Company Number: 3152034

corac group plc

Annual Report & Financial Statements 2011

innovative technology-led engineering

Contents

Corac is an innovative technology-led engineering group, specialising in patented high speed compressor and power electronics technology serving the global energy and resources sector

Highlights

Operational Highlights

- Signed a partnership agreement with Aramco Overseas Company B.V ("AOC") part of The Saudi Arabian Oil Company ("Saudi Aramco") for the development of an In-line Gas Compressor ("IGC")
- Completed Saudi Aramco IGC project concept design and specification stage
- Patent application filed for IGC modular compression system incorporating 14 new inventions after year end
- Implemented second generation downhole power electronics across both Downhole Gas Compressor ("DGC") development programmes
- Signed and completed a Feasibility Study with OMV Austria Exploration & Production GmbH ("OMV") for the application of Corac's DGC
- Eight EU design registrations submitted and approved across DGC and Turbocompressor programmes
- Memorandum of Understanding ("MoU") signed with a global market leader in the compressed air industry
- Successfully relocated to the new Technology Centre in Slough on time and within budget resulting in a lower annual rental cost

Financial Highlights

- Results in line with expectations, reflecting increased development spending, investment and some revenue deferred to 2012
- Revenues of £0.32m (2010: £0.66m)
- Total R&D* spend of £3.35m (2010: £3.22m)
- Loss before tax of £5.67m (2010: loss before tax of £4.77m)
- £1.61m (2010: nil) invested in new Technology Centre
- £15.33m cash at year end (2010: £21.76m)

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

Post Year End Acquisition

- Transformational £10.75m acquisition of Wellman Hunt Graham Ltd and Wellman Defence Limited in April 2012
- Acquisition adds significant source of sustainable revenue and profit contribution
- Diversifies technology risk, strengthens IP portfolio and reduces cash burn

Executive Chairman's Report

Introduction

This has been a year of business and commercial transformation for the Company through the investment in the new generation of technologies that strengthen the portfolio of applications and the move into the new Technology Centre in Slough. Corac is now well positioned with its technology, people, facilities and partners and focused on the market needs that can provide a return for the Company, its partners and future customers.

Following the year end, we completed a major transaction, the acquisition of Wellman Hunt Graham and Wellman Defence; this has transformed Corac into a technology-led engineering group serving major global industries with established commercial relationships and a track record of revenue and profit contribution.

Results

The financial results for the year as expected show a loss reflecting Corac's status as a technology research and development company. The loss before tax was £5.67m (2010: loss before tax of £4.77m), reflecting a planned increase in development and investment spending and some revenues being deferred to 2012. Revenue in the period was £0.32m (2010: £0.66m) representing work undertaken on the North American DGC project and feasibility study with OMV.

Cash at year end was £15.33m compared to £21.76m at the end of 2010. Operating cash outflow was £5.11m (2010: £3.06m). The reduction in cash reflects the losses incurred during the year.

Business Review 2011

Technology programmes (IGC and DGC)

The last 12 months have seen advances in Corac's technology which have led to the development and implementation of the second generation electronics for the final assembly for the North American DGC.

In addition the progress made in commercialising our technology has led to the significant partnership with Saudi Aramco for developing the IGC. This programme will assist Saudi Aramco in managing network gas flows which we see as having the potential of opening up new markets and appealing to wider group of commercial partners.

Our current programmes are also benefitting from the facilities at Corac's new Technology Centre in Slough. This allows us to demonstrate our technical and commercial readiness to secure future development partners as well as our capability to deliver multiple projects.

The build of the DGC for the ENI SpA ("ENI") project has benefitted from the enhanced North American system. Subsequent to year end both projects are now progressing towards final assembly stages, with testing and analysis at a module and full systems level prior to releasing to our partners for field trials.

We now have three substantial development and build projects across the IGC and DGC development programmes with major oil and gas partners on three continents.

We continue to work alongside major industrial engineering companies who are interested in adopting our turbocompressor technologies in a number of applications in a range of global markets.

To support this we have strengthened our focus on IPR protection with new patents and design registrations.

Our advances in technologies and IP portfolio have helped us to identify new potential partners, for example in water treatment, steam regeneration, renewable energy and in the oil industry. Our continuing relationship with Baker Hughes has also helped identify and introduce new potential partners to our technologies.

New Technology Centre

The opening of the new Technology Centre in Slough in January 2011 marks the transformation of Corac from a University R&D spin off to a commercial technology development business and is in line with the Board's strategic commitment to sustainable growth outlined in December 2010 as part of the successful fund raising.

The new Technology Centre is a major step for Corac, as it improves the overall quality and capacity of the Company's facilities and enhances the working environment for both our employees and partners. We believe it will be a major catalyst for the development and future success of Corac and look forward to the facility supporting the next phase of Corac's growth.

We were delighted that the move to our new home was completed on time and within budget. The significantly increased floor area of 28,000 sq.ft at a much lower rental rate means that Corac now operates from more than three and a half times the space at a lower annual cost. In addition, the Technology Centre has lower service charges and the lease was negotiated with a significant rent free period.

Several leading global organisations in the energy and industrial sectors with whom Corac are in on-going discussions relating to future projects have also visited to verify the technology readiness and capabilities and have provided very positive feedback on the Centre's technology, facilities and environment. We anticipate that the Technology Centre will help provide further confidence for new partners to join Corac in support of future development projects as well as attract and retain the skilled engineers our technology requires.

Transformational acquisition (post year end)

On 5 April 2012 we completed the acquisition of Wellman Hunt Graham and Wellman Defence for an aggregate consideration of £10.75m. The acquisition was funded by our own cash and a share placing which raised

Executive Chairman's Report

approximately £6.35m. The price paid represented an attractive 3.6 times EBITDA multiple.

Wellman Defence is a leading global supplier of submarine air purification equipment and clean air ventilation, with proprietary technology and a pipeline of innovations.

Wellman Hunt Graham is a UK based manufacturer and supplier of shell and tube heat exchangers, supplying a number of industries including downstream oil and gas, chemical, energy and food.

The acquisition brings the following strong strategic and financial benefits for the Company:

- Diversifies technology risk and strengthens Corac's IP portfolio - Corac's existing business is in pre-commercial stage and is focused on its core compressor technology. The acquired businesses have proven, proprietary technologies in commercial stage which diversify Corac's exposure to its core technology.
- Introduces sustainable revenues and contribution, reducing Corac's cash burn - Corac's existing business is in pre-commercial stage. The acquired businesses are well established profitable businesses. Their anticipated financial contribution is expected to partially offset Corac's current cash burn.
- Creates an opportunity to leverage Corac's management and resources to develop further the acquired businesses - through Corac's resources and management focus there is an opportunity to grow and improve profitability in the future.
- Contributes complementary, engineering design capabilities to Corac.
- Strengthens Corac's presence in the oil and gas markets - Wellman Hunt Graham has a number of customers in the oil and gas markets which enhances the Group's routes to market for its core technologies.
- Enhances skill sets and management experience gained through developing and commercialising technology within the Wellman Defence business as well as the existing manufacturing, assembly and supply chain management capability within Wellman Hunt Graham to enhance the delivery of Corac's technology to market.

We believe this will further strengthen the Corac proposition for our partners, customers and investors. It will transform Corac into a technology-led engineering group serving major global industries with established commercial relationships and a track record of revenue and profit contribution.

Management and staff

During the year we have strengthened the experience and depth of management at all levels whilst building our core R&D engineering expertise and knowledge with engineers joining us from a cross-section of industry.

The establishment of the Business Development team is now delivering benefits as seen by the launch of our new website, improved industrial communications, and customer engagement.
I have been delighted by the enthusiasm and commitment shown by our employees to the challenges and demands faced by the significant changes that have taken place within the business in the year.

Summary and Outlook

Significant progress has been made within Corac's business over the last year, strengthening the intellectual property portfolio, multiplying the number of future commercialisation opportunities and creating the platform for anticipated delivery of projects in 2012/13. Subject to successful subsequent partner field trial testing, the commencement of commercial exploitation across all three development programmes can be expected to follow.

Corac now has a strong pipeline of opportunities for its IGC and DGC applications as well as renewed interest in industrial compressor applications, derived from a much more diverse group of companies encompassing not just oil and gas majors, but also industrial engineering groups.

Over the last 18 months Corac has secured £1.5m new partner income to support our R&D development programmes. This will be recognised over the life of the projects with the majority expected to fall into 2012 linked to successful delivery and partner acceptance.

The acquisition of Wellman has added management and engineering expertise, facilities, markets, revenues and profit contribution that will transform Corac into a commercial technology led engineering group with sources of sustainable revenue and contribution. On a pro forma basis, the revenues and operating profit generated by the acquired businesses will significantly reduce the Group's losses and cash burn in 2012 and accelerate progress towards profitability.

I believe the enlarged group accelerates the recognition of Corac as a more commercial proposition for all our stakeholders.

Phil Cartmell
Executive Chairman
16 April 2012

Group Managing Director & Chief Financial Officer Report

Operational Review

Following the successful fundraising at the end of 2010 and the progress made on commercial negotiations with additional development partners, we entered 2011 with the aim to create a technology development business with a broader technology platform and to move away from the limited R&D operation that existed in our Brunel Science Park offices. Our focus within the business has been structured around a set of specific objectives:

Establishing credibility of existing core technology applications

The DGC programme has developed an integrated compression system that can be located several miles underground in the confines of a seven inch diameter gas well. The objective is to assist the flow of gas from a reservoir deeper underground and help it to reach the surface where it can feed into the gas transmission system and ultimately be used as fuel. Without such assistance gas pressure and flow can reduce so that water vapour in the flow begins to condense. This can block the well even though there is valuable gas below. The DGC programme has developed compressors that are much smaller than were previously available, driven by high power electronic drive systems designed to operate far underground in temperatures greater than 120°C. The goal is to extend the life of a gas well and enable additional gas recovery.

With two projects in build and test phase during 2011, the DGC programme reached a number of key milestones:

- Built compressor modules for the American field trial with enhanced thermal management. Significantly reduced component temperatures will extend life and higher pressure ratios will increase gas uplift. These evolved from the proven compressor designs of the ENI DGC.
- Developed and implemented a second generation downhole electronics module for enhanced reliability and ease of manufacture. The enhanced system has successfully operated for twice the running hours required to meet the system test protocol.
- Conducted successful initial endurance running tests of an end-to-end single compressor system for the American DGC with more than 150 successful restarts, five times the expected number that a DGC motor would be subjected to in its lifetime

The focus for the DGC programme has been to produce a standard design for a range of flow and thermal conditions which will be used as the basis for future DGC implementations. This design for manufacture approach will allow us to produce systems with common elements and to the extent possible limit bespoke engineering.

The Turbocompressor programme has re-focused on the application of Corac's core technologies in innovative areas in partnership with established industrial producers. Within the turbocompressor programme during 2011 we have:

- conducted research and analysis into the fundamental properties of gas bearings to build a computer simulation model that will be used to design bearing systems to meet a wider range of operating duties and conditions
- prepared outline designs for systems based upon the field proven compressors in areas such as heat pumps, waste heat recovery and cryogenic refrigeration
- worked with industry leaders to establish requirements in markets not currently served by conventional systems

There is considerable interest from potential industrial partners alongside the MoU partner involved in applying Corac's technology to the water treatment market and progress towards securing and commencing prototype development projects is anticipated in 2012.

Develop and deploy new applications

During the year Corac launched the first IGC project following the successful negotiations to secure Saudi Aramco as a cornerstone development partner. This programme is developing a compression system that operates at the surface, close to the wellhead, boosting gas flow from a single well or pipeline. Locations are typically remote, either on land or on offshore production platforms, and so high reliability is a major objective to minimise the need for service visits.

The IGC has just two moving parts and can be installed in the flowing pipeline to perform reliably and securely. On platforms, space and weight are at a premium, so the compact and lightweight nature of Corac's technology means that our compressors can operate where conventional systems cannot. In a field of several wells, assisting the low pressure wells means that the field can achieve higher production rates overall.

Within the IGC programme we have:

- developed an in-pipe gas compressor configuration in partnership with Saudi Aramco
- established a modular system approach through which major components can be integrated from a selection of Corac's and other proven third party technologies. This provides flexibility and speed of response to partner requirements and minimises bespoke engineering.
- identified partners to supply robust and market proven subsystems to complement Corac's core technologies
- filed a patent on the modular system configuration which includes 14 new inventions

Innovate new Technology

We have continued to seek to fill the gaps in our technology portfolio during the year, and set out to develop a balanced technology plan that will deliver larger, heavier shafts to support more demanding flow regimes, liquids management methods to expand applications in oil and gas, and electronics that would survive even more challenging conditions.

The resulting roadmap of future technology development includes work on integrating magnetic bearings and couplings to complement our existing gas bearings,

Group Managing Director & Chief Financial Officer Report

developing more powerful permanent magnet motors and optical devices to extend the range of our power electronics.

Establish a market presence to exploit Corac technology

The Business Development team have actively engaged with industry associations such as the SPE and regional bodies in Aberdeen and the Arabian Gulf and established frequent contact with a growing network of companies in Houston.

As a result of the increased market presence and awareness of progress on the technology development, in 2011 Corac engaged in significantly greater level of discussion regarding new partner supported projects with a number of major global companies across the energy and industrial engineering sectors. It is anticipated that some of these detailed discussions and negotiations will, subject to mutual technical and commercial agreements being completed, result in additional projects commencing in 2012.

Building a sustainable business

Changes in engineering management and recruitment within the teams throughout the year have introduced new methods and experience from a wide range of industries. This more robust production engineering capability has had a very positive impact on our approach to system implementation with greater focus on quality and reliability and not only improved the existing development programmes but will also support our future plans.

As described in the Chairman's statement, the Company successfully completed the single largest transformation project in its history on time and within budget to create the right facilities to support the businesses technology development and commercial plans. Corac identified suitable premises with greater capacity in Slough and equipped them with high quality technical facilities. In December 2011 the entire business moved over a single weekend and through excellent planning and co-ordination was functional within a few hours of arrival.

Financial Review

Corac continued to invest heavily in its development programmes during the year, and this together with the investment in the new Technology Centre, and a deferral of some revenue into 2012, led to a slightly higher loss being reported in 2011 compared to 2010.

Overall, despite this continued investment and development spending, Corac retained a strong financial position during the year.

Revenues from partner funding of £0.32m (2010: £0.66m) were largely derived from activity within our DGC programme. This was made up of income from percentage of completion on the American DGC project and completion of a feasibility study for OMV. The revised work plan for ENI following the decision to switch to the second generation electronics means that milestone related income will fall into 2012.
Following detailed negotiations to secure the ownership of our IP, we signed an agreement to develop an IGC with Saudi Aramco, operator of the world's largest single hydrocarbon network, The Master Gas System. The resulting work completed in 2011 resulted in limited recognition of the project funding income.

Total R&D spend of £3.35m (2010: £3.22m) includes cost of sales which represented that proportion of R&D spend financed by partners. This was broadly in line with the prior year and was driven by investment in the IGC and DGC programmes plus investment in on-going R&D technology development.

Administration costs were £2.88m (2010: £2.27m), the £0.6m increase is partly explained by a full year invested in our new Business Development team. Established at the end of 2010 this team is now producing a stronger pipeline and greater market presence. Administration costs also include £0.3m of exceptional costs associated with the Wellman acquisition.

The resulting operating losses of £5.91m (2010: £4.81m) were broadly in line with expectations; the increased losses reflected the additional investment in support of three development projects across the IGC and DGC programmes as opposed to a single programme for the majority of 2010 and continuing investment in the core technology and business development to secure future partners. R&D Tax Credits of £0.71m (2010: £0.77m) were claimed, linked to our continued investment in technology development.

Corac invested £1.61m in building infrastructure within the new Technology Centre designed to deliver the correct facilities and space to better deliver multiple development projects. Cash used in operating activities was £5.11m (2010: £3.06m) which, along with spend on the Technology Centre of £1.61 in the year, offset by R&D tax credits received of £0.71m and interest received of £0.24m resulted in a decrease in cash of £6.43m (2010: increase of £16.42m). Cash at year end totalled £15.33m (2010: £21.76m).

Going forwards the acquisition of Wellman Hunt Graham and Wellman Defence in 2012 will fundamentally change the Group's income statement generating significant revenues and enhancing profitability. The accounts of Wellman Hunt Graham and Wellman Defence show combined revenues of £19.77m, operating profit of £2.86m and EBITDA of £2.99m in 2011. The aggregate consideration of £10.75m settled in 2012 was funded through a share placing of £6.35m and the balance of £4.4m settled through our cash resources.

Mark Crawford
Group Managing Director & Chief Financial Officer
16 April 2012

Board of Directors

Executive Directors

Phil Cartmell

Executive Chairman

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 multi-national, Finmeccanica, for a substantial premium. He was the Non-Executive Chairman of Alterian plc a leading provider of Global Information Management solutions until its acquisition by SDL plc in January 2012. Phil has served as a Non-Executive Director and adviser for a number of companies and is currently a Non-Executive Director of CSF Group plc (Malaysia).

Mark Crawford

Group Managing Director & Chief Financial Officer

Mark Crawford was appointed to the Board in November 2009 and became Managing Director in 2011 whilst retaining his responsibilities as Chief Financial Officer. Prior to joining Corac Mark worked in a number of commercial roles, the last of which was as a Director with private equity backed Gondola, having 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.

Non-Executive Directors

Rohan Courtney OBE

Non-Executive Director

Rohan Courtney was appointed to the Board in April 2010 and chairs the Remuneration Committee. 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 where he is Chairman of Trustees, is Executive 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

Richard King was appointed to the Board in February 2011 and 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 Chairman of the Orchid Group, Non-Executive Director of CSF Group plc and Allocate Software plc, is an advisory partner at Rockpool Investments LLP and is on the advisory board of Frogmore Property Group. He is also Chair of Trustees for the Willow Foundation, a charitable organisation for seriously ill children and adults.

Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 2011.

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's and the Group Managing Director & Chief Financial Officer Reports.

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;
- engagement with new partners;
- new innovations and applications 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 Executive Chairman's and the Group Managing Director & Chief Financial Officer Reports.

Results and Dividends

The Group made a loss after taxation of £4.97m in the year ended 31 December 2011 (2010: loss £4.00m). The directors do not recommend the payment of a dividend and propose that the loss be added to the deficit on reserves.

Research and Development

Total R&D expenditure in the year including cost of sales was £3.35m (2010: £3.22m), all of which was charged to the income statement in the year. Progress on development R&D is discussed in Group Managing Director & Chief Financial Officer Report.

The amount included for cost of sales was £0.32m (2010: £0.66m).

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 market place 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 of 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 relocated at the end of the year to its new world class Technology Centre 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 and medium term bank deposits;

Directors' Report

- **Interest rate risk**. The Group's policy throughout the year has been to place funds on deposit directly with an approved list of banks at varying maturities to match the anticipated cash requirements of the Group; and
- **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.

Subsequent Events

On 5 April 2012 the Group completed the acquisition of Wellman Hunt Graham Ltd and Wellman Defence Limited. Further detail is given in the Executive Chairman's and the Group Managing Director and Chief Financial Officer Report and note 23 to the accounts.

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 on-going 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 2011 and 31 December 2010.

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 39 days (2010: 26 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 (resigned 17 October 2011)

Non-executive

R R Courtney
R King (appointed 8 February 2011)

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

Related Party Transactions

These have been disclosed within note 22 to the accounts.

Auditor

Deloitte LLP has expressed willingness to continue in office. In accordance with s489(4) of the Companies Act 2006 a resolution to re-appoint Deloitte LLP will be proposed at the Annual General Meeting.

This report was approved on behalf of the Board on 16 April 2012 and signed by order of the Board.

S G Harrow
Company Secretary
16 April 2012

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 insofar 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 of the London Stock Exchange ("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 three executive directors until 17 October 2011 and two thereafter (all the executive directors were full time throughout the year) and one non-executive director until 7 February 2011 and two thereafter. The Board met eight 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 do 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.

All directors can 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 the 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 company and of the profit or loss of the company 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate Governance Report

The directors confirm that to 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 profit or loss of the company and the undertakings included in the consolidation 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 one non-executive director until 7 February 2011 and two non-executive directors thereafter. The Committee has specific terms of reference which deal with its authority and duties. It meets at least twice a year, with the Group Managing Director and Chief Financial Officer, Executive Chairman 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 20.

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.

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

R W King
Chairman
Audit Committee
16 April 2012

Remuneration Report

Unaudited Information

Remuneration Committee

During the year the Remuneration Committee was made up of one non-executive director until 8 February 2011 and two non-executive directors thereafter. The Remuneration Committee was chaired by Mr R R Courtney OBE and was attended by the Executive Chairman 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.

Following the acquisition of Wellman Hunt Graham Ltd and Wellman Defence Limited, the Remuneration Committee has instigated a full review of all aspects of HR policies and procedures across all the businesses in the enlarged group, and for the establishment of an action plan with timelines. We will adopt procedures and policies in order to attract and retain the very best people in the group.

The review will include compensation, benefits and incentive plans including, amongst other items, pension arrangements, share schemes and bonuses, grading, performance reviews, salary, methods of peer and industry reviews, payroll, training and development, inter-group personnel development, recruitment and apprenticeship schemes.

Service Agreements

All Directors are appointed on 12 months 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 £000	Pension contributions £000	Termination payments £000	Total emoluments 2011 £000	Total emoluments 2010 £000
P Cartmell	200	14	-	214	161
M S Crawford	161	11	-	172	132
J O Reed (resigned 17 October 2011)	121	8	181	310	150
R R Courtney	34	-	-	34	23
R W King (appointed 8 February 2011)	29	-	-	29	-
S Westerman (resigned 19 April 2010)	-	-	-	-	7
A J Wood (resigned 19 April 2010)	-	-	-	-	8
Professor G Musgrave (resigned 24 June 2010)	-	-	-	-	82
	545	33	181	759	563

Remuneration Report

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 2011 and 1 January 2011 were:

	As at 31 Dec 2010 number	Exercised in year number	Lapsed in year number	Issued in year number	As at 31 Dec 2011 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
R R Courtney OBE	250,000	-	-	-	250,000	15.00	9 December 2020
R W King	-	-	-	250,000	250,000	15.00	7 February 2021

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 11.75p at 31 December 2011 and in the period 1 January 2011 to 31 December 2011 was a closing mid-market high of 19.25p per share and a low of 9.00p 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 2011 and at 31 December 2011 and at the date of this report:

	Number held at 31 December 2011 Ordinary Shares of 10 pence each	Number held at 1 January 2011 Ordinary Shares of 10 pence each
P Cartmell	711,920	536,920
M Crawford	123,024	100,000
R King	100,000	-

On behalf of the Remuneration Committee

R R Courtney OBE
Chairman
Remuneration Committee
16 April 2012

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 2011 which comprise the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in equity and the related notes 1 to 23. 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 that would have applied were the company a quoted company; and
- 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.

Ian Smith
Senior Statutory Auditor
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, UK
16 April 2012

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011

	Note	Group 2011 £000	Group 2010 £000
Revenue	3	322	663
Cost of sales		(322)	(663)
Gross profit		-	-
Other income		-	21
Research and development costs		(3,029)	(2,561)
Administrative expenses		(2,883)	(2,266)
Operating loss	4	(5,912)	(4,806)
Finance income	6	242	34
Loss before income tax		(5,670)	(4,772)
Income tax credit	7	700	768
Loss and total comprehensive expense for the year attributable to shareholders		(4,970)	(4,004)
Loss per share expressed in pence per share			
Basic and diluted loss per share	8	(2.0)	(3.5)

All results relate to continuing activities.

The notes on pages 20 to 40 form part of these financial statements.

Consolidated and Parent Company Statement of Financial Position
as at 31 December 2011

		Group		Parent Company	
		2011	2010	2011	2010
	Note	£000	£000	£000	£000
ASSETS					
Non current assets					
Property, plant and equipment	9	1,858	59	1,858	59
Amounts owed by EBT	11	-	-	250	250
		1,858	59	2,108	309
Current assets					
Trade and other receivables	13	1,410	631	1,410	631
Taxation recoverable	7	700	710	700	710
Cash and cash equivalents	14	15,332	21,761	15,297	21,720
		17,442	23,102	17,407	23,061
Total assets		19,300	23,161	19,515	23,370
LIABILITIES					
Current liabilities					
Trade and other payables	15	(2,153)	(1,361)	(2,156)	(1,363)
Net assets		17,147	21,800	17,359	22,007
EQUITY					
Share capital	17	24,740	24,740	24,740	24,740
Share premium		13,523	13,523	13,523	13,523
Capital redemption reserve		575	575	575	575
Own shares held by the EBT		(551)	(551)	-	-
Share-based payments reserve		883	566	789	472
Retained earnings		(22,023)	(17,053)	(22,268)	(17,303)
Total equity		17,147	21,800	17,359	22,007

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 16 April 2012.

The notes on pages 20 to 40 form part of these financial statements.

P Cartmell
Executive Chairman

Company number: 3152034

Consolidated Statement of Changes in Equity
for the year ended 31 December 2011

	Group						
	Share capital £000	Share premium £000	Capital redemption reserve £000	Own shares held by EBT £000	Share-based payments reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2010	10,834	7,939	575	(551)	295	(13,049)	6,043
Issue of shares	13,906	5,584	-	-	-	-	19,490
IFRS 2 share option charge	-	-	-	-	271	-	271
Transactions with owners	13,906	5,584	-	-	271	-	19,761
Loss and total comprehensive expense for the year	-	-	-	-	-	(4,004)	(4,004)
Balance at 31 December 2010	24,740	13,523	575	(551)	566	(17,053)	21,800
IFRS 2 share option charge					317		317
Transactions with owners	-	-	-	-	317	-	317
Loss and total comprehensive expense for the year	-	-	-	-	-	(4,970)	(4,970)
Balance at 31 December 2011	24,740	13,523	575	(551)	883	(22,023)	17,147

The notes on pages 20 to 40 form part of these financial statements.

Parent Company Statement of Changes in Equity
for the year ended 31 December 2011

	Parent Company					
	Share Capital £000	**Share premium £000**	**Capital redemption reserve £000**	**Share-based payments reserve £000**	**Retained earnings £000**	**Total £000**
Balance at 1 January 2010	10,834	7,939	575	211	(13,270)	6,289
Issue of shares	13,906	5,584	-	-	-	19,490
IFRS 2 share option charge	-	-	-	261	-	261
Transactions with owners	13,906	5,584	-	261	-	19,751
Loss and total comprehensive expense for the year	-	-	-	-	(4,033)	(4,033)
Balance at 31 December 2010	24,740	13,523	575	472	(17,303)	22,007
IFRS 2 share option charge	-	-	-	317	-	317
Transactions with owners	-	-	-	317	-	317
Loss and total comprehensive expense for the year	-	-	-	-	(4,965)	(4,965)
Balance at 31 December 2011	24,740	13,523	575	789	(22,268)	17,359

The notes on pages 20 to 40 form part of these financial statements.

Consolidated and Parent Company Statement of Cash Flows
for the year ended 31 December 2011

		Group		Parent Company	
		2011	2010	2011	2010
	Note	£000	£000	£000	£000
Operating activities					
Loss before income tax		(5,670)	(4,772)	(5,665)	(4,802)
Adjustments for:					
Depreciation		24	40	24	40
Finance income		(242)	(34)	(242)	(34)
Share-based payment expense		317	271	317	261
Increase in impairment on loan to the EBT	11	-	-	-	50
Decrease in inventories		-	136	-	136
(Increase) in trade and other receivables		(779)	(128)	(779)	(128)
Increase in trade and other payables		523	689	524	688
		(5,827)	(3,798)	(5,821)	(3,789)
Income tax received		710	739	710	739
Net cash used in operating activities		(5,117)	(3,059)	(5,111)	(3,050)
Investing activities					
Finance income		242	34	242	34
Purchase of property, plant and equipment		(1,554)	(48)	(1,554)	(48)
Net cash used in investing activities		(1,312)	(14)	(1,312)	(14)
Financing activities					
Proceeds from issue of shares	17	-	20,859	-	20,859
Expenses of issue of shares		-	(1,369)	-	(1,369)
Net cash from financing activities		-	19,490	-	19,490
Net (decrease) / increase in cash and cash equivalents		(6,429)	16,417	(6,423)	16,426
Cash and cash equivalents at beginning of year		21,761	5,344	21,720	5,294
Cash and cash equivalents at end of year		15,332	21,761	15,297	21,720

The notes on pages 20 to 40 form part of these financial statements.

Notes to the Financial Statements

1. Nature of Operations

The principal activity of Corac Group plc and its subsidiaries (the "Group") comprise innovation, research & development work in a number of technology programmes to develop products of value to users in our target markets. These programmes draw upon our own investment funding and through partnership with world leaders in the energy and other industries.

Our leading programmes are developing innovative gas compressor technology for two applications, the IGC and DGC, and the development of innovative products based upon our solid engineering expertise in the turbo machinery sector:

IGC – The IGC programme is Corac's implementation of above ground high speed compression technology to assist natural gas production. The prototype systems currently under development will provide low to zero maintenance, lightweight and compact compression solutions that will be located at wellheads, nearby in pipelines within the production pipework or on offshore platforms.

DGC – The DGC programme has developed compact high speed compressors for declining gas fields. The DGC runs on contactless gas bearings and uses the production gas as both a bearing fluid and a coolant and is therefore more efficient and requires lower maintenance than existing technologies. The DGC programme exploits Corac's IP in gas bearings, permanent magnet motors and power electronics packaging for downhole use.

Turbo-compressors – Corac is a leading developer of innovative products based upon solid engineering expertise in the turbo machinery sector. Through our Turbo-compressor programme we have developed and applied a range of technologies to the production of extremely compact high speed turbo compressors, delivering machines that have run in excess of 20,000 hours in field trials.

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 Technology Centre, 683-685 Stirling Road, Slough, Berkshire, SL1 4ST. The Parent Company's shares are listed on AIM.

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. 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 1 (amended) "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"
- IFRS 7 (amended) "Disclosures – Transfers of Financial Assets"
- IFRS 9 "Financial Instruments"
- IFRS 10 "Consolidated Financial Statements"
- IFRS 11 "Joint Arrangements"
- IFRS 12 "Disclosure of Interests in Other Entities"
- IFRS 13 "Fair Value Measurement"
- IAS 1 (amended) "Presentation of Items of Other Comprehensive Income"
- IAS 12 (amended) "Deferred Tax: Recovery of Underlying Assets"
- IAS 19 (revised) "Employee Benefits"
- IAS 27 (revised) "Separate Financial Statements"
- IAS 28 (revised) "Investments in Associates and Joint Ventures"
- IFRIC 20* "Stripping Costs in the Production Phase of a Surface Mine"

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:

- IFRS 3 (revised) "Business Combinations"
- IFRS 7 (revised) "Financial instruments"
- IFRS 1 (revised) "First-time Adoption of IFRS"
- 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

Going concern

The Directors are satisfied that the Group, despite the general economic uncertainty, has adequate resources to continue in business for the foreseeable future, and accordingly continue to adopt the going concern basis in preparing the accounts. In reaching this conclusion, the directors have considered forecasts that cover a period of greater than twelve months from the date of these accounts and include Wellman Hunt Graham Ltd and Wellman Defence Limited. The forecasts take into account the Group's existing cash resources, adjusted for funds

Notes to the Financial Statements

applied on 5 April 2012 on completion of the acquisition of Wellman Hunt Graham Ltd and Wellman Defence Limited, and available overdraft facilities of £2.5m. The forecasts include consideration of certain downside scenarios that demonstrate the resilience of the Group's financial position

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 2011 (including those classified as cost of sales) were £3,351,000 (2010: £3,224,000).

(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 work by allowing 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.

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 2011 the Group and Parent Company received a cash refund of £710,000 (2010: £739,000) from HM Revenue & Customs in respect of R&D Tax Credits for qualifying R&D expenditure incurred in 2010.

The Group and Parent Company have recognised an R&D Tax Credit of £700,000 (2010: 710,000) in respect of the year ended 31 December 2011 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.

Notes to the Financial Statements

(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(i).

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 19). 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 £4,965,000 (2010: £4,033,000).

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.

2.7 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.

Notes to the Financial Statements

Management reviews the useful lives and residual values of all depreciable assets at each reporting date. At 31 December 2011 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 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.

2.11 Finance leases and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the asset's useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged to the income statement over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

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".

Loans and receivables

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

Notes to the Financial Statements

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

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.

(i) Share-based payment

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 are valued using a Black-Scholes 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.

(ii) 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 income statement.

(iii) 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.

Notes to the Financial Statements

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 2011 from three customers amounted to more than 10% of total revenue, contributing £229,000 (2010: £171,000), £63,000 (2010: £nil) and £30,000 (2010: £nil) respectively. All revenues relate to the single reportable business segment. In 2010, revenue from a further two customers amounted to more than 10% of total revenue in that year, contributing £365,000 and £112,000 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	
	2011	**2010**
	£000	**£000**
United Kingdom	-	10
Rest of European Union	63	477
North America	229	171
Rest of the World	30	5
	322	663

Notes to the Financial Statements

4. Operating Loss

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

	Group	
	2011	**2010**
	£000	**£000**
Staff costs		
Wages and salaries	2,862	2,401
Social security costs	300	255
Other pension costs	143	132
	3,305	2,788
Depreciation of property, plant & equipment	24	40
Operating lease expense - rent	234	162
Exceptional items: costs associated with the Wellman acquisition	332	-
Auditor's remuneration		
Audit fees		
Fees payable for the audit of the Parent Company and consolidated financial statements	26	25
Non-audit fees		
Fees payable for statutory and regulatory services	5	90
Corporate finance services	189	-
Total audit and audit related services	220	115
Tax services	25	25
Total auditor remuneration	245	140

Included in wages and salaries is a total expense of share-based payments of £317,000 (2010: £271,000), all of which arises from transactions accounted for as equity-settled share-based payment transactions.

Exceptional items relate to costs associated with the Wellman acquisition detailed in the Executive Chairman's Report.

Staff numbers

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

	Group	
	2011	**2010**
	Number	**Number**
Engineering	28	29
Business Development	2	-
Administration	10	8
	40	37

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 £143,000 (2010: £132,000). There were outstanding contributions of £1,000 (2010: nil) 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.

Notes to the Financial Statements

5. Directors' Emoluments

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

	Group	
	2011	**2010**
	£000	**£000**
Emoluments	545	531
Termination payments	181	-
Pension contributions	33	32
	759	563

Three Directors (2010: four) accrued benefits under the Group pension schemes during the year. No Director exercised share options during the year (2010: nil).

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

	Group	
	2011	**2010**
	£000	**£000**
Emoluments	121	150
Termination payments	181	-
Pension contributions	8	11
	310	161

6. Finance Income

	Group	
	2011	**2010**
	£000	**£000**
Interest income on financial assets	242	34

Notes to the Financial Statements

7. Taxation

Credit to consolidated income statement

	Group	
	2011	**2010**
	£000	**£000**
Corporation tax - R&D credit		
Current year	700	710
Prior year under provision	-	58
	700	768

The tax credit for the period is lower than the standard rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are explained as follows:

	Group	
	2011	**2010**
	£000	**£000**
Loss on ordinary activities before taxation	5,670	4,772
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28%)	1,501	1,336
Effect of:		
Expenses not deductible for tax purposes	(109)	(1)
Depreciation in excess of capital allowances	9	(5)
Share -based payments	(84)	(73)
R&D enhanced relief	716	609
Surrender of tax losses for R&D credit	(780)	(711)
Trading losses carried forward	(555)	(453)
Other short term timing differences	2	8
Adjustment in respect of prior years	-	58
Current tax credit for the year	700	768

Subject to agreement by HM Revenue & Customs, Corac Group plc has approximately £11,000,000 (2010: £9,000,000) of unrelieved 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	
	2011	**2010**
	£000	**£000**
Accelerated capital allowances and other temporary differences	-	7
Losses	-	(7)

Notes to the Financial Statements

8. Loss per Share

The calculation of basic loss per share for the year ended 31 December 2011 is based upon a loss after tax of £4,970,000 (2010: £4,004,000) and a weighted average number of shares of 245,897,878 (2010: 115,769,849). 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 leasehold improvements £000	Computer equipment £000	Office furniture & fittings £000	Plant & machinery £000	Total £000
Cost					
At 1 January 2010	190	290	25	373	878
Additions	3	24	1	20	48
At 31 December 2010	193	314	26	393	926
Additions	1,612	34	21	156	1,823
Disposals	(193)	-	(3)	-	(196)
At 31 December 2011	1,612	348	44	549	2,553
Accumulated depreciation					
At 1 January 2010	173	282	25	347	827
Charge for year	20	9	-	11	40
At 31 December 2010	193	291	25	358	867
Charge for year	3	7	-	14	24
Disposals	(193)	-	(3)	-	(196)
At 31 December 2011	3	298	22	372	695
Net book value					
At 1 January 2010	17	8	-	26	51
At 31 December 2010	-	23	1	35	59
At 31 December 2011	1,609	50	22	177	1,858

The Group's obligations under finance leases (see note 16) are secured by the lessors' title to the leased assets, which have a carrying amount of £74,000 (2010: £nil).

Notes to the Financial Statements

10. Investments in Subsidiary Undertakings

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

	Parent Company	
	2011	2010
	£	£
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 2011 and 2010.

11. Amounts owed by Employee Benefit Trust

	Group		Parent Company	
	2011	2010	2011	2010
	£000	£000	£000	£000
Amounts owed by EBT	-	-	600	600
Less: impairment	-	-	(350)	(350)
	-	-	250	250

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.

Notes to the Financial Statements

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	
	2011	**2010**	**2011**	**2010**
	£000	**£000**	**£000**	**£000**
Financial assets				
Amounts owed by EBT (note 11)	-	-	250	250
Trade and other receivables (note 13)	351	-	351	-
Cash and cash equivalents (note 14)	15,332	21,761	15,297	21,720
	15,683	21,761	15,898	21,970
Financial liabilities - current				
Trade payables	587	304	587	304
Current obligation under hire purchase contracts (note 16)	12	-	12	-
Amount owed to subsidiary undertakings	-	-	5	5
Accrued expenses	1,048	668	1,046	665
Finance liabilities – Non-current				
Non-current obligations under hire purchase contracts (note 16)	47	-	47	-
	1,694	972	1,697	974

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.

Notes to the Financial Statements

13. Trade and other Receivables

	Group		Parent Company	
	2011	**2010**	**2011**	**2010**
	£000	**£000**	**£000**	**£000**
Financial assets:				
Trade receivables	113	-	113	-
Other receivables	238	-	238	-
	351	-	351	-
Non-financial assets:				
Prepayments and accrued income	598	501	598	501
Other taxes	461	130	461	130
	1,410	631	1,410	631

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 2011 (2010: £nil).
In 2011 a rent deposit of £55,000 due after more than one year is included within Prepayments and accrued income. In 2010 all amounts are due within one year.

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

Credit terms are negotiated as part of each individual development contract. No interest is charged on the receivables from the date of the invoice.

Of the trade receivables balance at the end of the year, £113,000 (2010: £nil) is due from one development partner.

The Group does not hold any collateral or other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

14. Cash and Cash Equivalents

	Group		Parent Company	
	2011	**2010**	**2011**	**2010**
	£000	**£000**	**£000**	**£000**
Cash and cash equivalents	15,332	21,761	15,297	21,720

The funds were placed on deposit as follows:

		Group		Parent Company	
	Interest Rate type	**2011**	**2010**	**2011**	**2010**
		£000	**£000**	**£000**	**£000**
Cash at bank and in hand	Floating	4,832	16,261	4,797	16,220
Short term deposits	Fixed	10,500	5,500	10,500	5,500
		15,332	21,761	15,297	21,720

Notes to the Financial Statements

15. Trade and other Payables

	Group		Parent Company	
	2011	**2010**	**2011**	**2010**
	£000	**£000**	**£000**	**£000**
Financial liabilities:				
Amounts falling due within one year				
Trade payables	587	304	587	304
Obligations under hire purchase contracts	12	-	12	-
Amount owed to subsidiary undertakings	-	-	5	5
Accrued expenses	1,048	668	1,046	665
Amounts falling due after one year				
Obligations under hire purchase contracts	47	-	47	-
	1,694	972	1,697	974
Non-financial liabilities:				
Deferred income	256	312	256	312
Other taxes and social security	203	77	203	77
	2,153	1,361	2,156	1,363

The carrying values of trade and other payables are considered to be a reasonable estimate of their fair values.

Notes to the Financial Statements

16. Obligations under Finance Leases and Hire Purchase Contracts

The company uses finance leases and hire purchase contracts to acquire plant and machinery. Future minimum lease payments under hire purchase contracts are as follows:

	Group		Parent Company	
	2011	2010	2011	2010
	£000	£000	£000	£000
Future minimum payments due:				
Not later than one year	14	-	14	-
After one year but not more than five years	54	-	-	-
	68	-	68	-
Less finance charges allocated to future periods	(9)	-	(9)	-
Present value of minimum lease payments	59	-	59	-
The present value of minimum lease payments is analysed as follows:				
Not later than one year	12	-	12	-
After one year but not more than five years	47	-	47	-
	59	-	59	-

The average lease term is 5 years. For the year ended 31 December 2011, the average effective borrowing rate was 5.9% (2010: n/a). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling. The group's obligations under finance leases are secured by the lessors' rights over the leased assets as disclosed in note 9.

The fair value of the group's lease obligations is approximately equal to their carrying amount.

Notes to the Financial Statements

17. Share Capital

	Parent Company	
	2011	2010
	£000	£000
Allotted, called up and fully paid		
247,404,225 (2010: 247,404,225) ordinary shares of 10p each	24,740	24,740
	Number	Number
At 1 January	247,404,225	108,343,977
Issued in respect of firm placing and placing and open offer	-	139,060,248
At 31 December	247,404,225	247,404,225

In accordance with the Articles of Association for the Company adopted on 19 May 2011, 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 equity.

All these shares were subsequently admitted for trading on 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 2010	10,635,755	400,000	4,805,657	932,675	15,441,412	1,332,675	16,774,087
Lapsed during the year	-	-	(299,379)	(72,334)	(299,379)	(72,334)	(371,713)
Granted during the year	250,000	-	878,613	-	1,128,613	-	1,128,613
At 31 December 2011	10,885,755	400,000	5,384,891	860,341	16,270,646	1,260,341	17,530,987

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 2011, performance conditions not satisfied relate to the market price of the ordinary shares of the Parent Company as quoted on AIM.

Notes to the Financial Statements

17. Share Capital *(continued)*

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

	2011 number of options	2011 weighted average exercise price (pence)	2010 number of options	2010 weighted average exercise price (pence)
As at 1 January	16,774,087	25.8	8,539,016	38.4
Exercised during the year			-	-
Lapsed during the year	(371,713)	34.6	(1,698,002)	37.2
Granted during the year	1,128,613	14.4	9,933,073	16.9
At 31 December	17,530,987	24.8	16,774,087	25.8
Exercisable at 31 December	9,075,458	30.5	4,985,991	39.0

No share options were exercised during the year. The options outstanding at 31 December 2011 had exercise prices as shown in the following table and a weighted average remaining contractual life of 7.9 years.

At 31 December 2011 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 2011 was 11.75p and the range during the year was between 9.00p and 19.25p.

Expected volatility is a measure of the amount by which a share price is expected to fluctuate during a period. For options issued after 2009, 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.

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.

Notes to the Financial Statements

17. Share Capital *(continued)*

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
2002	5,334	*	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	83,334	*	34.00	34.00	34.00	42.82	4.78	15.05
2004	35,000	*	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	450,003	*	37.50	36.50	37.60	38.26	4.30	11.41
2007	576,670		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	630,000		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	360,000		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	610,000		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	725,363		15.08	15.50	15.08	37.43	0.88	10.36
2011	500,000		14.15	14.25	14.15	40.71	1.32	10.05
2011	250,000		14.85	15.00	14.85	40.71	1.63	10.75
2011	250,000		15.00	15.00	15.00	40.71	1.63	10.57
2011	100,488		14.54	14.00	14.54	42.09	1.47	9.50
2011	28,125		10.32	10.50	10.32	44.79	0.56	7.99
	17,530,987							

* 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.

Notes to the Financial Statements

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 2011 the Parent Company had loaned £600,000 (2010: £600,000) to the Corac Employee Benefit Trust. With this loan the Trustee purchased shares in the Parent Company and, at 31 December 2011, the Corac Employee Benefit Trust held 1,506,347 (2010: 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 £177,000 (2010: £212,000). As set out in note 2.17(ii), 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.

Options have been granted over 1,260,341 (2010: 1,332,675) shares to certain employees being: 5,334 exercisable at 22.0p per share until 17 December 2012, 100,000 at 22.0p per share until 19 December 2012, 83,334 at 34.0p per share until 11 December 2013, 35,000 at 33.0p per share until 15 December 2014, 21,670 at 31.25p per share until 28 December 2015, 450,003 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. Options issued prior to 2010 are subject to performance conditions. At 31 December 2011, performance conditions not satisfied relate to the market price of the ordinary shares of the Parent Company as quoted on AIM.

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 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 on deposit directly with banks. 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 13, at 31 December 2011 were £113,000 (2010: £ nil). 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 2011.

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 three and eighteen months and earned interest at between 3.00% and 0.64%. Floating rate cash deposits earned interest based upon the relevant LIBOR equivalents and earned interest at 0.75%. The weighted average interest rate

Notes to the Financial Statements

19. Risk Management Objectives and Policies *(continued)*

received on all funds deposited during the year was 1.26 %. A change in the rate of 1% in interest rates would have impacted the finance income by £192,000 in the year ended 31 December 2011 (2010: £44,939).

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.

The Group supplied compressors in 2010 for which sales consideration was denominated in Euros. The Group is party to a development agreement whereby certain amounts denominated in Euros are included in accrued income at the end of 2011 and 2010. The Group is also party to a development agreement whereby certain amounts denominated in US dollars are included in deferred income at the end of 2011 and 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 14. 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	
	2011	**2010**
	£000	**£000**
Land and buildings		
Within one year	18	158
From one year to five years	811	-
	829	158
Motor Vehicles		
Within one year	7	-
From one year to five years	10	-
	17	-
	846	158

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

At 31 December 2011 the Group had no capital commitments (2010: £nil).

21. Contingent Liabilities

There is a contingent liability for the Group and Parent Company in respect of a rent deposit guarantee for £nil (2010: £37,500) in respect of a property lease.

Notes to the Financial Statements

22. Related Party Transactions

The following transaction took place between both the Group and Parent Company and other entities with common directorship or controlled by a related party. Fees of £61,000 (2010: £ nil) were invoiced by Clean Coal Ltd, a company of which Mr R R Courtney OBE is a Director in respect of a proposed project. The project was subsequently aborted and a credit note to the sum of £61,000 issued. An amount of £61,000 was outstanding at the balance sheet date. 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.

23. Subsequent Events

On 5 April 2012 the Group acquired 100% of the share capital of Wellman Hunt Graham Ltd and Wellman Defence Limited for an aggregate consideration of £10.75m (subject to net asset adjustment) settled in cash. The acquisition was part funded through a placing of 60,476,191 new ordinary shares of 10p each at 10.5p per share. Estimated expenses associated with the issue of shares were £1,326,000. The balance of the consideration for the acquisition was funded from the Group's existing cash resource.

Given the limited time between the acquisition and the signing of these accounts, the initial accounting for the acquisition is incomplete at the date of these financial statements. Therefore details of the fair values of acquired assets and liabilities, the acquired receivables and of contingent liabilities recognised in relation to the acquisition have not been disclosed in these accounts.

Company Information

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3152034

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R R Courtney OBE
Non-executive Director

R W King
Non-executive Director

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