CORAC GROUP plc

FINANCIAL STATEMENTS

31 December 2005

Company number: 3152034

CORAC

CONTENTS

YEAR ENDED 31 DECEMBER 2005

CORAC

COMPANY INFORMATION

COMPANY NUMBER	3152034	
DIRECTORS	Professor G Musgrave	Executive Chairman
	G W Cromm	Industrial Air Director
	J A M Grant	Non-executive
	J H Gunn	Non-executive
	S D Oakley	Commercial Director
	J O Reed	Engineering Director
	T E Ivings	Finance Director
SECRETARY	T E Ivings	

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Middlesex
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BANKERS

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BOARD OF DIRECTORS

Professor Gerry Musgrave, Executive Chairman, aged 63, BTech, MSc, FIEE, MIEEE, FRSA, MIMC, CEng
Professor Musgrave has combined an academic career and commercial management for 30 years. He has previously been a director of a number of companies including Cirrus Computers, Plessey Finance Corporation, Siemens plc and Non-executive Chairman of Synergo Technologies Limited. He is currently Executive Chairman of Mechadyne plc, an unquoted technology company. He was appointed to the Board in November 1998.

Gerd Cromm, Director - Industrial Air Director, aged 63, Dipl.-Ing
Mr Cromm is currently the director and owner of GCI Consulting GmbH, a consultancy company based in Germany. He has over 30 years experience in the industrial compressor market and has held senior positions in sales and marketing, as well as being Managing Director of a number of German industrial compressor companies. In each of the companies he achieved substantial improvement, profit and growth, and introduced new technology to the industry. His experience is very valuable in helping the Group on an international sales front and with our marketing strategy for our industrial air products. He joined the Board in January 2004.

John Grant, Non-executive Director, aged 60, FCT, MBA, BSc
Mr Grant is currently Chairman of Torotrak plc and Hasgo Group Limited, and Non-executive Director of National Grid Plc, and the Royal Automobile Club Limited. Mr Grant was formerly Chief Executive of Ascot plc and, prior to that, Group Finance Director of Lucas Industries plc and LucasVarity plc. Previously he held a number of senior executive positions with Ford Motor Company in Europe and North America. He was appointed to the Board in July 2000.

John Gunn, Non-executive Director, aged 64, BA, LLD
Mr Gunn is a director of a number of quoted and unquoted companies including Hydrodec plc, Ceres Power plc, California Wine Company Inc and Ludgate 181 (Jersey) Limited. He was formerly Chief Executive Officer of Exco International plc, Chairman of Telerate Inc and of British and Commonwealth plc. Mr Gunn was appointed to the Board in July 2000.

Tom Ivings, Finance Director, aged 38, FCCA
Mr Ivings has spent the last 10 years as a freelance business advisor and part-time FD, mainly working with small, high-growth businesses in the Technology sector. He continues to advise several such companies in addition to Corac. He was previously with Littlejohn Frazer, Chartered Accountants, within their Business Advisory Services division. He joined the Board in January 2006, and is also Company Secretary. Mr Ivings is a Fellow of the Association of Chartered Certified Accountants.

Stuart Oakley, Commercial Director, aged 54, MA
Mr Oakley is involved in developing Corac's licensing and contracting strategy and is concentrating on the development and commercialisation of the Company's seals and downhole gas compressor technologies. He was formerly a Director with Weir Pumps Limited with responsibility for their oil sector business worldwide. He has worked in the offshore oil and gas business for nearly 30 years, both in the UK and overseas, holding senior level appointments in a number of major, international corporations, including Smedvig, McDermott, Stolt Offshore and Sub Sea International. Mr Oakley was appointed to the Board in April 2002.

Julian Reed, Engineering Director, aged 43, BSc, MIMechE, CEng, ACGI
Mr Reed was recruited to manage and build the design and development team for high-speed centrifugal compressor development and associated technologies at Corac. He was formerly a Senior Mechanical Engineer at WS Atkins Consultants Limited, Director and Consulting Mechanical Engineer at Neale Consulting Engineers, and Design and Development Engineer at British Alcan Aluminium plc. He joined the Group in September 2000 and was appointed to the Board in November 2001.

EXECUTIVE CHAIRMAN'S STATEMENT

CHAIRMAN’S STATEMENT

Introduction

Since my last statement in September, I am delighted to report that two important contracts have been signed in the industrial air sector of our business, and work on the downhole compressor Joint Industry Programme has been so encouraging that our JIP partners have sanctioned a further budget of £2 million in 2006.

In April 2005, Corac exhibited at the Hannover Fair in Germany where our CS Fusion machine generated much interest. In partnership with AESSEAL, Corac’s dry gas seal technology has been favourably introduced to key customers and was shown at the Offshore Europe Conference and Exhibition in September 2005. At the same exhibition, Corac also presented its work on downhole gas compression. As a result of these successful events, Corac’s products have much greater visibility within our target markets with major companies expressing great interest in our work, and many have visited our R&D and test facilities in Uxbridge.

I am also delighted with the appointment of Tom Ivings as Finance Director with effect from January 2006. Tom brings a wealth of experience to the Group and will assist in the management of our transition from a research and development organisation to a business that is successfully commercialising its intellectual property.

Financial Review

The operating loss for the year was £2.2 million (2004: £2.0 million) which includes development costs of £1.0 million (2004: £1.0 million).

The tax credit for the year was £0.1m (2004: £0.5m). Tax losses carried forward are £6.9m (2004: £6.0m).

At the year end, the Group’s cash and treasury deposits amounted to £3.5 million (2004: £4.1 million). An institutional placing of 3,528,900 new ordinary shares in January 2006 raised £1.1 million net of expenses to augment the Company’s working capital following the announcement of the first contract win for the industrial air Fusion compressor and for the further development of the business.

Business Review

Our specialist expertise in air bearings, compressor aerodynamics and power electronics has enabled us to address the industrial air, high pressure dry gas seal and downhole gas compression markets using common patented technology. The value of this technology has been recognised by major industry participants, culminating in contracts in each of these markets. We are also engaged in on-going discussions with a number of other interested parties.

Industrial Air

Since the Hannover Fair last April where our CS Fusion machine was exhibited , we have demonstrated with good results our ability to turbo-boost water injected screw compressors. It is the integration of our modules with other manufacturers’ products that creates multiple routes to market. The CS Fusion machine can deliver 15% greater efficiency than competing dry screw machines, with the advantages of no oil contamination, reduced maintenance and lower capital and operating costs. It is these characteristics which have attracted the high level of interest in our demonstration unit.

The first contract was signed in December with a major global player in the compressor industry for the CS Fusion machine. The second contract was with an Austrian compressor manufacturer, supplying compressors for seismic work in the oil and gas industry, high pressure process applications and PET blowers for the plastic bottle industry. Supplying turbo machines to two major companies in different application areas gives Corac the prospect of steady growth in revenues for the future. The industrial chiller market is one further area under consideration where our technology could provide inherent advantages, and where the market is substantial. It is essential that the right licensee partner is identified for this segment of the market, and discussions are ongoing.

Downhole Gas Compression

We are making good progress in our downhole Joint Industry Programme with significant milestones being achieved. Our JIP partners were pleased with the progress we have made in the detailed design and engineering during the second phase of the development programme, and have approved the 2006 budget. Corac’s team continues to make imaginative and innovative design solutions for the production of a viable demonstrator for an operating gas well.

The final development phase has commenced, and will run through 2006 and 2007. Budgets are agreed for the build of six downhole gas compressor modules, which will undergo a comprehensive test programme in a flow loop under simulated downhole conditions. This will lead to a field trial of a commercial prototype in a producing gas well during 2007.

With the high price of energy, this project is growing in stature. A compressor placed close to the reservoir will give optimum performance and could increase rates of gas production from brownfield sites by between 28% and 42%, as substantiated by end-user gas operating companies. Our downhole unit also has the ability to lower the reservoir abandonment pressure and will enable production from otherwise sub-economic or depleted wells, thus increasing recoverable reserves. We are focused on delivering this technology to our partners, whilst deploying a strategy that will make this a very successful global business.

High Pressure Dry Gas Seals
The dry gas seals business is progressing in accordance with plan. Our partner, AESSEAL is gearing up for manufacture of the product as well as organising the necessary training of its world-wide sales force to achieve early market penetration. Selective presentations to potential end customers have been encouraging and Corac looks forward to future royalty revenues and engineering design income from this segment of the market.

Outlook & future prospects
I am most encouraged by the recent contract wins in industrial air, the progress with AESSEAL and advancement into the final phases of the Joint Industry Programme for the downhole gas compressor. The prospects for further gains look encouraging. The Company is well financed to fund the expected growth in the business, and is taking the necessary steps to deliver its full potential for its shareholders.

PROFESSOR G MUSGRAVE
EXECUTIVE CHAIRMAN
28 MARCH 2006

CORAC

DIRECTORS' REPORT

The directors present their annual report and the financial statements for the year ended 31 December 2005.

Principal activity and review of business
The Group's principal activity during the year was the continued innovation, research, development and commercialisation of oil-free industrial air compressors, dynamic seals for pumps and compressors, and downhole gas compressors.

The Group made a loss after taxation of £1,875,232 in the year ended 31 December 2005 (2004: £1,287,254). A review of the business is set out in the Executive Chairman's statement. The directors do not recommend the payment of a dividend and propose that the loss be charged to reserves.

Creditor payment policy
The Group seeks to agree payment terms with its suppliers in advance of a transaction and will pay in accordance with the agreed terms as long as the Group is satisfied that the supplier has provided goods and services in accordance with the order.

The Group's creditor payment period is 26 days (2004 - 30 days).

Directors' and Officers' liability insurance
The Group purchases liability insurance covering its directors and officers.

Important events since the year end
On 13 January 2006 the Group placed 3,528,900 ordinary 10p shares at a price of 32p representing 4.76% of the enlarged issued share capital. The total amount raised net of costs was approximately £1.1m.

International Financial Reporting Standards
The Group is preparing for the adoption of International Financial Reporting Standards ("IFRS") as its primary accounting basis. As an AIM listed company, IFRS will apply to accounting periods commencing on or after 1 January 2007.

Directors and their interests
The directors during the year were as follows:
Professor G Musgrave
G W Cromm
J A M Grant
J H Gunn
R C Miles (resigned 30 September 2005)
S D Oakley
J O Reed

In addition, T E Ivings was appointed as a director on 9 January 2006.

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

Issue of shares
During the year 1,869,159 options were exercised at a price of 10 pence per share. These shares will rank pari passu with all existing ordinary shares.

Substantial shareholdings
The following members had a holding of 3% or more of the issued share capital as at 28 March 2006

	Number	**%**
Mellon Nominees (UK) Limited	5,349,104	7.2
W B Nominees Limited	4,341,930	5.9
HSBC Global Custody Nominee (UK) Limited	3,371,685	4.5
Smith & Williamson Nominees Limited	2,964,004	4.0
Vidacos Nominees Limited	2,819,318	3.8
Morstan Nominees Limited	2,589,823	3.5
HSBC Global Custody Nominee (UK) Limited - second account	2,373,026	3.2

Related parties
These have been disclosed within note 20 to the accounts.

DIRECTORS' REPORT (continued)

Independent auditors
Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

This report was approved by the Board on 28 March 2006 and signed on its behalf

T E Ivings
Company Secretary

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 (AIM) are not required to comply with the disclosures of the Combined Code as appended to the Listing Rules issued by the Financial Services Authority.

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

The Board has implemented the Turnbull Guidance on the aspects of the Combined Code relating to Internal Control.

Application of principles

Directors

During the year the Board consisted of five executive directors, two full time and three part time, and two independent non-executive directors. The Board does not consider it appropriate at this stage of the Company's development to split the role of Chairman and Chief Executive. The Board meets bi-monthly 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. The Board also considers employee issues, key appointments and compliance with relevant legislation. The Board has both an Audit and a Remuneration Committee. Given the small size of the Board, it is not considered necessary to constitute a separate Nominations Committee and all members of the Board are consulted on the potential appointment of a new director or a company secretary. The Group also has a Health and Safety Committee that reports to the Board at regular intervals.

All directors can receive appropriate training as necessary and are able to take independent professional advice in relation to their duties if necessary. All directors are subject to re-election every three years.

The Board members during the year were:

Non-executive directors
- J A M Grant
- J H Gunn

Executive directors
- Professor G Musgrave (Chairman)
- G W Cromm
- R C Miles (resigned 30 September 2005)
- S D Oakley
- J O Reed

T E Ivings was appointed on 9 January 2006.

Relationship with shareholders

The Board attaches a high importance to maintaining good relationships with all shareholders. The Group 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 Group 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

Company law in the United Kingdom requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. The directors consider that, in preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. Applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group to prevent and detect fraud and other irregularities. The Board presents a balanced and understandable assessment of the Group's position and prospects in all interim and price-sensitive reports and reports to regulators as well as in the information required to be presented by statutory requirements.

Audit Committee

The Audit Committee comprises the two independent non-executive directors and is currently chaired by Mr J A M Grant. The Committee has specific terms of reference which deal with its authority and duties. It meets at least twice a year, with the Finance Director, Executive Chairman and auditors attending by invitation. The Committee reviews the independence and objectivity of the auditors each year. The Committee overviews the adequacy of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the Group's external auditors report 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

After making relevant enquiries, including the review of detailed budgets and cash forecasts, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Internal control and risk management

The Board has overall responsibility for ensuring that the Group has processes to identify, evaluate and manage key risks. The nature of the Company's business is changing from research and development 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 Group'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 Group'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.
- 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 adequately addresses the risks to which the Group is perceived to be exposed. The Board reviews the system formally twice per year.

ON BEHALF OF THE BOARD

J A M Grant
Director
28 March 2006

REMUNERATION REPORT

Remuneration Committee

The Remuneration Committee is made up of the two non-executive directors and the executive chairman and is chaired by Mr J H Gunn. The Remuneration Committee set, and annually review, 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 Company-wide appraisal process and approves the proposals from the executive directors for all employees' remuneration and option arrangements.

Remuneration policy

The 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 stock options. All new options granted incorporate individual performance conditions which relate to the achievement of key corporate strategic objectives.

Service agreements

No directors have service agreements with notice periods that exceed 12 months.

Directors' emoluments

	Basic salary or fees £	Benefits £	Pension contributions £	Total emoluments 2005 £	Total emoluments 2004 £
Executive					
Professor G Musgrave	109,803	496	6,076	116,375	112,230
G W Cromm	103,500	836	2,463	106,799	100,246
R C Miles (resigned 30 September 2005)	44,471	-	3,113	47,584	61,299
S D Oakley	120,783	-	8,455	129,238	124,869
J O Reed	120,783	-	8,455	129,238	124,869
Non-executive					
J H Gunn	24,575	-	-	24,575	24,043
J A M Grant	24,575	-	-	24,575	24,043
Totals	548,490	1,332	28,562	578,384	571,599

The aggregate gains made by directors on one exercise of share options was £322,405 (2004: £Nil). The market price at the date of exercise was 28.5p.

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 Company at 31 December 2005 and 1 January 2005 were:

	Number held at 1 January 2005 (or date of appointment if later)	Exercised during year	Number held at 31 December 2005	Exercise Price	Exercise period end
Professor G Musgrave	1,742,730	1,742,730	-	10p	3 December 2005
Professor G Musgrave	384,800		384,800	11.5385p	30 January 2007
Professor G Musgrave	1,170,000		1,170,000	38.4616p	7 December 2007
S D Oakley	500,000		500,000	32p	16 April 2009
S D Oakley	100,000		100,000	22p	19 December 2009
J O Reed	100,000		100,000	22p	19 December 2009
J O Reed	100,000		100,000	55.3p	8 January 2009
J O Reed	260,000		260,000	38.4616p	29 October 2008
J O Reed	130,000		130,000	38.4616p	15 October 2007
G W Cromm	357,142		357,142	28p	23 March 2012
G W Cromm	142,858		142,858	28p	23 March 2011

REMUNERATION REPORT (Continued)

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 Corac Group plc at 1 January 2005, 31 December 2005 and at the date of this report:

	Number held at date of this report Ordinary Shares of 10 pence each	**Number held at 31 December 2005 Ordinary Shares of 10 pence each**	**Number held at 1 January 2005 (or date of appointment if later) Ordinary Shares of 10 pence each**
Professor G Musgrave	1,285,730	1,785,730	43,000
S D Oakley	80,000	80,000	80,000
J O Reed	13,300	13,300	13,300
J H Gunn	1,361,000	1,361,000	1,223,200
J A M Grant	327,619	327,619	327,619

The above beneficial interests of Mr J H Gunn are held by a pension fund of which he and his immediate family are the beneficiaries and a company of which he and his immediate family are majority shareholders. In addition Mr Gunn is also a director and minority shareholder in a company which owned 1,430,000 shares at 1 January 2005, 31 December 2005 and at the date of this report.

ON BEHALF OF THE REMUNERATION COMMITTEE

J H Gunn
Chairman
Remuneration Committee
28 March 2006

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CORAC GROUP PLC FOR THE YEAR ENDED 31 DECEMBER 2005

We have audited the financial statements of Corac Group plc for the year ended 31 December 2005 which comprise the consolidated profit and loss account, consolidated balance sheet, company balance sheet, consolidated cash flow statement and notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the executive chairman's statement, the report of the directors, the corporate governance report and the remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and the group as at 31 December 2005 and of the loss of the group for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
OXFORD
28 March 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2005

	Note	2005 £	2004 £
Turnover	2	**835,860**	727,283
Cost of sales		**(795,698)**	(429,911)
Gross profit		**40,162**	297,372
Development costs		**(974,434)**	(1,007,068)
Other administrative expenses		**(1,322,160)**	(1,365,950)
Administrative expenses		**(2,296,594)**	(2,373,018)
Other operating income - grant receivable		**82,737**	82,762
Operating (loss)	3	**(2,173,695)**	(1,992,884)
Net interest	5	**182,128**	215,547
(Loss) on ordinary activities before taxation		**(1,991,567)**	(1,777,337)
Taxation	6	**116,335**	490,083
(Loss) for the financial year		**(1,875,232)**	(1,287,254)
Loss per share	7		
Basic loss, pence per share		**(2.7)**	(1.9)

All results relate to continuing activities.

There were no recognised gains and losses in 2005 or 2004 other than those included in the profit and loss account.

Notes 1 to 22 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2005

	Note	2005 £	2004 £
Fixed assets			
Tangible assets	8	**273,118**	372,695
Current assets			
Stock and work in progress	10	**45,571**	50,000
Debtors	11	**555,728**	849,840
Cash at bank and in hand	12	**3,460,665**	4,082,915
		4,061,964	4,982,755
Creditors			
Amounts falling due within one year	13	**(1,062,166)**	(394,218)
Net current assets		**2,999,798**	4,588,537
Total assets less current liabilities		**3,272,916**	4,961,232
Capital and reserves			
Share capital	14	**7,057,822**	6,870,906
Share premium	15	**11,025**	11,025
Capital redemption reserve	15	**575,000**	575,000
Own shares held by Employee Benefit Trust	15	**(299,604)**	(299,604)
Profit and loss account	15	**(4,071,327)**	(2,196,095)
Equity shareholders' funds	16	**3,272,916**	4,961,232

The financial statements were approved by the Board on 28 March 2006 and signed on its behalf by

Professor G Musgrave
Executive Chairman

Notes 1 to 22 form part of these financial statements.

CORAC

COMPANY BALANCE SHEET

at 31 December 2005

	Note	2005 £	2004 £
Fixed assets			
Tangible assets	8	**273,118**	372,695
Investments	9	**-**	-
		273,118	372,695
Current assets			
Stock and work in progress	10	**45,571**	50,000
Debtors	11	**555,728**	849,840
Cash at bank and in hand	12	**3,460,665**	4,082,915
		4,061,964	4,982,755
Creditors			
Amounts falling due within one year	13	**(1,067,462)**	(399,514)
Net current assets		**2,994,502**	4,583,241
Total assets less current liabilities		**3,267,620**	4,955,936
Capital and reserves			
Share capital	14	**7,057,822**	6,870,906
Share premium	15	**11,025**	11,025
Capital redemption reserve	15	**575,000**	575,000
Own shares held by Employee Benefit Trust	15	**(299,604)**	(299,604)
Profit and loss account	15	**(4,076,623)**	(2,201,391)
Equity shareholders' funds		**3,267,620**	4,955,936

The financial statements were approved by the Board on 28 March 2006 and signed on its behalf by

Professor G Musgrave
Executive Chairman

Notes 1 to 22 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2005

	Note	£	2005 £	£	2004 £
Net cash outflow from operating activities	17		**(1,472,931)**		(1,851,049)
Returns on investment and servicing of finance					
Interest received		**182,128**		215,547	
Net cash inflow from returns on investment and servicing of finance			**182,128**		215,547
Taxation			**494,715**		426,746
Capital expenditure					
Purchase of tangible fixed assets		**(13,078)**		(71,715)	
Sale of assets		**-**		364	
Net cash outflow from capital expenditure			**(13,078)**		(71,351)
Net cash outflow before use of liquid resources and financing			**(809,166)**		(1,280,107)
Management of liquid resources					
Cash transferred from long-term deposits			**633,437**		1,282,816
Financing					
New share capital subscribed	14	**186,916**		19,050	
Net cash inflow from financing			**186,916**		19,050
Increase in cash in the year	18		**11,187**		21,759

Notes 1 to 22 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

1 **Accounting policies**

The accounts have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

The principal accounting policies of the Group are set out below. The policies have remained unchanged from the previous year.

Basis of consolidation

The Group accounts consolidate the accounts of Corac Group plc and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired are consolidated for the periods from the date on which control passed. Acquisitions are accounted for under the acquisition method with goodwill, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, being capitalised and amortised on a straight line basis over its estimated useful economic life.

As a matter of accounting policy, goodwill first accounted for in accounting periods ending before 23 December 1998, the implementation date of FRS 10, was eliminated from the financial statements by immediate write off on acquisition against reserves. Such goodwill will be charged or credited to the profit and loss account in the event of the subsequent disposal of the business to which it relates.

Basis of preparation

The Group incurred a loss during the year ended 31 December 2005 and further losses are being incurred in the current financial period as the development of the compressor range and the downhole compressor and the high pressure dry gas seals continues.

The accounts have been prepared on a going concern basis which assumes that the Group will continue in operational existence for the foreseeable future.

The directors are confident that sufficient funds have been raised for the next development stage and to provide additional working capital. Therefore they believe it is appropriate for the accounts to be prepared on a going concern basis.

Turnover

Turnover on contracts is recognised using the percentage-of-completion method. Under this method revenues recorded represent the aggregate of costs incurred during the year and a portion of estimated profit on individual contracts based on the relationship of costs incurred to total estimated costs for each contract. Revisions in estimates are reflected in the accounting period when the revision becomes known. Anticipated losses on contracts are charged to income in their entirety when the losses become evident.

Turnover from engineering services is recognised over the period services are provided and turnover from up front licence fees is taken to income on commencement of the licence. Turnover from research and development services for third parties, including cost recharges, is recognised over the period such services are provided. All amounts exclude Value Added Tax.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overhead expenses. Net realisable value is based on the estimated selling price less the estimated cost of disposal.

Taxation

Corporation tax recoverable in respect of research and development 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 research and development expenditure is included in tax losses carried forward. Corporation tax payable is provided on taxable profits at the current rate. Deferred taxation is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 Accounting policies (continued)

Fixed assets and depreciation
Fixed assets are stated at cost, net of depreciation. Depreciation is provided on the cost of fixed assets at rates calculated to write off each asset on a straight-line basis over its estimated useful life, as follows:

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

Short leasehold improvements are amortised over the life of the lease.

Research and development
Research and development expenditure is written off in the year in which it is incurred.

Leases
Rentals under operating leases are charged on a straight-line basis over the lease term.

Pensions
The Group operates one money purchase pension scheme and a group stakeholder pension scheme. In addition, the Group contributes to the personal pension plan of one of its directors. The pension charge represents the amounts payable by the Group to these funds in the year.

Patent fees
Patent costs are written off in the year in which they are incurred.

Short term cash deposits
In accordance with FRS 1 (revised), short term cash deposits are included on the Balance Sheet within cash at bank and in hand. These deposits do not constitute cash for the purposes of the Cash Flow Statement and have been disclosed separately in note 12 to these accounts. These amounts are classified as liquid resources.

Government grants
Government grants of a revenue nature are credited to the profit and loss account in the same period as the related expenditure.

Investments
Investments are included at cost less amounts written off.

Interest receivable
Interest receivable represents interest earned on short term cash deposits.

Own shares held by Employee Benefit Trust
As required by UITF Abstract 38 "Accounting for ESOP trusts" the consideration paid for shares held by the Company's Employee Benefit Trust is deducted in arriving at shareholders' funds.

2 **Turnover**
Turnover is attributable to development projects and licence fees.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Operating loss

Operating loss is stated after charging:			2005 £	2004 £
Auditors' remuneration	- Grant Thornton	- audit services	**20,594**	20,040
		- tax compliance services (non-audit)	**6,704**	5,591
Depreciation of tangible fixed assets			**112,655**	121,071
Loss on disposal of fixed assets			**-**	488
Staff costs				
- salaries and wages			**1,332,527**	1,193,348
- social security costs			**148,742**	140,381
Operating leases				
- rent			**150,032**	149,970

The average number of employees, including directors, employed by the Group during the period was 28 (2004: 28). These are split between the following departments: administration: 7 (2004: 7) and engineering: 21 (2004: 21).

Pension costs

The Group operates 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 £80,278 (2004: £76,847). In addition, payments of £8,455 (2004: £8,170) were made to the personal pension plan of a director.

Four directors (2004: four) accrued benefits under the group schemes during the year and one via contribution to his personal pension plan.

There were outstanding contributions of £50 (2004: £584) 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.

4 Directors' remuneration

	2005 £	2004 £
Directors' emoluments were as follows:		
Remuneration	**409,362**	406,563
Gains made on the exercise of share options	**322,405**	-
Fees for services as director	**140,460**	137,086
Pension contributions	**28,562**	27,950
	900,789	571,599

During the year one director (2004: None) not including the highest paid director, exercised share options.

	2005 £	2004 £
Emoluments of highest paid director:		
Remuneration	**120,783**	116,699
Pension contributions	**8,455**	8,170
	129,238	124,869

5 Net interest

	2005 £	2004 £
Bank interest receivable	**182,128**	215,547

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 Taxation

Current taxation

	2005	2004
	£	£
Corporation tax - research and development credit - current year	**111,703**	155,061
- prior year	**4,632**	335,022
	116,335	490,083

	2005	2004
	£	£
The tax credit for the period is lower than the standard rate of corporation tax in the UK of 30% (2004 - 30%). The differences are explained as follows:		
Loss on ordinary activities before taxation	**(1,991,567)**	(1,777,337)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004 - 30%)	**(597,470)**	(533,201)
Effect of:		
Expenses not deductible for tax purposes	**1,445**	2,081
Depreciation in excess of capital allowances	**19,427**	14,772
Research and development enhanced relief	**(82,481)**	(105,290)
Research and development difference in tax rate	**97,740**	135,678
Trading losses carried forward	**449,636**	330,899
Adjustment in respect of prior periods	**(4,632)**	(335,022)
Current tax credit for the period	**(116,335)**	(490,083)

Deferred taxation

	2005	2004
	£	£
Accelerated capital allowances	**220,588**	314,761
Losses	**(220,588)**	(314,761)
	-	-

Subject to agreement by HMRC, Corac Group plc has approximately £6,900,000 (2004 - £6,000,000) of unrelieved tax losses. A deferred tax asset has not been recognised due to lack of certainty surrounding future utilisation of these losses.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 **Loss per share**

The calculation of basic loss per share for the year ended 31 December 2005 is based upon a loss after tax of £1,875,232 (2004: £1,287,254), and a weighted average number of shares of 68,905,374 (2004: 68,683,950). Diluted loss per share is not calculated since the conversion to ordinary shares of share options would be anti-dilutive.

8 **Tangible fixed assets**

	Short leasehold improvements	**Computer equipment**	**Office furniture and fittings**	**Plant and machinery**	**Total**
	£	**£**	**£**	**£**	**£**
Group and Company					
Cost					
At 1 January 2005	189,827	248,686	23,791	307,533	769,837
Additions	-	12,019	1,059	-	13,078
At 31 December 2005	**189,827**	**260,705**	**24,850**	**307,533**	**782,915**
Depreciation					
At 1 January 2005	59,039	190,037	14,540	133,526	397,142
Charge for year	22,098	31,589	4,627	54,341	112,655
At 31 December 2005	**81,137**	**221,626**	**19,167**	**187,867**	**509,797**
Net book value					
At 31 December 2005	**108,690**	**39,079**	**5,683**	**119,666**	**273,118**
At 31 December 2004	130,788	58,649	9,251	174,007	372,695

9 **Investments**

Company

Shares in wholly-owned subsidiary undertakings, both registered in England and Wales.

	2005	2004
	£	£
Cost		
Compact Radial Compressors Limited	**10,000**	10,000
Corac Engineering Limited	**1**	1
	10,001	10,001
Less amounts written off	**(10,001)**	(10,001)
At 31 December 2005	**-**	-

Both Compact Radial Compressors Limited and Corac Engineering Limited were dormant throughout 2004 and 2005.

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CORAC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 Stock and work in progress

	2005	2004
	£	£
Work in progress	**45,571**	50,000

11 Debtors

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Trade debtors	**186,249**	13,701	**186,249**	13,701
Other debtors	**239,640**	316,855	**239,640**	316,855
Other taxes and social security	**18,136**	29,201	**18,136**	29,201
Taxation recoverable	**111,703**	490,083	**111,703**	490,083
	555,728	849,840	**555,728**	849,840

Included within other debtors are recoverable property improvement costs of £125,000 (2004: £150,000) which are due over the next five years.

12 Cash at bank and in hand

Included in cash at bank and in hand are short term deposits amounting to £3,411,331 (2004: £4,044,768).

13 Creditors

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Amounts falling due within one year				
Trade creditors	**71,286**	124,727	**71,286**	124,727
Other taxes and social security	**43,816**	47,282	**43,816**	47,282
Deferred revenue	**709,223**	72,180	**709,223**	72,180
Other creditors	**1,516**	2,522	**1,511**	2,517
Amounts owed to subsidiary undertakings	**-**	-	**5,301**	5,301
Accruals	**236,325**	147,507	**236,325**	147,507
	1,062,166	394,218	**1,067,462**	399,514

14 Share capital

	2005	2004
	£	£
Authorised		
200,000,000 ordinary shares of 10p each	**20,000,000**	20,000,000
Allotted, called up and fully paid		
70,578,220 (2004: 68,709,061) ordinary shares of 10 pence each	**7,057,822**	6,870,906

	Number	£
At 1 January 2005	**68,709,061**	6,870,906
Issued in respect of share option exercise	**1,869,159**	186,916
At 31 December 2005	**70,578,220**	7,057,822

CORAC

14 Share capital (continued)

Shares

In 2005 the Company issued 1,869,159 ordinary shares of 10 pence for cash at 10 pence each on the exercise of share options.

After the year end (on 13 January 2006), the Company issued 3,528,900 ordinary shares of 10 pence each for cash at 32 pence per share by means of a placing which, net of costs, raised approximately £1.1million. As a result of this issue the total issued share capital of the Company at the date of this report was 74,107,120 ordinary shares of 10 pence each.

Options

The Company has two unapproved share option schemes and an Enterprise Management Incentive (EMI) scheme. Share options have been granted by both the Company and the Corac EBT (note 15) under the rules of these schemes. The share options granted by the EBT have no dilutive effect on the Company's share capital.

	Unapproved schemes		EMI scheme		Total		
	Company	EBT	Company	EBT	Company	EBT	Total
Number of options at 1 January 2005	3,792,237	285,000	2,906,122	976,000	6,698,359	1,261,000	7,959,359
Exercised during the year	(1,869,159)	-	-	-	(1,869,159)	-	(1,869,159)
Lapsed during the year	(78,000)	(45,000)	(876,000)	(449,000)	(954,000)	(494,000)	(1,448,000)
Issued during the year	-	-	-	85,000	-	85,000	85,000
At 31 December 2005	1,845,078	240,000	2,030,122	612,000	3,875,200	852,000	4,727,200

At 31 December 2005 options over unissued ordinary 10 pence shares were held as follows:

Date of grant	Number	Option price per share pence	Option periods ending
2000	384,800	11.5385	2007
2000	910,000	38.4616	2007
2001	1,232,400	38.4616	2006 - 2009
2001	130,000	38.4616	2007
2001	28,000	85.5	2007 - 2009
2001	5,000	86.5	2007 - 2009
2002	100,000	55.3	2008 - 2009
2002	500,000	32	2008 - 2010
2002	40,000	40	2008 - 2010
2002	25,000	43.5	2008 - 2010
2002	20,000	23	2008 - 2010
2002	*277,000	22	2008 - 2010
2003	*325,000	34	2009 - 2011
2004	142,858	28	2011
2004	357,142	28	2010 - 2012
2004	*165,000	33	2010 - 2012
2005	*85,000	31.25	2011 - 2013
	4,727,200		

*These options were issued by the EBT.

The market price of the Company's shares at 31 December 2005 was 31.75 pence and the range during the year was between 25 pence and 49 pence.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 Reserves

	Capital redemption reserve	Own shares held by Employee Benefit Trust	Share premium	Profit and loss account	Total
Group					
At 1 January 2005	575,000	(299,604)	11,025	(2,196,095)	(1,909,674)
Loss for the year	-	-	-	(1,875,232)	(1,875,232)
At 31 December 2005	575,000	(299,604)	11,025	(4,071,327)	(3,784,906)
Company					
At 1 January 2005	575,000	(299,604)	11,025	(2,201,391)	(1,914,970)
Loss for the year	-	-	-	(1,875,232)	(1,875,232)
At 31 December 2005	575,000	(299,604)	11,025	(4,076,623)	(3,790,202)

The Company has taken advantage of section 230 of the Companies Act 1985 and not prepared a separate profit and loss account for the Company. The Group's loss for the financial year included £1,875,232 (2004: £1,211,633) attributable to the Company.

Group and company

Own shares held by Employee Benefit Trust	**£**
At 1 January 2005 and 31 December 2005	299,604

On 8 November 2002 the Company established the Corac EBT, an employee benefit trust (EBT), as an employees' share scheme for the benefit of and as an incentive for the employees of the Company. The Corac EBT is managed by an independent trustee.

At 31 December 2005 the Company had loaned £300,000 (2004: £300,000) to the Corac EBT. With this loan the Trustee had purchased 1,465,000 (2004:1,465,000) ordinary shares in Corac Group plc with a book cost of £299,604 (2004:£299,604) which had a market value at 31 December 2005 of £465,138 (2004:£483,450).

Options have been granted over 852,000 (2004: 1,261,000) of these shares to certain employees, 277,000 exercisable at 22 pence per share until 18 December 2010, 325,000 at 34 pence per share until 11 December 2011, 165,000 at 33 pence per share until 16 December 2012 and 85,000 at 31.25 pence per share until 29 December 2013. These options are subject to performance conditions.

Dividends on the shares owned by the EBT, the purchase of which was funded by an interest free loan to the EBT from Corac Group plc, are waived on the condition that the Trustee shall not be liable for any losses to the EBT as a result of the waiver.

16 Reconciliation of movement in Group shareholders' funds

	Group 2005 £	Group 2004 £
Shareholders' funds at 1 January 2005	**4,961,232**	6,229,436
Loss for the year	**(1,875,232)**	(1,287,254)
New shares issued	**186,916**	19,050
Net reduction to shareholders' funds	**(1,688,316)**	(1,268,204)
Shareholders' funds at 31 December 2005	**3,272,916**	4,961,232

17 Reconciliation of operating loss to net cash outflow from operating activities

	Group 2005 £	Group 2004 £
Operating loss	**(2,173,695)**	(1,992,884)
Loss on disposal of assets	**-**	488
Depreciation	**112,655**	121,071
Decrease in stock and work in progress	**4,429**	-
(Increase)/decrease in debtors	**(84,268)**	48,924
Increase /(decrease) in creditors	**667,948**	(28,648)
Net cash outflow from operating activities	**(1,472,931)**	(1,851,049)

18 Reconciliation of net cash flow to movement in net funds

	Group 2005 £	Group 2004 £
Increase in cash	**11,187**	21,759
Cash used to decrease liquid resources	**(633,437)**	(1,282,816)
Movement in net funds in the year	**(622,250)**	(1,261,057)
Net funds at 1 January 2005	**4,082,915**	5,343,972
Net funds at 31 December 2005	**3,460,665**	4,082,915

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 Analysis of changes in net funds

	As at 1 January 2005 £	Cash flow £	As at 31 December 2005 £
Cash in hand	280	(170)	110
Cash at bank	37,867	11,357	49,224
	38,147	11,187	49,334
Short term deposits	4,044,768	(633,437)	3,411,331
Net funds	4,082,915	(622,250)	3,460,665

20 Related party transactions

The following transactions took place between the directors and Corac Group plc during the year and are included, net of expenses, in directors emoluments:

- Fees of £23,448 (2004: £23,511) were invoiced by Greenwood Control Systems, a partnership of which Professor G Musgrave is a partner, in respect of director's services provided by Professor G Musgrave and certain expenses of which £132 was outstanding at the year end (2004: £Nil)

- Fees of £24,575 (2004: £24,275) were invoiced by Scheidegg Limited, a company of which Mr J H Gunn is a director, in respect of services provided by Mr J H Gunn and certain expenses of which £Nil was outstanding at the year end (2004: £Nil)

- Fees of £73,828 (2004: £71,186) were invoiced by GCI Consulting GmbH a company of which Mr G W Cromm is a director, in respect of services provided by Mr G W Cromm and certain expenses of which £Nil was outstanding at the year end (2004: £108).

21 Financial instruments

The Group has financed its operations by raising equity financing on the Alternative Investment Market and investing the proceeds on a short term basis as its development proceeds.

The Group's financial instruments comprise cash and short term deposits which are placed at fixed interest rates. The Group has various other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations that have not been included in the following disclosures.

The main risk arising from the Group's financial instruments is interest rate risk. The policy for managing this risk is regularly reviewed and agreed by the Board.

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

The Group is based in the United Kingdom and all of the Group's financial assets and liabilities are denominated in Sterling and there is consequently no exposure to exchange risk.

There is no material difference between the fair values and carrying values of the Group's financial instruments.

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

The amounts held on short term deposits can be seen in note 12.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 Financial commitments

	Group 2005 £	Group 2004 £
Annual commitments under operating leases are as follows:		
Group and Company		
Land and buildings		
Expiry date:		
- after five years	**150,000**	150,000

At 31 December 2005 the Group had no capital commitments (2004: £Nil).

Corac Group plc

(Incorporated and registered in England and Wales under number 3152034)

Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of the Company will be held at Numis Securities Limited, Cheapside House, 138 Cheapside, London EC2V 6LH at 16.00 hours on [ ] for the purpose of considering and, if thought fit, passing the following resolutions of which numbers 1-4 (inclusive) will be proposed as ordinary resolutions and numbers 5 to 8 will be proposed as special resolutions:

As ordinary business

1 To receive and approve the Directors' report and financial statements for the year ended 31 December 2005.

2 To re-appoint Grant Thornton UK LLP as auditors of the Company and to authorise the Directors of the Company to fix their remuneration.

3 To re-elect Professor G Musgrave as a Director who retires pursuant to Article 84 of the Company's Articles of Association.

4 To re-elect Mr JAM Grant as a Director who retires pursuant to Article 84 of the Company's Articles of Association.

As special business

To consider and, if thought fit, pass the following resolutions as special resolutions:

5 That the Directors be and are hereby generally empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94(2) of the Act) for cash as if Section 89(1) of the Act did not apply to any such allotments provided that such power shall be limited to:-

(i) the grant of options over up to 793,878 ordinary shares of 10p each pursuant to the Enterprise Management Incentives Option Scheme adopted by the Company; and

(ii) the issue and allotment of 3,700,000 ordinary shares of 10p each pursuant to the Enterprise Management Incentives Option Scheme adopted by the Company; and

(iii) the issue and allotment (otherwise than pursuant to the sub-paragraph (i) and (ii) above) of equity securities up to an aggregate nominal amount of £343,545;

provided that:-

(a) such power shall expire on the earlier of the conclusion of the next annual general meeting of the Company and the date falling 15 months after the date of the passing of this resolution whichever is the earlier, except that the Directors may, before the expiry of such power, make offers or agreements which would or might require securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired; and

(b) the authority given by this resolution shall be in substitution for any authority conferred upon the Directors pursuant to section 95 of the Act by special resolutions passed at an annual general meeting of the Company held on 13 May 2004 but shall be in addition and without prejudice to the authorities granted to the Directors by special resolutions 6 and 7 below:

6 That:

(i) the directors be and they are specifically and unconditionally authorised for the purposes of section 80 of the Act to exercise all powers of the Company to allot £780,000 in nominal amount of ordinary shares of 10p each in the capital of the Company in respect of any options which have been granted or are at any time hereafter granted under the Corac Group plc Share Option Scheme adopted on 4 December 1998;

(ii) the authority granted under paragraph (i) of this Resolution shall expire on the fifth anniversary of the date of the passing of this Resolution;

(iii) the directors be and they are empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) pursuant to the authority granted under paragraph (i) of this Resolution as if section 89(1) of the Act did not apply to such allotment.

7 That:

(i) the directors be and they are specifically and unconditionally authorised for the purposes of section 80 of the Act to exercise all powers of the Company to allot £298,836 in nominal amount of ordinary shares of 10p each in the capital of the Company in respect of options which may be granted by the board of directors of the Company pursuant to the rules of the Corac Group plc 2003 Share Option Scheme;

(ii) the authority granted under paragraph (i) of this Resolution shall expire on the fifth anniversary of the date of the passing of this Resolution;

(iii) the directors be and they are empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) pursuant to the authority granted under paragraph (i) of this Resolution as if section 89(1) of the Act did not apply to such allotment.

8 That the Company be generally and hereby is authorised for the purpose of Section 166 of the Act to make market purchases (as defined in section 163 of the Act) of ordinary shares of 10p each in the capital of the Company ("Ordinary Shares") provided that:

i) the maximum number of Ordinary Shares which may be purchased is 6,870,906 Ordinary Shares, equivalent to approximately 10% of the issued share capital of the Company;

ii) the minimum price which may be paid for each Ordinary Share is 10p;

iii) the maximum price which may be paid for each Ordinary Share is an amount equal to 110% of the average of the middle market quotations of the Company's Ordinary Shares taken from and calculated by reference to the AIM appendix to the London Stock Exchange daily official list for the five business days immediately preceding the day on which such share is purchased;

iv) this authority shall expire on the earlier of 15 months from the date of the passing of this Resolution and the conclusion of the Company's next annual general meeting (except in relation to the purchase of Ordinary Shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry), unless such authority is renewed prior to such time.

Registered office:
Brunel Science Park
Kingston Lane
Uxbridge
Middlesex
UB8 3PQ

On behalf of the Board

T E Ivings
Company Secretary
[ ]

Notes:

1. Holders of ordinary shares may each attend and vote at the meeting. Every holder of ordinary shares entitled to vote at the Meeting who is present at the Meeting shall on a show of hands have one vote and, on a poll, every holder of ordinary shares entitled to vote at the Meeting who is present in person or by proxy shall have one vote for every ordinary share of which he is the holder

2. A member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member of the Company. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting or any adjournment thereof in person.

3. A form of proxy, to be valid, must be signed and lodged at Capita Registrars, The Registry, PO Box 25, Beckenham, Kent, BR3 4BR, not later than 48 hours before the time appointed for the meeting or for any adjournment thereof, together with, if appropriate, the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power of authority.

4. In the case of joint holders the signature of only one of the joint holders is required on the form of proxy but the vote of the first named on the Register of members of the Company will be accepted to the exclusion of the other joint holders.

Corac Group plc

PROXY FOR USE AT 2005 ANNUAL GENERAL MEETING

Please insert full name and address *I/We* ……………………………………..……………………………………………………………………………….
(Please use block letters)
of ………………………………………………………….…………………..……………………………………….

being member(s) of the above-named Company, hereby appoint the Chairman of the Annual General Meeting or (see note 1)

…….
as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at [ ] hours on [ ] as previous page and at any adjournment thereof.

Please indicate how you wish your proxy to vote with an 'X' in the appropriate box opposite the resolution below. If no indication is given, your proxy will be deemed to have the authority to vote or abstain as he/she thinks fit in relation to any matter arising at the Meeting.

ORDINARY BUSINESS	FOR	AGAINST
1. To approve the Directors' report and financial statements of the Company for the year ended 31 December 2004	………………..	………………..
2. To re-appoint Grant Thornton UK LLP as auditors and to authorise the Directors to fix their remuneration	………………..	………………..
3. To re-elect Profesor G Musgrave as a Director of the Company	…………………	…………………
4. To re-elect Mr JAM Grant as a Director of the Company	…………………	…………………
SPECIAL BUSINESS	**FOR**	**AGAINST**
Special Resolutions		
5. That the Directors be and are hereby generally empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94(2) of the Act) for cash as if Section 89(1) of the Act did not apply to any such allotments provided that such power shall be subject to the provisions outlined in the Notice of Meeting.	………………..	………………..
6. That the directors be and they are specifically and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act") to allot £780,000 of ordinary shares in respect of the Corac Group plc Share Option Scheme.	………………..	………………..
7. That the directors be and they are specifically and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act") to allot £298,836 of ordinary shares in respect of the Corac Group plc 2003 Share Option Scheme.	………………..	………………..
8. That the Company be generally and hereby is authorised for the purpose of Section 166 of the Companies Act 1985 ("the Act") to make market purchases (as defined in section 163 of the Act) of ordinary shares of 10p each in the capital of the Company ("Ordinary Shares") subject to the provisions outlined in the Notice of Meeting.	………………..	………………..

Signature ………………………………………. Dated this ……………. day of ………………………………………. 2005

Joint Holders (if any) (see note 3)

Name ………………………………………….. Name …………………………………………..

Name ………………………………………….. Name …………………………………………..

Notes:

1. You are entitled to appoint a proxy of your own choice, who need not be a member of the Company. If you wish to appoint someone other than the Chairman of the Meeting, delete the words "the Chairman of the Annual Meeting or" and initial the alteration and print the name and address of the proxy in the space provided.
2. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney or if the appointor is a corporation either under its common seal or the hand of an officer or attorney so authorised. To be effective this form of proxy (completed in accordance with the instructions hereon) and any power of attorney under which it is executed (or a duly certified copy of such power of attorney) must be returned to Capita Registrars, The Registry, PO Box 25, Beckenham, Kent, BR3 4BR to arrive not less than 48 hours before the time appointed for holding the meeting.
3. In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority will be determined by the order in which the names stand in the Register of Members.
4. Any alteration made to this form should be initialled.
5. Return of the form of proxy will not preclude you from attending and voting at the meeting, and at any adjournment thereof, should you subsequently decide to do so.

6. The Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those holders of Ordinary Shares listed in the register of members of the Company as at 16.30 hours on 14 April 2005 ("the specified time") shall be entitled to attend and vote at the aforesaid Meeting in respect of the number of existing Ordinary Shares registered in their name at that time. Changes to the entries on the relevant register of securities after the specified time shall be disregarded in determining the rights of any person to attend or vote at the Meeting. If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes that may cast) at the adjourned Meeting. If however the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned Meeting, or if the Company gives notice of the adjourned Meeting at the time specified in that notice.