PURICORE PLC
LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

24 May 2013

Dear Shareholder,

Introduction

In this letter and attached appendices, we provide you with an explanation of Resolution 10 set out in the accompanying Notice of Annual General Meeting of the Company, which is being submitted to shareholders in connection with the introduction of the PuriCore plc Value Creation Plan (the "VCP").

Contents

This letter and attached appendices provide the following information:

- An overview of the VCP and a summary of the factors taken into account in the design of the VCP;
- Main terms of the VCP (see Appendix 1 page 3); and
- Illustrative modelling of the cost and benefits of the VCP, if adopted, based on varied assumptions (see Appendix 2 page 6).

Executive Summary

The purpose of the long term incentive structure is to support PuriCore's business strategy and align the key executive reward structure with shareholder value creation.

The Remuneration Committee wishes the new incentive framework:

a. to be based on the principles of simplicity and flexibility;
b. to ensure that key executives are appropriately retained and rewarded for executing this strategy and delivering value for shareholders;
c. to support the business strategy within the context of UK corporate governance best practice; and
d. to implement a sufficiently challenging plan that has annually increasing performance hurdles that must be achieved in order for rewards to be earned.

Participants in the VCP will not be granted any future awards under any existing Company incentive plan for the duration of the VCP.

Overview of Proposals

The VCP has the following key features:

- open to participation by Executive Directors and certain other senior members of management including PDMRs;
- three year time horizon;
- participants will receive 20% of the total shareholder return (total shareholder return will be a combination of share price appreciation and dividends) in excess of a threshold return of 20% per annum above the base price of 43 pence (participants will not be entitled to any of the underlying value at the start of the VCP, only a percentage of the value created above the level of the threshold return in each year);
- total shareholder value will be measured at a series of annual measurement dates over the three years and at each measurement date participants will bank shares with a value equivalent to a proportion of the excess value created over the threshold price, which increases annually. It should be noted that the total shareholder return at a measurement date will constitute a high watermark with additional value only being earned if the total shareholder return at a subsequent measurement date exceeds this high watermark; and
- banked shares will vest at the measurement date following year 3 subject to continued employment at this date.

The following table sets out the Remuneration Committee's rationale for the VCP and why it supports the Company's strategy.

Issue to be Addressed	Incorporation into the Design of the VCP
Incentives need to be driven by Company strategy	One of the main criteria of success by which shareholders judge a management team is the long-term sustainable increase in absolute total shareholder return. The VCP provides a direct relationship between returns to shareholders and value delivered to management.
Challenge of setting three year targets	Standard long-term incentive plans have three year performance periods. This can give rise to the following issues: • the challenge of targets being in line with implementation of the strategy; • the lack of flexibility to change performance targets if they are set three years in advance; and • the danger of a lack of lock-in and retention of key executives because at a given point in time their subsisting equity awards are worthless.

Issue to be Addressed	Incorporation into the Design of the VCP
Challenge of setting three year targets (continued)	The VCP provides: • a simple and clear approach to sharing long-term sustainable increases in total shareholder return. Total shareholder return is easier to communicate to participants and shareholders and also to explain the basis of the value received by participants as a proportion of the value delivered to shareholders; and • the ability to bank shares on an annual basis provides an immediate lock-in of key executives. The fact that these banked shares are not vested and cannot be disposed of until after the measurement date for year 3, ensures that executives are locked in shareholders (i.e. unlike third party shareholders while the shares have been earned, they cannot be sold until the end of the VCP period) with an ongoing incentive to maximise the share price to increase the value of their banked shares. It should be noted that banked shares will be forfeited on normal cessation of employment, subject to good leaver provisions, thereby further enhancing the lock-in effect of the VCP.
Lock-in and retention including the period over which retention elements are built up	Lock-in and retention is critical to ensure the Company retains the necessary management talent to execute the Company's strategy. The issue with standard performance share plans is that in practice they are only relevant to participants in year 3 of the performance period when an estimation of the level of vesting can be made. Where any of the following factors are present: • historically awards have not vested; • the current subsisting awards do not look likely to vest; • an executive is a recent appointment; it can take considerable time for any incentive and retentive effect to build up under a normal performance share plan (minimum of three years). The VCP allows banked value to build up from year 1 ensuring that the maximum incentive and retentive effect is reached quickly whilst locking in the realisation of the value for the term of the VCP.
Other factors:– a. Disclosure; b. Link to strategy; c. Sustainable performance.	**Disclosure** – the operation of the VCP is simple to explain and disclose. **Link to strategy** – The VCP rewards the output of successful execution of Company strategy leading to increases in absolute shareholder return. **Sustainable performance** – The VCP encourages sustainable performance because while shares can be earned on an annual basis, the actual value of those earned shares will depend on the share price at the end of the VCP period. In practice it provides executives with far more focus on shareholder returns where they are locked-in shareholders compared to a normal performance share plan where the shares are not earned until the end of the three year performance period.

Shareholder Consultation

The Board consulted with its principal shareholders prior to finalising the VCP. The Board is grateful for shareholders' comments and engagement during the consultation process. At the end of this process the majority of shareholders consulted (by percentage of issued share capital) were supportive of the proposals contained in this document.

Board Recommendation

The Board considers the VCP to be in the best interests of the Company and shareholders as a whole and unanimously recommends that you vote in favour of Resolution 10. Those members of the Board who hold shares in the Company will be voting in favour of the resolution.

Yours faithfully,

James Walsh, PhD
Chairman of the Remuneration Committee

Appendix 1 – Summary of the Main Terms of the PuriCore plc Value Creation Plan

<table>
<tr><th>Feature</th><th>Detail</th></tr>
<tr><td>Type of Incentive</td><td>Participants in the VCP will be granted a number of VCP Performance Units from a total pot. At each Measurement Date the Participant will receive an Award of nil-cost options or conditional shares.</td></tr>
<tr><td>Participation</td><td>The Executive Directors and other members as determined by the Remuneration Committee will be eligible to participate in the VCP. The Remuneration Committee has determined the following levels of participation in the VCP:
<table>
<tr><th>Position</th><th>%age of VCP Performance Units</th></tr>
<tr><td>Executive Chairman – M Ashton</td><td>30%</td></tr>
<tr><td>Finance Director – M Thorell</td><td>15%</td></tr>
<tr><td>Certain PDMRs + Members of Senior Management</td><td>9-12%</td></tr>
<tr><td>Total</td><td>100%</td></tr>
</table></td></tr>
<tr><td>Plan Year</td><td>The financial year of the Company.</td></tr>
<tr><td>Measurement Date</td><td>The day following the end of the 30-day period after the release of the results of the Company for that Plan Year.</td></tr>
<tr><td>Measurement Period</td><td>The 30-day period following the release of the results for the third Plan Year.</td></tr>
<tr><td>Measurement Price</td><td>The Measurement Price at each Measurement Date will be calculated using the average share price over the 30 days following the announcement of the Company's results for the relevant Plan Year.</td></tr>
<tr><td>Release</td><td>Any banked shares released following the third Measurement Date.</td></tr>
<tr><td>Performance Conditions</td><td>The Base Price will be share price used for the placing in January 2013 (43p).
The Threshold Prices agreed are:

First Measurement Date: 20% total shareholder return growth above the Base Price;
Subsequent Measurement Dates: the Threshold Price will be the higher of:

the return[1] achieved ("Measurement Price") at the start of the relevant year (or at previous Measurement Dates if these are higher); or
20% total shareholder return growth compounded annually from the Base Price.

<u>Note:</u>
1. The Measurement Price will be based on the total level of value created for shareholders above the Threshold Price at the Measurement Date. This will be determined by reference to the appreciation in the Company's share price plus dividends paid per share, if any.</td></tr>
<tr><td>Participation Rate</td><td>The percentage of value created that will be allocated to the VCP Participants at each Measurement Date is set out as follows:
<table>
<tr><th>Scenario</th><th>Percentage of Total Shareholder Value created allocated to VCP Participants</th></tr>
<tr><td>Below Threshold Price</td><td>0%</td></tr>
<tr><td>Equal to or above Threshold Price</td><td>20%</td></tr>
</table></td></tr>
<tr><td>Dividends</td><td>Dividends and dividend equivalents will not be paid on banked shares. Once shares have been fully released and exercised Participants will receive dividends as normal shareholders.</td></tr>
<tr><td>Corporate Dilution Limits</td><td>An overall limit on the number of new issue shares that can be issued under the VCP and any other share schemes is 10% of the issued share capital in any 10 year period.</td></tr>
<tr><td>Cessation of Employment</td><td>Good Leaver: A good leaver is someone whose employment is terminated by reason of death, ill health, disability, redundancy or such other reason as the Remuneration Committee may determine.
The Remuneration Committee will have discretion to convert a proportion of the Performance Units with effect on the date of cessation which shall be deemed to be a new Measurement Date. The proportion of the Performance Units, which shall convert will be determined by the Remuneration Committee in its absolute discretion taking into account such factors as the Remuneration Committee may consider relevant at the time of cessation.

The Remuneration Committee may alternatively decide that the Performance Units will continue until the nearest normal Measurement Date on which they would otherwise have converted.

Bad Leaver: Anyone who is not a good leaver will be a bad leaver.

Where a Participant ceases to be employed prior to the awards becoming exercisable all awards will lapse (including banked shares), subject to the Remuneration Committee determining otherwise.</td></tr>
</table>

Feature	Detail
New Joiners	The Remuneration Committee can choose to either allocate unallocated Performance Units reserved at the beginning of the Measurement Period to new joiners, or issue more Performance Units that would proportionately dilute the future value received by existing Participants. The Base Price applying to new joiners will be the closest Measurement Price to the date of the Participant joining the Company. New joiners' participation will be pro-rated for the period of employment during the Measurement Period. For example, if a Participant would have received 9% of the Performance Units had they been in the Plan from its adoption but actually commenced employment one year after the start of the Measurement Period they would receive 9% x 2/3 = 6%.
Change of Control	On a change of control there will be a new Measurement Date deemed to be the date of the change of control. In determining the value created, the Measurement Price will be the offer price for the Company's shares. The calculation of the number of Company shares to be allocated to a Participant will be as at any other Measurement Date. All banked shares will be released on a change of control and the nil cost options exercisable immediately for a set period of up to six months.
Variation in Capital (adjustments and amendments)	If there is a variation of the share capital of the Company (for example a rights issue, subdivision, consolidation) that causes the Remuneration Committee to consider that the Threshold Price has become unfair or impractical, it may, in its discretion (provided that such discretion is exercised fairly and reasonably) amend the Threshold Price. Unless the Remuneration Committee decides otherwise there will be no adjustment to the Threshold Price as a result of the issue of shares in consideration for any corporate transaction.

Operation of the VCP

Awards in the form of Performance Units will normally be granted to each Participant within a 42-day period following the date of publication of the annual results of the Company. Performance Units have no value on grant but give the Participants the opportunity, during the three year Measurement Period to receive 20% of the total value created for shareholders above a Threshold Price based on 20% per annum growth, determined at a series of annual Measurement Dates. At each Measurement Date the Participant will bank shares in the form of Awards of nil-cost options or conditional shares with a value equivalent to a proportion of the excess value created above the Threshold Price. Awards of conditional shares will be released on the third Measurement Date. Awards of nil-cost options may be exercised from the third Measurement Date until the tenth anniversary of the date of grant of the Performance Units.

Taxation

The release of shares and vesting and exercise of Awards are conditional upon the Participant paying any taxes due.

Allotment and Transfer of Shares

Shares subscribed will not rank for dividends payable by reference to a record date falling before the date on which the shares are acquired. Application will be made for the admission of the new shares to be issued to the Official List of the Financial Conduct Authority, and to trading on the London Stock Exchange plc's main market for listed securities following the release and/ or exercise of Awards.

Duration

The VCP will operate for a period of three years from the date of approval by shareholders.

Amendments

Amendments to the rules of the VCP may be made at the discretion of the Remuneration Committee. However, an amendment made for the benefit of existing or future Participants will require approval at general meeting if it relates to:

- the basis for determining the level of a Participant's awards;
- eligibility to participate;
- adjustments made following a rights issue or other capital event;

except for minor amendments to benefit the administration of the VCP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Participants or for the group. However, Participants will be notified of any amendment that would materially and detrimentally affect their existing rights and such amendments must be approved by the majority of Participants notified.

General

Shares acquired, Awards and any other rights granted pursuant to the VCP are non-pensionable.

Non-Transferability of Awards

Awards are not transferable except on the death of the Participant.

Employee Benefit Trust

The Company may establish a discretionary employee benefit trust to be used in conjunction with the Plan (the "Employee Trust"). The Employee Trust will be established as an employees' share scheme within the meaning of section 1166 of the Companies Act 2006 and will have full discretion with regard to the application of the trust fund (subject to recommendations from the Remuneration Committee). The Company will be able to fund the Employee Trust to acquire shares in the market and/or to subscribe for shares at nominal value in order to satisfy awards granted under the VCP. Any shares issued to the Employee Trust in order to satisfy awards of shares will be treated as counting towards the dilution limits that apply to the VCP. For the avoidance of doubt, any shares acquired by the Employee Trust in the market will not count towards these limits. In addition, unless prior shareholder approval is obtained, the Employee Trust will not hold more than 5% of the issued share capital of the Company at any one time (other than for the purposes of satisfying awards of shares that it has granted).

Note: This Appendix 1 summarises the main features of the VCP but does not form part of the rules of the VCP and should not be taken as affecting the interpretation of the detailed terms and conditions constituting the rules. Copies of the rules will be available for inspection at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD, during normal business hours (except Saturdays, Sundays and public holidays) from the date of this document up to the conclusion of the Annual General Meeting and at the meeting itself. The Directors reserve the right, up to the time of the meeting, to make such amendments and additions to the rules of the VCP as they consider necessary or desirable, provided that such amendments and additions do not conflict in any material respect with the summary set out in this Appendix 1.

Appendix 2 – Illustrative Modelling of the VCP

This Appendix 2 contains the cost and benefit modelling for the VCP. The modelling is purely illustrative to demonstrate the operation of the VCP over the three year VCP period. It should be noted that the modelling in this Appendix 2 is based on no dividends being paid over the Measurement Period. If dividends were paid they would form part of the value at the relevant Measurement Date as illustrated in the example below.

Dividend example:

- *Plan Year 1 Threshold Price is £0.516.*
- *30 day average share price at the end of Year 1 = £0.53.*
- *Dividend paid per share over Year 1 = £0.05.*
- *Therefore total shareholder return is £0.53 + £0.05 = £0.58.*
- *Participant value per share would therefore be (£0.58 – £0.516) x 20% = £0.013.*

The tables in this Appendix 2 show for the modelled assumptions:

a. the potential value of the award to Participants in the VCP; and
b. the potential charge to the profit & loss account of granting Performance Units under the VCP.

Inputs

The following table sets out the corporate and VCP inputs modelled in this Appendix 2, based on four example scenarios (each with a different level of share price performance):

Corporate inputs	Example 1	Example 2	Example 3	Example 4
Issued Share Capital	50,110,432			
Base Price (£)	£0.4300			
Market Capitalisation (£)	£21,547,486			
3 Year Measurement Price (£)	£0.74	£0.84	£0.94	£1.06
Share Price Growth p.a.	20.0%	25.0%	30.0%	35.0%
3 Year Market Capitalisation (£)	£37,234,055	£42,084,933	£47,339,826	£53,014,895

VCP plan inputs	
Threshold Price on 1st Measurement Date	£0.516
Threshold Price p.a. (at each subsequent Measurement Date)	20%
Participation Rate p.a.	20%
Term of the plan (years)	3

Basis of participation	
Executive Chairman	30%
Finance Director	15%
Example PDMR	10%

Basis of payout (% of banked shares released)	
Year 1	0%
Year 2	0%
Year 3	100%

Corporate Outputs

The following table sets out corporate outputs modelled in this Appendix 2:

VCP cost-benefit summary	Example 1	Example 2	Example 3	Example 4
Base Price (£)	£0.430	£0.430	£0.430	£0.430
3 Year Measurement Price (£)	£0.743	£0.840	£0.945	£1.058
3 Year Market Capitalisation (£)	£37,234,055	£42,084,933	£47,339,826	£53,014,895
Growth in Market Capitalisation (£)	£15,686,570	£20,537,447	£25,792,340	£31,467,410
Total Shareholder Return	73%	95%	120%	146%
Total value created for VCP participants (£)	£0	£1,966,747	£4,150,046	£6,152,346
Benefit to VCP participants as % growth in Market Capitalisation	0.00%	9.58%	16.09%	19.55%
Total IFRS 2 charge (£)	£1,233,453			

Potential Benefits to Participants

The table below sets out the value delivered to individual Participants in the VCP in each scenario, over the 3 year Measurement Period:

VCP individual gains (£)	Example 1	Example 2	Example 3	Example 4
Executive Chairman	£0	£590,024	£1,245,014	£1,845,704
Finance Director	£0	£295,012	£622,507	£922,852
Example PDMR	£0	£196,675	£415,005	£615,235
Total benefits to VCP participants	£0	£1,966,747	£4,150,046	£6,152,346

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