



September 7, 2017

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

INTERIM RESULTS FOR THE HALF YEAR ENDED JUNE 30, 2017

ProPhotonix Limited (London Stock Exchange - AIM: PPIX & PPIR, OTC: STKR), a high technology designer and manufacturer of LED illumination systems and laser diode modules, with operations in Ireland and the United Kingdom, today announces its unaudited interim results for the six months ended June 30, 2017.

Financial Highlights

- Revenue increased 5.5% to \$8.5 million (2016: \$8.1 million)
- Gross profit increased 5.3% to \$3.8 million (2016: \$3.6 million)
- Gross profit margin 44.4% (2016: 44.4%)
- Operating income \$0.6 million (2016: \$0.7 million)
- Net income \$0.6 million (2016: \$0.4 million)
- EBITDA \$0.7 million (2016: \$0.9 million)
- Order bookings of \$8.8 million (2016: \$8.8 million)
- Book-to-Bill ratio of 1.04 (2016: 1.09)
- Percentage revenue by market sectors: 75% industrial, 22% medical and 3% security & defense (2016: 83% industrial, 13% medical and 4% security & defense)
- Percentage revenue by geography: 43% Europe, 44% North America and 13% Rest of World (2016: 48% Europe, 42% North America and 10% Rest of World)

Recent Operational Highlights

- Received the Vision Systems Design 2017 Innovators award in April 2017
- Announced the new Cobra Multispec Line Light of 12 Wavelengths
- Institutionalization of the share register following the sale by 600 Group of their ProPhotonix shareholding to several institutional investors in August 2017

Tim Losik, President & CEO, commented:

Financial

"The first half of 2017 was a pivotal period for the Company as we deleveraged our balance sheet by paying off all of the term debt and launched new product lines to complement our existing award winning products. Sales in the first half of 2017 were up 5.5% primarily due to an increase in LED product sales offsetting a modest decline in laser and laser diode sales. Sales to the medical market were up 78% from the first half of 2016, and represents 22% of total sales (2016: 13%). The increase was primarily due to LED product sales including to a new Fortune 50 customer. Operating income decreased to \$0.6 million from \$0.7 million in 2016, mainly due to the increased Sales, General and Administrative costs plus expenses and investments in the Company to support

the future growth of the business, including: expansion of the sales organization in the fourth quarter of 2016 which increases sales expense; increased engineering and development costs associated with several large original equipment manufacturing (“OEM”) projects; and the continuing investment in the UV LED product development. These increased expenses are a result of the Company's focus on investing for growth.

"The Company's balance sheet continues to strengthen with all term debt paid off as of June 30, 2017. Also, as at June 30, 2017, the Company had \$298,000 borrowing availability on its Sales Finance facility through Barclays Bank. In addition, the Company is currently in discussions with one or more lenders to secure further financing to make investments in plant, equipment, and for working capital purposes. The Directors are comfortable with the cash flow of the business considering its plans and available credit facilities.

"While the Company does not provide forecasts without sufficient visibility to allow for reasonable certainty of the forecast, the Board expects that revenue and EBITDA will be in line with full year market expectations."

Strategy

"Repayment of term debt as of June 30, marks the successful completion of the restructuring program initiated in 2013. It also marks a turning point in strategy as we change priority from capital repositioning and debt repayment, to investment for growth. This has impacted marginally on operating income through increased sales, general and administrative and product development costs however, in the Board's opinion, it is justified by both current product development and developing customer relations. The recent investment from four well regarded institutions to take a 22% stake in ProPhotonix from 600 Group demonstrates strong shareholder support for this change in strategy.

"The strategy of the Company remains established in its OEM heritage as well as the development of products directed at specific markets. ProPhotonix has made and will continue to make investments in commercially attractive OEM opportunities and product development including UV LED, multi-wavelength devices and laser technology advances, in the fulfillment of our strategy. We continue to concentrate our engineering capacity in these defined projects and areas that we believe are poised for fast market expansion.

"The first of these is the UV LED and laser market for various applications including: printing, curing, bonding, 3D printing, bio-luminescence, medical microscopy and other applications. The Company has launched several versions of its COBRA Cure™ product and continues to work with many potential customers in their applications using this technology. We plan to continue to launch new higher power products while continuously enhancing our current product lines to serve this market during 2017 and beyond.

"ProPhotonix also continues to focus on the market requirements for multi-wavelength devices and systems, both laser and LED solutions. Increasingly, customers are seeking multi-wavelength solutions requiring innovative optics, complex electronics, on-board sensing capabilities and sophisticated software control. We see opportunities which include a broad range of applications in printing, microscopy, industrial inspection and sorting, solar simulation and security markets. As announced in January 2017, the Company introduced the Cobra Multispec, a 12-wavelength modular designed line light as a follow-on product to the Cobra RGB. We intend to continue to enhance and expand this offering as market demand dictates."

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This announcement contains inside information for the purpose of Article 7 of Regulation (EU) No 596/2014

About ProPhotonix

ProPhotonix Limited, headquartered in Salem, New Hampshire, is a high technology designer and manufacturer of LED illumination systems and laser diode modules for industry leading OEMs and medical equipment companies. In addition, the Company distributes premium diodes for Ushio (formerly 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.

Half Year 2017 Financial Results

Revenue for the half year ended June 30, 2017 was \$8.5 million, an increase of 5.5% compared with \$8.1 million in the same period of 2016. Gross profit was \$3.8 million, an increase of 5.3% compared to \$3.6 million in the first half of 2016. Gross profit margin remained at 44.4% compared with the same period in 2016 with an increase in volume, but a shift in product mix.

Operating expenses totaled \$3.2 million versus \$2.8 million for the comparable period in 2016. Sales and marketing and research and development (R&D) expenses were \$1.6 million, up \$0.2 million as compared to the first half 2016, while general and administrative expenses increased by 12% over the same period primarily due to state taxes, corporate relocation costs and legal fees related to borrowing arrangements and shareholder matters. Operating profit was \$0.6 million, as compared to a \$0.7 million in the first half of 2016. EBITDA was \$0.7 million, as compared to \$0.9 million in the first half of 2016. The net income was \$0.6 million, as compared to the \$0.4 million in the first half 2016.

PROPHOTONIX LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
In thousands except share and per share data
(unaudited)

	Six Months Ended June 30,	
	2017	2016
Revenue	\$ 8,511	\$ 8,067
Cost of sales	(4,736)	(4,482)
Gross profit	3,775	3,585
Operating expenses:		
Selling expenses	(1,153)	(953)
General and administrative	(1,621)	(1,452)
Research and development	(430)	(437)
Total operating expenses	(3,204)	(2,842)
Income from operations	571	743
Other income (expense), net	73	(203)
Interest expense	(29)	(81)
Amortization of debt discount and financing costs	(18)	(51)
Income before income tax	597	408
Income tax	-	-
Net income	597	408
Other comprehensive income:		
Foreign currency translation	17	(14)
Total comprehensive income	\$ 614	\$ 394
Net income per share:		
Basic net income per share	\$ 0.007	\$ 0.005
Diluted net income per share	\$ 0.006	\$ 0.005
Shares used in per share calculation – basic	90,825	83,665
Shares used in per share calculation – diluted	107,760	88,190

FINANCIAL STATEMENTS
PROPHOTONIX LIMITED
CONDENSED CONSOLIDATED BALANCE SHEETS
In thousands except share and per share data
(unaudited)

For the Periods Ended June 30, 2017 and 2016	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 831	\$ 432
Accounts receivable, less allowances of \$21 in 2017 and \$35 in 2016	2,393	2,599
Inventories	2,495	1,915
Prepaid expenses and other current assets	397	176
Total current assets	6,116	5,122
Net property, plant and equipment	577	171
Goodwill	403	392
Other long-term assets	81	82
Total assets	\$ 7,177	\$ 5,767
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit facility	\$ 1,085	\$ 1,579
Current portion of long-term debt, net	-	975
Accounts payable	1,566	1,134
Accrued expenses	1,756	1,217
Current portion of capital lease	98	-
Total current liabilities	4,505	4,905
Long-term capital lease obligations, net of current portion	104	-
Other long-term liabilities	-	178
Total liabilities	4,609	5,083
Stockholders' Equity:		
Common stock, par value \$0.001; shares authorized 250,000,000 at June 30, 2017 and at June 30, 2016; 90,825,402 shares issued and outstanding at June 30, 2017 and 83,665,402 at June 30, 2016	91	84
Paid-in capital	112,378	111,958
Accumulated deficit	(110,881)	(112,326)
Accumulated other comprehensive income	980	968
Total stockholders' equity	2,568	684
Total liabilities and stockholders' equity	\$ 7,177	\$ 5,767

PROPHOTONIX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

(unaudited)

	Six Months Ended June 30,	
	2017	2016
Operations		
Net income	\$ 597	\$ 408
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	118	98
Depreciation	33	35
Foreign exchange gain	(175)	(32)
Amortization of debt discount and financing costs	7	51
Provision for inventories	43	47
Provision for bad debts	13	13
Other change in assets and liabilities:		
Accounts receivable	106	209
Inventories	(204)	(405)
Prepaid expenses and other current assets	(79)	(36)
Accounts payable	(7)	(156)
Accrued expenses	(185)	165
Other assets and liabilities	(6)	(13)
Net cash provided by operating activities	261	384
Financing		
Exercise of options and warrants	229	-
Net borrowing of revolving credit facility	(53)	221
Capital lease	(41)	-
Principal repayment of long-term debt	(425)	(553)
Net cash used in financing activities	(290)	(332)
Investing		
Purchase of plant and equipment	(112)	(70)
Net cash used in investing activities	(112)	(70)
Effect of exchange rate on cash	61	16
Net change in cash and equivalents	(80)	(2)
Cash and equivalents, beginning of period	911	434
Cash and equivalents, end of period	\$ 831	\$ 432
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 29	\$ 81

PROPHOTONIX LIMITED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
In thousands
(unaudited)

	Common Stock			Paid in Capital	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Par	\$0.001					
Balance December 31, 2016	83,665		84	\$112,038	-	(\$111,478)	\$963	\$1,607
Net profit	-		-	-	-	597	-	597
Translation adjustment	-		-	-	-	-	17	17
Exercise of options	4,960		5	167	-	-	-	172
Exercise of warrants	1,900		2	55	-	-	-	57
Deferred compensation	300		0	47	(47)	-	-	0
Share based compensation	-		-	112	6	-	-	118
Balance June 30, 2017	90,825		91	\$112,419	(\$41)	(\$110,881)	\$980	\$2,568

Notes to unaudited Interim Results

Basis of Presentation

The Company financial reports are issued under the recognition and measurement principles of United States Generally Accepted Accounting Principles (GAAP). The accompanying unaudited condensed consolidated financial reports reflect all adjustments of a normal recurring nature necessary for a fair statement of the (i) results of operations and comprehensive income (loss) for the six month periods ended June 30, 2017 and 2016; (ii) the financial position at June 30, 2017 and June 30, 2016; and (iii) the cash flows for the six month period ended June 30, 2017 and 2016. These unaudited interim results are not necessarily indicative of results for a full year or any other interim period. Copies of this announcement are available on the Company's website 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. All Company, brand, and product names are trademarks or registered trademarks of their respective holders. ProPhotonix undertakes no duty to update any of these forward-looking statements.

Use of Non-GAAP Financial Measures

The Company provides non-GAAP financial measures, such as EBITDA, to complement its consolidated financial statements presented in accordance with GAAP. Non-GAAP financial measures do not have any standardized definition and, therefore, are unlikely to be comparable to similar measures presented by other reporting companies. These non-GAAP financial measures are intended to supplement the user's overall understanding of the Company's current financial and operating performance and its prospects for the future. Specifically, the Company believes the non-GAAP results provide useful information to both management and investors by identifying certain expenses, gains and losses that, when excluded from the GAAP results, may provide additional understanding of the Company's core operating results or business performance, which management uses to evaluate financial performance for purposes of planning for future periods. However, these non-GAAP financial measures are not intended to supersede or replace the Company's GAAP results.

The Company uses EBITDA (earnings before interest, taxes, depreciation, amortization, stock-based compensation and impairment charges) as a non-GAAP financial measure in this press release. A reconciliation of net income to EBITDA for the six months ended June 30, 2017 and 2016 is as follows:

	In thousands	
	Six Months Ended June 30,	
	2017	2016
Net income	\$597	\$408
Plus:		
Interest and other (income) expense, net	(33)	284
Amortization of debt discount and financing costs	7	51
Depreciation	33	35
Stock based compensation	118	98
EBITDA	<u>\$722</u>	<u>\$876</u>

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