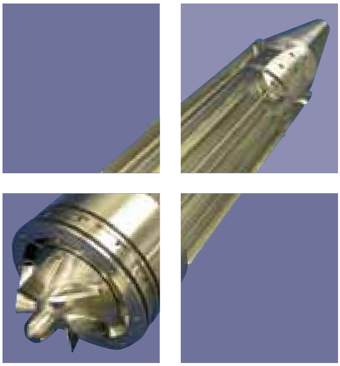
Corac Group plc

Interim report 2009

For the six months ended 30 June 2009



CORAC

Corac Group plc Interim report 2009

For the six months ended 30 June 2009

Corac is an engineering and technology company developing and patenting innovative solutions utilising its compact, high power compressors based on its unique expertise and technology including oil free air bearings, high speed motors and power electronics.

- Corac's pre-production, energy efficient compressors are supercharging existing industrial air compressors used in the food and beverage industry.

- Corac is also part of a joint industry programme with major gas operators to deploy Corac's technology in waning natural gas wells to increase the amount and rate of gas extraction.

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Highlights

Operational Highlights

- Appointment of Phil Cartmell as Chief Executive Officer with immediate effect

Downhole Gas Compressor ('DGC')

- Increased industry recognition through marketing and relationship with Baker Hughes
- Successful testing in Cumbria ahead of field trial
- Technical milestones achieved
- Increased interest from large Oil & Gas operators to join JIP

Industrial Air

- Shipped several machines to Austria

Financial Highlights

- Revenue increased to £0.9 million (2008: £0.5 million)
- Loss after tax of £1.3 million (2008: £1.3 million loss)
- Cash and short term deposits of £2.7 million (2008: £3.6 million)
- Successful placing to raise £1 million (net) in February 2009
- Placing to raise £4.7 million (net) announced today to accelerate commercialisation of technology

Commenting on the future, Chairman, Gerry Musgrave, said:

"We have made solid progress on the DGC, with good technical results from testing in Cumbria. We are confident that the field trial in Italy will be successful and are encouraged by the new enquiries for the DGC as well as by the increased financial resource provided by investors to roll out the technology more rapidly in the market."

Chairman's statement

Introduction

There has been solid progress during the first half, particularly in relation to our Downhole Gas Compressor ('DGC') testing at Spadeadam in Cumbria. We continue to develop our existing areas of business as well as exploring new applications for our technology, resulting in further patents being filed for liquefied natural gas processing applications.

Our unique technology is gaining increased recognition in the industry through our own marketing as well as through our relationship with Baker Hughes and we are benefiting from new customer enquiries in the Oil & Gas industry requiring compressor solutions. As the world leader in this specialist field, identification of multiple development opportunities are helping to move us forward towards commercialisation of the technology.

Financial Review

Revenue for the six month period to 30 June 2009 increased to £0.9 million (2008: £0.5 million), the increase principally being in respect of the DGC field trial. Revenue for the period under review exceeds that for the whole of 2008 and it is anticipated that revenue in the second half will be broadly similar to that of the first half of the year.

Total cost of sales and R&D expenditure amounted to £1.8 million (2008: £1.4 million), reflecting continued investment in the DGC field trial and our Industrial Air products. Loss after tax amounted to £1.3 million (2008: £1.3 million loss), which is in line with our internal forecasts. Cash and short term deposits at 30 June 2009 amounted to £2.7 million (2008: £3.6 million) which includes £1.0 million raised through a Placing of 7.7 million shares in February 2009 at the then market price of 13.05 pence per Ordinary Share.

Placing

The Company is pleased to announce today a placing of 14,131,820 Ordinary Shares with M&G Recovery Fund ('M&G') at a price of 35 pence per share ("the Placing Shares") to raise approximately £4.7 million (net of expenses). These additional funds will strengthen the balance sheet and enable the business to grow and realise its potential more quickly while mitigating the risks of commercialising our technology.

Application has been made to admit the Placing Shares to trading on AIM and Admission is expected to occur on 1 October 2009. The enlarged issued share capital of the Company immediately following admission will comprise 108,343,977 Ordinary Shares with voting rights.

Operational Highlights

During 2009, we have been working hard towards the deployment of the first field trial DGC unit for Eni SpA ('Eni'), one of our Joint Industry Programme ('JIP') partners. The Eni compressors have been on test at our Spadeadam loop facility where they have been performing at full speed and power. The topside power electronics have completed all their functionality and "soak tests", and further testing has to be performed by all contractors including Corac before a test of the complete system can be undertaken.

As stated in my 2008 full year report, this is the first time complex technology of this kind has been deployed in a gas well. We are mindful of the inevitable hurdles that involve not only ourselves but other field trial contractors. There are further important aspects of the systems that have to be produced by Corac and other contractors before a full systems' test can be undertaken. The site in Southern Italy

Chairman's statement (continued)

requires many multidisciplinary contractors to be organised and permissions granted. The project management of the field trial is therefore complex and issues could still arise which may unfortunately delay the trial.

As a result of many presentations being made to senior management of major Oil & Gas operators and through industry publications on DGC leadership *(SPE 121815, Downhole Gas Compression: World's first installation of new Artificial Lifting System for gas wells, 2009, by Eni SpA and Corac Group plc)* a number of projects have been agreed in principle and are subject to contract. Several large companies that declined to join the JIP several years ago have now acknowledged our significant technological breakthroughs and are reconsidering their position.

Our industrial air machines continue to perform well in the market with some achieving over 5,000 service hours at required energy efficiency. This demonstration of reliability is encouraging and we are well placed to take advantage of any recovery in the Industrial Air market, which has experienced a severe downturn during the global recession. Despite this, our joint development programmes, including design refinement and efficiency verification, with Leobersdorfer Maschinenfabrik GmbH and Fu Sheng Industrial Co. have been maintained and we have shipped several machines this year to Austria. We are now being asked to quote for larger batch sizes from Taiwan.

Board Changes

The Company is also pleased to have announced today the appointment of Phil Cartmell as the Company's Chief Executive. He has had 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 a Non-Executive Directorship of Trafficmaster PLC. I and the rest of the Board welcome him and look forward to this new era.

Summary

The gas recovery capability of the DGC provides the Company with a great opportunity to succeed and grow in the current environment. Our technology is proven in the Industrial Air market as more units are being shipped for a variety of applications. The technical milestones of the DGC have been met so far and we have confidence in the success of the Eni field trial. We are encouraged by new enquiries for the DGC and by the increased financial resource provided by investors to roll out our technology more rapidly in the market.

Professor G Musgrave
Executive Chairman
28 September 2009

Condensed consolidated interim statement of comprehensive income

	unaudited six months ended 30 June 2009 £'000	unaudited six months ended 30 June 2008 £'000	audited year ended ended 31 Dec 2008 £'000
Revenue	**893**	460	662
Cost of sales	**(728)**	(408)	(409)
Gross profit	**165**	52	253
Other operating income - grants receivable	**29**	-	46
Research and development costs	**(1,090)**	(1,026)	(2,536)
Administrative expenses	**(785)**	(692)	(1,450)
Operating loss	**(1,681)**	(1,666)	(3,687)
Finance income	**32**	124	211
Loss before income tax	**(1,649)**	(1,542)	(3,476)
Income tax credit	**370**	262	507
Loss and total comprehensive expense for the period attributable to shareholders	**(1,279)**	(1,280)	(2,969)
Loss per share expressed in pence per share	**pence**	pence	pence
Basic and diluted loss per share	**(1.4)**	(1.5)	(3.5)

Condensed consolidated interim statement of financial position

	unaudited 30 June 2009 £'000	unaudited 30 June 2008 £'000	audited 31 Dec 2008 £'000
ASSETS			
Non current assets			
Property, plant and equipment	**66**	126	83
Current assets			
Inventories	**136**	-	-
Trade and other receivables	**318**	837	441
Taxation recoverable	**300**	772	520
Other short term financial assets	**-**	1,000	500
Cash and cash equivalents	**2,693**	2,621	2,121
	3,447	5,230	3,582
Total assets	**3,513**	5,356	3,665
LIABILITIES			
Current liabilities			
Trade and other payables	**(665)**	(371)	(584)
Net assets	**2,848**	4,985	3,081
EQUITY			
Share capital	**9,421**	8,655	8,655
Share premium	**4,562**	4,333	4,333
Capital redemption reserve	**575**	575	575
Own shares held by Employee Benefit Trust	**(551)**	(290)	(551)
Share based payment reserve	**235**	142	184
Retained earnings	**(11,394)**	(8,430)	(10,115)
Total equity	**2,848**	4,985	3,081

Condensed consolidated interim statement of changes in equity

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Own shares held by EBT £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2009	8,655	4,333	575	(551)	184	(10,115)	3,081
Issue of share capital	766	229	-	-	-	-	995
Share based payment charge	-	-	-	-	51	-	51
Transactions with owners	766	229	-	-	51	-	1,046
Loss, total recognised loss and total comprehensive expense for the period	-	-	-	-	-	(1,279)	(1,279)
Balance at 30 June 2009	9,421	4,562	575	(551)	235	(11,394)	2,848
Balance at 1 January 2008	8,625	4,250	575	(281)	236	(7,292)	6,113
Issue of share capital	30	83	-	-	-	-	113
Shares transferred on exercise of options	-	-	-	204	-	-	204
Purchase of own shares by EBT	-	-	-	(213)	-	-	(213)
Share based payment charge	-	-	-	-	48	-	48
Transfers on exercise of share options	-	-	-	-	(142)	142	-
Transactions with owners	30	83	-	(9)	(94)	142	152
Loss, total recognised loss and total comprehensive expense for the period	-	-	-	-	-	(1,280)	(1,280)
Balance at 30 June 2008	8,655	4,333	575	(290)	142	(8,430)	4,985
Balance at 1 January 2008	8,625	4,250	575	(281)	236	(7,292)	6,113
Issue of share capital	30	83	-	-	-	-	113
Shares transferred on exercise of options	-	-	-	204	-	-	204
Purchase of own shares by EBT	-	-	-	(474)	-	-	(474)
Share based payment charge	-	-	-	-	94	-	94
Transfers on exercise of share options	-	-	-	-	(146)	146	-
Transactions with owners	30	83	-	(270)	(52)	146	(63)
Loss, total recognised loss and total comprehensive expense for the year	-	-	-	-	-	(2,969)	(2,969)
Balance at 31 December 2008	8,655	4,333	575	(551)	184	(10,115)	3,081

Condensed consolidated interim statement of cashflows

	unaudited six months ended 30 June 2009 £'000	unaudited six months ended 30 June 2008 £'000	audited year ended ended 31 Dec 2008 £'000
Cash flows from operating activities			
Loss before income tax	**(1,649)**	(1,542)	(3,476)
Adjustments for:			
Depreciation	**29**	47	90
Finance income	**(32)**	(124)	(211)
Share based payment expense	**51**	48	94
Increase in inventories	**(136)**	-	-
Decrease/(increase) in trade and other receivables	**123**	(248)	148
Increase/(decrease) in trade and other payables	**81**	(17)	197
	(1,533)	(1,836)	(3,158)
Income tax received	**590**	-	497
Net cash used in operating activities	**(943)**	(1,836)	(2,661)
Cash flows from investing activities			
Finance income	**32**	124	211
Purchase of property, plant and equipment	**(12)**	(21)	(22)
Net cash from investing activities	**20**	103	189
Cash flows from financing activities			
Proceeds from issue of shares	**1,000**	113	113
Expenses of issue of shares	**(5)**	-	-
Proceeds on exercise of employee share options granted by the EBT	**-**	204	204
EBT purchase of shares	**-**	(213)	(474)
Cash transferred from /(to) long term deposits	**500**	(750)	(250)
Net cash from financing activities	**1,495**	(646)	(407)
Net increase/(decrease) in cash and cash equivalents	**572**	(2,379)	(2,879)
Cash and cash equivalents at beginning of period	**2,121**	5,000	5,000
Cash and cash equivalents at end of period	**2,693**	2,621	2,121

Notes to the condensed consolidated interim financial statements

1. Nature of operations and general information

The principal activity of Corac Group plc and subsidiaries (the "Group") is the development of innovative solutions utilising its compact, high power compressors based on its unique expertise and patented technology including oil free air bearings, high speed motors and power electronics. The Group currently has two main applications being:

(i) Industrial Air Compressors. Corac's pre-production, energy efficient compressors are supercharging third party suppliers' industrial air compressors used in the food and beverage industry and are also applicable to the delivery of compressed air to other factory applications.

(ii) Downhole gas compressors ("DGCs"). Corac is also part of a Joint Industry Programme ("JIP") with three major gas operating companies to deploy Corac's technology in waning natural gas wells to increase the amount and rate of gas extraction.

In 2008 the Group disposed of its interest in high pressure, non contacting dry gas seals which it had specifically designed for turbo compressors.

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

The Group's consolidated interim financial statements have been presented in pounds sterling (£) which is also the functional currency of the parent company.

The consolidated condensed interim financial statements were approved for issue by the Board of Directors on 28 September 2009.

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 2008, prepared under IFRS, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 237(2) of the Companies Act 1985.

2. Basis of preparation

These condensed consolidated interim financial statements are for the six months ended 30 June 2009. They have been prepared following the recognition and measurement principles of IFRS. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2008.

These condensed consolidated interim financial statements have been prepared on the going concern basis under the historical cost convention.

Notes to the condensed consolidated interim financial statements (continued)

These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year ended 31 December 2008 except for the adoption of IAS 1 Presentation of Financial Statements (Revised 2007).

The adoption of IAS 1 (Revised 2007) does not affect the financial position or losses of the Group but gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged but IAS 1 (Revised 2007) affects the presentation of owner changes in equity.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed consolidated interim 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.

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 2009 number	unaudited six months ended 30 June 2008 number	audited year ended ended 31 Dec 2008 number
Weighted average shares in issue	**90,619,816**	85,229,890	85,156,760

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 2008: 1,151,265 shares, year ended 31 December 2008 1,309,169 shares). Diluted loss per share is not calculated as the conversion to ordinary shares would be anti-dilutive

Notes to the condensed consolidated interim financial statements (continued)

5. Share issues

At 31 December 2008 Corac Group plc had called up share capital of 86,549,322 ordinary shares of nominal value £0.10 each. On 19 February 2009 the Company issued 7,662,835 ordinary shares of nominal value £0.10 each for cash consideration of 13.05p per share by means of a private placing for cash consideration of £1.0 million net of expenses. At 30 June 2009 Corac Group plc had called up share capital of 94,212,157 ordinary shares of nominal value £0.10 each.

6. Post balance sheet event

On 28 September the Company announced the issue of 14,131,820 ordinary shares of nominal value £0.10 each for cash consideration of 35.0 pence per share by means of a private placing to an institutional investor which, assuming full subscription, is expected to generate cash of £4.7 million net of estimated expenses. The Placing is conditional on, inter alia, the admission of such shares to trading on AIM becoming effective.

7. Copies of the interim financial statements

Copies of the interim statement will be sent to shareholders. Further copies will be available from the company's registered office at Brunel Science Park, Kingston Lane, Uxbridge, Middlesex UB8 3PQ for one month from today.

Company information

Registered office & principal place of business

Brunel Science Park
Kingston Lane
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Directors

Professor G Musgrave	Executive Chairman
P Cartmell	Chief Executive Officer
P Newell	Finance Director
J O Reed	Engineering Director
S E A Westerman	Non-executive Director
A J Wood	Non-executive Director

Secretary

P Newell

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