



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

PRELIMINARY RESULTS FOR THE YEAR ENDED DECEMBER 31, 2012

Current Trading Update and Management Succession

(Salem NH May 28, 2013) ProPhotonix Limited (London Stock Exchange - AIM: PPIX and PPIR, OTC: STKR), a designer and manufacturer of LED illumination systems, laser diode modules and a laser diode distributor with operations in Ireland and the U.K., today May 28, 2013, announces its unaudited preliminary results for the year ended December 31, 2012 along with trading, financing update, and management changes.

Trading Update – as of April 30, 2013

Mark W. Blodgett, Chairman and Chief Executive Officer stated, "In early 2013 the Company experienced a significant improvement in business as the Company's investment in building out its direct sales force in both the US & Europe began to yield results. Booking activity accelerated across both the laser & LED businesses in the first four months of 2013. Order bookings totaled \$6.2 million versus \$4.9 million in the last four months of 2012. Backlog totaled \$6.6 million as of April 30, 2013, a 25% increase since year-end.

During the first quarter of 2013 the Company witnessed an improvement in financial performance versus the comparable quarter in 2012. Gross margin improved to over 40% due to improved product mix, and operating expenses were lower, which resulted in improved financial performance. While the overall macroeconomic business environment remains unsteady, we expect increased revenue throughout 2013 due to improved booking activity, as well as our revenue opportunity pipeline that is nearly double a year ago. This outlook is enhanced by several strategic developments in 2013, including an expanded product distribution agreement with Oclaro to include distribution of their high-power lasers and recently announced partnership with Osram to sell market leading Green and Blue Direct Diode Lasers. Both of these initiatives will enable us to offer more solutions to our growing customer base and I am pleased to report that a modest initial order has been placed," Blodgett added.

Annual General Meeting

The Company will hold the Annual General Meeting of the Shareholders on July 24, 2013 at 10:00 AM London Summer Time at the offices of K&L Gates LLP, One New Change, London EC4M 9AF. The Record date is set at June 12, 2013 for all shareholders of record.

PRELIMINARY RESULTS YEAR ENDED DECEMBER 31, 2012

Financial Highlights

- Revenue decreased 18% to \$13.9 million (FY 2011: \$17.0 million); LED Revenue decreased 30% to \$6.0 million and Lasers/Diode revenue decreased 6% to \$7.9 million
- Gross profit decreased 32.3% to \$4.3 million (FY 2011: \$6.4 million)
- Gross profit margin at 31.0% (FY 2011: 37.5%)
- Operating loss of \$3.1 million (FY 2011: loss \$0.8 million)
- EBITDA loss of \$2.6 million vs. break-even in 2011
- Order bookings of \$15.1 million (FY 2011: \$16.6 million)
- Percentage revenue by market sectors: industrial 74%, medical 18%, and homeland security & defense 8%
- Percentage revenue by geography: 56% Europe, 27% North America and 17% Rest of World

Operational Highlights

Mark W. Blodgett, Chairman and Chief Executive Officer, commented: "2012 was a disappointing year for ProPhotonix due in part to the previously reported dramatic decline in the Company's sales of LED systems to solar equipment manufacturers, which started in the autumn of 2011, accounted for 85% of the decline in LED systems revenue. The loss of the solar business, which now represents less than 2% of sales, derived from excess capacity in the solar industry as previously reported. However, with the build-out of our global sales force in 2012, we are moving expeditiously to replace solar sales and we are pleased with the positive book to bill so far this year."

"In the meantime, management continues aggressively to manage costs and excluding planned sales expenditures which increased 14% year over year, other operating expenses, excluding intangible amortization, only increased 1% versus the prior year 2011. Furthermore, customer activity is increasing and our engineering team is working on a record number of customer driven new revenue opportunities," added Blodgett.

Financing Activities

The Company has been considering its financing requirements and options and has recently received financing proposals from several firms. The Company expects to make a decision shortly, and, subject to the usual terms, expects to close one or more in the very near future. Without such financing in place the operations of the Company would be severely constrained. We are confident that these financing alternatives will provide sufficient working capital to meet the Company's future needs including the next twelve months. Any arrangements entered into will also require the Company to reach agreement with the Company's current lenders.

Management Changes

Given both the improved long term outlook for the Company, as well as the proposed new financings, Mark W. Blodgett has made a decision to retire from the Company after 24 years of service. He is succeeded by Tim Losik, who has been with the Company for over five years as Chief Operating Officer and CFO.

Blodgett stated, "Tim has overseen many operational improvements throughout the Company as we have overcome the loss of revenues from the solar equipment industry in late 2011 and 2012. He has focused on improving overall efficiency and growing revenues in the industrial, medical & homeland security markets, and I am happy to report that we have begun to see the fruits of collective labors. Tim has developed an excellent understanding of the business and the markets we serve, and I am confident that the Company will be in good hands moving forward under his stewardship and I look forward to continuing to support him in these endeavors. Tim will continue as acting CFO until a suitable replacement is hired."

Contacts:

ProPhotonix Limited
Tim Losik, COO & CFO

Tel: +1 603 870 8220
ir@prophotonix.com

N+1 Singer
Andrew Craig/ Ben Wright

Tel: +44 (0) 207 496 3000

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, 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.

Full Year 2012 Financial Results

Revenue for the year ended 31 December 2012 was \$13.9 million, a decrease of 18% compared with \$17.0 million in 2011. Gross profit was \$4.3 million compared to \$6.4 million in 2011. Gross profit margin decreased to 31.0% from 37.5% in 2011 due to a shift in product mix and a decrease in volume. Foreign currency exchange negatively impacted gross profit margin by \$0.3 million.

Operating expenses, excluding intangible amortization and asset impairment charges, totaled \$7.3 million versus \$6.9 million in 2011. Consistent with our stated objectives as discussed in our annual report last year, sales and marketing and research and development expenses increased 11% in 2012 over 2011, while general and administrative expenses increased 1% over the same period. The operating loss was \$3.1 million, as compared to a \$0.8 million loss in 2011. EBITDA was a loss of \$2.6 million versus a break even 2011. Net loss was \$2.9 million compared to the 2011 net loss of \$1.4 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). Corporate, marketing and the North American sales activities are based in Salem, New Hampshire.

Since late 2010, the Company has made significant investments in R&D, including expanding its R&D team in Cork. The R&D group is focused on continuing to develop products to meet clearly defined demand from our customers and the markets which we serve. During 2012 the Company developed and launched several new laser modules and LED product enhancements for the industrial, mostly machine vision market, and medical markets as detailed below:

New Product Introduction - 2012

- 3D Pro Laser Module Product Line
- 3D Pro Mini Laser Module Product Line
- Product line extensions to both its COBRA™ Series and LOTUS line lights
- Enhancements to LED Spot, Ring, Area and Line Lights Product Lines

ProPhotonix sells its products principally into three markets: industrial, (primarily machine vision illumination, which represented 74% of total 2012 sales), medical (18%) and homeland security & defense (8%). 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. More recently, the Company has been working on several potential high volume OEM (custom) applications for the semiconductor and automotive markets.

Medical

The Company has experienced early successes in the medical (including dental) market. The Company has already gained a foothold in the market, 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 five gun sight manufacturers in the US and Europe, as well as two of the leading manufacturers of Auto Number Plate Recognition (ANPR) systems. While infrared LED based illuminators represent only part of these systems, this market offers significant growth opportunities for ProPhotonix over the next several years and the Company is currently targeting other OCR companies.

Consolidated Statements of Operations			
(\$ in thousands except share and per share data)			
(unaudited)			
	Years Ended December 31,		
	2012		2011
Net Revenue	\$ 13,904		\$ 16,977
Cost of Revenue	9,597		10,613
Gross Profit	4,307		6,364
Research & Development Expenses	922		899
Selling, General & Administrative Expenses	6,403		6,030
Amortization of Intangible Assets	118		275
Operating Loss	(3,136)		(840)
Other Income / (Expense), net	490		(184)
Interest Expense	(257)		(363)
Loss Before Taxes from Continuing Operations	(2,903)		(1,387)
Tax Provision	-		(37)
Net Loss from Continuing Operations	(2,903)		(1,424)
Loss from Discontinued Operations	-		(19)
Net Loss	\$ (2,903)		\$ (1,443)
Loss Per Share:			
Basic and diluted net loss per share from continuing operations	(\$0.04)		(\$0.02)
Basic and diluted net loss per share from discontinued operations	(\$0.00)		(\$0.00)
Basic and diluted net loss per share	(\$0.04)		(\$0.02)
Basic and diluted weighted average shares outstanding	76,059,457		63,485,600

**FINANCIAL STATEMENTS
PROPHOTONIX LIMITED
CONSOLIDATED BALANCE SHEETS**

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

December 31	2012		2011
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,278	\$ 4,066	
Accounts receivable, less allowances of \$31 in 2012 and \$13 in 2011	2,225	2,405	
Inventories	2,033	1,694	
Prepaid expenses and other current assets	234	288	
Total current assets	5,770	8,453	
Net property, plant and equipment	523	653	
Goodwill	467	458	
Acquired intangible assets, net	218	332	
Other long-term assets	23	36	
Total assets	\$ 7,001	\$ 9,932	
Liabilities and Stockholders' Equity			
Current liabilities:			
Revolving credit facility	\$ 662	\$ 643	
Current portion of long-term debt	2,387	1,587	
Capital lease obligations	10	-	
Accounts payable	2,000	1,456	
Income taxes payable	-	29	
Accrued expenses	1,084	778	
Total current liabilities	6,143	4,493	
Long-term debt, net of current portion	-	1,631	

Long-term portion of capital lease obligations	10	-
Other long-term liabilities	178	178
Total liabilities	6,331	6,302
Stockholders' equity:		
Common stock, par value \$0.001; shares authorized 150,000,000 at December 31, 2012 and at December 31, 2011; 76,059,457 shares issued and outstanding at December 31, 2012 and at December 31, 2011	76	76
Paid-in capital	110,893	110,751
Accumulated deficit	(110,521)	(107,618)
Accumulated other comprehensive income	222	421
Total stockholders' equity	670	3,630
Total liabilities and stockholders' equity	\$ 7,001	\$ 9,932

PROPHOTONIX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
In thousands
(unaudited)

Years Ended December 31	2012	2011
Operations		
Net loss	\$ (2,903)	\$ (1,443)
Loss from discontinued operations, net of tax	-	19
Loss from continuing operations	(2,903)	(1,424)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	143	199
Depreciation and amortization	396	601
Foreign exchange (gain) loss	(188)	281
Loss on disposal of assets	-	8
Provision for inventories	75	61
Provision for bad debts	25	-
Other change in assets and liabilities:		
Accounts receivable	199	(567)
Inventories	(372)	100
Prepaid expenses and other current assets	57	(1)
Accounts payable	505	(529)
Income taxes payable	-	29
Accrued expenses	261	(584)
Other assets and liabilities	20	29
Net cash used in continuing operations	(1,782)	(1,797)
Net cash used in discontinued operations	-	(19)
Net cash used in operating activities	(1,782)	(1,816)

Investing		
Purchase of property, plant and equipment	(67)	(95)
Net cash used in investing activities	(67)	(95)
Financing		
Net proceeds from sale of common stock	-	4,897
Borrowings of revolving credit facilities, net	-	8
Principal repayment of long-term debt	(889)	(753)
Net cash provided by (used in) financing activities	(889)	4,152
Effect of exchange rate on cash	(50)	14
Net change in cash and equivalents	(2,788)	2,255
Cash and equivalents at beginning of year	4,066	1,811
Cash and equivalents at end of period	\$ 1,278	\$ 4,066
Supplemental cash flow information:		
Cash paid for interest	\$ 228	\$ 363
Cash paid for income tax	\$ -	\$ 15

Notes to unaudited Preliminary Results

The financial information set out in this document does not constitute the Company's statutory accounts for 2011 or the Company's annual audited accounts for 2012 to be published and sent to its shareholders in accordance with Rule 19 of the AIM Rules for Companies. The 2012 accounts included herein are unaudited and therefore subject to change at the time the audited accounts are issued. The 2012 unaudited preliminary financial statements were prepared under US GAAP and were approved by the Directors for issue on May 27, 2013. It is intended that the Company's 2012 annual report and audited accounts will be available to shareholders on June 30, 2013.

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 total year 2012 and 2011 is as follows:

		(in thousands)	
		Year Ended December 31,	
		2012	2011
Net Loss		(2,903)	(1,443)
Loss from discontinued operations		-	19
Plus:			
Interest and other expense / (income), net		(233)	547
Depreciation		278	326
Intangible asset amortization		118	275

	Stock based compensation	143	199
	Taxes	-	37
	EBITDA Loss	(2,597)	(40)