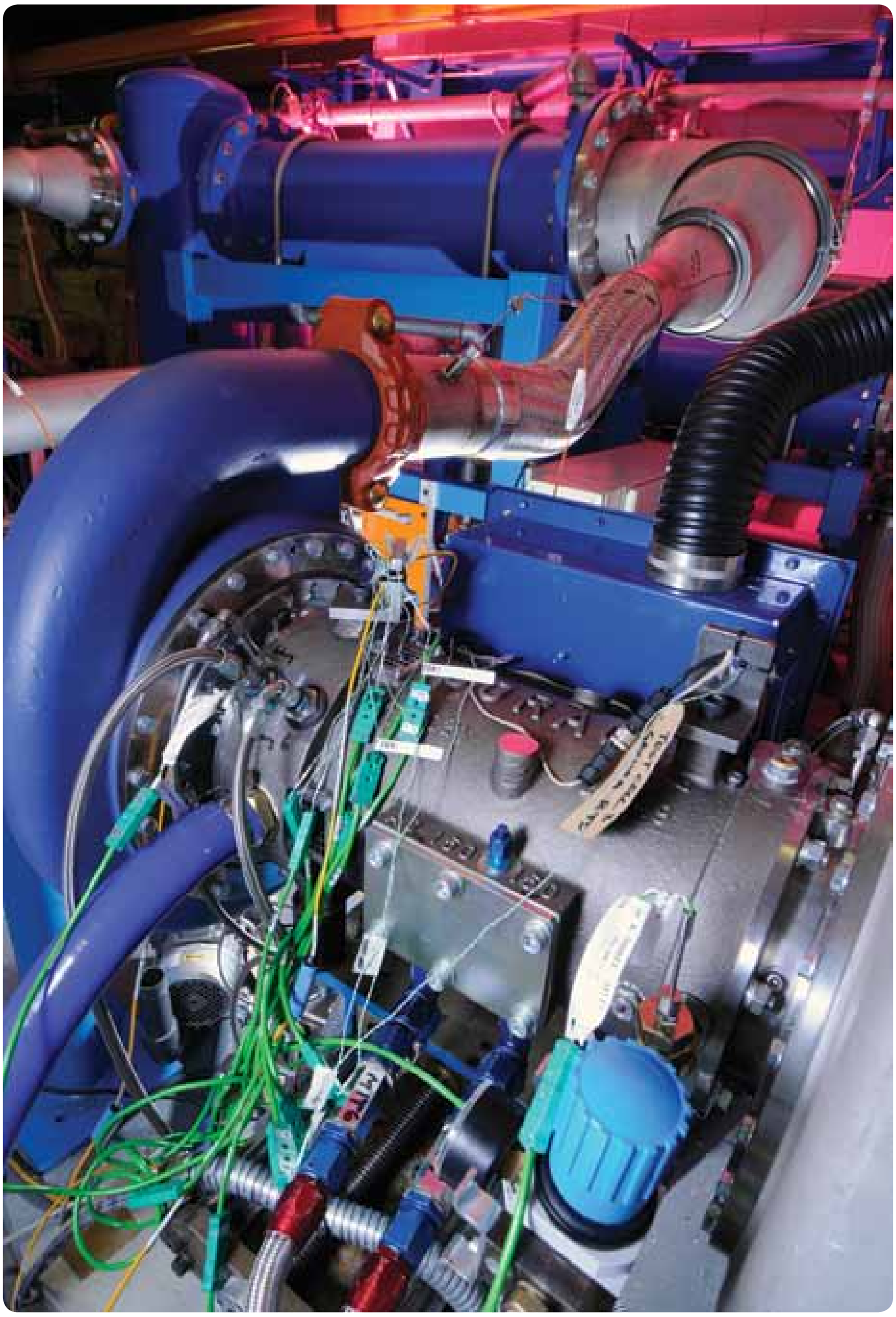
During the year we identified several potential application areas which included compressed and liquefied natural gas and shale gas applications. These culminated in two patent applications relating to the enhanced liquefaction of natural gas and its transportation.

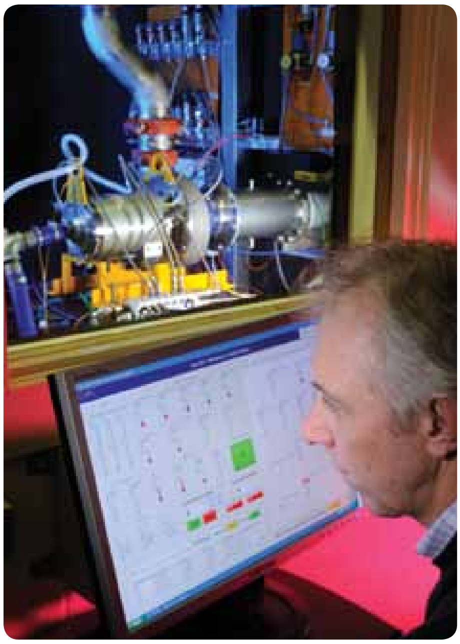
Many oil and gas production facilities require power supply in remote and hostile environments. We are therefore examining the potential to further develop our power electronics applications to exploit high speed power inversion at significant distances from the main supply in a hot and hostile environment.

In other areas, we continue to build experience with successful factory trials of our industrial compressors towards new applications for a range of compressors from 30 to 300kw and pressures from 1 to 10 bar that can be applied within the Clean Air business stream.

Through these activities, the Innovation Team will be the primary generators of patented IP to add to the three further patent applications generated in 2010. Corac clearly recognises that future growth will be dependent on licensable technology and "know-how".

Julian Reed
Chief Technical Officer
28 March 2011





From the team:

"... I've worked on these motors for several years and I'm really pleased to see them working as we designed them. Even better is to take the lessons learned along the way and put them into the next generation machines that will be easier to build and work well for our customers ..."

Dion Bristow, Senior Mechanical Engineer

From the team:

"... we work every day with such tiny bearing clearances in the mechanical assembly, yet it all comes together into a working machine that needs a large crane to lift it onto a truck. When so many small parts add up to something so much bigger, and it all works, well that is pretty special ..."

James Hillman, Senior Workshop Technician

Board of Directors

Executive directors

Phil Cartmell

Executive Chairman &
Chief Executive Officer (59)

Phil Cartmell was appointed to the Board in September 2009. He has a highly active career in business, having formerly been Chief Executive of Vega Group plc between 2001 and 2008, where he grew the Company into a leading European aerospace and defence business. In February 2008 Vega Group was acquired by Italian multinational, Finmeccanica, for a substantial premium. Phil has served as a Non-Executive director and advisor for a number of companies and is currently a Non-Executive director of CSF Group plc.

Mark Crawford

Commercial & Finance director (43)

Mark Crawford was appointed to the Board in November 2009. Prior to joining Corac Mark worked in a number of commercial roles, most recently as a director with private equity backed Gondola, and previously gained international experience with PepsiCo, Inc. Mark started his career with Glaxo Pharmaceuticals UK Limited in various financial roles and where he gained his accountancy qualification with the Chartered Institute of Management Accountants.

Julian Reed

Chief Technical Officer (48)

Julian Reed is responsible for managing the design and development team for Corac. He was formerly a Senior Mechanical Engineer at WS Atkins Consultants Limited, director and Consulting Mechanical Engineer at Neale Consulting Engineers and Design and Development Engineer at British Alcan Aluminium plc. Julian joined the Company in September 2000 and was appointed to the Board in November 2001.

Non-Executive directors

Rohan Courtney OBE

Non-Executive director (62)

Rohan Courtney OBE was appointed to the Board in April 2010. He was a career banker for 27 years including 8 years as Chief Executive in Europe of State Bank of New South Wales. He cofounded UCG Association, is Chairman of Clean Coal Limited and has been involved in energy for most of his career. Rohan has served on a number of public company boards and was a Non-Executive director of Tullow Oil plc, one of Europe's largest Independent Oil and Gas companies, from 1993 to 2007 and Senior Independent director from 2000.

Richard King

Non-Executive director (55)

Richard King was appointed to the Board in February 2011 and also chairs the Audit Committee. Richard spent 35 years with Ernst & Young LLP, becoming Managing Partner of UK & Ireland and a member of both the EMEIA Board and Global management group. Richard is a Fellow of the Institute of Chartered Accountants in England and Wales and worked extensively with growing businesses. Richard is a Non-Executive director of CSF Group plc and a Non-Executive director of Allocate Software plc. He is also Chair of Trustees for the Willow Foundation, a charitable organisation for seriously ill children and adults.

Rohan Courtney OBE is Chairman of the remuneration Committee and Richard King is Chairman of the Audit Committee.

A senior management team, comprising Heads of Operations, Finance and Business Development was formed during 2010 to manage the key operations of the business. They report to the Executive Directors both on a day to day basis and at monthly management meetings.

Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 2010. The Corporate Governance Report on pages 14 to 15 forms part of this report.

Principal activity, business review and business risks

The Group's principal activity throughout the year was the continued innovation, research & development, partner testing and proof of its core technology in order to lead to the commercialisation of technology applications.

Review of the business and future development

Significant developments and operating activities of the Group as well as strategy, business environment and prospects are discussed in detail in the Executive Chairman & Chief Executive Officer's report.

The Group considers its key performance indicators to be:

- for R&D projects, the stage of completion of technical development and associated physical assembly, progress against timetable, milestones reached and associated recognition of revenues;
- performance of pre-production units on trial including reliability, technical performance and cost benefits accruing to customers;
- identification of new partners and new applications and innovations of our technology; and
- cash balance to support the projected future funding requirement of the Group.

The performance against these measures is discussed in the individual directors' reports.

Results and dividends

The Group made a loss after taxation of £4.00m in the year ended 31 December 2010 (2009: £2.93m). The directors do not recommend the payment of a dividend and propose that the loss be added to the deficit on reserves.

Research & development

Total R&D expenditure in the year including cost of sales was £3.22m (2009: £3.38m), all of which was charged to the income statement in the year. Progress on R&D is discussed in the Executive Chairman & Chief Executive Officer's report.

Cost of sales of £0.66m (2009: £1.34m) is calculated on a different basis to prior years as discussed below and in note 2.6.

Prior year reclassification

In prior years, cost of sales consisted of an allocation of R&D expenditure. In the current year cost of sales is deemed to represent that element of R&D cost financed by development partners. As such this is set to equal revenues recognised from R&D activity. The Company believes that this better represents the nature of its operations and the costs associated with revenues from development partners.

Principal risks and uncertainties

In addition to financial risk management which is detailed in note 19 to the financial statements, there are a number of risks and uncertainties which could have a material impact on the Group. Risks are reviewed by the Board and appropriate processes and controls have been implemented in respect of monitoring and control.

The Group's principal business risks include:

- the R&D of new and innovative technologies and its delivery within budgeted cost and timetable and with adequate operating performance and reliability. The Group has assembled a broad based team with experience of managing, developing technologies and project management and has secured appropriate external resources;
- the acceptance of the Group's technology solutions by the market, the continuing support of existing sales channels and the anticipated level and rate of growth of future revenues. The Group continually monitors the marketplace and works closely with development partners to advance the Group's technologies;
- the impact of general economic conditions and uncertainties on potential partners' plans for capital expenditure and their ability and appetite to fund R&D projects;
- the impact of technological change and the potential for competitors to develop alternative solutions. The Group has registered patents covering key areas of its technology, monitors relevant third party patents and has developed significant know-how;
- the importance to the Group of retaining key employees in the development of its technology and execution of its business plan. The Group has assembled an experienced and balanced development team with a broad range of relevant skills, seeks to avoid over dependence upon specific employees and formally documents key areas. The Group seeks to retain staff and encourage their long term commitment by providing competitive remuneration packages including company-wide share options;
- the ability of the Group to innovate, design, build, test and prove technology applications in the marketplace. The Group has stated that it intends to relocate in order to meet the future specific requirements to achieve this.

The principal financial risk is the management of cash during the development phase for the Group including:

- **Liquidity risk**. The Group seeks to manage financial risk by ensuring that sufficient liquidity is available to meet foreseeable needs and by investing cash assets safely and profitably. The Group's policy throughout the year has been to achieve this objective through management's day-to-day involvement in business decisions rather than setting maximum or minimum liquidity ratios. Group policies are aimed at maximising liquidity and return on cash through the use of short term bank deposits.

- **Interest rate risk**. The Group's policy throughout the year has been to place funds in its own name via an external professional cash management company with an approved list of banks at varying maturities to match the anticipated cash requirements of the Group.
- **Credit risk**. The Group's principal financial assets are cash and trade receivables. The credit risk associated with cash is managed by ensuring that counterparties have high credit ratings assigned by international credit rating agencies.

Capital management

Capital consists of equity attributable to the equity holders of the parent.

The primary objective of the Group's capital management is to ensure that it maintains sufficient capital to support the ongoing expenditure requirements of the business with a view to future commercial success from these activities in order to maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of working capital requirements. To adjust the capital structure, the Group issues new shares. The Group currently has no debt financing.

No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

Creditor payment policy

The Group and Parent Company seek to agree payment terms with their suppliers in advance of a transaction and will pay in accordance with the agreed terms as long as the Group and Parent Company are satisfied that the supplier has provided goods and services in accordance with the order.

The Group and Parent Company's creditor payment period was 26 days (2009: 25 days).

Employee involvement

The Group and Parent Company's policy is to encourage involvement at all levels, as it believes that this is essential for the success of the business.

Directors' and Officers' liability insurance

The Parent Company has purchased liability insurance covering its directors and officers.

Directors and their interests

The directors during the year were as follows:

Executive

P Cartmell

M S Crawford

J O Reed

Professor G Musgrave (resigned 24 June 2010)

Non-executive

R R Courtney OBE (appointed 21 April 2010)

S E A Westerman (resigned 19 April 2010)

A J Wood (resigned 19 April 2010)

Directors' interests in shares are shown in the Remuneration report.

Issue of shares

Details of shares issued during the year are given in note 17 to the financial statements.

Related party transactions

These have been disclosed within note 22 to the accounts.

Auditor

Grant Thornton LLP resigned as auditor during the year and Deloitte LLP were appointed by the Directors to fill the vacancy arising.

Resolutions for the reappointment of Deloitte LLP as auditor of the Group will be proposed at the Annual General Meeting.

This report was approved on behalf of the Board on 28 March 2011 and signed by order of the Board.

Mark Crawford
Company Secretary
28 March 2011

Corporate Governance Report

Principles of good corporate governance

The Group is committed to high standards of corporate governance. It has adopted procedures to institute good governance in so far as it is practical and appropriate for an organisation of its size and nature, notwithstanding the fact that companies that have securities traded on the Alternative Investment Market ("AIM") are not required to comply with the Combined Code as appended to the Listing Rules issued by the Financial Services Authority. Whilst not required to comply with the Code, the Group has chosen to give selected disclosures which they believe are necessary or valuable to readers.

As the Group grows, it will regularly review the extent of its corporate governance practices and procedures. At its current stage of development, the Parent Company does not consider it appropriate to be compliant with the Combined Code.

Application of principles

Directors

During the year the Board consisted of four Executive directors until 24 June 2010 and three thereafter (all the Executive directors were full-time throughout the year) and two non-executive directors until 19 April 2010 and one thereafter. The Board met nine times in the year and is provided with relevant information on financial, business and corporate matters prior to meetings.

The Board is responsible for overall Group strategy, acquisition and divestment policy, approval of the budget, approval of major capital expenditure projects and consideration of significant operational and financial matters. The Board monitors the exposure to key business risks and reviews the progress of the Group towards achievement of its budgets and forecasts. This is achieved by the close involvement of the Executive directors in the day-to-day running of the business and by regular reports submitted to and considered at meetings of the Board and subcommittees. The Board also considers employee issues, key appointments and compliance with relevant legislation.

The Board has both an Audit and a Remuneration Committee. The Board does not consider it necessary to constitute a separate Nominations Committee and all members of the Board are consulted on the potential appointment of a new director or a company secretary. The Company also has a Health and Safety Committee that reports to the Board at regular intervals.

All directors receive appropriate training as necessary and are able to take independent professional advice in relation to their duties if necessary at the Parent Company's expense. All directors are subject to re-election every three years.

Relationship with shareholders

The Board attaches a high importance to maintaining good relationships with all shareholders. The Parent Company holds regular meetings with institutional shareholders to keep them updated on the Group's performance, strategy, management and Board membership. In addition, the Board welcomes as many shareholders as possible to attend the Annual General Meeting and encourages an open discussion after the formal proceedings. The Parent Company gives regular briefings to a number of analysts who cover the technology sector and actively encourages more analysts to follow the Group.

Accountability and audit

Directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group and Parent Company financial statements in accordance with International Financial Reporting standards ("IFRS") as adopted by the European Union.

Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and of the Parent Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and of the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors confirm to that the best of their knowledge, the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and loss of the Group taken as a whole; and the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Group taken as a whole, together with a description of the principal risks and uncertainties that it faces.

As far as each of the directors is aware, there is no relevant information of which the Parent Company's auditor is unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant information and to establish that the Parent Company's auditor is aware of that information.

Audit Committee

During the year the Audit Committee comprised two Non-Executive directors until 19 April 2010 and one Non-Executive director thereafter. Subsequent to year end the Audit Committee comprised two Non-Executive directors from 8 February 2011. The Committee has specific terms of reference which deal with its authority and duties. It meets at least twice a year, with the Finance Director, Executive Chairman & Chief Executive Officer and the auditor attending by invitation. The Committee reviews the independence and objectivity of the auditor each year. The Committee overviews the adequacy of the Group and Parent Company's internal controls, accounting policies and financial reporting and provides a forum through which the Company's external auditor reports to the Non-Executive directors.

The Board has decided that the size of the Group does not justify a dedicated internal audit function. This position will be reviewed as the Group's activities increase.

Going concern

Discussion of going concern is included within the accounting policies note on page 26.

Internal control and risk management

The Board has overall responsibility for ensuring that the Group and Parent Company have processes to identify, evaluate and manage key risks. The nature of the Group and Parent Company's business is changing from R&D to greater emphasis on its application and commercial exploitation. This calls for rigorous cost analysis and market risk assessment. The system is designed to manage and minimise risk of failure to achieve the Parent Company's strategic objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. The internal control and risk management processes have been improved further during 2010 with the appointment of a new permanent Head of Finance.

Key areas of internal control are listed below:

- regular review of the technical development programmes, the commercialisation of the Group's technology and the financial performance of the Group in the context of the Parent Company's business plan;
- an organisation structure with clear executive policies on recruitment, training, appraisals and project management;
- an annual budget showing projected revenues, costs, funding requirements and operational targets. The Board is responsible for approving the budget and monitoring performance against it; and
- a system to ensure the security of the Group's intellectual property.

The directors consider that the present system of internal control is sufficient for the needs of the Group and Parent Company and adequately addresses the risks to which the Group is perceived to be exposed. The Board reviews the system twice per year.

On behalf of the Board

Richard King
Chairman
Audit Committee
28 March 2011

Unaudited Information

Remuneration Committee

During the year the Remuneration Committee was made up of two Non-Executive directors until 19 April 2010 and one Non-Executive director thereafter. The Remuneration Committee was chaired by Mr A J Wood until 19 April 2010 and Mr R R Courtney OBE thereafter and was attended by the Executive Chairman & Chief Executive Officer by invitation. The Remuneration Committee sets and annually reviews the terms and conditions of employment of the Executive directors. The remuneration of Non-Executive directors is fixed by the Board as a whole. The Remuneration Committee also monitors and reviews the Group-wide appraisal process and approves the proposals from the Executive directors for all employees' remuneration and option arrangements.

Remuneration policy

The Parent Company's policy on Executive directors' remuneration is to attract and retain high quality executives by paying competitive remuneration packages relevant to each director's role, experience and the external market. The packages include a basic salary, pension contributions and share options. Up to 2010, options granted incorporated individual performance conditions. From 2010, all new options were granted without performance conditions. To further align the directors with the goal of maximising shareholder value, the Company has not paid any bonuses to Directors in the current year.

Service agreements

All directors are appointed on 12 month rolling contracts and therefore have 12 month notice periods. Non-Executive directors are appointed on three year contracts, with no notice period.

Audited Information

Directors' emoluments

	Basic salary or fees £	Pension contributions £	Total emoluments 2010 £	Total emoluments 2009 £
P Cartmell	150,000	10,500	160,500	41,977
M S Crawford	125,000	7,471	132,471	9,583
J O Reed	139,895	9,793	149,688	149,688
R R Courtney OBE (appointed 20 April 2010)	23,440	–	23,440	–
Professor G Musgrave * (resigned 24 June 2010)	77,250	4,602	81,852	163,015
S Westerman (resigned 19 April 2010)	7,267	–	7,267	24,000
A J Wood (resigned 19 April 2010)	8,000	–	8,000	24,000
P Newell (resigned 5 November 2009)	–	–	–	206,844
	530,852	32,366	563,218	619,107

* The Company also incurred costs of £163,705 for basic salary, pension contributions and fees in respect of Professor G Musgrave's contractual notice period.

Directors' share options

The interests of the directors, who were in office at the end of the financial year, in options over the shares of the Parent Company at 31 December 2010 and 1 January 2010 were:

	As at 31 Dec 2009 number	Lapsed in year number	Issued in year number	As at 31 Dec 2010 number	Exercise price (p)	Lapse date
P Cartmell	2,000,000	–	–	2,000,000	42.00	30 September 2019
P Cartmell	–	–	300,000	300,000	21.75	30 April 2020
P Cartmell	–	–	3,000,000	3,000,000	15.00	9 December 2020
M S Crawford	300,000	–	–	300,000	39.00	21 October 2019
M S Crawford	200,000	–	–	200,000	34.75	11 December 2019
M S Crawford	–	–	300,000	300,000	21.75	30 April 2020
M S Crawford	–	–	1,950,000	1,950,000	15.00	9 December 2020
J O Reed	130,000	(130,000)	–	–	38.50	15 October 2010
J O Reed	86,668	(86,668)	–	–	38.50	29 October 2010
J O Reed	100,000	–	–	100,000	22.00	19 December 2012
J O Reed	110,000	–	–	110,000	37.50	27 July 2016
J O Reed	285,000	–	–	285,000	39.00	1 April 2017
J O Reed	200,000	–	–	200,000	51.50	26 December 2017
J O Reed	–	–	300,000	300,000	25.25	30 April 2020
J O Reed	–	–	1,505,000	1,505,000	15.00	9 December 2020
R R Courtney OBE	–	–	250,000	250,000	15.00	9 December 2020

The closing mid market price of the Parent Company's shares as quoted on the Daily Official List as published by the London Stock Exchange was 14.07p at 31 December 2010 and in the period 1 January 2010 to 31 December 2010 was a closing mid market high of 32.51p per share and a low of 13.70p per share.

Directors' interests

The directors who held office at the end of the financial year had the following beneficial interests in the ordinary share capital of the Parent Company at 1 January 2010, 31 December 2010 and at the date of this report:

	Number held at 31 December 2010 (or date of resignation if earlier) Ordinary Shares of 10 pence each	Number held at 1 January 2010 Ordinary Shares of 10 pence each
J O Reed	413,300	13,300
P Cartmell	536,920	–
M Crawford	100,000	–

On behalf of the Remuneration Committee

Rohan Courtney OBE
Chairman
Remuneration Committee
28 March 2011

Independent Auditor's Report

to the members of Corac Group plc

We have audited the financial statements of Corac Group plc for the year ended 31 December 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Cash Flow, the Consolidated and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the Company a quoted company.

Ian Smith
Senior Statutory Auditor
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, UK
28 March 2011

Our Business
Our Performance
Our Governance
Our Accounts

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	Group 2010 £	Group 2009 As restated £
Revenue	3	663,133	1,336,750
Cost of sales		(663,133)	(1,336,750)
Gross profit		–	–
Other income		20,537	36,045
Research and development costs		(2,560,770)	(2,038,717)
Administrative expenses		(2,265,854)	(1,729,789)
Operating loss	4	(4,806,087)	(3,732,461)
Finance income	6	34,286	47,147
Loss before tax		(4,771,801)	(3,685,314)
Tax credit	7	768,247	750,747
Loss and total comprehensive expense for the year attributable to shareholders		(4,003,554)	(2,934,567)
Loss per share expressed in pence per share		pence	pence
Basic and diluted loss per share	8	(3.5)	(3.1)

All results relate to continuing activities.

The notes on pages 25 to 43 form part of these financial statements. Refer to note 2.19 for details of the reclassification in the 2009 income statement.

Consolidated and Parent Company Statement of Financial Position

as at 31 December 2010

	Note	Group 2010 £	Group 2009 £	Parent Company 2010 £	Parent Company 2009 £
ASSETS					
Non current assets					
Property, plant and equipment	9	59,333	51,360	59,333	51,360
Amounts owed by EBT	11	–	–	250,000	300,000
		59,333	51,360	309,333	351,360
Current assets					
Inventories	13	–	135,900	–	135,900
Trade and other receivables	14	631,218	503,515	631,218	503,515
Taxation recoverable	7	710,000	680,342	710,000	680,342
Cash and cash equivalents	15	21,760,824	5,343,988	21,719,316	5,292,931
		23,102,042	6,663,745	23,060,534	6,612,688
Total assets		23,161,375	6,715,105	23,369,867	6,964,048
LIABILITIES					
Current liabilities					
Trade and other payables	16	(1,361,181)	(672,307)	(1,362,830)	(674,685)
Net assets		21,800,194	6,042,798	22,007,037	6,289,363
EQUITY					
Share capital	17	24,740,423	10,834,398	24,740,423	10,834,398
Share premium		13,522,572	7,938,737	13,522,572	7,938,737
Capital redemption reserve		575,000	575,000	575,000	575,000
Own shares held by the EBT		(551,226)	(551,226)	–	–
Share-based payments reserve		565,938	294,848	472,375	211,209
Retained earnings		(17,052,513)	(13,048,959)	(17,303,333)	(13,269,981)
Total equity		21,800,194	6,042,798	22,007,037	6,289,363

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 28 March 2011.

Phil Cartmell
Executive Chairman & Chief Executive Officer

Company number: 3152034

The notes on pages 25 to 43 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Group						
	Share capital £	Share premium £	Capital redemption reserve £	Own shares held by EBT £	Share-based payments reserve £	Retained earnings £	Total £
Balance at 1 January 2009	8,654,932	4,332,769	575,000	(551,226)	184,153	(10,114,392)	3,081,236
Issue of shares	2,179,466	3,605,968	–	–	–	–	5,785,434
IFRS 2 share option charge	–	–	–	–	110,695	–	110,695
Transactions with owners	2,179,466	3,605,968	–	–	110,695	–	5,896,129
Loss and total comprehensive expense for the year	–	–	–	–	–	(2,934,567)	(2,934,567)
Balance at 31 December 2009	10,834,398	7,938,737	575,000	(551,226)	294,848	(13,048,959)	6,042,798
Issue of shares	13,906,025	5,583,835	–	–	–	–	19,489,860
IFRS 2 share option charge	–	–	–	–	271,090	–	271,090
Transactions with owners	13,906,025	5,583,835	–	–	271,090	–	19,760,950
Loss and total comprehensive expense for the year	–	–	–	–	–	(4,003,554)	(4,003,554)
Balance at 31 December 2010	24,740,423	13,522,572	575,000	(551,226)	565,938	(17,052,513)	21,800,194

The notes on pages 25 to 43 form part of these financial statements.

Parent Company Statement of Changes in Equity

for the year ended 31 December 2010

	Parent Company					
	Share capital £	Share premium £	Capital redemption reserve £	Share-based payments reserve £	Retained earnings £	Total £
Balance at 1 January 2009	8,654,932	4,332,769	575,000	108,560	(10,357,479)	3,313,782
Issue of shares	2,179,466	3,605,968	–	–	–	5,785,434
IFRS 2 share option charge	–	–	–	102,649	–	102,649
Transactions with owners	2,179,466	3,605,968	–	102,649	–	5,888,083
Loss and total comprehensive expense for the year	–	–	–	–	(2,912,502)	(2,912,502)
Balance at 31 December 2009	10,834,398	7,938,737	575,000	211,209	(13,269,981)	6,289,363
Issue of shares	13,906,025	5,583,835	–	–	–	19,489,860
IFRS 2 share option charge	–	–	–	261,166	–	261,166
Transactions with owners	13,906,025	5,583,835		261,166		19,751,026
Loss and total comprehensive expense for the year	–	–	–	–	(4,033,352)	(4,033,352)
Balance at 31 December 2010	24,740,423	13,522,572	575,000	472,375	(17,303,333)	22,007,037

The notes on pages 25 to 43 form part of these financial statements.

Consolidated and Parent Company Statement of Cash Flows

for the year ended 31 December 2010

		Group		Parent Company	
		2010	2009	2010	2009
	Note	£	£	£	£
Operating activities					
Loss before income tax		(4,771,801)	(3,685,314)	(4,801,599)	(3,663,249)
Adjustments for:					
Depreciation		39,715	51,363	39,715	51,363
Finance income		(34,286)	(47,147)	(34,286)	(47,056)
Share-based payment expense		271,090	110,695	261,166	102,649
Increase in impairment on loan to the EBT	11	–	–	50,000	–
Decrease/(increase) in inventories		135,900	(135,900)	135,900	(135,900)
(Increase)/decrease in trade and other receivables		(127,703)	(62,840)	(127,703)	(62,840)
Increase in trade and other payables		688,874	88,040	688,145	85,427
		(3,798,211)	(3,681,103)	(3,788,662)	(3,669,606)
Income tax received		738,589	590,405	738,589	590,405
Net cash used in operating activities		(3,059,623)	(3,090,698)	(3,050,073)	(3,079,201)
Investing activities					
Finance income		34,286	47,147	34,286	47,056
Purchase of property, plant and equipment		(47,688)	(19,258)	(47,688)	(19,258)
Net cash (used in)/from investing activities		(13,402)	27,889	(13,402)	27,798
Financing activities					
Proceeds from issue of shares	17	20,859,037	5,946,137	20,859,037	5,946,137
Expenses of issue of shares		(1,369,177)	(160,703)	(1,369,177)	(160,703)
Cash transferred from short-term deposits		–	500,000	–	500,000
Net cash from financing activities		19,489,860	6,285,434	19,489,860	6,285,434
Net increase in cash and cash equivalents		16,416,836	3,222,625	16,426,385	3,234,031
Cash and cash equivalents at beginning of year		5,343,988	2,121,363	5,292,931	2,058,900
Cash and cash equivalents at end of year		21,760,824	5,343,988	21,719,316	5,292,931

The notes on pages 25 to 43 form part of these financial statements.

1. Nature of operations

The principal activity of Corac Group plc and its subsidiaries (the "Group") comprises the innovation, research & development and partner testing of its core technology leading to the commercialisation of applications of this technology, currently within three business streams:

- **Gas in Harsh Environments** – end to end movement of gases in harsh environments using Corac's high speed, compact compressors that are tolerant of a wide range of gas and environmental characteristics, including temperature and contamination. This includes pursuing the development of the DGC.
- **Clean Air Supply** – Utilising Corac's compressed air technology for use where there is a critical requirement for cleanliness, for example in water treatment and in the production and handling of foods and pharmaceuticals.
- **Efficient Air Power** – air power in factories has been described as the "fourth utility" and therefore simple, low maintenance uncontaminated yet highly efficient supply is essential. The simplicity of Corac's high speed compressors provides variable high performance from a small package with low maintenance and low life cycle cost.

Corac Group plc (the "Parent Company") is the Group's ultimate parent company which is incorporated and domiciled in the United Kingdom. The address of the Company is Brunel Science Park, Kingston Lane, Uxbridge, Middlesex UB8 3PQ. The Parent Company's shares are listed on the Alternative Investment Market ("AIM") of the London Stock Exchange.

2. Summary of significant accounting policies

2.1 Basis of preparation

The Consolidated and Parent Company financial statements have been prepared in accordance with applicable International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board as adopted by the European Union. The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest pound except when otherwise indicated.

The financial statements have been prepared under the historical cost convention. The measurement bases and principal accounting policies of the Group and Parent Company are set out below. Other than as set out in note 2.19 below, the accounting policies adopted are consistent with those of the previous financial year.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 "Financial Instruments"
- IAS 24 (revised) "Related Party Disclosure"
- IAS 32 (amended) "Classification of Rights Issue"
- IFRIC 14 (amended) "Prepayments of a Minimum Funding Requirement"
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
- Improvements to IFRSs 2010 (May 2010) and 2009 (April 2009)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group and Parent Company.

Additionally the following new standards and interpretations have been adopted in the current year but have not impacted the reported results or the financial position:

- IFRIC 9 and IAS 39 "Embedded Derivatives"
- IFRIC 17 "Distribution of Non-cash Assets to Owners"
- IFRIC 18 "Transfer of Assets from Customers"
- IAS 28 (revised) "Investments in Associates"
- IAS 39 (amended) "Eligible Hedged Items"
- IFRS 1 (amended) "Additional Exemption for First Time Presentation"
- IFRS 3 (revised) "Business Combinations"
- IAS 27 (revised) "Consolidated and Separate Financial Statements"
- IFRS 2 (amended) "Group Cash-settled Share-based Payment Transactions"
- Improvements to IFRSs 2009 (April 2009)

2. Summary of significant accounting policies continued

Going concern

Following the fundraising in December 2010, the Group has considerable cash resource. The directors confirm that having considered the forecast spend on anticipated operations, sensitised for unplanned overspend and current uncertain economic outlook, they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

2.2 Significant management judgements in applying accounting policies

The significant management judgements in applying the accounting policies of the Group and Parent Company that have the most significant effect on the financial statements are set out below.

(i) Recognition of revenue

Revenue from the provision of R&D services is recognised when the outcome of the transaction can be estimated reliably using the criteria set out below in note 2.5 "Revenue". As a consequence of the nature of R&D services, this requires the exercise of judgement, estimates and assumptions which are subject to uncertainty. The estimation uncertainty with respect to revenues from R&D services is set out below.

(ii) Capitalisation of development costs

Development costs are capitalised when all of the conditions set out below in note 2.7 "Research and development" have been met.

Significant judgement is required in distinguishing research from the development phase. Development costs are recognised as an asset when all of the criteria are met whereas research costs are expensed as incurred. It is the Group and Parent Company's accounting policy that the recognition of development costs as an asset be supported by a detailed forecast of sales or cost savings expected to be generated by the intangible asset as incorporated into the Group's overall budget forecast as the capitalisation of development costs commences.

The Group's management also continually monitors whether the recognition requirements for development costs have been met by any expenditure. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems, including after the time of recognition.

The Group and Parent Company have not yet capitalised any development costs as the criteria set out in IAS 38, "Intangible Assets", have not been met. R&D costs expensed for the year ended 31 December 2010 (including those classified as cost of sales) were £3,223,903 (2009: £3,375,467).

(iii) Deferred tax assets

The assessment of the probability of future taxable income against which brought forward losses can be utilised is based on the Group and Parent Company's latest budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a loss, especially when it can be used without time limit, a corresponding deferred tax asset is recognised in full.

2.3 Estimation uncertainty

When preparing the financial statements management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses based on historical experience and other factors considered reasonable at the time. Actual outcomes are likely to differ from the estimates made by management and actual results will seldom equal projected results.

Information about significant judgements, estimates and assumptions which have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

(i) R&D tax credits

The definition of "qualifying" R&D expenditure for the purposes of R&D Tax Credits requires the exercise of judgement, estimates and assumptions which are subject to uncertainty.

R&D Tax Credits allow companies to deduct up to 175% of qualifying expenditure on R&D activities when calculating profit for tax purposes. Companies meeting strict and specific criteria may, in certain circumstances, surrender this tax relief to claim payable tax credits in cash from the HM Revenue & Customs.

2. Summary of significant accounting policies continued

2.3 Estimation uncertainty continued

(i) R&D Tax Credits continued

Qualifying R&D expenditure is defined by guidelines from the Department for Business Enterprise and Regulatory Reform (BERR, formerly the Department of Trade and Industry) which are subject to interpretations by HM Revenue & Customs. Certain expenditure will be qualifying R&D expenditure for tax purposes if the project seeks to achieve an advance in overall knowledge or capability in a field of science or technology, not a company's own state of knowledge or capability alone.

In 2010 the Group and Parent Company received a cash refund of £738,588 (2009: £590,405) from HM Revenue & Customs in respect of R&D Tax Credits for qualifying R&D expenditure incurred in 2009.

The Group and Parent Company have recognised an R&D Tax Credit of £710,000 (2009: 680,342) in respect of the year ended 31 December 2010 which is subject to submission to and acceptance by HM Revenue & Customs. The actual R&D Tax Credit which will be assessed and the resulting cash receipt from HM Revenue & Customs may be greater or less than this amount.

(ii) Recognition of revenue

The revenue recognised from R&D services reflects management's best estimate of the contract's outcome and stage of completion. The Group's management addresses the contracts monthly, including the costs to completion which are subject to significant estimation uncertainty.

(iii) Share-based payments

The calculation of the share-based payments expense utilises assumptions and estimates (e.g. share volatility, future exercise rates) which may differ from actual results. Details of the accounting policy are set out in note 2.16(ii).

2.4 Basis of consolidation

The consolidated financial statements consolidate those of the Parent Company and all of its subsidiary undertakings and the Corac Employee Benefit Trust (see note 18). Subsidiary undertakings are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

The Group's operations are conducted by the Parent Company, Corac Group plc. There is no activity within its two wholly owned subsidiaries. The Corac Employee Benefit Trust, which is managed by an independent trustee, is an employee share scheme established for the benefit of and as an incentive for the employees of the Group.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

The Parent Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and has not presented its profit and loss account. The Parent Company's result for the year was a loss of £4,033,352 (2009: £2,912,502).

2.5 Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of risk to the customer.

(i) Sale of goods

Revenue from the sale of goods is recognised when significant risks and rewards of ownership have been transferred.

(ii) Rendering of services (including for R&D)

When the outcome of a transaction involving prototype and concept assessment, front end design, feasibility studies and R&D work can be estimated reliably, revenue is recognised by reference to the stage of completion at the balance sheet date, taking into account any preferential terms post commercialisation.

2.6 Cost of sales

Cost of sales is deemed to represent that element of R&D spend financed by development partners. As such this is set to equal revenues recognised from R&D activity. Cost of sales should be viewed as part of total R&D costs.

2. Summary of significant accounting policies continued

2.7 Research and development

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

Development costs incurred on specific projects are capitalised when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Following initial recognition, the related asset is amortised over the period of the expected future sales with impairment reviews being carried out at least annually. The asset is carried at cost less any accumulated amortisation and impairment losses.

The Group has not yet capitalised any development costs as the criteria set out above have not been met.

2.8 Finance income

Finance income represents interest earned on cash deposits which is allocated over the relevant period.

2.9 Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment by equal annual instalments on a straight-line basis over their estimated useful economic lives. The rates generally applicable are:

Computer equipment	33% per annum
Office furniture and fittings	20% per annum
Plant and machinery	20% per annum

Short leasehold improvements are depreciated over the term of the lease.

Management reviews the useful lives and residual values of all depreciable assets at each reporting date. At 31 December 2010 management assesses that the useful lives represent the expected utility of the assets to the Group and Parent Company.

An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates future cash flows from the asset based upon long-term financial projections.

2.10 Inventories and work-in-progress

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Costs principally comprise materials. Costs exclude direct labour and manufacturing overheads as the Group's focus is R&D and hence levels of activity are not typical for a manufacturing operation. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2. Summary of significant accounting policies continued

2.11 Operating leases
Leases where substantially all the risks and benefits of ownership of the asset are not transferred to the Group are classified as operating leases and rentals payable are charged to the income statement on a straight-line basis over the term of the lease.

2.12 Taxation
Income tax recoverable in respect of R&D cash tax credits is recognised when the decision has been taken to claim such amounts in cash. Until such a decision is made, the potential tax benefit arising from R&D expenditure is included in tax losses carried forward. The income tax recoverable in respect of R&D cash tax credits is based upon management estimates, judgements and assumptions considered reasonable at the time but the actual income tax recoverable may differ from those estimates.

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. A deferred income tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. For management's assessment of the probability of future taxable income to utilise against potential deferred tax assets in respect of brought forward losses, see note 2.2(iii).

2.13 Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.14 Financial instruments
Financial assets and financial liabilities are recognised when the Group or Parent Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual right to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

(i) Financial assets
For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- Loans and receivables;
- Financial assets at fair value through profit or loss.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or equity.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within "Finance costs" or "Finance income" except for impairment of trade receivables which is presented within "Administrative expenses".

2. Summary of significant accounting policies continued

Loans and receivables
The Group and Parent Company's cash and cash equivalents fall into this category of financial instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are recognised at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of trade receivables are presented within "Administrative expenses".

(ii) Financial liabilities
The Group and Parent Company's financial liabilities comprise trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest rate method except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss. Discounting is omitted where the effect of discounting is immaterial.

2.15 Equity
Equity comprises the following:

- "Share capital" which represents the nominal value of equity shares.
- "Share premium" which represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Capital redemption reserve" which constitutes a non distributable reserve which arose on the acquisition by the Company of its own shares.
- "Own shares held by Employee Benefit Trust" which represents the costs of purchasing own shares held by the Employee Benefit Trust.
- "Share-based payment reserve" which represents equity-settled share-based employee remuneration until such share options are exercised or lapse.
- "Retained earnings" which represents retained profits and losses.

2.16 Employee benefits
(i) Defined Contribution Pension Scheme
The Group and Parent Company operate a defined contribution pension scheme and a stakeholder pension scheme for employees. The assets of the scheme are held separately from those of the Group and Parent Company. The pension cost charged against profits represent the amounts payable by the Group or Parent Company and is expensed as it becomes payable.

(ii) Share-based payment
All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2005 are recognised in the financial statements.

All equity-settled share-based payments are measured at fair value at the date of grant which is ultimately recognised as an expense in the income statement with a corresponding credit to reserves. Options granted before 2006 and in 2008, 2009 and 2010 were valued using a Black–Scholes model. Options granted in 2006 and 2007 were valued using a Monte Carlo model.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the number of share options expected to vest. This estimate takes into account a number of factors including performance conditions applying to the relevant options. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period.

No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting. Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

2. Summary of significant accounting policies continued

2.16 Employee benefits continued

(iii) Employee benefit trust

The assets and liabilities of the Employee Benefit Trust ("EBT") have been included in the Group accounts. Any assets held by the Employee Benefit Trust cease to be recognised on the Group balance sheet when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the Employee Benefit Trust are shown as a deduction against consolidated equity. The proceeds from the sale of own shares held increase consolidated equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group statement of comprehensive income.

(iv) Short-term employee benefit costs

The undiscounted amount of short-term benefits attributable to services that have been rendered in the period are recognised as an expense, unless specifically required or permitted within the scope of IFRS reporting to be included in the cost of an asset. Any difference between the amount of cost recognised and cash payments made is treated as a liability or prepayment as appropriate.

2.17 Government grants

Government grants of a revenue nature are credited to the income statement (as other operating income) on a case-by-case basis over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Grants are only recognised when there is a reasonable assurance that any conditions have been met and that the grants will be received.

2.18 Foreign currency translation

The Group's consolidated financial statements are presented in pounds sterling, which is also the Parent Company's functional currency. Foreign currency transactions are translated into pounds sterling using the exchange rates prevailing at the dates of the transactions (spot exchange rates). Foreign currency gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

2.19 Reclassification of cost of sales

In previous years cost of sales consisted of an allocation of R&D expenditure. In the current year cost of sales is deemed to represent that element of R&D cost financed by development partners. As such this is set to equal revenues recognised from R&D activity. The Company believes that this better represents the nature of its operations and the costs associated with revenues from development partners. This has resulted in a reclassification in the 2009 comparative income statement between cost of sales and R&D cost of £390,711. Cost of sales should be viewed as part of total R&D costs.

3. Segmental reporting

Business segments

For management purposes, the Group is treated as a single business unit comprising the R&D of high speed compressors, and as such a single reportable business segment exists. Current activities in this reportable segment are the continued innovation, research & development and partner testing and proof of its core technology in order to lead to the commercialisation of technology applications. These activities are based on common intellectual property relating to air and gas bearings, high speed shafts and motor drives which is applicable to high speed compressors used in the DGC and other compressor applications.

Revenue in 2010 from three customers amounted to more than 10% of total revenue, contributing £364,642 (2009: £604,956), £170,948 (2009: £nil) and £112,238 (2009: £45,300) respectively. All revenues relate to the single reportable business segment. In 2009, revenue from a further three customers amounted to more than 10% of total revenue in that year, contributing £271,089, £245,000 and £170,000 respectively.

Geographical segments

The Group's operations are solely in the United Kingdom although many of the Group's revenues are to customers outside the UK. All segment assets are located in the UK. The Group's revenues from external customers are analysed into the following geographical areas:

	Group	
	2010 £	2009 £
United Kingdom	10,026	170,000
European Union	476,880	895,256
North America	170,948	271,089
Rest of the World	5,279	405
	663,133	1,336,750

4. Operating loss

The Group operating loss for the year is stated after charging the following:

	Group	
	2010 £	2009 £
Staff costs		
Wages and salaries	2,400,730	1,922,610
Social security costs	254,842	187,888
Other pension costs	132,166	105,959
	2,787,738	2,216,457
Depreciation of property, plant & equipment	39,715	51,363
Operating lease expense – land and buildings	161,990	156,164
Auditor's remuneration Deloitte (Grant Thornton in 2009)		
Fees payable for the audit of the Parent Company and consolidated financial statements	25,000	21,000
Amounts payable for statutory and regulatory services	90,000	–
Total audit and audit related services	115,000	21,000
Tax services	25,000	5,000
Total auditor remuneration	140,000	26,000

Included in wages and salaries is a total expense of share-based payments of £271,090 (2009: £110,695), all of which arises from transactions accounted for as equity-settled share-based payment transactions.

Fees of £103,000 payable to Deloitte were deducted from share premium. Further audit fees of £2,087 were paid to Grant Thornton in 2010 whilst they were auditors of the Group.

Staff numbers

The average number of employees, including directors, employed by the Group was as follows:

	Group	
	2010 Number	2009 Number
Engineering	29	28
Administration	8	7
	37	35

Pension costs

The Group and Parent Company operate a money purchase pension scheme and a group stakeholder pension scheme. The assets of these schemes are held separately from those of the Group in administered funds. The pension cost charge represents contributions payable by the Group to these funds and amounted to £132,166 (2009: £105,959). There were outstanding contributions of £152 (2009: £398) payable to these funds at the year end. The nature of the Group's schemes is such that there is no possibility of a surplus or deficiency in funding arising from past service.

5. Directors' emoluments

Key management of the Group are members of the Board of Directors. Key management personnel remuneration includes the following expenses:

	Group	
	2010 £	2009 £
Emoluments	530,852	490,601
Termination payments	–	100,000
Pension contributions	32,366	28,506
	563,218	619,107

Four directors (2009: four) accrued benefits under the Group pension scheme during the year. No director exercised share options during the year (2009: nil).

Remuneration of the highest paid director included above is as follows:

	Group	
	2010 £	2009 £
Emoluments	150,000	100,082
Termination payments	–	100,000
Pension contributions	10,500	6,762
	160,500	206,844

6. Finance income

	Group	
	2010 £	2009 £
Interest income on financial assets	34,286	47,147

7. Taxation

Credit to consolidated income statement

	Group	
	2010 £	2009 £
Corporation tax – R&D credit		
Current year	710,000	680,342
Prior year under provision	58,247	70,405
	768,247	750,747

7. Taxation continued

The tax credit for the period is lower than the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained as follows:

	Group	
	2010 £	2009 £
Loss on ordinary activities before taxation	4,771,801	3,685,314
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	1,336,104	1,031,888
Effect of:		
Expenses not deductible for tax purposes	(564)	(3,245)
Depreciation in excess of capital allowances	(5,283)	(6,431)
Share-based payments	(73,126)	(30,995)
R&D enhanced relief	608,963	587,001
R&D tax credit	710,000	680,342
Surrender of tax losses for R&D credit	(1,420,914)	(1,360,684)
Trading losses carried forward	(453,522)	(217,658)
Other short-term timing differences	8,342	124
Adjustment in respect of prior years	58,247	70,405
Current tax credit for the year	768,247	750,747

Subject to agreement by HM Revenue & Customs, Corac Group plc has approximately £9,000,000 (2009: £7,500,000) of unrelieved and unrecognised tax losses.

Deferred taxation

A deferred tax asset is only recognised to the extent that it covers accelerated capital allowances and other temporary differences but has not been recognised due to the lack of certainty surrounding future utilisation of these losses.

	Group	
	2010 £	2009 £
Accelerated capital allowances and other temporary differences	6,734	2,372
Losses	(6,734)	(2,372)
	–	–

8. Loss per share

The calculation of basic loss per share for the year ended 31 December 2010 is based upon a loss after tax of £4,003,554 (2009: £2,934,567) and a weighted average number of shares of 115,769,849 (2009: 95,809,034). The weighted average number of shares has been reduced by the weighted average number of shares held by the Employee Benefit Trust. The weighted average number of shares for the purposes of calculating basic earnings per share has been adjusted to reflect the placing and open offer in 2010.

The issue of additional shares on exercise of employee share options would decrease the basic loss per share and there is therefore no dilutive effect of employee share options.

9. Property, plant and equipment

	Group and Parent Company				
	Short term leasehold improvements £	Computer equipment £	Office furniture & fittings £	Plant & machinery £	Total £
Cost					
At 1 January 2009	189,827	283,259	24,850	360,895	858,831
Additions	–	7,168	–	12,090	19,258
At 31 December 2009	189,827	290,427	24,850	372,985	878,089
Additions	2,892	23,428	813	20,555	47,688
At 31 December 2010	192,719	313,855	25,663	393,540	925,777
Accumulated depreciation					
At 1 January 2009	150,508	274,608	24,206	326,044	775,366
Charge for year	22,098	7,866	507	20,892	51,363
At 31 December 2009	172,606	282,474	24,713	346,936	826,729
Charge for year	20,113	7,958	267	11,377	39,715
At 31 December 2010	192,719	290,432	24,980	358,313	866,444
Net book value					
At 1 January 2009	39,319	8,651	644	34,851	83,465
At 31 December 2009	17,221	7,953	137	26,049	51,360
At 31 December 2010	–	23,423	683	35,227	59,333

10. Investments in subsidiary undertakings

The Parent Company's investments comprise interests in Group undertakings, details of which are as follows:

	Parent Company	
	2010 £	2009 £
Net book value	–	–

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of shares held by the Parent Company
Compact Radial Compressors Limited	England & Wales	£0.0001 ordinary shares	100%
Corac Engineering Limited	England & Wales	£1.00 ordinary shares	100%

The above Group undertakings have been dormant throughout 2010 and 2009 and are included in the consolidation.

11. Amounts owed by Employee Benefit Trust

	Group		Parent Company	
	2010 £	2009 £	2010 £	2009 £
Amounts owed by EBT	–	–	600,000	600,000
Less: impairment	–	–	(350,000)	(300,000)
	–	–	250,000	300,000

The loan to the Employee Benefit Trust is interest free and unsecured. Details of the Employee Benefit Trust are provided in note 18. The loan is repayable under the following circumstances:

(i) From receipt of consideration from the sale of shares in the Parent Company purchased with the loan; and
(ii) Following any lapses in options granted by the Employee Benefit Trust over shares in the Parent Company, the Parent Company can force the sale of shares to repay the loan.

The loan is not expected to be fully repaid within the next 12 months.

Under the terms of the loan facility, should the Employee Benefit Trust be unable to repay the loan following disposal of all its assets then the loan shall be considered waived.

The impairment against the loan is a result of movements in the open market value of the shares in the Parent Company held by the Employee Benefit Trust which could affect its ability to fund future loan repayments.

12. Financial assets and liabilities

The carrying amounts presented in the Consolidated and Parent Company balance sheets relate to the following categories of assets and liabilities:

	Group		Parent Company	
	2010 £	2009 £	2010 £	2009 £
Financial assets:				
Amounts owed by EBT (note 11)	–	–	250,000	300,000
Trade and other receivables (note 14)	–	291,898	–	291,898
Cash and cash equivalents (note 15)	21,760,824	5,343,988	21,719,316	5,292,931
	21,760,824	5,635,886	21,969,316	5,884,829
Financial liabilities:				
Trade payables	303,532	218,513	303,532	218,513
Other payables	290	795	290	795
Amount owed to subsidiary undertakings	–	–	5,301	5,301
Accrued expenses	668,222	287,380	664,569	284,457
	972,044	506,688	973,692	509,066

See note 2.14 for a description of the accounting policies for each category of financial instruments. The fair values are presented in the related notes. A description of the Group's risk management and objectives for financial instruments is given in note 19.

The fair value measurements of the Group's financial assets and liabilities are derived from quoted prices in active markets for identical assets and liabilities.

13. Inventories

	Group		Parent Company	
	2010 £	2009 £	2010 £	2009 £
Work in progress	–	135,900	–	135,900

Work in progress is held at net realisable value. There has been no write-down of inventories recognised as an expense in the current or preceding year.

14. Trade and other receivables

	Group		Parent Company	
	2010 £	2009 £	2010 £	2009 £
Financial assets:				
Trade receivables	–	275,937	–	275,937
Other receivables	–	15,961	–	15,961
	–	291,898	–	291,898
Non-financial assets:				
Prepayments and accrued income	501,217	119,622	501,217	119,622
Other taxes	130,001	91,995	130,001	91,995
	631,218	503,515	631,218	503,515

The carrying value of trade and other receivables is considered a reasonable approximation of fair value due to their short-term nature. There have been no provisions for impairments of receivables during 2010 (2009: £nil).

In 2010 all amounts are due within one year. In 2009 recoverable property improvement costs of £25,000 and a rent deposit of £39,340 were due after more than one year were included within prepayments and other receivables.

15. Cash and cash equivalents

	Group		Parent Company	
	2010 £	2009 £	2010 £	2009 £
Cash and cash equivalents	21,760,824	5,343,988	21,719,315	5,292,931

The funds were placed on deposit as follows:

	Interest Rate type	Group		Parent Company	
		2010 £	2009 £	2010 £	2009 £
Cash at bank and in hand	Floating	16,260,824	2,843,988	16,219,315	2,792,931
Short-term deposits	Fixed	5,500,000	2,500,000	5,500,000	2,500,000
		21,760,824	5,343,988	21,719,315	5,292,931

16. Trade and other payables

	Group		Parent Company	
	2010 £	2009 £	2010 £	2009 £
Amounts falling due within one year				
Financial liabilities:				
Trade payables	303,532	218,513	303,532	218,513
Other payables	290	795	290	795
Amount owed to subsidiary undertakings	–	–	5,301	5,301
Accrued expenses	668,222	287,380	664,569	284,457
	972,044	506,688	973,692	509,066
Non-financial liabilities:				
Deferred income	312,217	100,915	312,217	100,915
Other taxes and social security	76,920	64,704	76,921	64,704
	1,361,181	672,307	1,362,830	674,685

The carrying values of trade and other payables are considered to be a reasonable estimate of their fair values. All amounts are non interest bearing. All financial liabilities are due within one year.

17. Share capital

	Parent Company	
	2010 £	2009 £
Allotted, called up and fully paid		
247,404,225 (2009: 108,343,977) ordinary shares of 10p each	24,740,423	10,834,398

	Number	Number
At 1 January	108,343,977	86,549,322
Issued in respect of placing	–	21,794,655
Issued in respect of firm placing and placing and open offer	139,060,248	–
At 31 December	247,404,225	108,343,977

In accordance with the Articles of Association for the Company adopted on 1 October 2009, the share capital of the Company consists of an unlimited number of ordinary shares of nominal value 10 pence each.

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Corac Group plc. None of the Parent Company shares are held by any company in the Group. The Employee Benefit Trust holds shares in the Parent Company as set out in note 18.

On 6 December 2010 the Company announced a Firm Placing and Placing and Open Offer of 139,060,248 new ordinary shares of 10p each at 15.00 pence per share. Expenses associated with the issue of shares were £1,369,177. These have been accounted for as a deduction from share premium.

On 2 February 2009 the Company announced the placing of 7,662,835 new ordinary shares of 10p each at 13.05 pence per share. On 28 September 2009 the Company announced the placing of 14,131,820 ordinary shares of 10p each at 35.00 pence per share. Expenses associated with the issue of shares were £160,703. These have been accounted for as a deduction from equity.

All these shares were subsequently admitted for trading on the Alternative Investment Market of the London Stock Exchange ("AIM").

Options

The Group has two unapproved share option schemes and an Enterprise Management Incentive ("EMI") scheme. Share options have been granted by both the Parent Company and the Corac Employee Benefit Trust (note 18) under the rules of these schemes. The share options granted by the Employee Benefit Trust have no dilutive effect on the Parent Company's share capital.

	Unapproved schemes		EMI scheme		Total		
Number of options	Parent Company	EBT	Parent Company	EBT	Parent Company	EBT	Total
At 31 December 2009	4,254,663	450,000	2,921,678	912,675	7,176,341	1,362,675	8,539,016
Lapsed during the year	(1,040,000)	(50,000)	(528,002)	(80,000)	(1,568,002)	(130,000)	(1,698,002)
Granted during the year	7,421,092	–	2,411,981	100,000	9,833,073	100,000	9,933,073
At 31 December 2010	10,635,755	400,000	4,805,657	932,675	15,441,412	1,332,675	16,774,087

17. Share capital continued

The exercise of options is generally subject to continued employment and, for options issued prior to April 2010, to the satisfaction of the applicable performance conditions. At 31 December 2010, performance conditions not satisfied relate to the market price of the ordinary shares of the Parent Company as quoted on AIM.

The movement on the Group's share option schemes is summarised in the table below.

	2010 number of options	2010 weighted average exercise price (pence)	2009 number of options	2009 weighted average exercise price (pence)
As at 1 January	8,539,016	38.4	6,384,016	38.6
Lapsed during the year	(1,698,002)	37.2	(345,000)	61.9
Granted during the year	9,933,073	16.9	2,500,000	41.1
At 31 December	16,774,087	25.8	8,539,016	38.4
Exercisable at 31 December	4,985,991	39.0	4,410,637	38.9

No share options were exercised during the year. The options outstanding at 31 December 2010 had exercise prices as shown in the following table and a weighted average remaining contractual life of 8.7 years.

At 31 December 2010 options over ordinary 10p shares together with the fair value per option granted and the assumptions used in the calculation of fair value for awards made after 7 November 2002, are set out in the table below.

The market price of the Parent Company's shares at 31 December 2010 was 14.07p and the range during the year was between 13.70p and 32.51p.

Expected volatility is a measure of the amount by which a share price is expected to fluctuate during a period. For options issued in 2009 and 2010, expected volatility was based on the volatility of the Parent Company's shares during the previous 12 months. For options issued in earlier periods, the volatility of the Parent Company's share price was calculated as the average of annualised standard deviations of daily continuously compounded returns on the Parent Company's stock, calculated over 1, 2 and 3 years back from the date of grant where possible.

17. Share capital continued

The risk-free rate is the yield to maturity on the date of grant of a UK Gilt Strip, with term to maturity equal to the expected life of the option.

Date of grant	Number		Option price per share Pence	Closing share price at grant Pence	Exercise price Pence	Expected volatility %	Risk-free interest rate %	Fair value per share Pence
2001	34,668		38.46					
2001	18,667		85.50					
2001	3,334		86.50					
2002	9,334	*	22.00	22.00	22.00	50.19	4.39	10.72
2002	100,000	*	22.00	22.00	22.00	50.19	4.38	10.71
2003	108,334	*	34.00	34.00	34.00	42.82	4.78	15.05
2004	48,334	*	33.00	33.00	33.00	37.69	4.50	13.28
2005	21,670	*	31.25	32.25	31.25	38.54	4.20	13.36
2006	480,003	*	37.50	36.50	37.60	38.26	4.30	11.41
2007	616,670		36.00	36.00	36.00	35.44	5.35	7.20
2007	855,000		39.00	38.50	39.00	35.04	5.30	9.45
2007	30,000		48.50	49.50	48.50	35.54	5.51	14.75
2007	550,000		51.50	51.50	51.50	29.32	4.58	10.10
2007	680,000		53.67	52.00	53.67	29.32	4.58	7.99
2008	465,000	*	14.90	16.75	14.90	79.50	2.76	7.96
2008	420,000		14.90	16.75	14.90	79.50	2.76	7.96
2009	2,000,000		42.00	41.40	42.00	69.13	0.86	15.19
2009	300,000		39.00	35.75	39.00	69.13	1.04	12.34
2009	200,000		34.75	32.00	34.75	69.13	1.02	11.08
2010	100,000	*	25.25	24.52	25.25	67.61	1.27	26.33
2010	680,000		25.25	24.52	25.25	67.61	1.27	26.33
2010	1,200,000		21.75	22.00	21.75	50.63	1.20	18.93
2010	400,000		15.40	14.92	15.40	37.09	0.78	8.78
2010	6,705,000		15.00	14.80	15.00	37.43	0.80	9.12
2010	748,073		15.08	15.50	15.08	37.43	0.88	10.36
	16,774,087							

* These options were issued by the Employee Benefit Trust.

All options expire 10 years after the date of grant.

The dividend yield of 0% in all cases reflects the absence of dividends and of a clear dividend policy statement at the relevant dates of grant.

18. Employee Benefit Trust

On 8 November 2002 the Parent Company established the Corac Employee Benefit Trust, an employee benefit trust, as an employees' share scheme for the benefit of and as an incentive for the employees of the Group. The Corac Employee Benefit Trust is managed by an independent trustee.

At 31 December 2010 the Parent Company had loaned £600,000 (2009: £600,000) to the Corac Employee Benefit Trust. With this loan the Trustee purchased shares in the Parent Company and, at 31 December 2010, the Corac Employee Benefit Trust held 1,506,347 (2009: 1,506,347) ordinary shares in Corac Group plc with a book cost of £643,310 (2009: £643,310) which had a market value of £211,943 (2009: £393,533). As set out in note 2.16(iii), neither the purchase nor sale of shares in the Parent Company leads to a gain or loss being recognised in the consolidated statement of comprehensive income but instead these are shown as movements on consolidated equity.

18. Employee Benefit Trust continued

Options have been granted over 1,332,675 (2009: 1,362,675) shares to certain employees being: 9,334 exercisable at 22.0p per share until 17 December 2012, 100,000 at 22.0p per share until 19 December 2012, 108,334 at 34.0p per share until 11 December 2013, 48,334 at 33.0p per share until 15 December 2014, 21,670 at 31.25p per share until 28 December 2015, 480,003 at 37.5p per share until 27 July 2016, 465,000 at 14.9p per share until 30 December 2018 and 100,000 at 25.25p per share until 23 June 2019. These options are subject to performance conditions. At 31 December 2010, performance conditions not satisfied relate to the market price of the ordinary shares of the Parent Company as quoted on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The Parent Company intends to fund any shortfall should the Employee Benefit Trust need to purchase more shares to fulfil its obligations to option holders.

Dividends on the shares owned by the Employee Benefit Trust, the purchase of which was funded by an interest free loan to the Employee Benefit Trust from the Parent Company, are waived on the condition that the Trustee shall not be liable for any losses to the Employee Benefit Trust as a result of the waiver.

19. Risk management objectives and policies

Liquidity risk

Until the Group achieves cash flow breakeven from the sale of its products and services, it will seek to finance its operations by raising equity financing on the Alternative Investment Market (AIM) and investing the proceeds on a short-term basis as its development proceeds. The Group seeks to manage financial risk to ensure sufficient liquidity to meet foreseeable requirements until cash flow breakeven and to invest cash profitably and at low risk.

The Group holds investments in bank deposits as a liquid resource to fund its operations. The Group's strategy for managing cash is to maximise interest income whilst ensuring availability to match the profile of the Group's expenditure. Liquidity is further managed by tight controls over expenditure.

Credit risk

The Group's exposure to credit risk arises from holding cash and cash equivalents. The Group places funds in its own name via an external professional cash management company. Group credit policy limits deposits to an approved list of specific banks which is compiled taking into account various factors including credit ratings.

The Group's exposure to credit risk is also attributable to its trade receivables which, as set out in note 14, at 31 December 2010 were £nil (2009: £275,937). The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. There are no doubtful receivables at the end of 2010.

Interest rate risk

A further risk arising from the Group's financial instruments is interest rate risk. The directors consider the principal element of risk directly arising from changes in interest rates relates to the level of interest income earned on bank deposits. Funds are invested to maintain a balance between accessibility of funds and competitive rates of return whilst investing funds safely.

The Group's fixed rate investments in pounds were held in sterling and during the year were placed with banks for between overnight and six months and earned interest at between 0.90% and 0.76%. Floating rate cash deposits earned interest based upon the relevant LIBOR equivalents and earned interest at between 0.75% and 0.1%. The weighted average interest rate received on all funds deposited during the year was 0.76%. An increase/decrease in the rate of 1% in interest rates would have increased/decreased the finance income by £44,939 in the year ended 31 December 2010 (2009: £29,937).

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

Foreign currency risk

The Group is based in the United Kingdom and the majority of its costs are denominated in pounds sterling. The Group has no long-term commitments to purchase goods or services in foreign currencies. Purchases denominated in foreign currency are expensed at the exchange rate prevailing at the date of the transaction.

19. Risk management objectives and policies continued

Foreign currency risk continued

The Group has entered into a commitment for the supply of compressors in 2010 and 2009 for which sales consideration will be denominated in Euros. The Group is party to Joint Development Agreement whereby certain amounts denominated in Euros are included in accrued income at the end of 2010. The Group has also entered into a development agreement whereby certain amounts denominated in US dollars are included in accruals at the end of 2010. The currency exposures arising from the fluctuation of exchange rates of these future receivables has not been hedged. Subsequent to the year end, fluctuations in the Euro and US dollar have not given rise to a material gain or loss. The Group keeps under review the extent of its exposure to currency fluctuations.

The Group does not have an overdraft or a borrowing facility.

The amounts held on short-term deposit are analysed in note 15. All financial liabilities were short-term.

20. Financial commitments under operating leases

Future minimum lease payments under non-cancellable operating leases are as follows:

	Group and Parent Company	
	2010 £	2009 £
Land and buildings (as a lessee)		
Within one year	158,280	156,164
	158,280	156,164

The Group and Parent Company do not sub-lease any of their leased premises.

At 31 December 2010 the Group had no capital commitments (2009: £nil).

21. Contingent liabilities

There is a contingent liability for the Group and Parent Company in respect of a rent deposit guarantee for £37,500 (2009: £37,500) in respect of a property lease.

22. Related party transactions

The following transactions took place between the directors and both the Group and Parent Company during the year and are included, net of expenses, in directors' emoluments:

(i) Fees of £11,500 (2009: £23,000) were invoiced by Greenwood Control Systems, a partnership of which Professor G Musgrave is a partner, in respect of director's services provided by Professor G Musgrave and certain expenses of which £nil was outstanding at the year end (2008: £nil).

(ii) Fees of £7,267 (2009: £24,000) were invoiced by NM Rothschild & Sons Limited, a company of which Ms S E A Westerman is Managing Director in the Investment Banking Division, in respect of director's services provided by Ms S E A Westerman, of which £nil (2009: £2,300) was outstanding at the year end.

In addition, the following transactions took place between both the Group and Parent Company and other entities with common directorship or controlled by a related party. In each case, the director concerned did not benefit financially from the arrangement and was not involved in agreeing the terms which were negotiated on an arms-length basis:

(i) Fees of £nil (2009: £3,099) were invoiced by Mechadyne plc, a company of which Professor G Musgrave was a director until 27 January 2010 in respect of engineering services provided by various individuals.

(ii) Fees of £300 (2009: £nil) were invoiced by Bhive Advertising, a business controlled by a party related to Mr J O Reed.

Company Information

Company number

3152034

Directors

P Cartmell
Executive Chairman & Chief Executive Officer

M S Crawford
Commercial & Finance Director

J O Reed
Chief Technical Officer

R R Courtney OBE
Non-executive Director

R W King
Non-executive Director

Secretary

M S Crawford

Registered office

Brunel Science Park
Kingston Lane
Uxbridge
Middlesex
UB8 3PQ

Nominated adviser and broker

Cenkos Securities plc
6-8 Tokenhouse Yard
London
EC2R 7AS

Auditor

Deloitte LLP
Abbots House
Abbey Street
Reading
RG1 3BD

Solicitor

Nabarro LLP
Lacon House
84 Theobald's Road
London
WC1X 8RW

Banker

National Westminster Bank plc
1 Penn Road
Beaconsfield
Buckinghamshire
HP9 2PU

Patent agent

A Messulam & Co
43-45 High Street
Bushey Heath
Hertfordshire
WD2 1EE

Registrar

Capita Registrars
34 Beckenham Road
Beckenham
Kent
BR3 4TH

Financial PR

Buchanan Communications
107 Cheapside
London
EC2V 6N

Corac Group plc
Brunel Science Park
Kingston Lane, Uxbridge
Middlesex UB8 3PQ
Tel: +44 (0)1895 813 463
Fax: +44 (0)1895 813 505
email: info@corac.co.uk
www.corac.co.uk
Registered in England & Wales No. 3152034