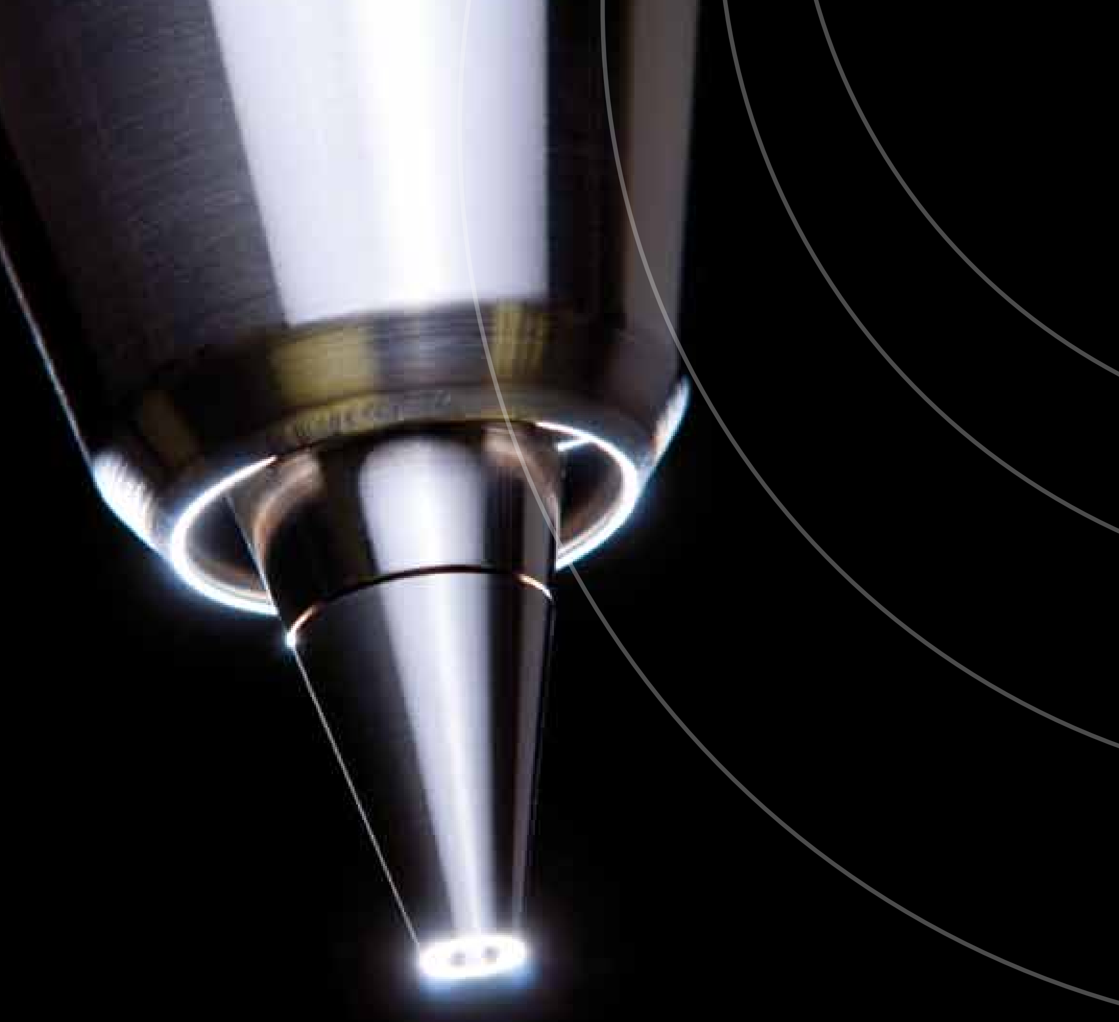

corac

innovation and technology engineering

Corac Group plc

Interim Report for the six months ended 30 June 2011

Stock Code: CRA

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

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Highlights

Operational Highlights

- Downhole Gas Compressor ("DGC") feasibility study signed with OMV Austria Exploration & Production GmbH ("OMV") in February 2011. Well analysis work completed and front end engineering design progressing towards completion in the third quarter of 2011.
- Agreement with Aramco Overseas Company B.V ("AOC") signed in May 2011 for the development of an In-line Gas Compressor ("IGC").
- Improved design, assembly processes and testing protocols introduced for the ENI SpA ("ENI") DGC following successful functional testing and reliability analysis.
- Detailed design stage of the DGC for North American partner approaching completion.
- Memorandum of Understanding ("MoU") signed with a major global industrial compressor partner in March 2011 to identify potential applications for Corac's high speed no-oil compressors.
- Mark Crawford appointed Group Managing Director in June 2011.
- Board strengthened by the appointment of Richard King as Non-Executive Director in February 2011.
- Heads of terms agreed on a new Technology Centre based in Slough.

Financial Highlights

- Revenues of £0.19m (2010: £0.05m) reflect finance from development partners and are expected to grow in the second half.
- Total R&D spend £1.47m (2010: £1.73m).
- Loss per share 1.7p (2010: loss per share 2.2p).
- Cash of £19.60m (2010: £3.69m).

Executive Chairman's Statement

Introduction

During the first half of 2011 we made substantial progress across our portfolio of contracted development projects, further building on our technology platform and progressing the development of the DGC for its first customer handover. We continue to explore other applications for our core technology with our global industrial partners. Our infrastructure now enables us to manage and deliver multiple complex projects within a framework of tighter financial and operational controls.

Financial Review

The financial results for the half year ended 30 June 2011 show a loss before tax of £2.35m (2010: £2.76m) which is broadly in line with our expectations. Revenues come from partner finance to support our technology development programmes and were £0.19m (2010: £0.05m). They are recognised in line with the progress on individual projects and are expected to grow for the second half of the year. Whilst we have invested more in the final assembly and testing stage for ENI in order to address the stability improvements of the DGC identified in the first quarter, overall costs of £2.63m (2010: £2.83m) have been well controlled and are lower than expected.

Technology Development Review

DGC Programme

Following the successful functional testing at the end of March 2011 we carried out extensive additional trials focussed on enhancing the DGC reliability.

Within the high power electronics system, design and assembly process improvements have been introduced. Working closely with ENI specialists, we have agreed revised protocols for testing which are currently underway. In addition, certain components identified through this work have been enhanced and orders have been placed with a specialist supplier in Japan, which will better support the future roll out of both the ENI project and the wider DGC programme.

The process of proving reliability of these improvements will provide both parties with the confidence to proceed with the integrated system and endurance runs. These are structured to meet ENI's acceptance criteria, ahead of field trials in Italy. Our facility in Spadeadam has been upgraded with new safety equipment that allows extra tests to be carried out for this purpose.

The knowledge and experience gained from the above modifications are now being incorporated into the general design and layout for our electronics technology. This will underpin future development work and has already been applied to the design and configuration of the DGC for our North American partner.

The detailed design stage is approaching completion with the majority of the components being manufactured by our suppliers. The specialist materials selected with our partner for this application require complex machining and our selected suppliers are among the few in Europe with the expertise to meet the requirements.

Also in the first half of this year a financed feasibility project was secured to investigate the application of a third DGC with OMV, a leading oil and gas corporation in Central Europe. The well analysis and front end engineering design work has been completed and the project team is now working on the business case for potential build and deployment options.

IGC Programme

Over the last few months significant steps have been taken to strengthen our position by building a broader platform of applications using our core technology. In this respect we signed a development agreement with AOC, part of Saudi Aramco, a world leading oil and gas exploration and production company, for an alternative application of our unique compact high speed compressor technology. The IGC is to be located above ground and introduced into the production pipeline to boost and optimise network gas flows.

After initial meetings at our Uxbridge facility, the project has progressed to the next stage which involves identifying suitable candidate wells and agreeing associated system specifications with our partner in readiness for the engineering design phase.

This is an excellent opportunity to deliver a major new application of our core technology. We believe the market for in-pipe applications for boosting and optimising gas flows is as important as artificial lift for the oil and gas industry and provides Corac with the ability to create significant value.

Industrial Programme

In March 2011 a relationship was formalised with a major global industrial compressor company under a Memorandum of Understanding. Customer consultations have been carried out by our partner to identify potential applications for our high speed no-oil compressors. Key areas of mutual interest are water treatment, pneumatic conveying and turbo boosting of conventional compressors.

Business Development & Innovation

The relationship with Baker Hughes under our marketing and sales collaboration agreement is providing insight and support to our new Business Development team in helping to raise the profile and potential of our DGC technology.

Our Business Development and Innovation teams are actively engaged with major industrial players to understand and value the potential of our technology and our capability to generate future revenues.

The Innovation team continues to support these external partner discussions whilst also focusing on research and development. Further patent applications are being reviewed and filed in order to enhance our Intellectual Property portfolio.

In conjunction with these new partner discussions, research is underway into looking at the potential for near term applications utilising in-pipe compression boosting. For example, our compact technology can assist with pressure boosting not only in gas distribution pipelines but also in the field of gas re-injection for increased oil recovery. Additionally, we are researching the evolution of our in-pipe compressors for subsea use at the wellhead. Also, Corac's DGC power distribution systems are being investigated for the application of long reach power solutions.

Infrastructure

We have developed and are now demonstrating the ability to secure and manage multiple projects with leading industrial organisations. This is essential for the future of our business in developing the value of our intellectual property through development partners such as Saudi Aramco or route-to-market partners such as Baker Hughes.

Recent recruitment and improvements in engineering management have brought new methods and experience from a wide range of industries such as aerospace and business electronics. This enhancement to our production engineering capability has had a positive impact on our approach to system implementation with greater focus on quality and reliability. The impact of these changes is already benefiting our design approach across the full range of our technology applications and the wider DGC development programme.

We have now identified a suitable site and agreed heads of terms to relocate our business to a new Technology Centre in Slough. The relocation of the business is now moving ahead with fit out of the facility due to be completed by the end of 2011. This new facility provides more suitable technical development capability, capacity for multiple project delivery with better customer hosting and staff working conditions.

Board Changes

As previously reported, the Board was strengthened by the appointment in February 2011 of Richard King as Non-Executive Director to support the Company's strategic development and monitor corporate governance.

Following the AGM in May, I stepped down as Chief Executive but retained my position as Executive Chairman and will continue to focus on Group strategy and managing external affairs. Mark Crawford was appointed Group Managing Director in June 2011 with responsibility for the day to day management of the Group, whilst also retaining responsibility of Chief Financial Officer.

Summary

Our focus is on:

- Building on the excellent partner relationships already in place and broadening the network of new opportunities.
- Delivering development programmes across our DGC and IGC applications.
- Identifying new applications for our technology.
- Investing in the infrastructure of the business around our people and our facilities, including a new office and associated workshop premises and an upgrade to our test facilities at Spadeadam.
- Quantifying the value of our applications for individual customers and the global markets for future revenue stream realisation.
- Maximising the returns on our cash reserves to realise sustainable revenue growth and cash flow for future investment in our core technology.

I believe that we are well positioned to deliver our technology and realise value within the significant markets of global energy and industrial compressors.

Phil Cartmell
Executive Chairman
11 August 2011

Condensed Consolidated Statement of Comprehensive Income

	Unaudited six months ended 30 June 2011 £'000	As restated Unaudited six months ended 30 June 2010 £'000	Audited Year ended 31 December 2010 £'000
Revenue	185	46	663
Cost of sales	(185)	(46)	(663)
Gross profit	—	—	—
Other income	—	7	21
Research and development costs	(1,281)	(1,686)	(2,561)
Administrative expenses	(1,159)	(1,101)	(2,266)
Operating loss	(2,440)	(2,780)	(4,806)
Finance income	91	17	34
Loss before income tax	(2,349)	(2,763)	(4,772)
Income tax credit	300	358	768
Loss and total comprehensive expense for the period attributable to shareholders	(2,049)	(2,405)	(4,004)
Loss per share expressed in pence per share	pence	pence	pence
Basic and diluted loss per share	(1.7)	(2.2)	(3.5)

Condensed Consolidated Statement of Financial Position

	Unaudited 30 June 2011 £'000	Unaudited 30 June 2010 £'000	Audited 31 December 2010 £'000
ASSETS			
Non current assets			
Property, plant and equipment	89	68	59
	89	68	59
Current assets			
Inventories	—	91	—
Trade and other receivables	873	280	631
Taxation recoverable	300	300	710
Cash and cash equivalents	19,603	3,690	21,761
	20,776	4,361	23,102
Total assets	20,865	4,429	23,161
LIABILITIES			
Current liabilities			
Trade and other payables	(970)	(655)	(1,361)
Net assets	19,895	3,774	21,800
EQUITY			
Share capital	24,740	10,834	24,740
Share premium	13,523	7,939	13,523
Capital redemption reserve	575	575	575
Own shares held by the Employee Benefit Trust	(551)	(551)	(551)
Share-based payments reserve	710	431	566
Retained earnings	(19,102)	(15,454)	(17,053)
Total equity	19,895	3,774	21,800

Condensed Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Own shares held by EBT £'000	Share-based payments reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2011	24,740	13,523	575	(551)	566	(17,053)	21,800
IFRS 2 share option charge	—	—	—	—	144	—	144
Transactions with owners	—	—	—	—	144	—	144
Loss and total comprehensive expense for the period	—	—	—	—	—	(2,049)	(2,049)
Balance at 30 June 2011	24,740	13,523	575	(551)	710	(19,102)	19,895
Balance at 1 January 2010	10,834	7,939	575	(551)	295	(13,049)	6,043
IFRS 2 share option charge	—	—	—	—	136	—	136
Transactions with owners	—	—	—	—	136	—	136
Loss and total comprehensive expense for the period	—	—	—	—	—	(2,405)	(2,405)
Balance at 30 June 2010	10,834	7,939	575	(551)	431	(15,454)	3,774
Balance at 1 January 2010	10,834	7,939	575	(551)	295	(13,049)	6,043
Issue of share capital	13,906	5,584	—	—	—	—	19,490
IFRS 2 share option charge	—	—	—	—	271	—	271
Transactions with owners	13,906	5,584	—	—	271	—	19,761
Loss and total comprehensive expense for the year	—	—	—	—	—	(4,004)	(4,004)
Balance at 31 December 2010	24,740	13,523	575	(551)	566	(17,053)	21,800

Condensed Consolidated Statement of Cash Flows

	Unaudited six months ended 30 June 2011 £'000	Unaudited six months ended 30 June 2010 £'000	Audited Year ended 31 December 2010 £'000
Operating activities			
Loss before income tax	(2,349)	(2,763)	(4,772)
Adjustments for:			
Depreciation	11	20	40
Finance income	(91)	(17)	(34)
Share-based payment expense	144	136	271
Decrease in inventories	—	45	136
(Increase)/decrease in trade and other receivables	(242)	223	(128)
(Decrease)/increase in trade and other payables	(391)	(17)	690
	(2,918)	(2,373)	(3,797)
Income tax received	710	738	738
Net cash used in operating activities	(2,208)	(1,635)	(3,059)
Investing activities			
Finance income	91	17	34
Purchase of property, plant and equipment	(41)	(36)	(48)
Net cash from/(used in) investing activities	50	(19)	(14)
Financing activities			
Proceeds from issue of shares	—	—	20,859
Expenses of issue of shares	—	—	(1,369)
Net cash from financing activities	—	—	19,490
Net (decrease)/increase in cash and cash equivalents	(2,158)	(1,654)	16,417
Cash and cash equivalents at beginning of period	21,761	5,344	5,344
Cash and cash equivalents at end of period	19,603	3,690	21,761

Notes to the Condensed Consolidated Interim Financial Statements

1. Nature of operations and general information

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

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

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

The condensed consolidated interim financial statements are presented in pounds sterling, which is also the functional currency of the Parent Company, and all values are rounded to the nearest thousand pounds except when otherwise indicated.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 404 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2010, prepared under IFRS as adopted by the EU, have been delivered to the Registrar of Companies. The auditor's report on the 2010 financial statements was unqualified and did not contain a statement under Section 498(2) or Section 498(3) of the Companies Act 2006.

The condensed consolidated interim financial statements were approved for issue by the Board of Directors on 11 August 2011.

2. Basis of preparation

These condensed consolidated interim financial statements are for the six months ended 30 June 2011. They have been prepared following the principal accounting policies set out in the Group's Annual Report and Accounts for the year ended 31 December 2010. The principal risks and uncertainties of the Group as set out in that Report are broadly unchanged.

Cost of sales is deemed to represent that element of R&D cost financed by development partners. As such this is set to equal revenues recognised from R&D activity. The presentation of cost of sales was amended for the year ended 31 December 2010 and this has resulted in a reclassification of £1,000 between cost of sales and R&D expenses in the comparative income statement for the 6 months ended 30 June 2010. Cost of sales should be viewed as part of total R&D costs.

These condensed consolidated interim financial statements have been prepared under the historical cost convention using accounting policies consistent with International Financial Reporting Standards (IFRS) as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements. While the financial figures included in this half-yearly report have been computed in accordance with IFRS applicable to interim periods, this half-yearly report does not contain sufficient information to constitute an interim financial report as that term is defined in IAS 34.

The directors are satisfied that the group has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

3. Revenues

All revenues have been derived from the Group's research and development activities and the commercialisation of its resultant intellectual property.

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

(i) Sale of goods

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

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

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

4. Loss per share

The calculation of the loss per share is based on the loss for the period divided by the weighted average number of shares in issue during the period as follows:

	Unaudited Six months ended 30 June 2011 number	Unaudited Six months ended 30 June 2010 number	Audited Year ended 31 December 2010 number
Weighted average shares in issue	245,897,878	108,343,977	115,769,849

The weighted average number of shares in issue has been stated after deducting the weighted average number of shares held by the Employee Benefit Trust ("EBT") of 1,506,347 shares (six months ended 30 June 2010: 1,506,347 shares, year ended 31 December 2010 1,506,347 shares).

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.

5. Copies of the interim financial statements

Copies of the interim financial statements are available on the Group's website: http://www.corac.co.uk.

Company Information

Company number

3152034

Directors

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Executive Chairman

M S Crawford
Group Managing Director & Chief Financial Officer

J O Reed
Chief Technical Officer

R R Courtney OBE
Non-executive Director

R W King
Non-executive Director

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