

CORAC GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

Corac Group plc ("Corac") the intellectual property, engineering and licensing group specialising in compressor technology, announces its preliminary results for the year ended 31 December 2007 demonstrating continued success in the commercialisation of its technology.

**Operational Highlights**

*Downhole Gas Compressor ('DGC')*

- DGC unit subjected to rigorous testing throughout the year;
- Progression of DGC prototype through flow loop testing, demonstrating performance, capability and reducing risks associated with deployment;
- JIP partners witnessed DGC module operational in October 2007. The tests were representative of requirements for field trial units;
- Field trials planned with two JIP partners in Argentina and Italy later this year.

*Industrial Air*

- LMF and Fu Sheng satisfied with demonstrators supplied in 2007;
- Pre-production units being supplied, one of which is being used in a major international soft drinks company's facility;
- Engaged with LMF and Fu Sheng to increase scope of machines as well as reduce the build cost through volume manufacturing.

**Financial Highlights**

- Loss after tax increased to £1.7m (2006: £1.4m), caused by acceleration in the development of the DGC, is in line with management expectations;
- Strong support from existing and new institutional shareholders raised £4.4m (net) in December 2007 placing;
- Cash at bank at 31 December 2007 was £5.2m (2006: £3.5m).

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

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

**For further information:**

Professor Gerry Musgrave, Executive Chairman  
Thomas Iving, Finance Director  
Corac Group plc

01895 813463

Richard Darby, Suzanne Brocks, Ben Romney  
Buchanan Communications

020 7466 5000

**NOTES TO EDITORS**

Corac is an intellectual property, engineering and licensing group which holds many patents. It focuses on high speed electrical direct drive turbo machinery based on its unique expertise in gas bearings. Corac has created an innovative 'no oil' turbo compressor together with a unique gas seal, and is part of a joint industry programme for the downhole gas extraction industry.

Further information on Corac is available on the internet at [www.corac.co.uk](http://www.corac.co.uk)

**EXECUTIVE CHAIRMAN'S STATEMENT**

**Introduction**

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

## Financial Review

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

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

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

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

## Downhole Gas Compression

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

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

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

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

## Industrial Air

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

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

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

## The future

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

**PROFESSOR G MUSGRAVE**  
**EXECUTIVE CHAIRMAN**

18th February 2008

**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 2007

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

All results relate to continuing activities.

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

**BALANCE SHEET**  
at 31 December 2007

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

Profit and loss account	8	<u>(7,284,980)</u>	<u>(5,552,428)</u>
Equity shareholders' funds	1	<u>6,120,406</u>	<u>3,176,327</u>

**CASH FLOW STATEMENT**  
for the year ended 31 December 2007

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

**NOTES TO THE PRELIMINARY ANNOUNCEMENT**  
31 December 2007

**1 Reconciliation of movement in shareholders' funds**

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

Shareholders' funds at 31 December 2007	<b>6,120,406</b>	3,176,327
<b>2 Reconciliation of operating loss to net cash outflow from operating activities</b>		
	<b>2007</b>	2006
	<b>£</b>	£
Operating loss	<b>(2,486,042)</b>	(2,364,965)
(Profit)/loss on disposal of assets	<b>(750)</b>	144
Depreciation	<b>84,005</b>	98,222
Decrease in stock and work in progress	<b>-</b>	45,571
(Increase)/decrease in debtors	<b>(241,484)</b>	96,596
(Decrease)/increase in creditors	<b>(932,644)</b>	244,986
Increase in share-based payments provision	<b>85,650</b>	47,761
Net cash outflow from operating activities	<b>(3,491,265)</b>	(1,831,685)
<b>3 Reconciliation of net cash flow to movement in net funds</b>		
	<b>2007</b>	2006
	<b>£</b>	£
Increase in cash	<b>186,348</b>	23,427
Cash effect of increase in liquid resources	<b>1,537,067</b>	42,258
Movement in net funds in the year	<b>1,723,415</b>	65,685
Net funds at 1 January 2007	<b>3,526,350</b>	3,460,665
Net funds at 31 December 2007	<b>5,249,765</b>	3,526,350

**NOTES TO THE PRELIMINARY ANNOUNCEMENT (Continued)**  
**31 December 2007**

**4 Accounting policies**

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

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

**Basis of preparation**

**Consolidation**

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

**Going concern**

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

Following the placing in December 2007, the directors are confident that sufficient funds have been raised for the next development stage and to provide working capital. Therefore they believe it is appropriate for the accounts to be prepared on a going concern basis.

**Turnover**

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

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

**5 Taxation**

**Current taxation**

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

**NOTES TO THE PRELIMINARY ANNOUNCEMENT (Continued)**

**31 December 2007**

**5 Taxation (continued)**

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

**Deferred taxation**

	2007	2006
	£	£
Accelerated capital allowances and other timing differences	414,321	247,988
Losses	<u>(414,321)</u>	<u>(247,988)</u>
	<u>-</u>	<u>-</u>

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

**6 Loss per share**

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

**NOTES TO THE PRELIMINARY ANNOUNCEMENT (Continued)**

**31 December 2007**

**7 Share capital**

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

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

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

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

## 8 Reserves

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

9 The financial information contained herein does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The balance sheet at 31 December 2007 and the profit and loss account, cash flow statement and associated notes for the year then ended have been extracted from the Company's 2007 statutory financial statements upon which the auditors' opinion is unqualified and does not include any statement under Section 237 of the Companies Act 1985.

10 Copies of this statement will be available from the Company's registered office: Brunel Science Park, Kingston Lane, Uxbridge, Middlesex, UB8 3PQ. The Company's AGM will be held on **28 April 2008**.

END