CORAC GROUP plc

FINANCIAL STATEMENTS

31 December 2007

Company number: 3152034

CORAC

CONTENTS

YEAR ENDED 31 DECEMBER 2007

The Report of the Directors on pages 6 to 7 and the Remuneration report on pages 11 to 12 have each been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the responsibility of the Directors’ for these reports is owed solely to Corac Group PLC.

The Directors submit to the members their Report and Accounts of the Company for the year ended 31 December 2007. Pages 3 to 12, including the Board of directors, Executive Chairman’s statement, Directors report, Corporate governance report and Remuneration report form part of the Report of the Directors.

COMPANY INFORMATION

COMPANY NUMBER	3152034	
DIRECTORS	Professor G Musgrave	Executive Chairman
	G W Cromm	Industrial Air Director
	J H Gunn	Non-executive Director
	T E Ivings	Finance Director
	J O Reed	Engineering Director
	A J Wood	Non-executive Director
SECRETARY	T E Ivings	
REGISTERED OFFICE	Brunel Science Park Kingston Lane Uxbridge Middlesex UB8 3PQ	
NOMINATED ADVISER and BROKER	Cenkos Securities plc 6-8 Tokenhouse Yard London EC2R 7AS	
AUDITOR	Grant Thornton UK LLP 1 Westminster Way Oxford OX2 0PZ	
SOLICITORS	Charles Russell 8-10 New Fetter Lane London EC4A 1RS	
BANKERS	National Westminster Bank plc 1 Penn Road Beaconsfield Buckinghamshire HP9 2PV	
PATENT AGENTS	A Messulam & Co 43-45 High Street Bushey Heath Hertfordshire WD2 1EE	
REGISTRARS	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TH	
FINANCIAL PR	Buchanan Communications 45 Moorfields London EC2Y 9AE	

BOARD OF DIRECTORS

Professor Gerry Musgrave, Executive Chairman, aged 65, BTech, MSc, FIEE, MIEEE, 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 65, 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 Company on an international sales front and with our marketing strategy for our industrial air products. He joined the Board in January 2004.

John Gunn, Non-executive Director, aged 66, BA, LLD
Mr Gunn is a director of a number of quoted and unquoted companies including Hydrodec plc, Rotala 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 40, FCCA
Mr Ivings has spent the last 12 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.

Julian Reed, Engineering Director, aged 45, 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 Company in September 2000 and was appointed to the Board in November 2001.

Alan Wood CBE, Non-Executive Director, aged 60, MBA, FIMechE, RAE
Mr Wood has recently been appointed Chairman of Siemens in the UK, having been Chief Executive since 1998. During his 25 years with Siemens, he acquired a justified reputation for organising efficient and effective manufacturing processes for technology products, and this expertise will be invaluable to Corac in the move to commercialisation. Mr Wood is also active within the CBI, is Chairman of the German-British Chamber of Industry and Commerce, is President of the EEF, the manufacturers' organisation, and is a director of Ceres Power plc. He was appointed to the Board in April 2006.

EXECUTIVE CHAIRMAN'S STATEMENT

Introduction

I am pleased to report further solid progress on all fronts. The development and operation of our unique Downhole Gas Compressor ("DGC") moves forward at a pace as we approach procurement, which is due to start in the first quarter of 2008. Our industrial air products are gaining traction in the market, with pre-production units being supplied to our business partners and one of these units is being used in a final end user process industry. Positive progress in these key elements of the business culminated in an oversubscribed institutional placing in December 2007.

Financial Review

The financial results for the year ended 31 December 2007 show a loss after tax of £1.7 million (2006: £1.4 million). The increased loss is largely caused by the acceleration in the development of the DGC and is in line with management expectations. Turnover for the year under review was £1.4 million (2006: £1.6 million) and the Company also received £0.12 million (2006: £0.024 million) of grant income. At 31 December 2007, the number of ordinary shares in issue was 86,254,059 after a placing in December 2007 of 11,222,160 new ordinary shares at 42 pence per ordinary share, raising approximately £4.4 million (net of expenses). Cash balances at 31 December 2007 were £5.25 million.

In line with our strategic plan to develop and commercialise the DGC technology, and following comprehensive flow-loop testing of this technology, the Board considered it appropriate to raise further equity capital to strengthen the balance sheet and, among other things:

- facilitate acceleration of the development of the DGC technology;
- finance a separate final assembly and test facility when required;
- provide additional working capital;
- enable the Board to strengthen the management team;
- further protect the Company's intellectual property rights by extending its patent portfolio.

The result of raising further equity and the concomitant reduction in our risk profile has placed us in a stronger position in our negotiations with potential customers for our industrial air turbo boosting compressors as well as expanding our market presence in this sector. It is particularly pleasing that we received such strong support for the placing from existing and new institutional shareholders in the current market environment.

Downhole Gas Compression

We have undertaken exhaustive tests at Spadeadam, Cumbria throughout the year, subjecting the DGC unit to extreme conditions of high temperature, pressure and water ingress. The Cumbrian test rig, commissioned in 2006, replicates the environment of the downhole well and is able to accommodate our five compressors in a string. Progressive testing has provided valuable results with design modifications being made in line with a planned testing programme. Simulating typical downhole conditions of high temperature and high pressure, the modules have been operated at 55kW and 45,000 rpm. In October 2007, our JIP partners Conoco Phillips (UK) Ltd, Eni SpA and Repsol YPF, witnessed the DGC module running at constant speeds as well as repeated starting and stopping. The tests were representative of requirements for our field trial units. More recently, we have determined the capabilities required of the machine in this environment and rigorous testing procedures continue to minimise the risks of potential failure.

Progression of the DGC prototype through flow loop testing has been an important and significant milestone for the project, demonstrating performance, capability and progress in 2007, as well as reducing the risks associated with deployment in gas producing fields.

We are heavily engaged with two of our JIP partners in planning the field trials that will take place in Argentina and Italy later this year. Both partners are spending considerable resource in building up their teams and performing analysis with us to ensure the right specification for deployment in these wells and they have also sought to ensure that they have the appropriate budgets to acquire the machines and deploy them. As the units will be operating in producing wells, our partners have to be confident as installation will initially interrupt the gas flow. When the units are deployed in a gas well, it is expected that the artificial lift of gas could improve flow rates by 30% to 40%.

EXECUTIVE CHAIRMAN'S STATEMENT (Continued)

As there are similarities between DGC and the deployment of Electric Submersible Pumps (ESPs), a major oil service company has been working with us to assist our JIP partners in understanding the engineering requirements. As the cost of energy continues to rise, it is becoming increasingly attractive to deploy our unique patented DGC for artificially lifting stranded gas from gas wells. A leading industrialist recently commented that the world has 5,000 trillion cubic feet of proven stranded gas reserves seeking markets and customers. The DGC’s potential, therefore, to make a major contribution to the world energy market is beginning to be recognised by industry and governments internationally.

Industrial Air

Our two business partners in the industrial air sector, Leobersdorfer Maschinenfabrik (“LMF”) and Fu Sheng, have been satisfied with our demonstrators supplied in 2007 and we are now supplying pre-production units, one of which is being used in a major international soft drinks company’s facility. In both applications our ‘turbo boosting’ improves our partners’ traditional compressors whilst delivering much more efficient compressed air. Efficiency improvement from our hybrid machines is approximately 20% compared to the very best dry screw compressor produced today. Such an improvement from a compressor delivering between 100 kW and 300 kW working 24/7 represents a considerable saving in electricity costs as well as being less damaging to the environment.

We are now engaged with LMF and Fu Sheng to increase the scope of our machines, as well as work alongside them to achieve a reduction in the cost of construction. Further cost reduction through volume manufacturing together with operating efficiency improvement and low maintenance characteristics makes our industrial air unit extremely cost effective.

We have researched and analysed suitable locations for final assembly and test and are investigating local area redevelopment grants to subsidise our development. The process of securing a facility will start when orders reach an appropriate threshold that cannot be realised via our existing facility.

The future

Our Industrial Air products are opening up market opportunities as our pre-production units are being used in end user process industries. Prospects for our Downhole Gas Compressor are exciting: as energy prices continue to escalate and gas resources diminish, the economic need and strategic value for the global energy market to lift stranded gas from depleting wells is considerable. With deployment of our novel technology scheduled for 2008, we look forward to the year ahead with confidence and enthusiasm.

PROFESSOR G MUSGRAVE
EXECUTIVE CHAIRMAN
18 February 2008

DIRECTORS' REPORT

The directors present their annual report and the financial statements for the year ended 31 December 2007.

Principal activity and review of business
The Company's principal activity during the year was the continued innovation, research, development and commercialisation of oil-free industrial air compressors, dynamic gas seals and downhole gas compressors. Following the sale of the gas seals IPR during the year, this part of the business is now expected to simply generate royalty income.

The directors closely monitor the progress of the research programmes within each of these product sectors, and during this phase of the Company's development consider the most important indicator of the success of the business to be the achievement of technical targets within planned timescales. The main financial indicator is the availability of cash to fund the business through to profitable commercialisation and positive cash flow. Certain areas of technical research have been protracted resulting in some project milestones not being met. The directors are continuing to focus their attention on minimising the effects of this on the business. Expenditure and cash flow have been tightly controlled and remain on target, and the availability of cash was greatly improved by the funds raised by an equity placing during the year.

The financial risks of the Company are discussed in note 19.

A review of the business is set out in the Executive Chairman's statement.

The Company made a loss after taxation of £1,732,552 in the year ended 31 December 2007 (2006: £1,373,027). The directors do not recommend the payment of a dividend and propose that the loss be charged to reserves.

Research and development expenditure in the year was £1,549,047 (2006: £1,117,287).

Creditor payment policy
The Company 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 Company is satisfied that the supplier has provided goods and services in accordance with the order.

The Company's creditor payment period is 29 days (2006 - 27 days).

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

International Financial Reporting Standards
The Directors have claimed exemption from producing group accounts under Section 229 of the Companies Act 1985. As a result, and following guidance from the Alternative Investment Market, the Company is not required to adopt International Financial Reporting Standards at this time.

Directors and their interests
The directors during the year were as follows:

Professor G Musgrave
G W Cromm
J H Gunn
T E Ivings
J O Reed
A J Wood

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

DIRECTORS' REPORT (Continued)

Issue of shares
During the year, the Company placed 11,222,160 ordinary 10p shares at a price of 42p representing 13.0% of the enlarged issued share capital.

Also during the year, the Company issued a total of 602,199 ordinary 10p shares at an average price of 20.9p per share as a result of the exercise of share options.

All new shares issued in the year will rank pari passu with all existing ordinary shares.

Substantial shareholdings

Beneficial owners

As at 31 December 2007, the following entities were beneficial owners of more than 3% of the company's share capital :-

	Number	%
Gartmore (various funds)	7,657,776	8.88%
Fidelity (various funds)	5,410,861	6.27%
Calyon SA	3,664,586	4.25%
Strathclyde Pension Fund	3,167,101	3.67%
Majedie Investment Trust	3,150,000	3.65%

Directors of the company had an aggregate beneficial interest in 2,907,030 shares (3.37%).

The company's Employee Benefit Trust had a beneficial interest in 1,372,669 shares (1.59%).

Registered holders

As at 31 December 2007, the following entity was the non-beneficial registered holder of more than 10% of the company's share capital, included in which are various of the beneficial holdings detailed above :-

	Number	%
HSBC Global Custody Nominee accounts	10,767,974	12.48%

In addition, various entities were each the non-beneficial registered holder and/or fund manager of between 3% and 10% of the company's share capital, mostly on behalf of the beneficial owners listed above. These include AXA Framlington, Bank of New York, Credit Agricole, Mellon Nominees (UK), Nortrust Nominees, Roy Nominees, Smith and Williamson Nominees and WB Nominees.

Related parties
These have been disclosed within note 18 to the accounts.

Independent auditor
Grant Thornton UK LLP offers itself for reappointment as auditor in accordance with Section 385 of the Companies Act 1985.

This report was approved on behalf of the Board on 18 February 2008 and signed on its behalf

T E Ivings
Company Secretary

CORPORATE GOVERNANCE REPORT

Principles of good corporate governance

The Company 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 Company grows, it will regularly review the extent of its corporate governance practices and procedures. At its current stage of development, the Company 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 four executive directors, one full time and three part time, and two 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 Company 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 Company 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 Company 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 H Gunn
- A J Wood

Executive directors
- Professor G Musgrave (Executive Chairman)
- G W Cromm
- T E Ivings
- J O Reed

Relationship with shareholders

The Board attaches a high importance to maintaining good relationships with all shareholders. The Company holds regular meetings with institutional shareholders to keep them updated on the Company'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 Company gives regular briefings to a number of analysts who cover the technology sector and actively encourages more analysts to follow the Company.

CORPORATE GOVERNANCE REPORT (Continued)

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 have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to 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:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditor is unaware; and

- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the website and accordingly the auditor accepts no responsibility for the information published. Information published on the website is accessible in many countries and legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Audit Committee

The Audit Committee comprises two non-executive directors and is currently chaired by Mr J H Gunn. 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 the auditor attending by invitation. The Committee reviews the independence and objectivity of the auditor each year. The Committee overviews the adequacy of the 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 Company does not justify a dedicated internal audit function. This position will be reviewed as the Company'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 Company 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.

CORPORATE GOVERNANCE REPORT (Continued)

Internal control and risk management
The Board has overall responsibility for ensuring that the Company 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 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 Company's technology and the financial performance of the Company in the context of the 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.
- a system to ensure the security of the Company's intellectual property.

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

ON BEHALF OF THE BOARD

J H Gunn
Director

REMUNERATION REPORT

Remuneration Committee
The Remuneration Committee is made up of two non-executive directors and is currently chaired by Mr A J Wood. 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 share 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 2007 £	Total emoluments 2006 £
Executive					
Professor G Musgrave	114,885	899	6,432	122,216	118,189
G W Cromm	105,282	1,797	2,588	109,667	108,800
T E Ivings	66,000	-	4,410	70,410	56,509
J O Reed	130,596	-	9,142	139,738	131,823
S D Oakley (resigned 21 April 2006)	-	-	-	-	141,799
Non-executive					
J H Gunn	25,875	-	-	25,875	25,121
J A M Grant (resigned 21 December 2006)	-	-	-	-	25,121
A J Wood (appointed 1 April 2006)	23,524	-	-	23,524	17,213
Totals	466,162	2,696	22,572	491,430	624,575

The aggregate gain made by directors on two exercises of share options was £ 113,800 (2006: £54,839). The market prices at the dates of exercise were 37.5p and 54.5p.

REMUNERATION REPORT (Continued)

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 2007 and 1 January 2007 were:

	As at 1 January 2007	Exercised in year	Lapsed in year	Issued in year	As at 31 December 2007	Price (p)	Lapse date
Professor G Musgrave	384,800	(384,800)	-	-	-	11.5385	-
Professor G Musgrave	1,083,334	-	-	-	1,083,334	38.4616	7 December 2010
Professor G Musgrave	190,000	-	-	-	190,000	37.5	27 July 2013
Professor G Musgrave	-	-	-	570,000	570,000	39.0	2 April 2015
Professor G Musgrave	-	-	-	350,000	350,000	51.5	27 December 2014
G W Cromm	357,142	-	(357,142)	-	-	28	-
G W Cromm	142,858	-	(142,858)	-	-	28	-
G W Cromm	50,000	-	-	-	50,000	37.5	27 July 2013
T E Ivings	217,013	-	-	-	217,013	46.08	6 April 2014
T E Ivings	82,987	-	-	-	82,987	46.08	6 April 2013
T E Ivings	50,000	-	-	-	50,000	37.5	27 July 2013
T E Ivings	-	-	-	240,000	240,000	39.0	2 April 2014
J O Reed	130,000	-	-	-	130,000	38.4616	15 October 2009
J O Reed	173,334	(86,666)	-	-	86,668	38.4616	29 October 2010
J O Reed	100,000	-	(100,000)	-	-	55.3	-
J O Reed	100,000	-	-	-	100,000	22	19 December 2009
J O Reed	110,000	-	-		110,000	37.5	27 July 2013
J O Reed	-	-	-	285,000	285,000	39.0	2 April 2015
J O Reed	-	-	-	200,000	200,000	51.5	27 December 2014

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 2007, 31 December 2007 and at the date of this report:

	Number held at date of this report Ordinary Shares of 10p each	Number held at 31 December 2007 Ordinary Shares of 10p each	Number held at 1 January 2007 Ordinary Shares of 10p each
Professor G Musgrave	1,670,530	1,670,530	1,285,730
J O Reed	13,300	13,300	13,300
J H Gunn	1,223,200	1,223,200	1,223,200

ON BEHALF OF THE REMUNERATION COMMITTEE

A J Wood
Chairman
Remuneration Committee

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CORAC GROUP PLC

We have audited the financial statements (the "financial statements") of Corac Group plc for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet, the cash flow statement and notes 1 to 20. 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 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

The directors' responsibilities for preparing the Annual Report, the Remuneration 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We report to you if, in our opinion, 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 Directors' Report, 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. Our responsibilities do not extend to any other information.

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 Company'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.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CORAC GROUP PLC (Continued)

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 the Company's affairs as at 31 December 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements for the year ended 31 December 2007.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
OXFORD

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2007

	Note	2007 £	2006 £
Turnover	2	**1,438,443**	1,642,040
Cost of sales		**(1,210,427)**	(1,479,209)
Gross profit		**228,016**	162,831
Development costs		**(1,549,047)**	(1,117,287)
Other administrative expenses		**(1,282,235)**	(1,434,823)
Administrative expenses		**(2,831,282)**	(2,552,110)
Other operating income - grant receivable		**117,224**	24,314
Operating loss	3	**(2,486,042)**	(2,364,965)
Interest receivable	5	**147,923**	165,226
Loss on ordinary activities before taxation		**(2,338,119)**	(2,199,739)
Taxation	6	**605,567**	826,712
Loss for the financial year		**(1,732,552)**	(1,373,027)
Loss per share			
Basic and diluted loss, pence per share	7	**(2.3)**	(1.8)

All results relate to continuing activities.

There were no recognised gains and losses in 2007 or 2006 other than those included in the profit and loss account.

Notes 1 to 20 form part of these financial statements.

BALANCE SHEET

at 31 December 2007

	Note	**2007** £	2006 £
Fixed assets			
Tangible assets	8	**151,532**	191,996
Current assets			
Debtors	9	**1,098,913**	770,429
Cash at bank and in hand	10	**5,249,765**	3,526,350
		6,348,678	4,296,779
Creditors			
Amounts falling due within one year	11	**(379,804)**	(1,312,448)
Net current assets		**5,968,874**	2,984,331
Total assets less current liabilities		**6,120,406**	3,176,327
Capital and reserves			
Called up share capital	12	**8,625,406**	7,442,970
Share premium account	13	**4,249,513**	858,351
Capital redemption reserve	13	**575,000**	575,000
Own shares held by Employee Benefit Trust	13	**(280,722)**	(298,105)
Share based payment reserve	13	**236,189**	150,539
Profit and loss account	13	**(7,284,980)**	(5,552,428)
Equity shareholders' funds	14	**6,120,406**	3,176,327

The financial statements were approved by the Board on 18 February 2008 and signed on its behalf by

Professor G Musgrave
Executive Chairman

Notes 1 to 20 form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2007

	Note	£	2007 £	£	2006 £
Net cash outflow from operating activities	15		**(3,491,265)**		(1,831,685)
Returns on investment and servicing of finance					
Interest received		**147,923**		165,226	
Net cash inflow from returns on investment and servicing of finance			**147,923**		165,226
Taxation			**518,567**		515,415
Capital expenditure					
Purchase of tangible fixed assets		**(43,541)**		(17,559)	
Proceeds on sale of tangible fixed assets		**750**		315	
Net cash outflow from capital expenditure			**(42,791)**		(17,244)
Net cash outflow before use of liquid resources and financing			**(2,867,566)**		(1,168,288)
Management of liquid resources					
Cash transferred (to)/from long-term deposits			**(1,537,067)**		(42,258)
Financing					
New share capital subscribed (net of expenses)	12	**4,573,598**		1,232,474	
EBT Shares transferred on exercise of option	13	**17,383**		1,499	
Net cash inflow from financing			**4,590,981**		1,233,973
Increase in cash in the year	16		**186,348**		23,427

Notes 1 to 20 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

1 **Accounting policies**

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards (generally accepted accounting principles) and under the historical cost convention.

The principal accounting policies of the Company are set out below and remain unchanged from the previous year.

Basis of preparation

Consolidation

The Group's operations are conducted by its parent company, Corac Group plc, and there is no activity within its two wholly-owned subsidiaries. The Directors have determined that it is more appropriate not to produce group accounts since the amounts involved are not material and greater clarity of presentation is provided by the presentation of accounts for the Company as an individual undertaking and not about its group. The Directors have therefore claimed exemption from producing group accounts under Section 229 of the Companies Act 1985.

Going concern

The Company incurred a loss during the year ended 31 December 2007 and further losses are being incurred in the current financial period as the development of the compressor range and the downhole compressor continues. The accounts have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future.

Following the placing in December 2007, the directors are confident that sufficient funds have been raised for the next development stage and to provide 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 the Profit and Loss account 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 an undiscounted basis on all timing differences where the transactions or events that give the Company 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.

Share-based payments
In accordance with the requirements of FRS20, the Company's equity-settled share-based payments to its employees and directors are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period of the award. At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable.

The value of any shares or options granted is charged to the profit and loss account over the period the shares vest, with a corresponding credit to reserves. When share options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium.

The principal assumptions used to calculate the value of options issued are disclosed in note 12.

In accordance with the transitional provisions of FRS20, the Standard has been applied retrospectively to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

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 Company operates a money purchase pension scheme and a stakeholder pension scheme. In addition, the Company contributes to the personal pension plan of one of its directors. The pension charge represents the amounts payable by the Company 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 10 to these financial statements. 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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 Accounting policies (Continued)

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.

Financial instruments
Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade debtors do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade creditors are not interest bearing and are stated at their nominal value.

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

3 **Operating loss**	**2007**	2006
	£	£
Operating loss is stated after charging:		
Auditor's remuneration		
- audit services	**18,076**	12,540
- other services supplied pursuant to such legislation	**600**	790
- taxation	**8,315**	9,740
- all other services	**2,998**	2,826
Depreciation of tangible fixed assets	**84,005**	98,222
(Profit)/loss on disposal of fixed assets	**(750)**	144
Staff costs		
- salaries and wages	**1,279,706**	1,275,044
- social security costs	**140,704**	135,014
Operating leases		
- rent	**150,406**	149,183

The average number of employees, including directors, employed by the Company during the period was 28 (2006: 26). These are split between the following departments: administration: 7 (2006: 7) and engineering: 21 (2006: 19).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Operating loss (Continued)

Pension costs

The Company operates a money purchase pension scheme and a group stakeholder pension scheme. The assets of these schemes are held separately from those of the Company in administered funds. The pension cost charge represents contributions payable by the Company to these funds and amounted to £80,238 (2006: £66,145). In addition, payments of £4,410 (2006: £6,189) were made to the personal pension plan of one of the directors.

Three directors (2006: four) accrued benefits under the group schemes during the year and one via contribution to his personal pension plan.

There were outstanding contributions of £2,374 (2006: £ Nil) payable to these funds at the year end.

The nature of the Company's schemes is such that there is no possibility of a surplus or deficiency in funding arising from past service.

4 Directors' remuneration

	2007	2006
	£	£
Directors' remuneration was as follows:		
Emoluments	**468,858**	500,950
Termination payments	**-**	100,100
Gains made on the exercise of share options	**113,800**	54,839
Pension contributions	**22,572**	23,525
	605,230	679,414

During the year two directors (2006: one), including the highest paid director, exercised share options.

	2007	2006
	£	£
Remuneration of highest paid director included above is as follows:		
Emoluments	**130,596**	123,199
Pension contributions	**9,142**	8,624
Gain made on the exercise of share options	**13,900**	-
	153,638	131,823

5 Interest receivable

	2007	2006
	£	£
Bank interest receivable	**147,923**	165,226

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 Taxation

Current taxation

	2007 £	2006 £
Corporation tax - research and development credit - current year	**510,000**	423,000
- prior year	**95,567**	403,712
	605,567	826,712

	2007 £	2006 £
The tax credit for the period is lower than the standard rate of corporation tax in the UK of 30% (2006 - 30%). The differences are explained as follows:		
Loss on ordinary activities before taxation	**(2,338,119)**	(2,199,739)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 - 30%)	**701,436**	659,922
Effect of:		
Expenses not deductible for tax purposes	**(1,181)**	(1,179)
Depreciation in excess of capital allowances	**(16,196)**	(23,513)
Share - based payments	**66,096**	2,310
Research and development enhanced relief	**345,302**	311,512
Research and development difference in tax rate	**(446,250)**	(370,125)
Trading losses carried forward	**(139,207)**	(155,927)
Adjustment in respect of prior periods	**95,567**	403,712
Current tax credit for the period	**605,567**	826,712

Deferred taxation

	2007 £	2006 £
Accelerated capital allowances and other timing differences	**414,321**	247,988
Losses	**(414,321)**	(247,988)
	-	-

Subject to agreement by HMRC, Corac Group plc has approximately £5,600,000 (2006 - £5,700,000) of unrelieved tax losses. A deferred tax asset has not been recognised due to lack of certainty surrounding future utilisation of these losses.

7 Loss per share

The calculation of basic loss per share for the year ended 31 December 2007 is based upon a loss after tax of £1,732,552 (2006: loss £1,373,027), and a weighted average number of shares of 75,730,433 (2006: 74,211,163). Diluted loss per share is not materially different to the basic loss per share, and the conversion to ordinary shares of share options would be anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 Tangible fixed assets

	Short leasehold	Computer equipment	Office furniture and fittings	Plant and machinery	Total
	£	£	£	£	£
Cost					
At 1 January 2007	189,827	274,673	24,850	309,289	798,639
Additions	-	8,586	-	34,955	43,541
Disposals	-	-	-	(4,900)	(4,900)
At 31 December 2007	**189,827**	**283,259**	**24,850**	**339,344**	**837,280**
Depreciation					
At 1 January 2007	103,235	249,659	21,774	231,975	606,643
Charge for year	25,175	15,542	1,611	41,677	84,005
Released on disposals	-	-	-	(4,900)	(4,900)
At 31 December 2007	**128,410**	**265,201**	**23,385**	**268,752**	**685,748**
Net book value					
At 31 December 2007	**61,417**	**18,058**	**1,465**	**70,592**	**151,532**
At 31 December 2006	86,592	25,014	3,076	77,314	191,996

9 Debtors

	2007	2006
	£	£
Trade debtors	**129,081**	38,149
Other debtors	**356,958**	250,152
Other taxes and social security	**102,874**	59,128
Taxation recoverable	**510,000**	423,000
	1,098,913	770,429

Included within other debtors are recoverable property improvement costs of £50,000 (2006: £75,000) which are due after more than one year.

10 Cash at bank and in hand

Included in cash at bank and in hand are short term deposits amounting to £4,990,656 (2006: £3,453,589).

11 Creditors

	2007 £	2006 £
Amounts falling due within one year		
Trade creditors	**120,088**	87,792
Other taxes and social security	**46,124**	39,778
Deferred revenue	**-**	667,629
Other creditors	**9,395**	593
Amounts owed to subsidiary undertakings	**5,301**	5,301
Accruals	**198,896**	511,355
	379,804	1,312,448

12 Share capital

	2007 £	2006 £
Authorised		
200,000,000 ordinary shares of 10p each	20,000,000	20,000,000
Allotted, called up and fully paid		
86,254,059 (2006: 74,429,700) ordinary shares of 10p each	8,625,406	7,442,970

	Number	Number
At 1 January 2007	74,429,700	70,578,220
Issued in respect of placing	11,222,160	3,528,900
Issued in respect of share option exercise	602,199	322,580
At 31 December 2007	86,254,059	74,429,700

During the year the Company issued 11,222,160 ordinary shares of 10p each for cash at 42p per share by means of a placing, generating cash of £4,447,642, net of expenses of £265,665.

Also during the year the Company issued 602,199 ordinary shares of 10p for cash at an average price of 20.9p each on the exercise of share options, generating cash of £125,956.

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 13) 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 2007	1,667,658	582,987	1,126,010	1,026,013	2,793,668	1,609,000	4,402,668
Exercised during the year	(384,800)	-	(217,399)	(84,998)	(602,199)	(84,998)	(687,197)
Lapsed during the year	(242,858)	-	(487,007)	(6,667)	(729,865)	(6,667)	(736,532)
Issued during the year	1,524,303	-	1,720,697	-	3,245,000	-	3,245,000
At 31 December 2007	2,564,303	582,987	2,142,301	934,348	4,706,604	1,517,335	6,223,939

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Share capital (Continued)

Exercise of an option is generally subject to continued employment and to satisfaction of the applicable performance conditions. 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.

At 31 December 2007 options over unissued ordinary 10p shares were as follows:

Date of grant	Number	Option price per share	Option periods ending	Closing share price at grant	Exercise price	Expected volatility	Risk-free interest rate	Fair value per share
		Pence		Pence	Pence	%	%	Pence
2000	1,040,000	38.46	2007					
2001	422,936	38.46	2006 - 2009					
2001	18,667	85.50	2007 - 2009					
2001	3,334	86.50	2007 - 2009					
2002	16,667	43.50	2008 - 2010					
2002	*49,000	22.00	2008 - 2010	22.00	22.00	50.1860	4.3860	10.72
2002	*100,000	22.00	2008 - 2010	22.00	22.00	50.1860	4.3818	10.71
2003	*235,000	34.00	2009 - 2011	34.00	34.00	42.8183	4.7805	15.05
2004	*135,000	33.00	2010 - 2012	33.00	33.00	37.6867	4.5024	13.28
2005	*71,668	31.25	2011 - 2013	32.25	31.25	38.5446	4.1971	13.36
2006	*300,000	46.08	2012 - 2014	46.00	46.08	37.0739	4.5048	14.08
2006	*626,667	37.50	2012 - 2014	36.50	37.60	38.2617	4.3001	11.41
2007	720,000	36.0	2013 - 2015	36.0	36.0	35.4413	5.3514	7.20
2007	1,095,000	39.0	2013 - 2015	38.5	39.0	35.0368	5.3015	9.45
2007	90,000	48.5	2013 - 2015	49.5	48.5	35.5270	5.5116	14.75
2007	550,000	51.5	2014	51.5	51.5	29.3191	4.5765	10.10
2007	750,000	53.67	2013 - 2015	52.0	53.67	29.3191	4.5765	7.99
	6,223,939							

* These options were issued by the EBT.

The market price of the Company's shares at 31 December 2007 was 55.0p and the range during the year was between 34.0p and 60.0p.

The vesting period of an option is assumed to be commensurate with the exercise period of the option and the expected life of an employee share option is five years.

Expected volatility is a measure of the amount by which a share price is expected to fluctuate during a period. The volatility of the Company's share price was calculated as the average of annualised standard deviations of daily continuously compounded returns on the 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 life of the option.

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.

Options granted before 2006 were valued using the Black-Scholes model. Options granted in 2006 [and 2007] were valued using the Monte Carlo model.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 Reserves

	Capital redemption reserve	Own shares held by Employee Benefit Trust	Share premium account	Share based payment reserve	Profit and loss account	Total
	£	£	£	£	£	£
At 1 January 2007	575,000	(298,105)	858,351	150,539	(5,552,428)	(4,266,643)
Loss for the year	-	-	-	-	(1,732,552)	(1,732,552)
Shares transferred on exercise of option	-	17,383	-	-	-	17,383
Issue of shares	-	-	3,391,162	-	-	3,391,162
FRS 20 share option charge	-	-	-	85,650	-	85,650
At 31 December 2007	575,000	(280,722)	4,249,513	236,189	(7,284,980)	(2,505,000)

Own shares held by Employee Benefit Trust

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 2007 the Company had loaned £300,000 (2006: £300,000) to the Corac EBT. With this loan the Trustee purchased shares in the Company and, at 31 December 2007, the Corac EBT held 1,372,669 (2006: 1,457,667) ordinary shares in Corac Group plc with a book cost of £280,722 (2006: £298,105) which had a market value of £754,968 (2006: £532,048).

Options have been granted over 1,517,335 (2006: 1,609,000) shares to certain employees, 149,000 exercisable at 22p per share until 18 December 2010, 235,000 at 34p per share until 11 December 2011, 135,000 at 33p per share until 16 December 2012, 71,668 at 31.25p per share until 29 December 2013, 300,000 at 46.08p per share until 6 April 2014 and 626,667 at 37.50p per share until 27 July 2014. These options are subject to performance conditions.

The company intends to fund any shortfall should the EBT need to purchase more shares to fulfil its obligations to option holders.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 Reconciliation of movement in shareholders' funds

	2007 £	2006 £
Shareholders' funds at 1 January 2007	**3,176,327**	3,267,620
Loss for the year	**(1,732,552)**	(1,373,027)
New shares issued	**4,573,598**	1,232,474
Movement in share based payment reserve	**85,650**	47,761
Reduction in shares held by EBT	**17,383**	1,499
Net addition/(reduction) to shareholders' funds	**2,944,079**	(91,293)
Shareholders' funds at 31 December 2007	**6,120,406**	3,176,327

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

	2007 £	2006 £
Operating loss	**(2,486,042)**	(2,364,965)
(Profit)/loss on disposal of assets	**(750)**	144
Depreciation	**84,005**	98,222
Decrease in stock and work in progress	**-**	45,571
(Increase)/decrease in debtors	**(241,484)**	96,596
(Decrease)/increase in creditors	**(932,644)**	244,986
Increase in share-based payments provision	**85,650**	47,761
Net cash outflow from operating activities	**(3,491,265)**	(1,831,685)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 Reconciliation of net cash flow to movement in net funds

	2007	2006
	£	£
Increase in cash	**186,348**	23,427
Cash effect of increase in liquid resources	**1,537,067**	42,258
Movement in net funds in the year	**1,723,415**	65,685
Net funds at 1 January 2007	**3,526,350**	3,460,665
Net funds at 31 December 2007	**5,249,765**	3,526,350

17 Analysis of changes in net funds

	As at 1 January 2007	**Cash flow**	**As at 31 December 2007**
	£	**£**	**£**
Cash in hand	112	123	235
Cash at bank	72,649	186,225	258,874
	72,761	186,348	259,109
Short term deposits	3,453,589	1,537,067	4,990,656
Net funds	3,526,350	1,723,415	5,249,765

18 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 £23,794 (2006: £23,752) 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 £4 was outstanding at the year end (2006: £199)

- Fees of £25,875 (2006: £25,121) were invoiced by Scheidegg Ltd and Ludgate Investments Ltd., companies 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 (2006: £Nil)

- Fees of £70,689 (2006: £74,241) 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 £6,809 was outstanding at the year end (2006: £Nil).

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

- Fees of £90,274 (2006: £74,311) were invoiced by Mechadyne plc, a Company of which Professor G Musgrave is a director in respect of engineering services provided by various individuals.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 Financial instruments

The Company 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 Company's financial instruments comprise cash and short term deposits which are placed at fixed interest rates. The Company 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 Company'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 Company's policy that no trading in financial instruments shall be undertaken.

The Company is based in the United Kingdom and all of the Company'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 Company's financial instruments.

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

The amounts held on short term deposits can be seen in note 10.

20 Financial commitments

Annual commitments under operating leases are as follows:	**2007**	2006
	£	£
Land and buildings		
Expiry date:		
- between two and five years	150,000	150,000

At 31 December 2007 the Company had no capital commitments (2006: £Nil).