PROPHOTONIX LIMITED
(formerly STOCKERYALE, INC.)
CONDENSED CONSOLIDATED BALANCE SHEETS
In thousands except share and per share data
Unaudited

	June 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 1,663	$ 4,478
Accounts receivable less allowances of $33 at June 30, 2010 and $5 at December 31, 2009	2,177	1,473
Inventories	1,403	1,282
Prepaid expenses and other current assets	232	502
Total current assets	5,475	7,735
Net property, plant and equipment	3,613	3,835
Goodwill	431	508
Acquired intangible assets, net	1,002	1,260
Other long-term assets	37	38
Total assets	$ 10,558	$ 13,376
Liabilities and Stockholders' Deficit		
Current liabilities:		
Revolving credit facility	$ 628	$ 568
Current portion of long-term debt, net of unamortized discount of $303 at June 30, 2010 and $358 at December 31, 2009	2,942	3,798
Current portion of capital and financing lease obligations	253	498
Accounts payable	1,497	1,142
Accrued expenses	1,376	1,117
Total current liabilities	6,696	7,123
Long-term debt, net of unamortized discount of $55 at June 30, 2010 and $193 at December 31, 2009	2,673	3,281
Capital and financing lease obligations, net of current portion	3,327	3,220
Deferred income taxes, net	-	67
Total liabilities	12,696	13,691
Stockholders' deficit:		
Common stock, par value $0.001; shares authorized 250,000,000; 44,605,778 shares issued and outstanding at June 30, 2010 and 44,616,458 shares issued and outstanding at December 31, 2009	45	45
Paid-in capital	103,330	103,048
Accumulated other comprehensive income	314	118
Accumulated deficit	(105,827)	(103,526)
Total stockholders' deficit	(2,138)	(315)
Total liabilities and stockholders' deficit	$ 10,558	$ 13,376

See notes to unaudited condensed consolidated financial statements.

PROPHOTONIX LIMITED
(formerly STOCKERYALE, INC.)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
In thousands except per share data
Unaudited

	Six Months Ended June 30,	
	2010	**2009**
Revenue	$ 7,147	$ 5,454
Cost of sales	4,498	3,961
Gross profit	2,649	1,493
Operating expenses:		
Sales and marketing expenses	974	813
General and administrative	2,712	2,292
Research and development	356	268
Amortization of intangibles	195	361
Loss from operations	(1,588)	(2,241)
Other (income) and expense, net	92	(1,345)
Amortization of debt discount and financing costs	193	1,173
Interest expense	326	76
Loss from continuing operations before income tax benefit	(2,199)	(2,145)
Income tax provision / (benefit)	(65)	(9)
Loss from continuing operations	(2,134)	(2,136)
Loss from discontinued operations, net of tax	(109)	(189)
Loss on sale of discontinued operations, net of tax	(58)	-
Net loss	$ (2,301)	$ (2,325)
Basic and diluted net loss per share from continuing operations	$ (0.05)	$ (0.05)
Basic and diluted net loss per share from discontinued operations	$ 0.00	$ 0.00
Basic and diluted net loss per share	$ (0.05)	$ (0.05)
Basic and diluted weighted average shares outstanding:	44,177	43,166

See notes to unaudited condensed consolidated financial statements.

PROPHOTONIX LIMITED
(formerly STOCKERYALE, INC.)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Six Months Ended June 30,	
	2010	2009
	In thousands	
Operations		
Net loss	$ (2,301)	$ (2,325)
Loss from discontinued operations, net of tax	(167)	(189)
Loss from continuing operations	(2,134)	(2,136)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock based compensation	282	317
Depreciation and amortization	443	635
Amortization of debt discount and financing costs	193	1,173
Non cash interest expense	(2)	136
Fair value of warrants	-	(146)
Provision for inventories	19	57
Provision for bad debts	37	4
Deferred income taxes	(65)	(9)
Other change in assets and liabilities:		
Accounts receivable	(925)	535
Inventories	(251)	(30)
Prepaid expenses and other current assets	264	(343)
Accounts payable	463	(348)
Accrued expenses	329	242
Net cash provided by (used in) operating activities	(1,347)	87
Net cash provided by (used in) discontinued operations	(167)	1,444
Net cash provided by (used in) operating activities	(1,514)	1,531
Financing		
Net proceeds from sale of common stock	-	12
Net borrowing (repayment) of revolving credit facility.	90	(377)
Proceeds from long-term debt issuance	-	500
Principal repayment of long-term debt	(1,351)	(594)
Net cash used in financing activities	(1,261)	(459)
Net cash used in discontinued operations	-	(6)
Net cash used in financing activities	(1,261)	(465)
Investing		
Payment of financing obligation	(73)	(164)
Net proceeds from sale of assets	3	-
Purchase of plant and equipment	(79)	(28)
Net cash used in continuing investing activities	(149)	(192)
Net cash used in discontinued operations	-	(321)
Net cash used in investing activities	(149)	(513)
Effect of exchange rate on cash	109	(1,023)
Net change in cash and equivalents	(2,815)	(470)
Cash and equivalents, beginning of period	4,478	1,635
Cash and equivalents, end of period	$ 1,663	$ 1,165
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 369	$ 69

	Six Months Ended June 30,	
	2010	2009
	In thousands	
Assets acquired under lease arrangement	$ —	$ 276
Fair value of warrant modifications and issuances (in connection with financing)	$ —	$ 38
Issuance of common stock to settle liabilities	$ —	$ 370

See notes to unaudited condensed consolidated financial statements.

PROPHOTONIX LIMITED

(formerly STOCKERYALE, INC.)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT AND COMPREHENSIVE INCOME (LOSS)

(in thousands)

Unaudited

	Common Stock				Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)	Comprehensive Income (Loss)
	Shares	Par $0.001	Paid in Capital	Accumulated Deficit			
Balance December 31, 2009	44,616	$ 45	$ 103,048	$ (103,526)	$ 118	$ (315)	
Share-based compensation, includes forfeiture of restricted stock	(10)	-	282			282	
Cumulative translation adjustment					196	196	196
Net loss......................................				(2,301)		(2,301)	(2,301)
Comprehensive net loss for the year ended June 30, 2010............							$ (2,105)
Balance June 30, 2010	44,606	$ 45	$ 103,330	$ (105,827)	$ 314	$ (2,138)	

See notes to unaudited condensed consolidated financial statements.

PROPHOTONIX LIMITED
(formerly STOCKERYALE, INC.)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by ProPhotonix Limited (the "Company") in accordance with United States Generally Accepted Accounting Principles (US GAAP) and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of (i) the results of operations for the six month periods ended June 30, 2010 and 2009, (ii) the financial position at June 30, 2010 and December 31, 2009, and (iii) the cash flows for the six month periods ended June 30, 2010 and 2009. These interim results are not necessarily indicative of results for a full year or any other interim period.

On October 13, 2009, the Company and its wholly owned subsidiary, StockerYale Canada, Inc. ("SYC"), sold substantially all North American assets and rights of SYC and the Company's specialty optical fiber product line to Coherent Inc. The sale price consisted of a cash payment of $15,000,000 (of which $750,000 was placed in escrow for one year) and the assumption of certain liabilities, including approximately $3,425,000 of accounts payable, accrued expenses and other obligations associated with the assets sold. Proceeds from the transaction were used to pay off in full all obligations owed to Laurus Master Fund, Ltd. and its related entities (approximately $7,900,000 including fees), fees related to the transaction of approximately $1,100,000, the settlement of various obligations of approximately $950,000, and for working capital and general corporate purposes for the Company's ongoing and future operations. Accordingly, the condensed consolidated financial statements present the sold entities as discontinued operations. The escrow ($750,000) was received by the Company on October 13, 2010.

Prior to the sale, the Company reported three segments: lasers, Photonic Products, and optical components. The entire optical component segment and a portion of the laser segment were sold. The Company will continue to operate its LED systems and Photonic Products businesses, which are based in Ireland and the United Kingdom.

On May 27, 2010 the shareholders of the Company approved by a majority vote of all of the outstanding shares of the Company's Common Stock to change its name from StockerYale, Inc. to ProPhotonix Limited.

On May 27, 2010 the shareholders of the Company approved by a majority vote of all of the outstanding shares of the Company's Common Stock to grant the Directors the discretionary authority to, at any time and from time to time until the next annual meeting of Shareholders, amend the Articles and increase the authorized Common Shares by up to an additional 150,000,000 shares. As a result, the Directors have the authority to issue up to 250,000,000 Common Shares.

On August 19, 2010, the Company announced its intentions seeking admission of the Company's shares to the London Stock Exchange, plc (AIM listing) and to raise capital through an equity placement concurrent with the AIM listing. The net proceeds of such a capital raise will be used to fund the LED business expansion strategy, including investments in product development and manufacturing capacity, to further develop the laser module business, and to provide additional working capital. In connection with these efforts, the Company incurred and expensed professional fees of approximately $511,000 during the six months ended, June 30, 2010.

The accompanying consolidated financial statements and notes are condensed and do not contain certain information included in the annual financial statements and notes of the Company. These unaudited condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report. These statements are prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flow to meet its obligations on a timely basis through improved operations and/or additional financing. In addition to the proposed capital raise, discussed above, the Company has renegotiated all of its term debt obligations extending the payment period over twelve to 48 months. (see Footnote 17). The Company's management is optimistic in regards to the proposed capital raise and believes it will have sufficient capital for at least the next twelve months.

(2) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Actual results in the future could vary from the amounts derived from management's estimates and assumptions.

(3) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, StockerYale (IRL) Ltd., StockerYale Waterloo Acquisition Inc., StockerYale (UK) Ltd., which owns 100% of Photonics Products Ltd., and Lasiris Holdings, Inc., which holds all of the outstanding shares of StockerYale Canada. See Note 14 for information about the Company's sale of the assets in 2009, including those of StockerYale Canada. All intercompany balances and transactions have been eliminated.

(4) RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued ASU No. 2010-06, "Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"), which is included in the ASC Topic 820 (Fair Value Measurements and Disclosures). ASU 2010-06 requires new disclosures on the amount and reason for transfers in and out of Level 1 and 2 fair value measurements. ASU 2010-06 also requires disclosure of activities, including purchases, sales, issuances, and settlements within the Level 3 fair value measurements and clarifies existing disclosure requirements on levels of disaggregation and disclosures about inputs and valuation techniques. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this standard did not have a material effect on our financial statements.

In February 2010, the FASB issued ASU No. 2010-09, "Amendments to Certain Recognition and Disclosure Requirements" ("ASU 2010-09"), which is included in the FASB Accounting Standards Codification (the "ASC") Topic 855 (Subsequent Events). ASU 2010-09 clarifies that an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued. ASU 2010-09 is effective upon the issuance of the final update and did not have a significant impact on the Company's financial statements. All subsequent events since June 30, 2010 to the date of the issuance of this document have been disclosed.

In April 2010, the FASB issued ASU No. 2010-17, "Milestone Method of Revenue Recognition" ("ASU 2010-17"), which is included in the ASC topic 605 (Revenue Recognition). ASU 2010-17 is an accounting standard update defining a milestone and determining what criteria must be met to apply the milestone method of revenue recognition for research or development transactions. The update provides guidance on the criteria which must be met to determine if the milestone method of revenue recognition is appropriate, whether a milestone is substantive and the disclosures that must be made if the method is elected. This standard should be applied on a prospective basis for milestones reached in fiscal years, and interim periods within those years, beginning on or after June 15, 2010, with earlier adoption permitted. If early adoption is elected and the period of adoption is not the beginning of the Company's fiscal year, the amendments should be applied retrospectively from the beginning of the year of adoption. The adoption of this standard did not have a material impact on our consolidated financial position, results of operations and cash flows.

(5) LOSS PER SHARE

The Company calculates basic and diluted net loss per common share by dividing the net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding. Common stock equivalents that were outstanding as of June 30, 2010 and 2009, but were considered anti-dilutive securities and excluded from the diluted net income per share calculations, were as presented below:

	June 30,	
	2010	**2009**
Options outstanding	4,741,462	3,519,759
Warrants outstanding	8,042,938	8,522,850
Unvested restricted stock grants	402,274	1,145,971
Total potentially dilutive common stock equivalents	13,186,674	13,188,580

In 2010, approximately 646,000 of outstanding options, and approximately 235,000 shares of the unvested restricted stock were cancelled as a result of the sale of the North American operations.

(6) REVENUE RECOGNITION

The Company recognizes revenue from product sales at the time of shipment and when persuasive evidence of an arrangement exists, performance of the Company's obligation is complete, the price to the buyer is fixed or determinable, and collectability is reasonably assured. The Company's custom products are designed and supplied to original equipment manufacturers and produced in accordance with a customer-approved design. The Company's custom product revenue is recognized when the criteria for acceptance has been met. Title to the product generally passes upon shipment, as products are generally shipped FOB shipping point. In certain limited situations, distributors have the right to return products. Such rights of return have not precluded revenue recognition because the Company has a long history with such returns and accordingly are able to estimate a reserve for their cost.

Revenues from funded research and development and product development are recognized based on contractual arrangements, which may be based on cost reimbursement models. Revenue from reimbursement contracts is recognized as services are performed.

If a contract involves the provision of multiple elements and the elements qualify for separation, total estimated contract revenue is allocated to each element based on the relative fair value of each element provided. The amount of revenue allocated to each element is limited to the amount that is not contingent upon the delivery of another element in the future. Revenue is then recognized for each element as described above.

(7) WARRANTY

The Company provides warranties on most products for periods of up to one year. The warranty is limited to the cost of the product and the Company will repair or replace the product as required. The Company monitors the actual warranty repair costs and trends versus the reserve as a percent of sales. The Company adjusts the warranty provision based on actual experience and for any particular known instances.

Warranty Reserves:

Six Months Ended June 30	**2010**	**2009**
	In thousands	
Balance at December 31	$ 98	$ 116
Charges to costs and expenses	20	12
Account write-offs and other deductions	(17)	(8)
Balance at June 30	$ 101	$ 120

(8) INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out basis) or market and include materials, labor and overhead. Inventories are as follows:

	June 30, 2010	December 31, 2009
	In thousands	
Finished goods	$ 223	$ 204
Work-in-process	106	131
Raw materials	1,074	947
Net inventories	$1,403	$ 1,282

(9) STOCK BASED COMPENSATION PLANS AND STOCK-BASED COMPENSATION EXPENSE

The Company has stock-based compensation plans for its employees, officers, and directors. The plans permit the grant of a variety of awards with various terms and prices as determined by the Governance, Nominating and Compensation Committee ("GNCC") of the Company's Board of Directors. The grants vest over terms of two to four years and are priced at fair market value or in certain circumstances 110% of the fair market value, of the common stock on the date of the grant. The options are generally exercisable after the period specified in the option agreement, but no option may be exercised after 10 years from the date of grant.

Additionally, in the case of incentive stock options, the exercise price may not be less than 100% of the fair market value of the Company's common stock on the date of grant. However, there is an exception in the case of a grant to an employee who owns or controls more than 10% of the combined voting power of all classes of the Company's stock or the stock of any parent or subsidiary. In that case, the exercise price shall not be less than 110% of the fair market value on the date of grant. In the case of non-qualified stock options, the exercise price shall not be less than 100% of the fair market value of the Company's common stock on the date of grant.

Stock Option Awards

The fair value of each option grant is estimated using the Black-Scholes option pricing model. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility is calculated based on the historical volatility of the Company's stock, at the time of the award. The average expected option term is estimated using the simplified method. The risk-free interest rate is based on U.S. Treasury zero-coupon issues assumed at the date of grant and no dividends were assumed in the calculation. The compensation expense recognized for all equity-based awards is net of estimated forfeitures for the six months ending June 30, 2010 and 2009. Forfeitures are estimated based on the historical trends.

On January 16, 2009, the GNCC adopted a stock option incentive program for 2009. The GNCC adopted a policy of granting performance-based options to purchase shares of the Company's common stock to various executive officers and key employees; all of which are subject to the achievement of performance goals. Options for a total of 1,865,000 shares of common stock were granted under this performance-based program on January 16, 2009. As the performance goals were not met, the options terminated. The Company did not incur any stock compensation expense related to this plan during 2009.

During the second quarter of 2010, the GNCC approved various non-qualified stock option awards to purchase shares of the Company's common stock to various officers, directors and employees. These options vest between the six-month and four year anniversary of the Grant Date, provided that the recipient continues to serve the Company in that capacity until each such vesting date. Options for a total of 2,410,562 shares of common stock were granted. The exercise price for these options was set at or above the market price on the date of the grant.

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. There were 2,410,562 options granted during the six months ended June 30, 2010. The assumptions for grants during the six months ended June 30, 2010 and 2009 were as follows:

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Volatility………………………………………..	111.6%-112.2%	101.4%-104.8%
Expected option life……………………………	5.5 – 6.08 years	6.08 years
Interest rate (risk free)………………………….	3.05%-3.83%	1.54%-2.86%
Dividends……………………………………….	0	0
Weighted average grant date fair value………...	$0.08	$0.12

A summary of option activity as of June 30, 2010, and changes during the first six months is presented below:

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)
Balance at December 31, 2009	3,005,098	$ 2.87	5.56
Granted	2,410,562	0.11	N/A
Exercised	—	—	N/A
Cancelled	(674,198)	4.26	N/A
Balance at June 30, 2010	4,741,462	$ 1.26	7.73
Exercisable at June 30, 2010	1,498,944	$ 3.71	3.86
Vested and Expected to Vest at June 30, 2010...	4,449,606	$ 1.33	7.61

As of June 30, 2010, there was a total unrecognized compensation cost of approximately $188,000 related to non-vested stock options outstanding. The cost is expected to be recognized over the next 0.98 years. There were no options exercised in the six months ended June 30, 2010 or June 30, 2009. Total expense recorded in the six months ending June 30, 2010 and 2009 was approximately $84,000 and $81,000, respectively.

Restricted Share Awards ("RSAs")

The Company has awarded to a number of employees restricted shares of the Company's common stock. The RSAs vest in equal annual installments over a period of four years. The fair market value of the RSAs is based on the fair market value per share of the Company's common stock on the date of grant and is amortized over the vesting period.

A summary of the status of the Company's RSAs as of June 30, 2010, and changes during the first six months is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested at December 31, 2009	490,689	$ 1.15
Granted..	-	-
Vested..	(77,735)	0.97
Cancelled	(10,680)	1.24
Non-vested at June 30, 2010..	402,274	$ 1.18

As of June 30, 2010, there was a total unrecognized compensation cost of approximately $225,000 related to non-vested RSAs. The Company expects to recognize the costs over the next 1.1 years. Total expense recorded in the six months ended June 30, 2010 and 2009 were approximately $198,000 and $236,000, respectively.

(10) COMPREHENSIVE LOSS

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The following table summarizes all components of the Company's comprehensive loss.

	Six Months Ended June 30,	
	2010	2009
	In thousands	
Net loss	$ (2,301)	$ (2,325)
Other comprehensive income (loss):	—	—
Cumulative translation adjustment	196	(151)
Comprehensive loss	$ (2,105)	$ (2,476)

(11) GOODWILL

The Company uses a two-part impairment test in which it first estimates the fair value of its reporting units by using forecasts of discounted cash flows and then compares that value to the carrying value which requires that certain assumptions and estimates be made regarding industry economic factors and future profitability of reporting units to assess the need for an impairment charge. The methodology the Company uses to allocate certain corporate expenses is based on each segments use of services and/or direct benefit to its employees. While the Company believes it has made reasonable estimates and assumptions to calculate the fair value of the reporting segments' and implied fair value of goodwill, the impairment analysis is highly sensitive to actual versus forecast results. If the estimated value is less than the carrying value the Company moves to the second step of the impairment test to determine if goodwill is impaired. Goodwill as of June 30, 2010 relates to the LED reporting unit.

(12) INTANGIBLE ASSETS

Intangible assets consist of trademarks, acquired patents and patented technologies, distributor and customer relationships and related contracts, trade and brand names and associated logos, technology design and programs, non-compete agreements and other intangible assets. There are no intangible assets with indefinite lives. Acquired patented technologies and trademarks are amortized over their estimated useful lives of between 3 - 16 years.

Gross carrying amounts and accumulated amortization of intangible assets were as follows as of June 30, 2010 for each intangible asset class.

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
		(in thousands)	
Acquired patents, patented technology and purchased technology	$ 1,526	$ (1,506)	$ 20
Trademarks	171	(171)	—
Acquired trade name	456	(208)	248
Acquired customer contracts and relationships	1,852	(1,304)	548
Acquired non-compete agreement	600	(600)	—
Acquired technology design and programs	313	(145)	168
Other	102	(84)	18
Total	$ 5,020	$ (4,018)	$ 1,002

Gross carrying amounts and accumulated amortization of intangible assets were as follows as of December 31, 2009 for each intangible asset class.

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
		(in thousands)	
Acquired patents, patented technology and purchased technology	$ 1,526	$ (1,493)	$ 33
Trademarks	171	(171)	-
Acquired trade name	482	(190)	292
Acquired customer contracts and relationships	1,957	(1,253)	704
Acquired non-compete agreement	634	(634)	-
Acquired technology design and programs	331	(132)	199
Other	108	(76)	32
Total	$ 5,209	$ (3,949)	$ 1,260

Amortization of intangible assets was approximately $195,000 and $361,000 for the six months ended June 30, 2010 and 2009.

As of June 30, 2010, the estimated future amortization expense of intangible assets, in thousands, is as follows:

	Estimated Future Expense In thousands					
	2010	2011	2012	2013	2014	thereafter
Amortization expense of intangible assets	$ 189	$ 315	$ 176	$ 176	$ 146	$ -

(13) DEBT

A summary of the debt obligations of the Company is as follows:

	June 30, 2010	December 31, 2009
	In thousands	
Borrowings under Revolving Credit Facility with Barclays Bank Sales Financing with an interest rate of 2.65% above Barclays base rate (3.15% at June 30, 2010 and December 31, 2009)..	$ 628	$ 568
Senior Fixed Rate Secured Bond to a private investor with an interest rate of 8% at June 30, 2010 and 12% at December 31, 2009, maturing on July 30, 2011 net of unamortized discount of $47 at June 30, 2010 and $91 at December 31, 2009…………………………………….……….…………..……… ……	1,734	2,312
Senior Fixed Rate Secured Bond payable to a private investor, maturing on October 31, 2011 with an interest rate of 8% on June 30, 2010 and 10% at December 31, 2009, net of unamortized discount of $311 at June 30, 2010 and $460 at December 31, 2009..	2,097	2,581
Bonds payable to the former stockholders of Photonic Products Ltd. maturing on November 30, 2010, with an interest rate of 7%, at June 30, 2010 and December 31, 2009..	1,784	2,186
Sub-total debt	6,243	7,647
Less – revolving credit facility …………………………………….……..	(628)	(568)
Less—Current portion of long-term debt, net of unamortized discount......	(2,942)	(3,798)
Total long-term debt, net of unamortized discount	$ 2,673	$ 3,281

Photonic Products Ltd.

StockerYale (UK) Ltd., a wholly owned subsidiary of the Company, issued bonds to each of the former stockholders of Photonic Products Ltd. with an aggregate initial principal amount equal to $2,400,000 (Photonic Bonds). Under the terms of issuance, the outstanding principal accrued interest at an annual rate of 1% above the LIBOR rate as determined on the first business day of each month. All unpaid principal plus accrued but unpaid interest under the bonds was originally due and payable on October 31, 2009.

On October 7, 2009, the Company and StockerYale (UK) Ltd. entered into a Deed of Variation with the bondholders in which the Company and StockerYale (UK) Ltd. agreed: a) to make principal payments to one of the bondholders of $120,000 on October 31, 2009 and $120,000 on January 8, 2010 plus monthly payments of simple interest at an annual rate of 7% on the outstanding amounts until paid ; and (b) to make monthly payments to each of the other two bondholders in the aggregate amount of $47,000 on the last day of each calendar month, beginning on November 30, 2009 and to continue until and including October 31, 2010 plus monthly payments of simple interest at an annual rate of 7% to be made on the last day of each month beginning on November 30, 2009 through November 30, 2010 when a balloon payment of $1,596,000 will be due.

StockerYale (UK) Ltd. may elect to prepay the bonds at any time, in whole or in part, without penalty or premium. If StockerYale (UK) Ltd. fails to make any payments under the bonds, the former stockholders of Photonic Products Ltd. may have the right to require payment from the Company in the form of newly issued shares of the Company's common stock.

As of June 30, 2010, $1,784,000 was outstanding under the bonds issued to the stockholders of Photonic Products Ltd., which has been recorded as current portion of long-term debt.

As of December 31, 2009, $2,186,000 was outstanding under the bonds issued to the stockholders of Photonic Products Ltd., and was recorded as current portion of long-term debt.

See Footnote 17 relating to the restructuring of this arrangement, dated October 30, 2010.

Private Investor Bonds *Photonic Products Ltd. Financing*

On October 31, 2006, StockerYale (UK) Ltd. issued a 10% Senior Fixed Rate Secured Bond ("SYUK Bond"), as amended at various times, in the original principal amount of $4,750,000 to Eureka Interactive Fund Limited. The bond is due on October 31, 2011. StockerYale (UK) Ltd. agreed to make payments of principal and interest over the term; however, an amount equal to 50% of the original principal sum of $4,750,000 will be paid on October 31, 2011. The outstanding principal on the bond accrues interest at an annual rate of 10%. StockerYale (UK) Ltd. may prepay the bond at any time, in whole or in part, without penalty or premium. The bond is secured by all of the equity interests of Photonic Products Ltd. owned by StockerYale (UK) Ltd. The Company used the net proceeds to make the cash payment for the acquisition of Photonic Products Ltd. The remaining proceeds were used for transaction fees and working capital. On August 16, 2007, the Eureka Interactive Fund Limited transferred this bond to a private investor.

In connection with the issuance of the bond on October 31, 2006, the Company issued a Common Stock Purchase Warrant to Eureka to purchase 2,375,000 shares of its common stock for a purchase price of $1.15 per share. The warrant expires on the tenth anniversary of the date of issuance. The aggregate proceeds of the bond and warrants of $4,750,000 were allocated between the bond and the common stock warrants based upon their relative fair market value. The proceeds price allocated to the bond was $3,255,349 and the proceeds allocated to the common stock warrant was $1,494,651. The difference between the aggregate face amount of the bond of $4,750,000 and the initial carrying value of the bond was recorded as a debt discount of $1,494,651 and is being amortized over the life of the bond. The Company used the Black-Scholes Model to calculate the fair value of the warrants. The underlying assumptions included in the Black-Scholes Model were: a risk-free interest rate of 4.61%, an expected life of ten years and an expected volatility of 102% with no dividend yield.

On January 13, 2009, StockerYale (UK) Limited, a wholly owned subsidiary of the Company and the private investor, entered into an agreement to forego the principal payments of $61,674 per month under such bond for six months totaling $370,044 in consideration of the issuance of 1,480,176 shares of common stock of the Company to the private investor.

On June 9, 2009, the private investor and the Company entered into a Transfer Agreement under which they agreed to transfer $1,000,000 of debt (the "Transfer Amount") from the SYUK Bond to the SYI Bond described below.

On March 9, 2010, the private investor and the Company entered into an amendment to the Bond reducing the interest rate from 10% to 8%, in consideration of an advance payment of $200,000 in principal and a revised prospective principal payment schedule. In addition, the same private investor agreed to reduce to interest rate on the SYI Bond from 12% to 8% as a part of this amendment.

At June 30, 2010, $2,407,679 remained outstanding under the combined note which has been classified as $787,428 short-term debt and $1,620,251 long- term debt and reported net of $310,883 of unamortized debt discount, which has been reported as $256,497 as short-term and $54,386 as long-term.

At December 31, 2009, $3,040,206 remained outstanding under the combined note which has been classified as $1,048,458 short-term debt and $1,991,748 long- term debt and reported net of $459,666 of unamortized debt discount, which has been reported as $283,863 as short-term and $175,793 as long-term. On December 31, 2009, the Company was $308,370 (principal only) in arrears.

On March 1, 2010, the private investor signed a waiver for any breach or default under the agreement at December 31, 2009.

See Footnote 17 relating to the restructuring of this arrangement, dated November xx, 2010.

StockerYale Ireland Senior Fixed Rate Secured Bond

On July 24, 2008, StockerYale (IRL) Ltd. issued a three-year 12% Senior Fixed Rate Secured Bond ("SYI Bond"), as amended at various times, to a private investor in the original principal amount of €935,000 ($1,472,905 at July 24, 2008) secured by all of the assets of StockerYale (IRL) Ltd. The bond matures on July 30, 2011. StockerYale (IRL) Ltd. agreed to make payments of principal and interest of approximately €31,000 over the term beginning August 30, 2008. The outstanding principal on the bond accrues interest at an annual rate of 12% (reduced to 8% on March 9, 2010). StockerYale (IRL) Ltd. may prepay the bond at any time, in whole or in part, without penalty or premium. The Company used the net proceeds for working capital.

In connection with the issuance of the bond, the Company issued warrants to the private investor to purchase 636,404 shares of its common stock for a purchase price of $0.45 per share. The warrant expires on the tenth anniversary of the date of issuance. The Company used the Black-Scholes Model to calculate the fair value of the warrants. The underlying assumptions included in the Black-Scholes Model were: a risk-free interest rate of 4.03%; an expected life of ten years; and an expected volatility of 98% with no dividend yield. The total value of the warrants was recorded as a debt discount of approximately $220,000 and is being amortized over the life of the bond, using the effective interest method.

On June 9, 2009, the same private investor loaned the company an additional $500,000 payable over the remaining term of the original loan, at the same fixed 12% interest rate. As a part of the agreement, the Company issued to the private investor additional ten-year common stock warrants to purchase 500,000 shares of common stock at an exercise price per share of $0.10. An additional debt discount was recorded in the amount of $38,086 and is being amortized over the remaining life of the note. The Company used the Black-Scholes Model to calculate the fair value of the warrants. The underlying assumptions included in the Black-Scholes Model were: a risk-free interest rate of 3.86%, an expected life of seven years, an expected volatility of 105.04% and no dividend yield.

Also on June 9, 2009, the Company and private investor entered into a Transfer Agreement under which they agreed to transfer $1,000,000 of debt (the "Transfer Amount") from the SYUK Bond described above to the SYI Bond. Interest accrues and is payable monthly and the amount is payable on July 30, 2011.

At June 30, 2010, $1,781,480 remained outstanding under the combined note which has been classified as $672,922 short-term debt and $1,108,558 long- term debt and reported net of $47,067 of unamortized debt discount, which has been reported as $46,202 as short-term and $865 as long-term.

At December 31, 2009, $2,402,620 remained outstanding under the note, which has been classified as $921,170 short-term debt and $1,481,450 long-term debt and reported, net of $90,586 of unamortized debt discount, which has been reported as $73,702 short-term and $16,684 long-term. On December 31, 2009, the Company was $216,731 (principal only) in arrears.

On March 1, 2010, the private investor signed a waiver for any breach or default under the agreement at December 31, 2009.

See Footnote 17 relating to the restructuring of this arrangement, dated Novemberr xx, 2010.

Barclays Bank, PLC

On February 6, 2008, the Company's Photonic Products subsidiary entered into a Confidential Invoice Discounting Agreement with Barclays Bank Sales Financing ("Barclays"). Under the Discounting Agreement, a three-year revolving line of credit was established. The Discounting Agreement provides for a revolving line of credit not to exceed an aggregate principal amount of £700,000 ($1,055,000) and grants a security interest in and lien upon all of Photonic Products' trade receivables in favor of Barclays.

The facility requires the maintenance of certain covenants. The Company may elect to prepay amounts due under the facility at any time, in whole or in part, upon 3 months notice. If the prepayment amount comes before the end of the "Minimum Period of the Agreement", Barclays reserves the right to charge fees in accordance with the terms and conditions of the agreement. On June 26, 2009, Photonic Products agreed to amend the terms of the Agreement with Barclays. Under the amended terms, the maximum amount allowed outstanding under the line of credit is £650,000 ($980,000 USD at June 30, 2010). The outstanding principal under the note accrues interest at an annual rate of 2.65% above Barclays base rate.

On March 8, 2010, the Company entered into an amendment to the revolving credit facility agreement, which removed the minimum tangible net worth requirement of £350,000 ($527,000 USD) as of March 31, 2010 and June 30, 2010. The amendment states that if the Company's net worth did not increase in line with projections as provided to Barclays on January 18, 2010, then Barclays may in its sole discretion review the terms on which it continues to make the facility available. The amount outstanding under the facility was $628,000 as of June 30, 2010 and $568,000 as of December 31, 2009, all of which was classified as short term debt under revolving credit facility. The Company was in technical default on December 31, 2009 which Barclays waived as part of the March 8, 2010 amendment.

See footnote 17 relating to the extension of this arrangement dated November 25, 2010.

(14) DISCONTINUED OPERATIONS

On October 13, 2009, the Company and SYC, entered into an agreement and sold substantially all North American assets and rights of SYC and the Company's specialty optical fiber product line to Coherent Inc. The purchase price consisted of a cash payment of $15,000,000 and the assumption of certain liabilities, including approximately $3,425,000 of accounts payable and other obligations associated with the sold assets. A portion of the cash payment, $750,000, was placed in escrow for a one year period which amount was received on October 13, 2010. The results of those operations are classified and included in discontinued operations for all periods presented. Proceeds from the transaction were used to pay certain outstanding debt in the amount of $7,900,000 (including fees), expenses associated with the transaction and settlement of various obligations of approximately $2,050,000. These divestitures are reflected as discontinued operations on the accompanying condensed consolidated financial statements. On May 5, 2010, the Company agreed to pay Coherent Inc. approximately $58,000 related to the net asset value calculation in the agreement. This amount was recorded as a loss from discontinued operations and is included in the amounts below.

Revenues from the discontinued operations for the six months ended June 30, 2010 and 2009 were $0.0 and $6.9 million, respectively. The loss from discontinued operations for the six months ended June 30, 2010 and 2009 was $167,000 and $189,000, respectively. Interest expense was allocated to discontinued operations for the six months ending June 30, 2009.

(15) COMMITMENTS AND CONTINGENCIES

Lease obligation treated as financing

On December 30, 2005, the Company closed a sale-leaseback transaction on the Company's Salem, New Hampshire headquarters with 55 Heritage LLC. The terms of the Real Estate Purchase Agreement dated November 29, 2005, as amended on December 22, 2005, between the Company and the buyer were that (i) the Company agreed to sell the property to the buyer for $4,700,000, and (ii) the Company agreed to lease from the buyer (a) approximately 32,000 square feet of the property for an initial term of five years with a rental rate during such period of $192,000 per year in base rent and (b) approximately 63,000 square feet of the property for an initial term of five years with rental rates ranging from approximately $220,500 to $315,000 per year in base rent, plus a pro rata share of all operating costs of the property. Because the transaction did not qualify as a sale for accounting purposes, the net proceeds were classified as a financing lease obligation. This was primarily due to the terms of the lease agreement. Accordingly, the Company continues to carry the value of the building on its balance sheet and record depreciation expense until the criteria to record a sale are met. The Company expects that it will recognize this sale during the fourth quarter ending December 31, 2010. The lease expires on December 31, 2010. On October 14, 2009, the Company amended the lease, dated December 30, 2005, to reduce the rentable space from approximately 95,000 square feet to approximately 51,000 square feet. This agreement changed the base rent for November and December, 2009 to an annualized rate of approximately $203,000 per year, and for the 2010 calendar year to approximately $150,000. In addition, the tenant's share of expenses was reduced.

At June 30, 2010, $3,533,000 was recorded on the balance sheet as a financing lease obligation, which was classified as $206,000 short-term obligation and $3,327,000 long-term obligation, and has been reported net of a $28,200 deposit.

At December 31, 2009, $3,609,000 was recorded on the balance sheet as a financing lease obligation, which has been classified as $413,000 short-term obligation and $3,196,000 long-term obligation, and has been reported net of a $31,500 deposit.

Other obligations

The Company's Canadian subsidiary, StockerYale Canada Inc., is the prime tenant of the property located at 275 Kesmark Street, Montreal, Quebec, Canada. The Company is ultimately liable for the lease payments under the sub lease arrangements, described below, and the contingent liability amounts to approximately $180,000 of lease payments in the aggregate plus operating costs.

On October 13, 2009, SYC executed a Lease Amending Agreement (the "Montreal Lease Amendment") with the landlord to amend the Lease Agreement dated as of December 22, 2005 (the "Montreal Lease"). The Montreal Lease Amendment shortens the term of the Montreal Lease from having an expiration date of November 31, 2015 to: (a) with respect to space subleased by Coherent from SYC, January 12, 2011; and (b) with respect to space being subleased by an existing subtenant of SYC, the date of termination of such sublease. In connection with such amendment, SYC paid the landlord CDN$550,000, plus applicable taxes, which included cash and the forfeiture by SYC of prepaid rent.

(16) SEGMENT INFORMATION

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief decision-making group, in making decisions how to allocate resources and assess performance. The Company's chief decision-maker is the Chief Executive Officer. The Company's accounting policies and method of presentation for segments is consistent with that used throughout the consolidated financial statements.

Following the sale described in Note 14, the Company operates in two segments: LED's (light emitting diode systems) and Photonic Products. In the LED segment, the Company designs and manufactures LED systems for the inspection, machine vision, medical and military markets. The Photonic Products segment distributes laser diodes and designs and manufactures custom laser diodes modules for industrial, commercial and medical applications. The policies relating to segments are the same as the Company's corporate policies.

The Company evaluates performance and allocates resources based on revenues and operating income (loss). The operating loss for each segment includes selling, research and development and expenses directly attributable to the segment. In addition, the operating loss includes amortization of acquired intangible assets, including any impairment of these assets and of goodwill. Certain of the Company's indirect overhead costs, which include corporate general and administrative expenses, are allocated between the segments based upon an estimate of costs associated with each segment. Segment assets include accounts receivable, inventory, machinery and equipment, goodwill and intangible assets directly associated with the product line segment.

All revenues and costs associated with our discontinued businesses have been eliminated from segment reporting, so that the net effect is to report from continuing operations only.

	Six Months Ended June 30, 2010			Six Months Ended June 30, 2009		
	In thousands			In thousands		
	LED	Photonic Products	Total	LED	Photonic Products	Total
Net Sales……….	$2,974	$ 4,173	$ 7,147	$ 1,794	$ 3,660	$ 5,454
Gross Profit……	1,487	1,162	2,649	621	872	1,493
Operating Loss..	(255)	(1,333)	(1,588)	(608)	(1,633)	(2,241)

	June 30, 2010				December 31, 2009			
	LED	Photonic Products	Corporate	Total	LED	Photonic Products	Corporate	Total
	In thousands				In thousands			
Total current assets	$ 1,802	$ 2,012	$ 1,661	$ 5,475	$ 1,173	$ 1,778	$ 4,784	$ 7,735
Property, plant & equipment, net	$ 182	$ 360	$ 3,071	$ 3,613	$ 188	$ 432	$ 3,215	$ 3,835
Acquired intangible assets, net……………...	$ 20	$ 982	—	$ 1,002	$ 33	$ 1,227	—	$ 1,260
Goodwill……….	$ 431	$ -	—	$ 431	$ 508	$ -	—	$ 508
Other long-term assets………….	$ —	$ 20	$ 17	$ 37	$ —	$ 20	$ 18	$ 38
Total……………	$ 2,435	$ 3,374	$ 4,749	$ 10,558	$ 1,902	$ 3,457	$ 8,017	$ 13,376

The Company’s sales by geographic region are denominated in U.S. dollars. These sales are as follows:

	Six Months Ended June 30,	
	In thousands	
Sales by region	2010	2009
Europe and United Kingdom	$ 4,026	$ 2,566
Domestic – United States	1,973	2,463
Asia and Rest of World	1,148	425
Total	$ 7,147	$ 5,454

(17) SUBSEQUENT EVENTS

On October 30, 2010, the Company and the holders of the Photonic Bonds entered into a Deed of Variation of the Photonic Bonds. The amendment required a payment on October 30, 2010 against the principal balance in the amount of $150,000. The Photonic Bonds are amended to amortize the outstanding balance as of October 31, 2010 monthly over the period from November 30, 2010 through December 31, 2011 at the rate of $50,000 principal plus simple interest (at 9 per cent. per annum). On January 6, 2012 the remaining balance (approximately $793,000) of the Photonic Bonds shall be payable in full. The Key repayment terms of the Photonic Bonds, under this amendment, are as follows:

(a) Principal:	$1,493,000
(b) Interest Rate:	9%
(c) Repayment term:	October 31, 2010 to January 6, 2012
(d) Monthly principal:	$50,000
(e) Monthly interest:	Simple interest on the outstanding balance each month
(f) Balloon payment:	$793,000; January 6, 2012

On November xx, 2010, the Company and a private investor entered into a Binding Restructuring of SYUK Bond. The bond will be amended to convert $1,274,000 of the balance into Common Shares of ProPhotonix at the at the price equal to the per share price of the equity offering described in footnote (1) and to transfer the remaining balance $942,124 to StockerYale Ireland. The bond will be cancelled thereafter.

On November xx, 2010, the Company and a private investor entered into a Binding Restructuring of the SYI Bond. The amendment provides that StockerYale Ireland shall assume € 692,128 ($942,124) of the balance of the SYUK Bond, which will then be combined with the existing SYI Bond. This bond is secured by the assets of StockerYale Ireland. The SYI Bond will be amended such that interest only shall be paid monthly on the outstanding balance through December 31, 2011 and thereafter equal monthly payments of principal and interest over the three year period January 1, 2012 through December 31, 2014. The Company will also pay a restructuring fee of $50,000 to the private investor. The Key repayment terms of the SYI Bond, under this amendment, are as follows:

(a) Principal:	€1,972,523
(b) Interest Rate:	8%
(c) Interest payments only:	present through December 31, 2011
(d) Principal Repayment term:	36 months; January 31, 2012 through December 31, 2014
(d) Monthly principal and interest:	€61,812

On November 25, 2010 Photonic Products Ltd. and Barclays extended the minimum term of the Confidential Invoice Discounting Agreement through March 25, 2012. The minimum term of the Agreement ended on February 7, 2011. All other terms of the Agreement remain in place pursuant to the Agreement as amended.