



March 15, 2016

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

PRELIMINARY RESULTS FOR THE YEAR ENDED DECEMBER 31, 2015

Annual General Meeting Date

ProPhotonix Limited (London Stock Exchange - AIM: PPIX, 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 preliminary results for the year ended December 31, 2015.

Annual General Meeting

The Company will hold the Annual General Meeting of the Shareholders on May 19, 2016 at 2:00 PM British Summer Time at the offices of K&L Gates LLP, One New Change, London EC4M 9AF. The Record date is set at March 24, 2016 for all shareholders of record.

Financial Highlights

- Net Income of \$0.3 million (2014: net loss \$1.3 million)
- EBITDA profit doubled to \$1.2 million (2014: \$0.6 million)
- Operating income increased substantially to \$0.8 million (2014: \$0.1 million)
- Gross profit margin improved to 41.4% (2014: 39.1%)
- Gross profit decreased 7.1% to \$6.0 million (2014: \$6.4 million)
- Revenue decreased 12.3% to \$14.4 million (2014: \$16.4 million) impacted by foreign currency exchange rate
- Percentage revenue by market sectors: industrial 81%, medical 15%, and homeland security & defense 4%
- Percentage revenue by geography: 47% Europe, 41% North America and 12% Rest of World
- Available borrowing capacity of \$2.0 million from its loan facilities at December 31, 2015.

Tim Losik, President & CEO, Commented:

“We entered 2015 with positive financial momentum from the prior year, but also with economic and foreign currency exchange rate headwinds. Neither of these challenges abated during the year making continuing financial success all the more meaningful. 2015 has again been a year of accomplishments in a number of respects – including our first full year of positive net income since 1994. We have now also achieved five consecutive half-yearly periods of positive EBITDA and three consecutive half-yearly periods of positive operating income. During 2015, operating income increased sevenfold and EBITDA increased 84%. In addition, the ProPhotonix team has been diligently pursuing new customers and new product and market initiatives, which helps set the stage for 2016.”

Full Year 2015 Financial Results

Revenue fell by 12% during 2015, the year over year comparatives are significantly impacted by foreign currency conversion rates. While revenue for 2015 was \$14.4 million, this would have been \$15.8 million using constant currency exchange rates from 2014. Our margin rate improved to 41.4% resulting from a better product mix and continuing cost reductions. Operating expenses, excluding intangible amortization charges, totalled \$5.2 million (2014: \$6.2 million). Approximately 39% of the expense improvement was due to the impact of foreign currency fluctuations. Sales and marketing expenses were down 25% compared to last year at \$1.8 million, while general and administrative and research and development expenses were reduced by approximately \$0.4 million, or 12% over 2014. The Company achieved an operating profit of \$0.8 million and EBITDA of \$1.2 million. These factors contributed to ProPhotonix’s financial improvement and positive net income of \$0.3 million (2014: net loss \$1.3 million). The balance sheet also continued to improve in 2015. Term debt declined \$750,000 to \$1,474,000 as at 31 December 2015, which is the lowest outstanding balance in more than a decade.

During 2015, order bookings declined 2.4% to \$15.7 million from 2014, but the book-to-bill ratio increased to 1.09 (2014: 0.98). However, factoring in the impact of constant currency exchange rates from 2014, our order rate for 2015 would have been \$17.3 million (a 7.6% improvement). Our backlog at December 31, 2015 was \$5.6 million (2014: \$5.6 million).

Customer and Product Development Initiatives:

In addition to the new customer activity in 2015, we entered into three (3) three-year supply agreements with customers and have received and fulfilled production orders for two of the three agreements beginning in Q4, 2015. We will begin commercial shipments on the third agreement in Q1 2016.

During the year, the ProPhotonix engineering team completed the development of several products and implemented a number of new technology capabilities. Furthermore, we announced eight new manufactured products. The Company filed four provisional/patent applications in 2015 as a continuation of intellectual property protection on our unique inventions and solutions.

Building toward the future:

Strategically, the Company is in transition. Our product development has historically been customer directed. This approach has served us well for specific applications and we continue to offer bespoke product solutions. However, we are now assessing various markets and product features in order to develop a product strategy focusing on specific markets to complement our direct customer engagement. We have identified two promising opportunities and we are concentrating our engineering talents in defined market 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, 3D printing, bio-luminescence, medical microscopy, and other applications. Market research shows that the 2014 market size for UV LED applications was approximately \$90 million with projected growth to \$500 million by 2019, a compound average annual growth rate of nearly 40%. We have announced new products addressing this rapidly growing market and will continue with further product development.

Our other focus is on the continuing market requirement 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 microscopy, industrial, embedded camera and sensor calibration, solar simulators, optical sorting, and security markets. We are in the research and development phase of these products and expect to announce various laser and LED products in the future.

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 business located in the United Kingdom (Hatfield Broad Oak). Corporate headquarters and the North American sales activities are based in Salem, New Hampshire, USA. The fundamental strategy of the Company is growth in revenue through its existing customers, new customer activity, and new product and market expansion. ProPhotonix's short-term strategy has been to reach sustained positive EBITDA, cash flow, and net income. These continuing goals will be accomplished through a relentless focus on cost management and most importantly through revenue growth.

ProPhotonix's growth in the medium-term will be accomplished with new customer wins and the conversion of development orders into long run production orders. ProPhotonix is also focused on expansion into new markets and new products. The Company continuously evaluates new product development and additions to the sales offering in an effort to increase customer satisfaction and provide solutions.

ProPhotonix sells its products principally into three markets: industrial (primarily machine vision illumination), medical, and homeland security and defense. The Company foresees growth opportunities in all three markets it serves which are briefly described below:

Industrial (Machine Vision)

Within the industrial market, machine vision is the term used to describe computerized analysis for controlling manufacturing processes, for example automated inspection. In terms of quality and speed, lighting is often a critical component in machine vision and the Company manufactures both LED systems and lasers designed specifically for this market. The recently enhanced 3D Pro Laser line generators and improved LED line light family specifically address this market.

Medical

The Company has experienced successes in the medical (including dental) market and has gained a foothold in the sector, supplying a variety of applications with current customers, including the world leader in stationary imaging equipment, a portable x-ray equipment manufacturer, a dental imaging manufacturer and also a pioneer in the manufacturing of devices offering eye tracking capability utilizing ProPhotonix's custom infrared LED arrays. The Company intends to broaden its product marketing effort in the medical field since it offers significant long-term revenue growth opportunities.

Homeland Security & Defense

LED systems, laser modules and laser diodes are used in a wide variety of applications in the security and defense fields. The Company currently supplies several defense sighting manufacturers in the US and Europe, as well as leading manufacturers of Auto Number Plate Recognition systems. This market offers significant growth opportunities for ProPhotonix over the next several years and the Company is currently marketing its laser and LED capabilities to additional security and optical character recognition systems companies in this market space.

Outlook

ProPhotonix begins 2016 in a strong position, having received production orders from the three customers who have signed three year supply agreements during 2015. We have also progressed our UV product family to include the COBRA Cure FX1, an innovative UV LED Curing system, which we recently announced. Recent booking trends, the macroeconomic environment and foreign exchange rate impacts cause us to be cautious for the first half of 2016, but we remain very positive about our business pipeline and confident in our ability to achieve continued positive momentum toward our profitability objectives.

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About ProPhotonix

ProPhotonix Limited, headquartered in Salem, New Hampshire, is a high technology 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 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

PROPHOTONIX LIMITED
Consolidated Statements of Operations and Comprehensive Income (Loss)
(\$ in thousands except share and per share data)

	Years Ended	
	December 31,	
	2015	2014
	(Unaudited)	(Audited)
Revenue	\$ 14,411	\$ 16,431
Cost of Revenue	(8,441)	(10,006)
Gross Profit	5,970	6,425
Research & Development Expenses	(654)	(879)
Selling, General & Administrative Expenses	(4,526)	(5,350)
Amortization of Intangible Assets	-	(100)
Operating Income	790	96
Other Income, net	131	93
Foreign Currency Translation Losses	(259)	(1,031)
Warrant & Debt Acquisition Expense	(158)	(198)
Interest Expense	(224)	(300)
Income (Loss) Before Taxes	280	(1,340)
Income Taxes	-	-
Net Income (Loss)	\$ 280	\$ (1,340)
Other Comprehensive Income:		
Foreign currency translation	170	958
Total Comprehensive Income / (Loss)	\$ 450	\$ (382)
Income (Loss) Per Share:		
Basic and diluted:		
Net Income (loss) per share	\$0.003	(\$0.016)
Basic and diluted weighted average shares outstanding	83,665,402	83,665,402

FINANCIAL STATEMENTS
PROPHOTONIX LIMITED
CONSOLIDATED BALANCE SHEETS

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

December 31	2015 (Unaudited)	2014 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 434	\$ 331
Accounts receivable, less allowances of \$21 in 2015 and \$20 in 2014	2,751	2,606
Inventories	1,550	1,686
Prepaid expenses and other current assets	140	180
Total current assets	4,875	4,803
Net property, plant and equipment	132	184
Goodwill	385	429
Other long-term assets	81	36
Total assets	\$ 5,473	\$ 5,452
Liabilities and Stockholders' Equity / (Deficit)		
Current liabilities:		
Revolving credit facility	\$ 1,334	\$ 1,128
Current portion of long-term debt	966	668
Accounts payable	1,260	1,463
Accrued expenses	1,035	965
Total current liabilities	4,595	4,224
Long-term debt, net of current portion	508	1,585
Other long-term liabilities	178	178
Total liabilities	5,281	5,987
Stockholders' Equity / (Deficit):		
Common stock, par value \$0.001; shares authorized 250,000,000 at December 31, 2015 and at December 31, 2014; 83,665,402 shares issued and outstanding at December 31, 2015 and at December 31, 2014	84	84
Additional paid-in capital	111,860	111,583
Accumulated deficit	(112,734)	(113,014)
Accumulated other comprehensive income	982	812
Total stockholders' equity / (deficit)	192	(535)
Total liabilities and stockholders' equity	\$ 5,473	\$ 5,452

PROPHOTONIX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

Years Ended December 31	2015 (Unaudited)	2014 (Audited)
Cash flows from operating activities		
Net income (loss)	\$ 280	\$ (1,340)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	277	280
Depreciation and amortization	101	258
Foreign exchange (gain) / loss	(51)	1,066
Amortization of debt discount and financing costs	130	186
Loss on disposal of assets	-	4
Provision for inventories	95	55
Provision for bad debts	4	5
Other changes in assets and liabilities:		
Accounts receivable	(362)	(395)
Inventories	(127)	38
Prepaid expenses and other current assets	22	23
Accounts payable	(58)	100
Accrued expenses	136	(248)
Other assets and liabilities	(47)	(2)
Net cash provided by operating activities	400	30
Investing		
Purchase of property, plant and equipment	(77)	(64)
Net cash used in investing activities	(77)	(64)
Financing		
Borrowings of revolving credit facilities, net	312	144
Proceeds from issuance of debt	-	175
Principal repayment of long-term debt	(750)	(292)
Net cash (used in) provided by financing activities	(438)	27
Effect of exchange rate on cash	218	(64)
Net change in cash and equivalents	103	(71)
Cash and equivalents at beginning of period	331	402
Cash and equivalents at end of period	\$ 434	\$ 331
Supplemental cash flow information:		
Cash paid for interest	\$ 224	\$ 303

PROPHOTONIX LIMITED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
	Shares	Par \$0.001				
Balance December 31, 2013	83,665	\$ 84	\$111,302	\$ (111,674)	\$ (146)	\$ (434)
Share based compensation, net of forfeitures	-	-	280	-	-	280
Translation adjustment	-	-	-	-	958	958
Net Loss	-	-	-	(1,340)	-	(1,340)
Balance December 31, 2014	<u>83,665</u>	<u>\$ 84</u>	<u>\$111,583</u>	<u>\$ (113,014)</u>	<u>\$ 812</u>	<u>\$ (535)</u>
Share based compensation, net of forfeitures	-	-	277	-	-	277
Translation adjustment	-	-	-	-	170	170
Net Income	-	-	-	280	-	280
Balance December 31, 2015	<u><u>83,665</u></u>	<u><u>\$ 84</u></u>	<u><u>\$111,860</u></u>	<u><u>\$ (112,734)</u></u>	<u><u>\$ 982</u></u>	<u><u>\$ 192</u></u>

Notes to unaudited Preliminary Results

Basis of Presentation

The financial information set out in this document does not constitute the Company's statutory accounts for 2014 and 2015 or the Company's annual audited accounts for 2015 to be published and sent to its shareholders in accordance with Rule 19 of the AIM Rules for Companies. The 2015 accounts included herein are unaudited and therefore subject to change at the time the audited accounts are issued. The 2015 unaudited preliminary financial statements were prepared under US GAAP and were approved on March 14, 2016, by the Directors for issue on March 15, 2016. It is intended that the Company's 2015 annual report and audited accounts will be available to shareholders on or about April 7, 2016.

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, and stock-based compensation) as a non-GAAP financial measure in this press release. A reconciliation of net loss to EBITDA for the total year 2015 and 2014 is as follows:

	(in thousands)	
	Year Ended December 31,	
	2015	2014
Net Income (Loss)	280	(1,340)
Plus:		
Interest and other expense, net	510	1,436
Depreciation	101	158
Intangible asset amortization	-	100
Stock based compensation	277	280
Taxes	-	-
EBITDA profit	1,168	634