27 October 2011

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

THIRD QUARTER AND YEAR-TO-DATE RESULTS

Improved financial performance on 16% revenue increase

ProPhotonix Limited, (London Stock Exchange - AIM: PPIX and PPIR, OTC: STKR.PK), a designer and manufacturer of LED light engines and laser diodes modules with operations in Ireland and the U.K., today announces its financial results for the third quarter and year-to-date September 30, 2011.

Year-to-Date 2011:

- Revenue increased 22% to $13.5 million (2010: $11.0 million), up 16% adjusting for impact of currency fluctuation
- LED revenue increased 41% to $6.9 million (2010: $4.9 million)
- Gross profit increased 24.4% to $5.2 million (2010: $4.2 million)
- Gross profit margin improved to 38.9% (2010: 38.0%)
- EBITDA of $0.5 million vs. $0.2 million loss in 2010 (excluding AIM flotation expenses and facility lease termination charges)
- Order bookings of $13.9 million
- Percentage revenue by market sectors: industrial 74%, medical 17%, and homeland security & defense 9%
- Percentage revenue by geography: 57% Europe, 33% North America and 10% Rest of World

Third Quarter 2011:

- Revenue increased by 16% to $4.5 million (Q3 2010: $3.9 million), up 10% adjusting for impact of currency fluctuation
- LED revenue increased 16% to $2.2 million (Q3 2010: $1.9 million)
- Gross profit increased 13.5% to $1.8 million (Q3 2010: $1.6 million)
- Gross profit margin 38.9% (Q3 2010: 39.9%)
- EBITDA of $0.2 million vs. break-even, net of AIM expenses in 2010
- Order bookings of $4.4 million; ending backlog of $6.1 million
- Percentage revenue by market sectors: industrial 75%, medical 14%, and homeland security & defense 11%
- Percentage revenue by geography: 55% Europe, 34% North America and 11% Rest of World
- Raised $5.1 million (£3.3million), through the placement of new common shares at $0.22 (14 pence) per share with institutional investors

Commenting on the results, Mark W. Blodgett, Chairman & CEO of ProPhotonix, said: "We delivered a strong third quarter with 16% revenue growth, despite the negative impact from foreign currency exchange due to the strengthening of the dollar in September, and a delay in shipments to two medical customers.

Several milestones were met during the quarter including reaching breakeven operating profitability and a significant improvement in EBITDA profitability. Third quarter EBITDA was approximately $200,000, which was net of $60,000 of recruitment fees for new US sales personnel hired at the end of the quarter and $50,000 of reserve provisions."

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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 Opnext, QSI, Sanyo, and Sony. The Company serves a wide range of markets including the machine vision, industrial inspection, defense, sensors, 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.

Year-to-Date 2011 Financial Results

Total year-to-date revenue in 2011 was $13.5 million, an increase of 22% (16%, adjusting for currency fluctuation) compared with $11.0 million in 2010. Gross profit was $5.2 million, an increase of 24% compared to $4.2 million in 2010. Gross profit margin increased to 38.9% from 38% in 2010 due to higher volumes, a more favorable product mix, and productivity improvement initiatives. Foreign currency exchange impact on gross profit margin was $0.2 million.

Operating expenses, excluding intangible amortization, totaled $5.2 million versus $5.2 million, net of approximately $0.8 million of charges related to the London Stock Exchange AIM flotation and a facility lease termination charge. The operating loss was $0.2 million, as compared to $1.3 million loss in 2010, excluding the AIM flotation expenses and facility lease termination charges. EBITDA was $0.5 million versus a 2010 Adjusted EBITDA loss of $0.2 million which excludes the AIM flotation expenses and facility lease termination charges. Net loss was $0.6 million including tax provision of $0.1 million in 2011 and compares to the 2010 net loss of $2.8 million, which includes a loss on sale of discontinued operations in the amount of $0.1 million and a loss from discontinued operations in the amount of $0.1 million, as well as the AIM flotation expenses and facility lease termination charges of $0.8 million.

Third Quarter 2011 Financial Results

Total revenue for the third quarter of 2011 of $4.5 million increased 16% (up 10%, adjusting for currency fluctuation) from Q3 2010. Revenue growth came from increases in the Company's LED segment of $0.3 million (+16%) and its laser segment of approximately $0.3 million (+16%) over last year. The impact of foreign currency exchange year-on-year was approximately $0.2 million. Bookings for the third quarter of 2011 were $4.4 million and the order backlog was $6.1 million at September 30, 2011.

Gross profit was $1.8 million for Q3 2011, an increase of 14% compared to $1.6 million in Q3 2010. Q3 gross profit margin was 38.9% compared with 39.9% in the comparable quarter in 2010. Foreign currency exchange favorably impacted gross profit margin by approximately 0.1%.

Operating expenses, excluding intangible amortization, totaled $1.7 million, a decrease of 5% compared to the $1.8 million in Q3 2010, net of AIM flotation expenses of $0.2 million. Selling expenses increased approximately 5%; R&D expenses increased approximately 43%, offset by administration expenses, which decreased by approximately 17%, net of the AIM flotation expenses of $0.2 million. The company achieved break-even at the operating level in Q3 2011 as compared to an operating loss of $0.3 million for the third quarter 2010, net of the AIM flotation expenses of $0.2 million in 2010.

EBITDA of $0.2 million for the quarter compares to a break-even Adjusted EBITDA for Q3 2010, net of the AIM expenses. The net loss of $0.1 million compares to the 2010 net loss of $0.5 million, which includes a loss from discontinued operations of approximately $17,000, as well as the AIM flotation expenses of $0.2 million.

Outlook

The Company continues to exhibit significant improvement in its overall financial performance, as compared to last year, benefiting from continuing revenue growth in both its laser and LED systems businesses. Profitability continues to improve, driven by improved productivity in both Cork and Stansted facilities and ongoing vigilant cost management, particularly with regard to G&A expenditures. During the third quarter, the Company significantly increased its North American sales force, including a new sales manager and is in the process of selectively adding to its R&D team, adding medical product management expertise and augmenting its European sales force. Finally, the Company is in the process of adding distribution channels in both Korea and Taiwan, to complement the recent appointment of Luster LightTech, China's leading distributor of machine vision products. ProPhotonix continues to benefit from growth in the medical, solar and home land security markets, and with these proposed investments we look to expand our customer base in Europe, US and Asia.

SAFE HARBOR 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 EBITDA to net loss for the third quarter and year-to-date 2011 is as follows:

	Three Months Ended		Nine Months Ended	
	($ in thousands) (Unaudited)			
	September 30,			
	2011	2010	2011	2010
Net Loss	$(85)	$(454)	$(567)	$(2,755)
Loss on sale of discontinued operations	-	-	-	58
Loss from discontinued operations	-	17	19	126
Plus:				
Interest and other expense/(income), net	32	(125)	229	293
Depreciation	80	131	247	379
Intangible asset amortization	75	99	231	294
Stock based compensation	55	125	203	407
Taxes	46	(46)	119	(111)
Amortization of debt discount & financing costs	-	86	-	279
EBITDA Profit / (Loss)	203	(167)	481	(1,030)
AIM listing expenses	-	194	-	705
Facility lease termination charge	-	-	-	115
Adjusted EBITDA Profit (Loss)	$203	$27	$481	$(210)

Consolidated Statements of Operations

(Unaudited)

($ In thousands except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net Revenue	$4,537	$3,899	$13,451	$11,046
Cost of Revenue	2,773	2,345	8,222	6,843
Gross Profit	1,764	1,554	5,229	4,203
Research & Development Expenses	230	161	703	517
Selling, General & Administrative Expenses	1,466	1,816	4,495	5,502
Amortization of Intangible Assets	75	99	231	294
Operating Loss	(7)	(522)	(200)	(2,110)
Interest Income & Other Income	58	237	52	145
Amortization of Debt Discount and Financing Costs	-	(86)	-	(279)
Interest Expense	(90)	(112)	(281)	(438)
Loss Before Taxes from Continuing Operations	(39)	(483)	(429)	(2,682)
Tax Provision (Benefit)	46	(46)	119	(111)
Net Loss from Continuing Operations	(85)	(437)	(548)	(2,571)
Loss on Sale of Discontinued Operations, net of tax	-	-	-	(58)
Loss from Discontinued Operations, net of tax	-	(17)	(19)	(126)
Net Loss	$(85)	$(454)	$(567)	$(2,755)
Loss Per Share:				
Basic and diluted net loss per share from continuing operations	($0.00)	($0.01)	($0.01)	($0.06)
Basic and diluted net loss per share from loss on sale of discontinued operations	$0.00	$0.00	$0.00	($0.00)
Basic and diluted net loss per share from discontinued operations	$0.00	($0.00)	($0.00)	($0.00)
Basic and diluted net loss per share	$(0.00)	($0.01)	($0.01)	($0.06)
Basic and diluted weighted average shares outstanding	73,008,577	44,407,504	59,306,576	44,253,622

FINANCIAL STATEMENTS

PROPHOTONIX LIMITED

CONSOLIDATED BALANCE SHEETS

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

As of September 30, 2011 and December 31, 2010	**2011**	**2010**
Assets		
Current assets:		
Cash and cash equivalents	$ 5,385	$ 1,811
Accounts receivable, less allowances of $22 in 2011 and $47 in 2010	2,380	1,957
Inventories	1,751	1,892
Prepaid expenses and other current assets	245	295
Total current assets	9,761	5,955
Net property, plant and equipment	749	906
Goodwill	480	468
Acquired intangible assets, net	393	610
Other long-term assets	107	66
Total assets	$ 11,490	$ 8,005
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Revolving credit facility	$ 872	$ 641
Current portion of long-term debt	800	600
Capital lease obligations	2	24
Accounts payable	1,378	2,003
Income taxes payable	114	-
Accrued expenses	1,040	1,368
Total current liabilities	4,206	4,636
Long-term debt, net of current portion	2,825	3,407
Other long-term liabilities	178	150
Total liabilities	7,209	8,193
Stockholders' equity (deficit):		
Common stock, par value $0.001; shares authorized 150,000,000 at September 30, 2011 and 100,000,000 at December 31, 2010; 76,060,174 shares issued and outstanding at September 30, 2011 and 52,510,174 shares issued and outstanding at December 31, 2010	76	53
Paid-in capital	110,755	105,678
Accumulated deficit	(106,742)	(106,175)
Accumulated other comprehensive income	192	256
Total stockholders' equity (deficit)	4,281	(188)
Total liabilities and stockholders' equity (deficit)	$ 11,490	$ 8,005

PROPHOTONIX LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

(unaudited)

Periods Ended September 30	**2011**	**2010**
Operations		
Net loss	**$ (567)**	**$ (2,755)**
Loss from discontinued operations, net of tax	(19)	(126)
Loss on sale of discontinued operations, net of tax	-	(58)
Loss from continuing operations	**(548)**	**(2,571)**
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	203	407
Depreciation and amortization	478	673
Amortization of debt discount and financing costs	-	279
Non cash interest income	-	(4)
Provision for inventories	67	33
(Gain) loss on disposal of assets	1	(2)
Provision for bad debts	-	37
Deferred taxes	-	(111)
Other change in assets and liabilities:		
Accounts receivable	(418)	(904)
Inventories	123	(748)
Prepaid expenses and other current assets	54	220
Accounts payable	(680)	886
Income taxes payable	119	-
Accrued expenses	(348)	243
Other assets and liabilities	(2)	-
Net cash used in continuing operations	**(951)**	**(1,562)**
Net cash used in discontinued operations	(19)	(184)
Net cash used in operating activities	**(970)**	**(1,746)**
Investing		
Proceeds from disposal of assets	-	3
Financing obligation payments	-	(109)
Purchase of property, plant and equipment	(75)	(187)
Net cash used in investing activities	**(75)**	**(293)**
Financing		
Net proceeds from sale of common stock	4,897	-
Borrowings of revolving credit facilities, net	224	107
Principal repayment of long-term debt	(471)	(1,916)
Net cash provided by (used in) financing activities	**4,650**	**(1,809)**
Effect of exchange rate on cash	(31)	36
Net change in cash and equivalents	3,574	(3,812)
Cash and equivalents at beginning of year	1,811	4,478
Cash and equivalents at end of period	**$ 5,385**	**$ 666**
Supplemental cash flow information:		
Cash paid for interest	$ 281	$ 486
Cash paid for income tax	15	-