August 26, 2014

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

INTERIM RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2014

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 U.K., today announces its unaudited interim results for the six months ended June 30, 2014.

Financial Highlights

- Revenue increased 13% to $8.3 million (1H 2013: $7.4 million)
- Revenue increased 11% for Laser diode modules and diodes and 15% for LED systems
- Gross profit increased 8.0% to $3.2 million (1H 2013: $3.0 million)
- Gross profit margin decreased to 38.5% (1H 2013: 40.4%)
- Operating loss decreased to $0.1 million (1H 2013: loss of $1.1[1] million)
- EBITDA of $0.1 million vs. loss of $0.9[1] million in 2013
- Order bookings of $8.6 million (1H 2013: $8.4 million)
- 1.03 Book-to-Bill ratio from existing and new customers
- Percentage revenue by market sectors: industrial 74%, medical 17%, and security & defense 9%
- Percentage revenue by geography: 49% Europe, 32% North America and 19% Rest of World
- Cash balance of $0.3 million (June 30, 2013: $0.7 million); available credit lines of $1.8 million.

(1) Includes restructuring and non-recurring costs of $582,000

Tim Losik, President & CEO, Commented:

"During the first half 2014, the Company has experienced an improvement in business activity with order bookings through the first six months of 2014 totaling $8.6 million and the June 30, 2014 backlog of unshipped orders, $7.2 million, up 4% since December 31, 2013. The Company ended the first six months of 2014 with a book-to-bill ratio of 1.03.

"We produced significant improvements in the operating performance versus the first half 2013, excluding the 2013 restructuring charge of $582K, including: Loss from operations decreased 73%, EBITDA improved from an adjusted loss of $275,000 to a profit of $118,000, and Net loss decreased 52%. The improvement in operating performance is the result of increased revenue, product mix, cost reductions, and overhead absorption. The additional actions taken to reduce costs in the first half of 2014, as previously announced on May 22, 2014, will reduce our break-even point on a go forward basis. The combination of a reduced break-even point, increased sales activity and significant new business opportunities together with the business moving towards being cash flow positive, all indicate improved prospects for 2015.

"As stated in our annual report for 2013, customer driven product development activity continues to remain strong. We completed many of the large customer funded development initiatives that started in 2013 and expect to begin shipping production orders from these projects in late 2014 and early 2015. These potential high volume OEM (custom) applications include illuminators for the semiconductor, optical sorting, and medical markets.

"During the first half of 2014, we also began working on additional large customer driven non recurring engineering opportunities that we anticipate will result in significant production volumes in 2015 and beyond. These applications include products in the medical market and additional OEM (custom) applications in the optical inspection market. We recently announced two new products adding to our product portfolio, and we expect additional new product announcements during 2014."

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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.

Half Year 2014 Financial Results

Revenue for the half year ended June 30 2014 was $8.3 million, an increase of 13% compared with $7.4 million in the same period of 2013. Gross profit was $3.2 million, an increase of 8% compared to $3.0 million in the first half of 2013. Gross profit margin decreased to 38.5% from 40.4% in the same period 2013 due to a shift in product mix. Foreign currency exchange impact on gross profit was negligible, however, operating income was negatively impacted by approximately $0.2 million.

Operating expenses, excluding intangible amortization charges, totaled $3.3 million versus $3.4 million in 2013 for the comparable period, excluding the one-time restructuring costs of $582K. Sales and marketing and research and development (R&D) expenses were flat in 2014 from the first half 2013 at $1.8 million, while general and administrative expenses decreased 10% over the same period, excluding the one-time restructuring charge. The operating loss was $0.1 million, as compared to a $0.5 million loss in the same period 2013, excluding the one-time restructuring charge. EBITDA was $0.1 million as compared to a loss of $0.3 million in 2013, excluding the one-time restructuring charge The net loss was $0.5 million compared to the first half 2013 net loss of $1.5 million.

Strategy and Markets

ProPhotonix consists of two business units: an LED systems manufacturing business based in Ireland (Cork), and a laser modules production and laser diode distribution division located in the United Kingdom (Hatfield Broad Oak). Company headquarters and the North American sales activities are based in Salem, New Hampshire, United States of America.

The Company is well positioned to make significant progress on its strategy to combine its expertise in two key areas of optics: LEDs and lasers. The Company intends to capitalize on increasing opportunities in this area by designing and manufacturing high value, high margin components for global manufacturers of equipment.

The Company has made significant investments in R&D, including expanding its R&D team, which now includes a full complement of optical, mechanical and electrical engineers and represents over 12% of the Company's total workforce of 91 employees. They are focused on continuing to develop proprietary products to meet clearly defined demand from our customers and the markets which we serve. In this regard, progress during the first half included a range of new laser module and LED OEM opportunities including development for new customer applications. Currently, the majority of the Company's R&D and product development activities are specifically tied to future customer requirements.

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

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Revenue	$ 8,319	$ 7,365
Cost of sales	(5,116)	(4,393)
Gross profit	3,203	2,972
Operating expenses:		
Selling expenses	(1,343)	(1,317)
General and administrative	(1,476)	(2,221)
Research and development	(465)	(473)
Amortization of intangibles	(61)	(60)
Total operating expenses	(3,345)	(4,071)
Loss from operations	(142)	(1,099)
Other income / (expense), net	(91)	(393)
Interest expense	(149)	(95)
Amortization of debt discount and financing costs	(102)	(6)
Loss from operations before income tax provision (benefit)	(484)	(1,593)
Income tax benefit	-	74
Net loss	(484)	(1,519)
Other comprehensive income (loss):		
Foreign currency translation	102	151
Total comprehensive loss	$ (382)	$ (1,368)
Basic and diluted net loss per share	$ (0.01)	$ (0.02)
Basic and diluted weighted average shares outstanding	83,665	76,474

FINANCIAL STATEMENTS

PROPHOTONIX LIMITED

CONSOLIDATED BALANCE SHEETS

(unaudited)
($ in thousands except share and per share data)

For the Periods Ended June 30, 2014 and 2013	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 253	$ 726
Accounts receivable, less allowances of $35 in 2014 and $92 in 2013	2,648	2,361
Inventories	2,049	1,943
Prepaid expenses and other current assets	198	95
Total current assets	5,148	5,125
Net property, plant and equipment	230	384
Goodwill	482	460
Acquired intangible assets, net	41	156
Other long-term assets	277	448
Total assets	$ 6,178	$ 6,573
Liabilities and Stockholders' (Deficit) Equity		
Current liabilities:		
Revolving credit facility	$ 1,219	$ 607
Current portion of long-term debt net of unamortized discount of $18 at June 30, 2014 and $15 at June 30, 2013	570	-
Capital lease obligations	5	10
Accounts payable	1,612	1,952
Accrued expenses	985	1,755
Total current liabilities	4,391	4,324
Long-term debt, unamortized discount of $17 at June 30, 2014 and $40 at June 30, 2013	2,310	2,442
Long-term capital lease obligation, net of current portion	-	5
Other long-term liabilities	178	178
Total liabilities	6,879	6,949
Stockholders' (deficit) equity:		
Common stock, par value $0.001; shares authorized 250,000,000 at June 30, 2014 and 150,000,000 at June 30, 2013; 83,665,402 shares issued and outstanding at June 30, 2014 and at June 30, 2013	84	84
Paid-in capital	111,417	111,209
Accumulated deficit	(112,158)	(112,041)
Accumulated other comprehensive income	(44)	372
Total stockholders' (deficit) equity	(701)	(376)
Total liabilities and stockholders' equity	$ 6,178	$ 6,573

PROPHOTONIX LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

(unaudited)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Operations		
Net loss	$ (484)	$ (1,519)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	114	75
Depreciation and amortization	146	167
Foreign exchange gain	88	154
Amortization of debt discount and financing costs	95	6
Loss on disposal of assets	4	12
Deferred taxes	-	(74)
Provision for inventories	48	77
Provision for bad debts	22	62
Other change in assets and liabilities:		
Accounts receivable	(132)	(235)
Inventories	(111)	(17)
Prepaid expenses and other current assets	22	138
Accounts payable	82	(23)
Accrued expenses	(313)	685
Net cash used in operating activities	(419)	(492)
Financing		
Net borrowing of revolving credit facility.	101	(44)
Proceeds from long-term debt issuance	175	640
Principal repayment of long-term debt	(4)	(310)
Debt issuance costs	-	(358)
Net cash used in financing activities	272	(72)
Investing		
Purchase of plant and equipment	(18)	(9)
Net cash used in investing activities	(18)	(9)
Effect of exchange rate on cash	16	21
Net change in cash and equivalents	(149)	(552)
Cash and equivalents, beginning of period	402	1,278
Cash and equivalents, end of period	$ 253	$ 726
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 149	$ 70
Common stock issued in connection with financing	$ -	$ 193
Warrants issued in connection with financing	$ -	$ 55

PROPHOTONIX LIMITED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY / (DEFICIT)
(in thousands)

	Common Stock					
	Shares	Par $0.001	Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
Balance December 31, 2013	83,665	$ 84	$ 111,302	$ (111,674)	$ (146)	$ (434)
Net loss				(484)		(484)
Translation adjustment.......					102	102
Share based compensation	-	-	114	-	-	114
Balance June 30, 2014	83,665	$ 84	$ 111,417	$ (112,158)	$ (44)	$ (701)

Values may not add due to rounding

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, 2014 and 2013; (ii) the financial position at June 30, 2014 and June 30, 2013; and (iii) the cash flows for the six month period ended June 30, 2014 and 2013. These interim results are not necessarily indicative of results for a full year or any other interim period.

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 loss to EBITDA for the six months ended June 30, 2014 and 2013 is as follows:

	(in thousands) Six Months Ended June 30,	
	2014	**2013**
Net Loss	(484)	(1,519)
Plus:		
Interest and other expense, net	240	488
Amortization of debt discount and financing costs	102	6
Depreciation	85	107
Intangible asset amortization	61	60
Stock based compensation	114	75
Tax benefit	-	(74)
EBITDA gain (loss)	118	(857)
Restructuring and nonrecurring charges	-	582
Adjusted EBITDA gain (loss)	118	(275)