



June 10, 2014

ProPhotonix Limited
("ProPhotonix" or "the Company")

DIRECTOR DEALING AND NEW REMUNERATION POLICY AND 2014 STOCK INCENTIVE PLAN

ProPhotonix Limited, (London Stock Exchange - AIM: PPIX and PPIR; OTC: STKR), a designer and manufacturer of LED illumination systems and laser diode modules with operations in Ireland and the United Kingdom, today announces director share option award and new remuneration policy and incentive plan.

Raymond Oglethorpe, Chairman and Non-Executive Director, provides the following information:

The ProPhotonix Governance, Nomination and Remuneration committee, in conjunction with Abbiss Cadres LLP, has been deliberating how the Company's remuneration policy can support the recovery to profitability and the creation of value for stockholders. The committee believes that an effective remuneration policy, closely linked to the Company's objectives, is a vital part of that recovery. Therefore, the committee has implemented a new equity incentive plan and specific performance criteria associated with option grants for its senior management. This communiqué sets out more information on the new equity incentive plan and the remuneration policy ProPhotonix is implementing for its senior management.

Background

The Company previously granted options under its various option plans including the current 2007 Stock Incentive Plan ("2007 Plan"). The 2007 Plan is now exhausted and without the capacity to provide a meaningful equity incentive to the Company's key individuals or provide the desired level of alignment with stockholder interests. Taking account of the cash constraints on the Company, the committee has concluded that share options remain the best way of incentivising and retaining key individuals to drive improvements in stockholder value over the medium to long term. Accordingly, the committee and board have approved and implemented the 2014 Stock Incentive Plan.

2014 Equity Incentive Plan (Summary)

- A new equity incentive plan to replace the current 2007 Plan that will cease to operate
- 8,200,000 shares reserved for initial award to key senior management
- 2,000,000 shares reserved for awards in the future to new hires and other employees
- 2,000,000 shares (or 5% of the share capital, if less) will become available for equity awards under the Plan in each subsequent year

New remuneration policy for senior management

Summary

In order to incentivise the achievement of its objectives, the Company has implemented a new remuneration policy for its senior management with the following elements:

- A one-off substantial performance based option grant to key senior management at market value
- No further grants intended to said senior management through the end of the three-year measurement period
- Cliff vesting on December 31, 2016 at different levels dependent on achievement against the performance target (zero below 50% up to 100% vesting at 90% attainment)
- 10 year option term

Performance measure

The performance measure is the driving factor behind the new policy. As Tim Losik, President and CEO, explained in our 2013 annual report, the key to ProPhotonix's future prosperity will be growth in revenue and attainment of positive cash flow leading to net profits. The committee believes that a performance measure linked to positive cash flow over the performance period is a proper performance metric. Broadly, the target is EBITDA equal to 90% of the term debt and lease principal payments, and all interest payments, which are due during the performance period. Such payments would, on the basis of current obligations, amount to approximately \$3.0 million in total. Achievement of this objective will result in full

vesting. The committee and board believe that achievement of the objective will result in the creation of significant stockholder value.

Director Dealing

The one-off awards of 8,200,000 performance based options granted June 9, 2014 are issued at market value of \$0.038 per share. Tim Losik, President and CEO, received 3,500,000 of the awards with the balance of 4,700,000 going to other members of the management team. The amount of option grant takes into account the one-off nature of the grant with no further intended awards to these individuals for the three years of the performance period.

Impact of awards

The maximum potential dilution from all options (including out of the money options of 9.0 million shares June 9, 2014) will increase from 17.3% to 27.1% as result of the one-off award (assuming the performance target is achieved in full). The committee believes the proposed level of grants is both necessary and justifiable, given that vesting fully is dependent on the achievement of targets which, if achieved, should result in the creation of significant stockholder value.

In conclusion, the committee and board considers the new remuneration policy a key part of the Company's path to profitability. By linking the potential rewards under the option grants to the Company's strategy of achieving sustained positive cash flow, the committee believes that it provides a consistent alignment between the senior management team and stockholders.

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About ProPhotonix

ProPhotonix Limited, headquartered in Salem, New Hampshire, is an independent designer and manufacturer of diode-based laser modules and LED systems for industry leading OEMs and medical equipment companies. In addition, the Company distributes premium diodes for Oclaro, Osram, QSI, Panasonic, and Sony. The Company serves a wide range of markets including the machine vision, industrial inspection, security, and medical markets. ProPhotonix has offices and subsidiaries in the U.S., Ireland, U.K., and Europe. For more information about ProPhotonix and its innovative products, visit the Company's web site at www.prophotonix.com

Cautionary Statement

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact, including without limitation, those with respect to ProPhotonix's goals, plans and strategies set forth herein are forward-looking statements. The following important factors and uncertainties, among others, could cause actual results to differ materially from those described in these forward-looking statements: uncertainty that cash balances may not be sufficient to allow ProPhotonix to meet all of its business goals; uncertainty that ProPhotonix's new products will gain market acceptance; the risk that delays and unanticipated expenses in developing new products could delay the commercial release of those products and affect revenue estimates; the risk that one of our competitors could develop and bring to market a technology that is superior to those products that we are currently developing; and ProPhotonix's ability to capitalize on its significant research and development efforts by successfully marketing those products that the Company develops. Forward-looking statements represent management's current expectations and are inherently uncertain. ProPhotonix undertakes no duty to update any of these forward-looking statements. All Company, brand, and product names are trademarks or registered trademarks of their respective holders.