corac
group plc

Annual Report & Financial Statements 2009

Developing Innovative Solutions in
Energy-Efficient Turbo Machinery

Operational Highlights

- Continued development and testing of our Downhole Gas Compressor for the Eni SpA field trial
- 2 industrial air machines each achieved c. 7,000 hours factory testing
- Industrial air booster compressor installed and running in Austria
- New patents filed to extend the application of our core technology
- Strengthened Board
- Programme Management methodologies implemented

Financial Highlights

- Revenues of £1.34m (2008: £0.66m)
- Net loss after tax £2.93m (2008: loss £2.97m)
- Loss per share 3.1p (2008: loss 3.5p)
- £5.79m cash raised from investors during the year
- £5.34m cash at year end (2008: £2.12m)

Contents

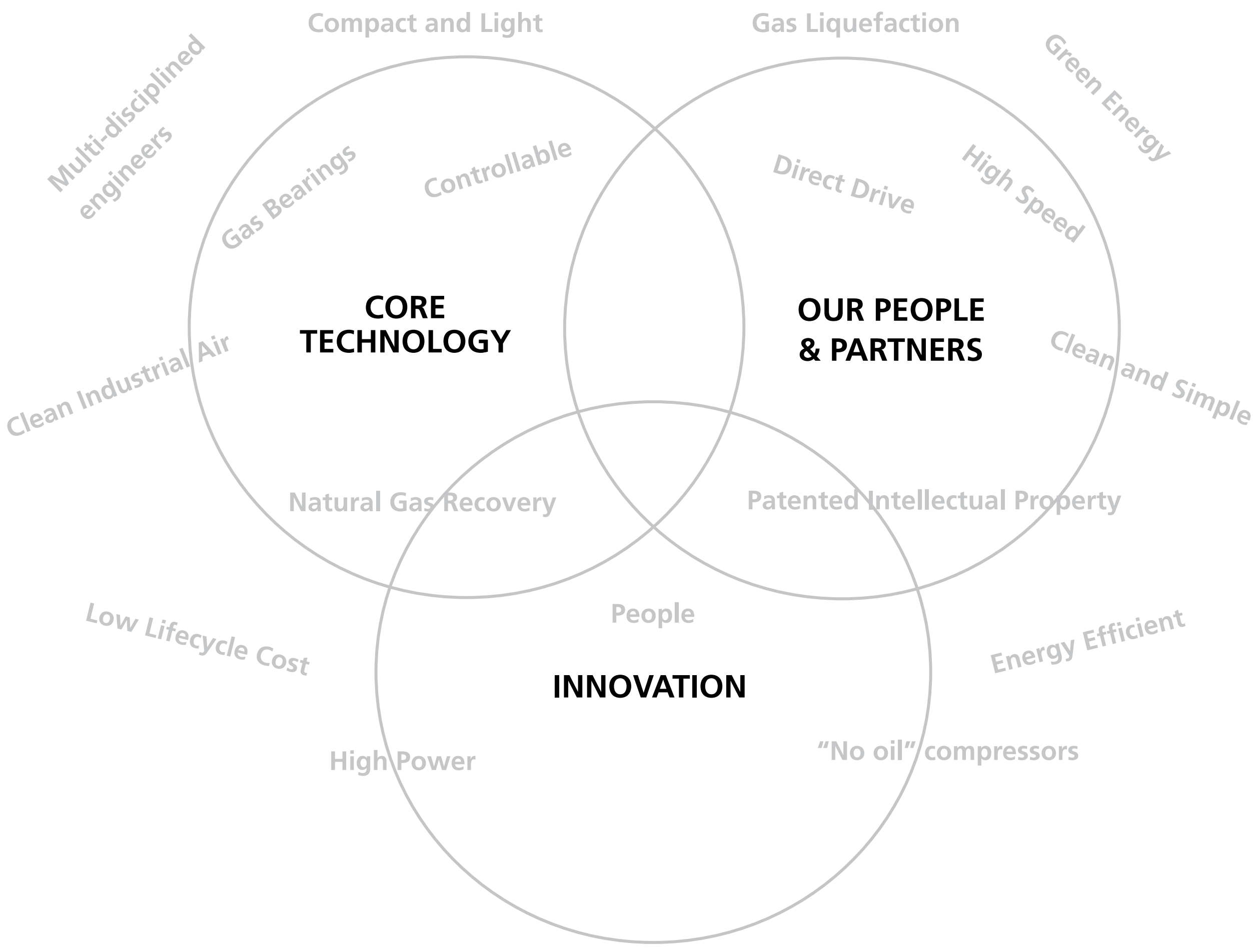
The Directors' report on pages 5 to 6 and the Remuneration report on pages 9 to 11 have been drawn up in accordance with the requirements of English law and liability in respect thereof is also governed by English law. In particular, the responsibility of the directors for these reports is owed solely to Corac Group plc.

The directors submit to the members their Annual Report and audited financial statements of the Parent Company and Group for the year ended 31 December 2009. Pages 2 to 11, including the Executive Chairman's report, Chief Executive Officer's report, Board of Directors, Directors' report, Corporate Governance report and Remuneration report form part of the Report of the directors.

Business Profile

Direct-drive turbo machinery is at the heart of all that we do. We have developed unique high speed, high power installations that are compact and light, energy efficient and have the potential for a wide range of applications.

Our Dedicated Team are Corac's key asset. Our experienced, multi-disciplined team of engineers have created a collection of patented intellectual property that defines our solutions and are supported by world class commercial partners.



Creating Future Value through the development of innovative applications of our core technology, with our partners in a range of traditional and emerging energy markets.

Corac is an innovator in the development of energy-efficient compressor technology

Executive Chairman's Report

Introduction

During 2009 interest in our core technology from existing partners and potential customers has continued. We have achieved further operational milestones from testing of our Downhole Gas Compressor (DGC) technology at our test sites and industry recognition of our technical capabilities is growing. However, as reported in November, we have experienced delays to our field trial in Italy which has been disappointing.

During the year £5.79 million was raised from investors and the Board has been strengthened.

Financial Review

The financial results for the year ended 31 December 2009 show a loss before tax of £3.69 million (2008: loss before tax £3.48 million). Revenue in the period doubled to £1.34 million (2008: £0.66 million) as a result of an increased contribution from our Joint Industry Programme ('JIP') partners in respect of the DGC field trial development.

Cash reserves at the year end amounted to £5.34 million (2008: £2.12 million), supported by the £5.79 million additional funds which were raised during the year.

At 31 December 2009 there were 108,343,977 ordinary shares of 10p each in issue with voting rights.

Operational Highlights

Interest in our DGC technology is increasing as more gas majors are examining their field dynamics and analysing the potential benefits of our technology to their business. As the trend in gas prices improves, the business case for deployment of DGCs to recover gas from depleting reserves becomes more compelling.

One potential development partner in the USA is looking for a well completion system using coil tubing. This new technique is less expensive and more flexible than that adopted for the Eni SpA ('Eni') field trial. Another potential partner in the Middle East is looking to apply our DGC technology on the surface to move gas via pipelines between wells of differing pressure. Contractual negotiations are ongoing to agree terms for both of these opportunities for new applications of our core technology.

Progress with Eni in Southern Italy has been slow and necessary development and design changes have resulted in a revised timetable and plan being put in place with the resulting field trial now planned to go live later this year as previously reported. While this is an obvious disappointment, we continue to work closely with all our partners and third parties involved in the field trial who remain committed to its execution.

Our industrial air machines have continued to perform well in the market, two of which have each achieved nearly 7,000 service hours at required higher energy efficiency. In addition, we now have an industrial air booster compressor installed and running in a bottling plant in Austria. Although the industrial air market has experienced a severe downturn during the recession, our relationships on joint development programmes with Leobersdorfer Maschinenfabrik GmbH & Co. KG ('LMF') and Fu Sheng have been maintained.

Board Changes

Phil Cartmell was appointed to the Board in September 2009 as Chief Executive and Mark Crawford was appointed as Commercial and Finance Director in November 2009. Mark, in his capacity as Finance Director, replaces Philip Newell.

In April 2010 Rohan Courtney OBE was appointed to the Board as non-executive director in place of Sian Westerman. Rohan's wealth of experience as a senior businessman, in particular within the energy sector, will be invaluable at this stage of the Company's development. Alan Wood also resigned in April and we are actively engaged in securing a new non-executive to replace Alan.

In line with the overall strategy to move the Company to become a more commercial business and now that most of the restructuring is in place following Phil's appointment, this is an appropriate time for me to step down from the Board at the forthcoming AGM in June 2010. I am pleased to be able to continue supporting Phil and his team in a new role with responsibility for Research and Enterprise, helping to drive the technical development of the business in the future.

Summary

By combining their extensive expertise within the team and by bringing a more dynamic commercial approach, we have the opportunity to deliver our technology more rapidly into the market as well as ensuring we invest appropriately to realise value for our shareholders.

Professor G Musgrave
Executive Chairman

27 April 2010

Chief Executive Officer's Report

Strategy

Following my appointment as CEO we have announced a number of changes to the Board. Going forward, the new Board is committed to commercialising the business and realising the future value of our core technology through the delivery of innovative applications for use within the global energy market.

Following the appointment of Mark Crawford as Commercial and Finance Director, the accounting needs of the business have been addressed to enhance the commercialisation of the Company by adopting financial practices which align with the needs of our partners and customers.

Positioning

Throughout this process the value of Corac will be enhanced through more stringent commercial management, combined with a multi-disciplined team of skilled engineers making innovative use of our technology. Direct-drive turbo machinery is at the heart of our activities and provides simple, compact and energy efficient solutions to our industrial partners' challenges.

Activity in 2010 will focus on our innovative work in natural gas extraction, and the provision of clean, compressed gas in a wide range of commercial applications.

Given the environmental issues the world faces, we aim to capitalise upon the potential for our compressors in helping to deliver greater volumes of what is recognised as a cleaner fuel, and also to provide uncontaminated air for food production and other uses.

Markets

With the support of our Joint Industry Programme partners, Eni, Repsol and Conoco Phillips, we are progressing towards a field trial where we can demonstrate the capability and performance of our core technology within a DGC application. Additionally, following the announcement we made in late 2009 regarding the contractual negotiations with new development partners in the USA and Middle East, we have the chance to apply our technology in both additional applications and new environments.

Our market for industrial air has proved challenging due to global economic conditions. We are now analysing our position and to how best we can take forward the progress made to date to ensure we can deliver returns on the investment in this technology.

Methods

To deliver commercial success for the business and to realise the potential of our technology through these activities, we must manage the difficult demands that face a research and development business. We will adopt a more disciplined approach to enable continued innovation whilst managing risk, technical changes and the challenges of testing.

To this end, a Programme Management Office has been created and we are now implementing extensive programme management methods, tools and project processes to control delivery costs and timescales.

Staff

Corac currently employs 37 staff, mostly involved directly in the research and development of our technology. We have some great talent and I recognise their contribution and efforts in 2009, and look forward to working with them in driving Corac's future commercial success by delivering the results that both our partners and investors expect from this business.

Innovation

Corac's strength is in the innovative ideas of its people. Progress has been made in the course of the year where we have supported some developments in the application of industrial air and DGC technologies and new patents have been filed to extend the application of our core technology. We have to ensure that through improved control of methods and processes we can support the continued evolution of our business.

Summary

In my short time with the Company, I am pleased with the commitment of all the staff and their drive to move the business forward. I would particularly like to thank Professor Musgrave for the role he has played over the last eleven years driving Corac to be where it is today and I am pleased that he will continue to work with the business in his new Research and Enterprise role. With the changes now being implemented, we can look forward to a year in which we move towards realising the potential of our technology and growing shareholder value.

Phil Cartmell

Chief Executive Officer

27 April 2010

Board of Directors

Professor Gerry Musgrave

Executive Chairman (67)

Professor Gerry 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.

Phil Cartmell

Chief Executive Officer (58)

Phil Cartmell was appointed to the board in September 2009. He has a highly active career in business, having formerly been Chief Executive of Vega Group plc between 2001 and 2008, where he grew the company into a leading European aerospace and defence business. In February 2008 Vega Group was acquired by Italian multi-national, Finmeccanica, for a substantial premium. Phil has a number of other directorships including Non-Executive Director of Trafficmaster plc and CSF Group plc (Malaysia).

Mark Crawford

Commercial and Finance Director (42)

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

Julian Reed

Chief Technical Officer (47)

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

Rohan Courtney OBE

Non-Executive Director (62)

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

Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 2009.

Principal activity, business review and business risks

The Group's principal activity throughout the year remained the continued innovation and research of turbo machinery, development and commercialisation of oil-free industrial air compressors and downhole gas compressors.

Review of the business and future development

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

The Group considers its key performance indicators to be:

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

The performance against these measures is discussed in the Executive Chairman's and Chief Executive Officer's reports.

Results and dividends

The Group made a loss after taxation of £2,934,567 in the year ended 31 December 2009 (2008: loss of £2,968,559). The directors do not recommend the payment of a dividend and propose that the loss be added to the deficit on reserves.

Research and development

Total research and development expenditure in the year including cost of sales was £3,375,467 (2008: £2,945,201), all of which was written off to the income statement in the year. The amount included for cost of sales for the year was £946,039 (2008: £409,170). Progress on research and development is discussed in the Executive Chairman's and Chief Executive Officer's reports.

Principal risks and uncertainties

In addition to financial risk management which is detailed in note 20 to the financial statements, there are a number of risks and uncertainties which could have a material impact on the Group. Risks are formally reviewed by the board and appropriate processes and controls have been implemented in respect of monitoring and control.

The Group's principal business risks include:

- the research and development of new and innovative technologies and its delivery within budgeted cost and timetable and with adequate operating performance and reliability. The Group has assembled a broad based team with experience of managing and developing technologies and has secured appropriate external resources;
- the continuing support of JIP Partners, managed through the defined JIP programme comprising Eni, Repsol YPF and ConocoPhillips (UK) Limited and the field trial of a DGC for Eni;
- the acceptance of the Group's technology solutions by the market, the continuing support of existing sales channels and the anticipated level and rate of growth of future revenues. The Group continually monitors the market place and work with JIP and industrial air partners to develop the Group's technologies;
- the impact of general economic conditions and uncertainties on potential partners' plans for capital expenditure and their ability and appetite to fund research and development projects;
- the impact of technological change and the potential of competitors to develop alternative solutions. The Group has registered patents covering key areas of its technology, monitors relevant third party patents and has developed significant know how;
- the importance to the Group of retaining key employees in the development of its technology and execution of its business plan. The Group has assembled an experienced and balanced development team with a broad range of relevant skills, seeks to avoid over dependence upon specific employees and formally documents key areas. The Group seeks to retain staff and encourage their long term commitment by providing competitive remuneration packages including company-wide share options;
- the management of the transition from research and development to commercial production and operation. The Group has developed relationships with external suppliers who manufacture components which the Group then assembles and tests. The Group has considered additional facilities and resources required for commercial production and currently propose to recruit production management and staff as required.

Directors' Report (continued)

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

- **Liquidity risk.** The Group seeks to manage financial risk by ensuring that sufficient liquidity is available to meet foreseeable needs and by investing cash assets safely and profitably. The Group's policy throughout the year has been to achieve this objective through management's day-to-day involvement in business decisions rather than setting maximum or minimum liquidity ratios. Group policies are aimed at maximising liquidity and return on cash through the use of short term bank deposits;
- **Interest rate risk.** The Group's policy throughout the year has been to place funds in its own name via an external professional cash management company with an approved list of banks at varying maturities to match the anticipated cash requirements of the Group; and
- **Credit risk.** The Group's principal financial assets are cash and trade receivables. The credit risk associated with cash is managed by ensuring that counterparties have high credit ratings assigned by international credit rating agencies.

Capital management

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

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

The Group manages its capital structure and makes adjustments to it in light of working capital requirements. To adjust the capital structure, the Group issues new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 31 December 2008.

Creditor payment policy

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

The Group and Parent Company's creditor payment period was 25 days (2008: 23 days).

Employee involvement

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

Directors' and Officers' liability insurance

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

Directors and their interests

The directors during the year were as follows:

Executive

Professor G Musgrave

P Cartmell (appointed 28 September 2009)

P Newell (resigned 5 November 2009)

M S Crawford (appointed 6 November 2009)

J O Reed

Non executive

S E A Westerman (resigned 19 April 2010)

A J Wood (resigned 19 April 2010)

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

Issue of shares

Details of shares issued during the year are given in note 18 to the financial statements.

Related party transactions

These have been disclosed within note 23 to the accounts.

Auditor

Grant Thornton UK LLP has expressed willingness to continue in office. In accordance with Section 489(4) of the Companies Act 2006 a resolution to re-appoint Grant Thornton UK LLP will be proposed at the Annual General Meeting.

This report was approved on behalf of the Board on 27 April 2010 and signed by order of the Board.

M S Crawford

Company Secretary

27 April 2010

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 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 Parent Company does not consider it appropriate to be 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, which for the majority of the year were three full time and one part time, and two non-executive directors. 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. This is achieved by the close involvement of the executive directors in the day-to-day running of the business and by regular reports submitted to and considered at meetings of the Board and sub Committees. The Board also considers employee issues, key appointments and compliance with relevant legislation. The Board has both an Audit and a Remuneration Committee. The Board does not consider it necessary to constitute a separate Nominations Committee and all members of the Board are consulted on the potential appointment of a new director or a company secretary. The Company also has a Health and Safety Committee that reports to the Board at regular intervals.

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

Relationship with shareholders

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

Accountability and audit

Directors' responsibilities

The directors are responsible for preparing the annual report and 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 the Group and Parent Company financial statements in accordance with International Financial Reporting standards ("IFRS") as adopted by the European Union.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions and qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing these financial statements.

Corporate Governance Report (continued)

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

The directors are responsible for the maintenance and integrity of the 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.

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

Audit Committee

During the year the Audit Committee comprised two non-executive directors. The Committee has specific terms of reference which deal with its authority and duties. It meets at least twice a year, with the Finance Director, Executive Chairman, Chief Executive Officer and the auditor attending by invitation. The Committee reviews the independence and objectivity of the auditor each year. The Committee overviews the adequacy of the Group and Parent Company's internal controls, accounting policies and financial reporting and provides a forum through which the Company's external auditor reports to the non-executive directors.

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

Going concern

Discussion of going concern is included within the accounting policies note on page 18.

Internal control and risk management

The Board has overall responsibility for ensuring that the Group and Parent Company have processes to identify, evaluate and manage key risks. The nature of the Group and Parent Company's business is changing from 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 Parent Company's strategic objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. The internal control and risk management processes have been improved further during 2009 with the implementation of a Project Management Office and a restructuring of the finance department including the appointment of a Financial Controller.

Key areas of internal control are listed below:

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

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

On behalf of the Board

Professor G Musgrave and P Cartmell

Executive Chairman and Chief Executive Officer

27 April 2010

Remuneration Report

Remuneration Committee

During the year the Remuneration Committee is made up of two non-executive directors and is chaired by Mr A J Wood, and was attended by the Chief Executive Officer and Executive Chairman by invitiation. The Remuneration Committee sets and annually reviews the terms and conditions of employment of the executive directors. The remuneration of non-executive directors is fixed by the Board as a whole. The Remuneration Committee also monitors and reviews the Group-wide appraisal process and approves the proposals from the executive directors for all employees' remuneration and option arrangements.

Remuneration policy

The Parent Company's policy on executive directors' remuneration is to attract and retain high quality executives by paying competitive remuneration packages relevant to each director's role, experience and the external market. The packages include a basic salary, pension contributions and share options. 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 (£)	Termination payments (£)	Pension contributions (£)	Total emoluments 2009 (£)	Total emoluments 2008 (£)
Professor G Musgrave	153,810	–	9,205	163,015	158,890
P Cartmell (appointed 28 September 2009)	39,231	–	2,746	41,977	–
M S Crawford (appointed 6 November 2009)	9,583	–	–	9,583	–
P Newell (appointed 26 March 2008, resigned 5 November 2009)	100,082	100,000	6,762	206,844	88,465
J O Reed	139,895	–	9,793	149,688	145,327
S Westerman (resigned 19 April 2010)	24,000	–	–	24,000	12,000
A J Wood (resigned 19 April 2010)	24,000	–	–	24,000	23,936
R R Courtney (appointed 20 April 2010)	–	–	–	–	–
T E Ivings (resigned 26 March 2008)	–	–	–	–	35,166
G W Cromm (resigned 31 December 2008)	–	–	–	–	107,870
J H Gunn (resigned 1 December 2008)	–	–	–	–	24,504
	490,601	100,000	28,506	619,107	596,158

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 Parent Company at 31 December 2009 and 1 January 2009 were:

	As at 1 Jan 2009 number	Exercised in year number	Lapsed in year number	Issued in year number	As at 31 Dec 2009 number	Exercise price (p)	Lapse date
Professor G Musgrave	1,083,334	–	–	–	1,083,334	38.50	7 December 2010
Professor G Musgrave	190,000	–	–	–	190,000	37.50	27 July 2016
Professor G Musgrave	570,000	–	–	–	570,000	39.00	1 April 2017
Professor G Musgrave	350,000	–	–	–	350,000	51.50	26 December 2017
J O Reed	130,000	–	–	–	130,000	38.50	15 October 2010
J O Reed	86,668	–	–	–	86,668	38.50	29 October 2010
J O Reed	100,000	–	–	–	100,000	22.00	19 December 2012
J O Reed	110,000	–	–	–	110,000	37.50	27 July 2016
J O Reed	285,000	–	–	–	285,000	39.00	1 April 2017
J O Reed	200,000	–	–	–	200,000	51.50	26 December 2017
P Cartmell	–	–	–	2,000,000	2,000,000	42.00	30 September 2019
M S Crawford	–	–	–	300,000	300,000	39.00	21 October 2019
M S Crawford	–	–	–	200,000	200,000	34.75	11 December 2019

The closing mid market price of the Parent Company's shares as quoted on the Daily Official List as published by the London Stock Exchange was 26.12p at 31 December 2009 and in the period 1 January 2009 to 31 December 2009 was a closing mid market high of 59.50p per share and a low of 11.50p per share.

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 the Parent Company at 1 January 2009, 31 December 2009 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 2009 Ordinary Shares of 10 pence each	Number held at 1 January 2009 Ordinary Shares of 10 pence each
Professor G Musgrave	1,370,530	1,370,530	1,370,530
J O Reed	13,300	13,300	13,300

On behalf of the Remuneration Committee

Professor G Musgrave and P Cartmell

Executive Chairman and Chief Executive Officer

27 April 2010

Independent Auditor's Report
to the members of Corac Group plc

We have audited the financial statements of Corac Group plc for the year ended 31 December 2009 which comprise the consolidated statement of comprehensive income, consolidated and parent company statement of financial position, the consolidated and parent company statements of changes in equity, the consolidated and parent company statements of cash flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 7 and 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Tracey James

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford

27 April 2010

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2009

		Group	
	Note	2009 £	2008 £
Revenue	3	1,336,750	661,704
Cost of sales		(946,039)	(409,170)
Gross profit		390,711	252,534
Other income		36,045	46,349
Research and development costs		(2,429,428)	(2,536,031)
Administrative expenses		(1,729,789)	(1,449,981)
Operating loss	4	(3,732,461)	(3,687,129)
Finance income	6	47,147	210,812
Loss before income tax		(3,685,314)	(3,476,317)
Income tax credit	7	750,747	507,758
Loss and total comprehensive expense for the year attributable to shareholders		(2,934,567)	(2,968,559)
		pence	pence
Loss per share expressed in pence per share Basic and diluted loss per share	8	(3.1)	(3.5)

All results relate to continuing activities.

The notes on pages 18 to 40 form part of these financial statements.

Consolidated and Parent Company Statement of Financial Position
as at 31 December 2009

		Group		Parent Company	
	Note	2009 £	2008 £	2009 £	2008 £
ASSETS					
Non current assets					
Property, plant and equipment	9	51,360	83,465	51,360	83,465
Amounts owed by EBT	11	–	–	300,000	300,000
		51,360	83,465	351,360	383,465
Current assets					
Inventories	13	135,900	–	135,900	–
Trade and other receivables	14	503,515	440,675	503,515	440,675
Taxation recoverable	7	680,342	520,000	680,342	520,000
Other short term financial assets	15	–	500,000	–	500,000
Cash and cash equivalents	16	5,343,988	2,121,363	5,292,931	2,058,900
		6,663,745	3,582,038	6,612,688	3,519,575
Total assets		6,715,105	3,665,503	6,964,048	3,903,040
LIABILITIES					
Current liabilities					
Trade and other payables	17	(672,307)	(584,267)	(674,685)	(589,258)
Net assets		6,042,798	3,081,236	6,289,363	3,313,782
EQUITY					
Share capital	18	10,834,398	8,654,932	10,834,398	8,654,932
Share premium		7,938,737	4,332,769	7,938,737	4,332,769
Capital redemption reserve		575,000	575,000	575,000	575,000
Own shares held by the EBT		(551,226)	(551,226)	–	–
Share based payments reserve		294,848	184,153	211,209	108,560
Retained earnings		(13,048,959)	(10,114,392)	(13,269,981)	(10,357,479)
Total equity		6,042,798	3,081,236	6,289,363	3,313,782

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 27 April 2010.

Professor G Musgrave
Executive Chairman
Company number: 3152034

The notes on pages 18 to 40 form part of these financial statements..

Consolidated Statement of Changes in Equity
for the year ended 31 December 2009

	Group						
	Share capital £	**Share premium £**	**Capital redemption reserve £**	**Own shares held by EBT £**	**Share-based payments reserve £**	**Retained earnings £**	**Total £**
Balance at 1 January 2008	8,625,406	4,249,513	575,000	(280,722)	236,189	(7,291,679)	6,113,707
Issue of shares	29,526	83,256	–	–	–	–	112,782
Shares transferred on exercise of options	–	–	–	203,811	–	–	203,811
Purchase of own shares by EBT	–	–	–	(474,315)	–	–	(474,315)
IFRS 2 share option charge	–	–	–	–	93,810	–	93,810
Transfers on exercise of share options	–	–	–	–	(145,846)	145,846	–
Transactions with owners	29,526	83,256	–	(270,504)	(52,036)	145,846	(63,912)
Loss and total comprehensive expense for the year	–	–	–	–	–	(2,968,559)	(2,968,559)
Balance at 31 December 2008	8,654,932	4,332,769	575,000	(551,226)	184,153	(10,114,392)	3,081,236
Issue of shares	2,179,466	3,605,968	–	–	–	–	5,785,434
IFRS 2 share option charge	–	–	–	–	110,695	–	110,695
Transfers on exercise of share options	–	–	–	–	–	–	–
Transactions with owners	2,179,466	3,605,968	–	–	110,695	–	5,896,129
Loss, total recognised loss and total comprehensive expense for the year	–	–	–	–	–	(2,934,567)	(2,934,567)
Balance at 31 December 2009	10,834,398	7,938,737	575,000	(551,226)	294,848	(13,048,959)	6,042,798

The notes on pages 18 to 40 form part of these financial statements.

Parent Company Statement of Changes in Equity
for the year ended 31 December 2009

	Parent Company					
	Share Capital £	**Share premium £**	**Capital redemption reserve £**	**Share-based payments reserve £**	**Retained earnings £**	**Total £**
Balance at 1 January 2008	8,625,406	4,249,513	575,000	61,980	(7,132,942)	6,378,957
Issue of shares	29,526	83,256	–	–	–	112,782
IFRS 2 share option charge	–	–	–	77,046	–	77,046
Transfers on exercise of share options	–	–	–	(30,466)	30,466	–
Transactions with owners	29,526	83,256	–	46,580	30,466	189,828
Loss, total recognised loss and total comprehensive expense for the year	–	–	–	–	(3,255,003)	(3,255,003)
Balance at 31 December 2008	8,654,932	4,332,769	575,000	108,560	(10,357,479)	3,313,782
Issue of shares	2,179,466	3,605,968	–	–	–	5,785,434
IFRS 2 share option charge	–	–	–	102,649	–	102,649
Transactions with owners	2,179,466	3,605,968	–	102,649	–	5,888,083
Loss and total comprehensive expense for the year	–	–	–	–	(2,912,502)	(2,912,502)
Balance at 31 December 2009	10,834,398	7,938,737	575,000	211,209	(13,269,981)	6,289,363

The notes on pages 18 to 40 form part of these financial statements.

Consolidated and Parent Company Statement of Cash Flows
for the year ended 31 December 2009

		Group		Parent Company	
	Note	2009 £	2008 £	2009 £	2008 £
Operating activities					
Loss before income tax		(3,685,314)	(3,476,317)	(3,663,249)	(3,762,761)
Adjustments for:					
Profit on sale of property, plant and equipment		–	–	–	–
Depreciation		51,363	89,618	51,363	89,618
Finance income		(47,147)	(210,812)	(47,056)	(207,228)
Share based payment expense		110,695	93,810	102,649	77,046
Increase in impairment on loan to the EBT	11	–	–	–	300,000
Increase in inventories		(135,900)	–	(135,900)	–
(Increase)/decrease in trade and other receivables		(62,840)	148,238	(62,840)	148,238
Increase in trade and other payables		88,040	197,764	85,427	197,454
		(3,681,103)	(3,157,699)	(3,669,606)	(3,157,633)
Income tax received		590,405	497,758	590,405	497,758
Net cash used in operating activities		(3,090,698)	(2,659,941)	(3,079,201)	(2,659,875)
Investing activities					
Finance income		47,147	210,812	47,056	207,228
Purchase of property, plant and equipment		(19,258)	(21,551)	(19,258)	(21,551)
Increase in loan to Employee Benefit Trust		–	–	–	(300,000)
Net cash from/(used in) investing activities		27,889	189,261	27,798	(114,323)
Financing activities					
Proceeds from issue of shares	18	5,946,137	112,782	5,946,137	112,782
Expenses of issue of shares		(160,703)	–	(160,703)	–
Proceeds on exercise of employee share options granted by the EBT		–	203,811	–	–
EBT purchase of shares	19	–	(474,315)	–	–
Cash transferred from/(to) short term deposits	15	500,000	(250,000)	500,000	(250,000)
Net cash from/(used in) financing activities		6,285,434	(407,722)	6,285,434	(137,218)
Net increase/(decrease) in cash and cash equivalents		3,222,625	(2,878,402)	3,234,031	(2,911,416)
Cash and cash equivalents at beginning of year		2,121,363	4,999,765	2,058,900	4,970,316
Cash and cash equivalents at end of year		5,343,988	2,121,363	5,292,931	2,058,900

The notes on pages 18 to 40 form part of these financial statements.

Notes to the Financial Statements

1. Nature of operations

The principal activities of Corac Group plc and its subsidiaries (the "Group") comprise the research and development of high speed, direct drive compressors based on its expertise in gas bearings and high speed shafts and motor drives for use in the extraction of gas from gas wells and for supercharging piston compressors used in factory applications.

The Group has two main applications being:

a. Downhole gas compressors ('DGCs') for deployment at the bottom of gas wells to increase the potential rate of extraction of gas and the absolute volume of gas that can be economically extracted. Under a Joint Industry Programme ('JIP'), the research and development has been supported by three gas operating companies ('JIP Partners'). The Group is working towards deployment of a DGC in a field trial at a gas well which is targeted for 2010.

b. Industrial air compressors for use in supercharging existing piston compressors used in factory applications. Machines are currently being trialled in customers' operations, including at a food and beverage company.

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

2. Summary of significant accounting policies

2.1 Basis of preparation

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

The financial statements have been prepared under the historical cost convention. The measurement bases and principal accounting policies of the Group and Parent Company are set out below. The accounting policies adopted are consistent with those of the previous financial year except as follows:

- IFRS 8 Operating Segments (effective 1 January 2009)
- IAS 1 Presentation of Financial Statements (effective 1 January 2009)
- Improvements to IFRSs (May 2008)

The impact on the adoption of these standards on the financial statements or performance of the Group is described below:

IFRS 8 Operating Segments

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Group concluded that a single operating segment exists in accordance with IFRS 8. IFRS 8 disclosures and the impact of the change in accounting standard are shown in Note 3.

IAS 1 Presentation of Financial Statements

The revised standard separates owner and non–owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non–owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense in one single statement.

The adoption of the revised standard does not affect the financial position or performance of the Group in the current or preceding periods. The measurement, classification and recognition of the Group's assets, liabilities, income and expenses is unchanged.

Going concern

Based upon the results of their enquiries, the directors have a reasonable expectation that the Group and Parent Company have 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 consolidated and Parent Company financial statements.

In reaching this conclusion the directors have considered many factors, both within and outside their control, including:

- detailed financial projections (including cash flow projections) which incorporate experience gained from historical budgeting and forecasts updated on a monthly basis.
- support of key partners, customers and staff in the development and validation of the Group's technology and products, in particular in respect of the validation of the DGC through field trials;
- financial risk management including the Group's financial commitment to the development and delivery of products.

Notes to the Financial Statements (continued)

2.2 Significant management judgements in applying accounting policies

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

(i) Recognition of revenue

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

(ii) Capitalisation of development costs

Development costs are capitalised when all of the conditions set out below in note 2.6 "Research and development" have been met.

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

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

The Group and Parent Company have not yet capitalised any development costs as the criteria set out in IAS 38, "Intangible Assets", have not been met. Research and development costs expensed for the year ended 31 December 2009 were £2,429,428 (2008: £2,536,031).

(iii) Deferred tax assets

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

2.3 Estimation uncertainty

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

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

(i) Research and development tax credits ("R&D Tax Credits")

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

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

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

In 2009 the Group and Parent Company received a cash refund of £590,405 (2008: £497,758) from HM Revenue & Customs in respect of R&D Tax Credits for qualifying R&D expenditure incurred in 2008.

The Group and Parent Company have recognised an R&D Tax Credit of £680,342 (2008: £520,000) in respect of the year ended 31 December 2009 which is subject to submission to and acceptance by HM Revenue & Customs. The actual R&D Tax Credit which will be assessed and the resulting cash receipt from HM Revenue & Customs may be greater or less than this amount.

Notes to the Financial Statements (continued)

2.3 Estimation uncertainty (continued)

(ii) Recognition of revenue

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

(iii) Establishment of provisions for trade and other receivables

The provision for impairment of trade and other receivables is based upon management's judgement and at 31 December 2009 Group and Parent Company trade receivables were £275,937 (2008: £136,500) and Parent Company receivables from the Employee Benefit Trust (net of impairment) were £300,000 (2008: £300,000).

(iv) Share-based payments

The calculation of the share–based payments expense utilises assumptions and estimates (e.g. share volatility, future exercise rates) which may differ from actual results. Details of the accounting policy are set out in note 2.15(i).

2.4 Basis of consolidation

The consolidated financial statements consolidate those of the Parent Company and all of its subsidiary undertakings (the "Group") and the Corac Employee Benefit Trust (see note 19). Subsidiary undertakings are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

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

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

The Parent Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and has not presented its profit and loss account. The Parent Company's result for the year was a loss of £2,912,502 (2008: £3,255,003).

2.5 Revenue

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

(i) Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods which is generally when the goods have been delivered to the customer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

(ii) Rendering of services (including for research and development)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the balance sheet date can be measured reliably and is generally estimated by reference to the meeting of performance milestones as defined in the relevant agreement; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Where a contract for goods or services involves delivery of several different elements and is not fully delivered or performed by the year end, revenue is recognised based on the proportion of the fair value of the elements delivered to the fair value of the overall contract.

Notes to the Financial Statements (continued)

(iii) Licence fees

Revenue from licence fees is recognised in accordance with the above accounting policy for the rendering of services. Revenue from upfront licence fees is recognised on commencement of the licence in the event that the Group has no further actual or contingent obligations in respect of the supply.

2.6 Research and development

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

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

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

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

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

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

2.7 Finance income

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

2.8 Property, plant and equipment

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

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

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

Management reviews the useful lives and residual values of all depreciable assets at each reporting date. At 31 December 2009 management assesses that the useful lives represent the expected utility of the assets to the Group and Parent Company.

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

2.9 Inventories and work-in-progress

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

2.10 Operating leases

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

Notes to the Financial Statements (continued)

2.11 Taxation

Income 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. The income tax recoverable in respect of research and development cash tax credits is based upon management estimates, judgements and assumptions considered reasonable at the time but the actual income tax recoverable may differ from those estimates.

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

Deferred income tax is provided in full, using the liability method, on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. A deferred income tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. For management's assessment of the probability of future taxable income to utilise against deferred tax assets, see note 2.3(iii).

2.12 Cash and cash equivalents

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

2.13 Financial instruments

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

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

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

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

(i) Financial assets

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

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

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

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

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

Loans and receivables

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

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

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

(ii) Financial liabilities

The Group and Parent Company's financial liabilities comprise trade and other payables.

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

Notes to the Financial Statements (continued)

2.14 Equity

Equity comprises the following:

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

2.15 Employee benefits

Defined Contribution Pension Scheme

The Group and Parent Company operate a defined contribution pension scheme and a stakeholder pension scheme for employees. The assets of the scheme are held separately from those of the Group and Parent Company. The pension cost charged against profits represent the amounts payable by the Group or Parent Company and is expensed as it becomes payable.

(i) Share-based payment

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

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

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

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

(ii) Employee benefit trust

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

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

(iii) Short-term employee benefit costs

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

2.16 Government grants

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

2.16.1 Foreign currency translation

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

Notes to the Financial Statements (continued)

3. Segmental reporting

Business segments

The Group has adopted IFRS 8 Operating Segments for the first time in 2009. For management purposes, the Group is treated as a single business unit comprising the research and development of high speed compressors, and as such a single reportable business segment exists. Current activities in this reportable segment are (i) the development of downhole gas compressors and (ii) the development of compressors for industrial air applications acting as superchargers for piston compressors. These activities are based on common intellectual property relating to air and gas bearings, high speed shafts and motor drives which is applicable to high speed compressors used in the DGC and industrial air operating activities. All activities are managed by one board and staff and operating costs are not exclusively assigned to any one activity. All income, expenses, cash flows, assets and liabilities for the current and preceding periods are attributable to this single reportable business segment.

Revenue in 2009 from four customers amounted to more than 10% of total revenue, contributing £604,956 (2008: £136,500), £271,089 (2008: £nil), £245,000 (2008: £136,500) and £170,000 (2008: £136,500) respectively. All revenues relate to the single reportable business segment.

Geographical segments

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

	Group	
	2009 £	**2008 £**
United Kingdom	170,000	336,664
European Union	895,256	325,040
Rest of the World	271,494	–
	1,336,750	661,704

Notes to the Financial Statements (continued)

4. Operating loss

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

	Group	
	2009 £	**2008 £**
Staff costs		
Wages and salaries	1,922,610	1,610,186
Social security costs	187,888	165,236
Other pension costs	105,959	90,162
	2,216,457	1,865,584
Depreciation of property, plant & equipment	51,363	89,618
Operating lease expense – rent	156,164	152,661
Auditor's remuneration		
Fees payable for the audit of the Parent Company and consolidated financial statements	21,000	22,750
Tax services	5,000	4,900
All other services	–	7,340

Included in wages and salaries is a total expense of share-based payments of £110,695 (2008: £93,810), all of which arises from transactions accounted for as equity-settled share-based payment transactions.

Staff numbers

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

	Group	
	2009 Number	**2008 Number**
Engineering	28	24
Administration	7	7
	35	31

Pension costs

The Group and Parent Company operate a money purchase pension scheme and a group stakeholder pension scheme. The assets of these schemes are held separately from those of the Group in administered funds. The pension cost charge represents contributions payable by the Group to these funds and amounted to £105,959 (2008: £90,162). There were outstanding contributions of £398 (2008: £842) payable to these funds at the year end. The nature of the Group's schemes is such that there is no possibility of a surplus or deficiency in funding arising from past service.

Notes to the Financial Statements (continued)

5. Directors' emoluments

Key management of the Group are members of the board of directors. Key management personnel remuneration includes the following expenses:

	Group	
	2009 £	**2008 £**
Emoluments	490,601	553,668
Termination payments	100,000	16,500
Pension contributions	28,506	25,990
Share-based payments	72,169	53,537
	691,276	649,695

Four directors (2008: five) accrued benefits under the Group pension schemes during the year. During the year nil directors (2008: nil) exercised share options.

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

	Group	
	2009 £	**2008 £**
Emoluments	100,082	150,000
Termination payments	100,000	–
Pension contributions	6,762	8,890
Share-based payments	–	28,116
	206,844	187,006

6. Finance income

	Group	
	2009 £	**2008 £**
Interest income on financial assets	47,147	210,812

Notes to the Financial Statements (continued)

7. Taxation

Credit to consolidated income statement

	Group 2009 £	Group 2008 £
Corporation tax – research and development credit		
Current year	680,342	520,000
Prior year over/(under) provision	70,405	(12,242)
	750,747	507,758

The tax credit for the period is lower than the standard rate of corporation tax in the UK of 28% (2008: 28.5%). The differences are explained as follows:

	Group 2009 £	Group 2008 £
Loss on ordinary activities before taxation	3,685,314	3,476,317
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 28.5%)	1,031,888	990,750
Effect of:		
Expenses not deductible for tax purposes	(3,245)	(857)
Depreciation in excess of capital allowances	(6,431)	(26,772)
Share-based payments	(30,995)	57,266
Research and development enhanced relief	587,001	413,130
Surrender of tax losses for research and development credit	(680,342)	(468,094)
Trading losses carried forward	(217,658)	(445,423)
Other short term timing differences	124	–
Adjustment in respect of prior years	70,405	(12,242)
Current tax credit for the year	750,747	507,758

Subject to agreement by HM Revenue & Customs, Corac Group plc has approximately £7,500,000 (2008: £6,900,000) of unrelieved tax losses.

Notes to the Financial Statements (continued)

7. Taxation (continued)

Deferred taxation

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

	Group	
	2009 **£**	**2008** **£**
Accelerated capital allowances and other temporary differences	2,372	3,859
Losses	(2,372)	(3,859)
	–	–

8. Loss per share

The calculation of basic loss per share for the year ended 31 December 2009 is based upon a loss after tax of £2,934,567 (2008: £2,968,559) and a weighted average number of shares of 95,504,878 (2008: 85,156,760). The weighted average number of shares has been reduced by the weighted average number of shares held by the Employee Benefit Trust.

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

Notes to the Financial Statements (continued)

9. Property, plant and equipment

	Group and Parent Company				
	Short leasehold improvements £	Computer equipment £	Office furniture & fittings £	Plant & machinery £	Total £
Cost					
At 1 January 2008	189,827	283,259	24,850	339,344	837,280
Additions	–	–	–	21,551	21,551
At 31 December 2008	189,827	283,259	24,850	360,895	858,831
Additions	–	7,168	–	12,090	19,258
At 31 December 2009	189,827	290,427	24,850	372,985	878,089
Accumulated depreciation					
At 1 January 2008	128,410	265,201	23,385	268,752	685,748
Charge for year	22,098	9,407	821	57,292	89,618
At 31 December 2008	150,508	274,608	24,206	326,044	775,366
Charge for year	22,098	7,866	507	20,892	51,363
At 31 December 2009	172,606	282,474	24,713	346,936	826,729
Net book value					
At 1 January 2008	61,417	18,058	1,465	70,592	151,532
At 31 December 2008	39,319	8,651	644	34,851	83,465
At 31 December 2009	17,221	7,953	137	26,049	51,360

Notes to the Financial Statements (continued)

10. Investments in subsidiary undertakings

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

	Parent Company	
	2009 £	**2008 £**
Net book value	–	–

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

The above group undertakings have been dormant throughout 2009 and 2008.

11. Amounts owed by Employee Benefit Trust

	Group		Parent Company	
	2009 £	**2008 £**	**2009 £**	**2008 £**
Amounts owed by EBT	–	–	600,000	600,000
Less: impairment	–	–	(300,000)	(300,000)
	–	–	300,000	300,000

The loan to the Employee Benefit Trust is interest free and unsecured. Details of the Employee Benefit Trust are provided in note 19. The loan is repayable under the following circumstances:

(i) From receipt of consideration from the sale of shares in the Parent Company purchased with the loan; and

(ii) Following any lapses in options granted by the Employee Benefit Trust over shares in the Parent Company, the Parent Company can force the sale of shares to repay the loan.

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

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

The impairment against the loan has been made as consequence of the decline in the open market value of the shares in the Parent Company held by the Employee Benefit Trust which could affect its ability to fund future loan repayments.

Notes to the Financial Statements (continued)

12. Financial assets and liabilities

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

	Group		Parent Company	
	2009 £	2008 £	2009 £	2008 £
Financial assets				
Loans and receivables:				
Amounts owed by EBT (note 11)	–	–	300,000	300,000
Trade and other receivables (note 14)	291,898	212,921	291,898	212,921
Cash and cash equivalents (note 16)	5,343,988	2,121,363	5,292,931	2,058,900
	5,635,886	2,334,284	5,884,829	2,571,82
Financial assets at fair value through profit or loss:				
Other short term financial assets (note 15)	–	500,000	–	500,000
Financial liabilities				
Financial liabilities measured at amortised cost (note 17):				
Trade payables	218,513	253,507	218,513	253,507
Other payables	101,710	47,906	101,710	47,906
Amount owed to subsidiary undertakings	–	–	5,301	5,031
Accrued expenses	287,380	230,612	284,457	230,302
	607,603	532,025	609,981	537,016

See note 2.13 for a description of the accounting policies for each category of financial instruments. The fair values are presented in the related notes. A description of the Group's risk management and objectives for financial instruments is given in note 20.

13. Inventories

	Group		Parent Company	
	2009 £	2008 £	2009 £	2008 £
Work in progress	135,900	–	135,900	–

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

Notes to the Financial Statements (continued)

14. Trade and other receivables

	Group		Parent Company	
	2009 £	**2008 £**	**2009 £**	**2008 £**
Financial assets:				
Trade receivables	275,937	136,500	275,937	136,500
Other receivables	15,961	76,421	15,961	76,421
	291,898	212,921	291,898	212,921
Non-financial assets:				
Prepayments and other receivables	119,622	178,150	119,622	178,150
Other taxes	91,995	49,604	91,995	49,604
	503,515	440,675	503,515	440,675

The carrying value of trade and other receivables is considered a reasonable approximation of fair value due to their short term nature. There have been no provisions for impairments of receivables during 2009 (2008: £nil). Trade receivables comprises a balance of £nil (2008: £136,500) which was 180 days past due.

Included within Prepayments and other receivables are recoverable property improvement costs of £25,000 (2008: £25,000) and a rent deposit of £39,340 (2008: £39,340) which are due after more than one year. All other amounts are short term.

15. Other short term financial assets

	Group		Parent Company	
	2009 £	**2008 £**	**2009 £**	**2008 £**
Other short term financial assets	–	500,000	–	500,000

Other short term financial assets comprise medium term certificates of deposit on fixed rates of interest held with banks meeting the Group's criteria in respect of credit ratings.

The fair value of the Group and Parent Company's investments has been determined by their open market value at the reporting date. See note 20 for information on the Group and Parent Company's exposure to credit risk.

Notes to the Financial Statements (continued)

16. Cash and cash equivalents

	Group		Parent Company	
	2009 £	2008 £	2009 £	2008 £
Cash and cash equivalents	5,343,988	2,121,363	5,292,931	2,058,900

The funds were placed on deposit as follows:

		Group		Parent Company	
	Interest Rate type	2009 £	2008 £	2009 £	2008 £
Cash at bank and in hand	Floating	2,843,988	621,363	2,792,931	558,900
Short term deposits	Fixed	2,500,000	1,500,000	2,500,000	1,500,000
		5,343,988	2,121,363	5,292,931	2,058,900

17. Trade and other payables

	Group		Parent Company	
	2009 £	2008 £	2009 £	2008 £
Amounts falling due within one year				
Financial liabilities:				
Trade payables	218,513	253,507	218,513	253,507
Other payables	101,710	47,906	101,710	47,906
Amount owed to subsidiary undertakings	–	–	5,301	5,301
Accrued expenses	287,380	230,612	284,457	230,302
	607,603	532,025	609,981	537,016
Non-financial liabilities:				
Other taxes and social security	64,704	52,242	64,704	52,242
	672,307	584,267	674,685	589,258

The carrying values of trade and other payables are considered to be a reasonable estimate of their fair values. All amounts are non interest bearing.

Notes to the Financial Statements (continued)

17. Trade and other payables (continued)

The maturity analysis of financial liabilities is as follows:

	Group		Parent Company	
	2009 £	**2008 £**	**2009 £**	**2008 £**
Less than 2 months	607,603	481,771	609,981	486,762
2 – 6 months	–	5,000	–	5,000
7 – 12 months	–	45,254	–	45,254
	607,603	532,025	609,981	537,016

18. Share capital

	Parent Company	
	2009 £	**2008 £**
Allotted, called up and fully paid		
108,343,977 (2008: 86,549,322) ordinary shares of 10p each	10,834,398	8,654,932
	Number	Number
At 1 January	86,549,322	86,254,059
Issued in respect of placing	21,794,655	–
Issued in respect of share option exercises	–	295,263
At 31 December	108,343,977	86,549,322

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

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Corac Group plc. None of the Parent Company shares are held by any company in the Group. The Employee Benefit Trust holds shares in the Parent Company as set out in note 19.

On 2 February 2009 the Company announced the placing of 7,662,835 new ordinary shares of 10p each at 13.05 pence per share. On 28 September 2009 the Company announced the placing of 14,131,820 ordinary shares of 10p each at 35.00 pence per share. All these shares were subsequently admitted for trading on AIM.

Notes to the Financial Statements (continued)

Options

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

	Unapproved schemes		EMI scheme		Total		
Number of options	**Parent Company**	**EBT**	**Parent Company**	**EBT**	**Parent Company**	**EBT**	**Total**
At 31 December 2008	2,324,303	576,100	2,377,038	1,106,575	4,701,341	1,682,675	6,384,016
Lapsed during the year	–	(126,100)	(25,000)	(193,900)	(25,000)	(320,000)	(345,000)
Granted during the year	1,930,360	–	569,640	–	2,500,000	–	2,500,000
At 31 December 2009	4,254,663	450,000	2,921,678	912,675	7,176,341	1,362,675	8,539,016

The exercise of options is generally subject to continued employment and to satisfaction of the applicable performance conditions. At 31 December 2009, performance conditions not satisfied relate to the market price of the ordinary shares of the Parent Company as quoted on the Alternative Investment Market ("AIM") of the London Stock Exchange.

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

	2009 number of options	2009 weighted average exercise price (pence)	2008 number of options	2008 weighted average exercise price (pence)
As at 1 January	6,384,016	38.6	6,223,939	41.1
Exercised during the year	–	–	(841,585)	37.7
Lapsed during the year	(345,000)	61.9	(408,338)	45.9
Granted during the year	2,500,000	41.1	1,410,000	29.3
At 31 December	8,539,016	38.4	6,384,016	38.6
Exercisable at 31 December	4,410,637	38.9	2,898,982	40.0

No share options were exercised during the year. The options outstanding at 31 December 2009 had exercise prices as shown in the following table and a weighted average remaining contractual life of 7.1 years.

Notes to the Financial Statements (continued)

18. Share capital (continued)

At 31 December 2009 options over ordinary 10p shares together with the fair value per option granted and the assumptions used in the calculation of fair value for awards made after 7 November 2002, are set out in the table below.

The market price of the Parent Company's shares at 31 December 2009 was 26.12p and the range during the year was between 59.50p and 11.50p.

Expected volatility is a measure of the amount by which a share price is expected to fluctuate during a period. For options issued in 2008 and 2009, expected volatility was based on the volatility of the Parent Company's shares during the previous 12 months. For options issued in earlier periods, the volatility of the Parent Company's share price was calculated as the average of annualised standard deviations of daily continuously compounded returns on the Parent Company's stock, calculated over 1, 2 and 3 years back from the date of grant where possible.

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

Date of grant	Number		Option price per share Pence	Closing share price at grant Pence	Exercise price Pence	Expected volatility %	Risk–free interest rate %	Fair value per share Pence
2000	1,313,002		38.46					
2001	34,668		38.46					
2001	18,667		85.50					
2001	3,334		86.50					
2002	9,334	*	22.00	22.00	22.00	50.19	4.39	10.72
2002	100,000	*	22.00	22.00	22.00	50.19	4.38	10.71
2003	108,334	*	34.00	34.00	34.00	42.82	4.78	15.05
2004	48,334	*	33.00	33.00	33.00	37.69	4.50	13.28
2005	21,670	*	31.25	32.25	31.25	38.54	4.20	13.36
2006	530,003	*	37.50	36.50	37.60	38.26	4.30	11.41
2007	616,670		36.00	36.00	36.00	35.44	5.35	7.20
2007	855,000		39.00	38.50	39.00	35.04	5.30	9.45
2007	90,000		48.50	49.50	48.50	35.54	5.51	14.75
2007	550,000		51.50	51.50	51.50	29.32	4.58	10.10
2007	750,000		53.67	52.00	53.67	29.32	4.58	7.99
2008	545,000	*	14.90	16.75	14.9	79.50	2.76	7.96
2008	445,000		14.90	16.75	14.9	79.50	2.76	7.96
2009	2,000,000		42.00	41.40	42.00	69.13	0.86	15.19
2009	300,000		39.00	35.75	39.00	69.13	1.04	12.34
2009	200,000		34.75	32.00	34.75	69.13	1.02	11.08
	8,539,016							

* These options were issued by the Employee Benefit Trust.

All options expire 10 years after the date of grant.

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

Notes to the Financial Statements (continued)

19. Employee Benefit Trust

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

At 31 December 2009 the Parent Company had loaned £600,000 (2008: £600,000) to the Corac Employee Benefit Trust. With this loan the Trustee purchased shares in the Parent Company and, at 31 December 2009, the Corac Employee Benefit Trust held 1,506,347 (2008: 1,506,347) ordinary shares in Corac Group plc with a book cost of £643,310 (2008: £643,310) which had a market value of £393,533 (2008: £252,313). As set out in note 2.17(ii), neither the purchase nor sale of shares in the Parent Company leads to a gain or loss being recognised in the consolidated statement of comprehensive income but instead these are shown as movements on consolidated equity.

Options have been granted over 1,362,675 (2008: 1,682,675) shares to certain employees being: 9,334 exercisable at 22.0p per share until 17 December 2012, 100,000 at 22.0p per share until 19 December 2012, 108,334 at 34.0p per share until 11 December 2013, 48,334 at 33.0p per share until 15 December 2014, 21,670 at 31.25p per share until 28 December 2015, 530,003 at 37.5p per share until 27 July 2016 and 545,000 at 14.9p per share until 30 December 2018. These options are subject to performance conditions. At 31 December 2008, performance conditions not satisfied relate to the market price of the ordinary shares of the Parent Company as quoted on the Alternative Investment Market ("AIM") of the London Stock Exchange.

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

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

20. Risk management objectives and policies

Liquidity risk

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

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

Credit risk

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

The Group's exposure to credit risk is also attributable to its trade receivables which, as set out in note 14, at 31 December 2009 were £275,937 (2008: £136,500). The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. There are no doubtful receivables at the end of 2009.

Notes to the Financial Statements (continued)

20. Risk management objectives and policies (continued)

Interest rate risk

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

The Group's fixed rate investments in pounds were held in sterling and during the year were placed with banks for between overnight and six months and earned interest at between 6.4% and 0.5%. Floating rate cash deposits earned interest based upon the relevant LIBOR equivalents and earned interest at between 1.8% and 0.8%. The weighted average interest rate received on all funds deposited during the year was 1.6%. A change in the rate of 1% in interest rates would have impacted the finance income by £29,937 in the year ended 31 December 2008 (2008: £38,193).

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

Foreign currency risk

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

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

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

The amounts held on short term deposit are analysed in note 16. All financial liabilities were short term.

Notes to the Financial Statements (continued)

21. Financial commitments under operating leases

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

	Group and Parent Company	
	2009 £	**2008 £**
Land and buildings (as a lessee)		
Within one year	156,164	157,551
From one year to five years	–	150,000
	156,164	307,551

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

At 31 December 2009 the Group had no capital commitments (2008: £nil).

22. Contingent liabilities

There is a contingent liability for the Group and Parent Company in respect of a rent deposit guarantee for £37,500 (2008: £37,500) in respect of a property lease.

Notes to the Financial Statements (continued)

23. Related party transactions

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

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

ii. Fees of £24,000 (2008: £12,000) were invoiced by NM Rothschild & Sons Limited, a company of which Ms S E A Westerman is Managing Director in the Investment Banking Division, in respect of director's services provided by Ms S E A Westerman, of which £2,300 (2008: £2,000) was outstanding at the year end.

iii. Fees of £nil (2008: £24,504) 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.

iv. Fees of £nil (2008: £68,310) 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 (2008: £6,119).

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

i. Fees of £3,099 (2008: £52,247) were invoiced by Mechadyne plc, a company of which Professor G Musgrave is a director in respect of engineering services provided by various individuals.

ii. Fees of £nil (2008: £1,149) were invoiced by Bhive Advertising, a business controlled by a party related to Mr J O Reed.

Company Information

Company number
3152034

Directors

Professor G Musgrave
Executive Chairman

P Cartmell
Chief Executive Officer

M S Crawford
Commercial & Finance Director

J O Reed
Chief Technical Officer

S E A Westerman
Non-executive Director

A J Wood
Non-executive Director

Secretary
M S Crawford

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Solicitor
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