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

PRELIMINARY RESULTS FOR THE YEAR ENDED DECEMBER 31, 2013

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 United Kingdom, today announces its unaudited preliminary results for the year ended December 31, 2013.

Annual General Meeting

The Company will hold the Annual General Meeting of the Shareholders on May 22, 2014 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 April 7, 2014 for all shareholders of record.

Financial Highlights

- Revenue increased 12% to $15.6 million
- Gross profit increased 38.6% to $6.0 million
- Gross profit margin improved to 38.3%
- Operating loss declined 62% to $1.2 million[(1)]
- EBITDA loss declined 73.8% to $0.7 million[(1)]
- Order bookings increased 17% to $17.6 million
- Backlog at December 31, 2013 of $6.9 million grew 31%
- Percentage revenue by market sectors: industrial 79%, medical 16%, and homeland security & defense 5%
- Percentage revenue by geography: 52% Europe, 31% North America and 17% Rest of World
- On June 20, 2013, the Company secured new loan financing with net availability of $2.5 million through an existing lender to the Company alongside a new lender.
- On November 29, 2013, the Company entered into an amendment to an existing revolving credit facility with Barclays Bank to increase the existing credit facility from £650,000 ($1.1 million) to £1,400,000 ($2.3 million) and extending the duration through the minimum of November 30, 2015.
- Available borrowing capacity of $1.8 million from its loan facilities at December 31, 2013

(1) Includes $582,000 non-recurring charges

Tim Losik, President & CEO, Commented:

"During 2013 the Company experienced an improvement in business activity with order bookings increasing 17% and the December 31, 2013 backlog up 31% from December 31, 2012; ending 2013 with a book-to-bill ratio of 1.13 (2012:1.08). Of particular note are the 69% increase in bookings and 40% growth in revenue for the Americas region which has been a significant regional growth focus. New customer activity is a cornerstone for our growth and I am pleased that we are continuously partnering with new customers. Revenue from new customers accounted for $1.5 million of total revenue growth across several market sectors, including: 3D Scanning for 3D printing, Warehouse Robotics, Transport Container Monitoring and Inspection, Medical Devices, UV curing, Aeronautics, and Industrial Automation and Inspection.

"The revenue increase and cost reductions resulted in dramatic improvement in operating performance and results. During the second half of 2013, we realized significant improvement in operating performance versus the first half 2013. Comparative improvements in the second half 2013 versus first half 2013 (excluding the restructuring and one-time charges of $582K in the first half) include: Operating loss decreased 84% narrowing from ($517,000) to ($82,000) and EBITDA improved 164% from a loss of ($275,000) to a positive EBITDA of $177,000. However, these improvements were somewhat offset by non-cash changes in foreign currency exchange rates and the resulting increase in material purchase prices, and shifts in product mix; thereby depressing second half gross profit. The improvements in second half operating income and EBITDA are primarily the result of reductions in general and administrative costs. We always seek to mitigate the effects of shifts in the revenue mix, but predicting and controlling this can be difficult."

Full Year 2013 Financial Results

Revenue for the year ended December 31, 2013 was $15.6 million, an increase of 12% compared with $13.9 million in 2012. Gross profit was $6.0 million compared to $4.3 million in 2012. Gross profit margin increased to 38.3% from 31.0% in 2012 due to a shift in product mix and an increase in volume.

Operating expenses, excluding intangible amortization charges, totaled $7.0 million versus $7.3 million in 2012. Sales and marketing expenses decreased 12% in 2013 over 2012, while general and administrative and research and development expenses were approximately flat over the same period and include restructuring and one-time charges of $0.6 million taken in the first half of 2013. The operating loss was $1.2 million, as compared to a $3.1 million loss in 2012 and EBITDA was a loss of $0.7 million versus a loss of $2.6 million in 2012. Net loss was $1.2 million compared to the 2012 net loss of $2.9 million. Included in the operating expenses, operating loss and EBITDA is approximately $0.6 million of restructuring and one-time charges.

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 is to reach sustained positive EBITDA, cash flow, and net income as soon as possible. These goals will be accomplished through a relentless focus on cost management and most importantly through revenue growth.

ProPhotonix growth in the medium-term will be accomplished with new customer wins with the conversion of development orders into longer run orders, and also through expansion into new markets and with new products. In addition to the few important areas where we are currently focused, we will continuously evaluate additional high growth opportunities by geography and business line.

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 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 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 2014 with the strongest ever backlog at our business units and with the necessary funding in place to move forward in 2014. Included in 2013 bookings are about $800,000 of customer bookings relating to new customer projects (non-recurring engineering development), of which approximately $700,000 will be recognized revenue in 2014. We expect to begin shipping trial and production orders resulting from these projects during 2014 and thereafter. These potential high volume OEM (custom) applications include illuminators for the semiconductor, optical sorting, endoscopy, and vascular imaging markets. We look forward to another year of progress in 2014 and expect that first half revenue will be in the range of $7.8 and $8.2 million.

Enquiries:

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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.

ProPhotonix Limited
Consolidated Statements of Operations and Comprehensive (Loss)
($ in thousands except share and per share data)
(unaudited)

	Years Ended December 31, 2013	Years Ended December 31, 2012
Net Revenue	$ 15,599	$ 13,904
Cost of Revenue	(9,628)	(9,597)
Gross Profit	5,971	4,307
Research & Development Expenses	(941)	(922)
Selling, General & Administrative Expenses	(6,091)	(6,403)
Amortization of Intangible Assets	(120)	(118)
Operating Loss	(1,181)	(3,136)
Other Income / (Expense), net	295	490
Warrant and Debt Acquisition expense	(103)	-
Interest Expense	(237)	(257)
Loss Before Taxes	(1,226)	(2,903)
Tax Benefit	73	-
Net Loss	$ (1,153)	$ (2,903)
Other comprehensive income (loss):		
Foreign currency translation	(368)	(199)
Total comprehensive loss	$ (1,521)	$ (3,102)
Loss Per Share:		
Basic and diluted net loss per share	($0.01)	($0.04)
Basic and diluted weighted average shares outstanding	80,496,977	76,059,457

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CONSOLIDATED BALANCE SHEETS

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

December 31	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 402	$ 1,278
Accounts receivable, less allowances of $19 in 2013 and $31 in 2012	2,559	2,225
Inventories	2,003	2,033
Prepaid expenses and other current assets	220	234
Total current assets	5,184	5,770
Net property, plant and equipment	303	523
Goodwill	486	467
Acquired intangible assets, net	102	218
Other long-term assets	354	23
Total assets	$ 6,429	$ 7,001
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Revolving credit facility	$ 1,127	$ 662
Current portion of long-term debt	265	2,387
Capital lease obligations	10	10
Accounts payable	1,542	2,000
Income taxes payable	-	-
Accrued expenses	1,296	1,084
Total current liabilities	4,240	6,143
Long-term debt, net of current portion	2,445	-
Long-term portion of capital lease obligations	-	10
Other long-term liabilities	178	178
Total liabilities	6,863	6,331
Stockholders' equity (deficit):		
Common stock, par value $0.001; shares authorized 150,000,000 at December 31, 2013 and at December 31, 2012; 83,665,402 shares issued and outstanding at December 31, 2013 and 76,059,457 at December 31, 20127	84	76
Additional paid-in capital	111,302	110,893
Accumulated deficit	(111,674)	(110,521)
Accumulated other comprehensive income	(146)	222
Total stockholders' equity (deficit)	(434)	670
Total liabilities and stockholders' equity	$ 6,429	$ 7,001

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CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

(unaudited)

Years Ended December 31	**2013**	**2012**
Operations		
Net loss	**$ (1,153)**	**$ (2,903)**
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	169	143
Depreciation and amortization	332	396
Foreign exchange (gain) loss	(408)	(188)
Amortization of debt discount and financing costs	96	-
Loss on disposal of assets	(7)	-
Provision for inventories	120	75
Provision for bad debts	(12)	25
Other change in assets and liabilities:		
Accounts receivable	(222)	199
Inventories	(8)	(372)
Prepaid expenses and other current assets	20	57
Accounts payable	(518)	505
Accrued expenses	171	261
Other assets and liabilities	(9)	20
Net cash used in operating activities	**(1,429)**	**(1,782)**
Investing		
Purchase of property, plant and equipment	(17)	(67)
Net cash used in investing activities	**(17)**	**(67)**
Financing		
Borrowings of revolving credit facilities, net	438	-
Proceeds from issuance of long-term debt	800	-
Principal repayment of long-term debt	(339)	(889)
Debt issuance costs	(398)	-
Net cash provided by (used in) financing activities	**501**	**(889)**
Effect of exchange rate on cash	69	(50)
Net change in cash and equivalents	(876)	(2,788)
Cash and equivalents at beginning of year	1,278	4,066
Cash and equivalents at end of period	**$ 402**	**$ 1,278**
Supplemental cash flow information:		
Cash paid for interest	$ 263	$ 228
Common stock issued in connection with financing	$ 193	$ -
Warrants issued in connection with financing	$ 55	$ -

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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, 2011	76,059	$ 76	$110,751	$ (107,618)	$ 421	$ 3,630
Share based compensation, net of forfeitures	-	-	143	-	-	143
Translation adjustment	-	-	-	-	(199)	(199)
Net loss	-	-	-	(2,903)	-	(2,903)
Balance December 31, 2012	76,059	$ 76	$110,893	$ (110,521)	$ 222	$ 670
Share based compensation, net of forfeitures	-	-	169	-	-	169
Issuance of common stock to settle liabilities	7,606	8	185	-	-	193
Issuance of warrants for financings	-	-	55	-	-	55
Translation adjustment					(368)	(368)
Net loss	-	-	-	(1,153)	-	(1,153)
Balance December 31, 2013	83,665	$ 84	$111,302	$ (111,674)	$ (146)	$ (434)

Values may not add due to rounding

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 2012 and 2013 or the Company's annual audited accounts for 2013 to be published and sent to its shareholders in accordance with Rule 19 of the AIM Rules for Companies. The 2013 accounts included herein are unaudited and therefore subject to change at the time the audited accounts are issued. The 2013 unaudited preliminary financial statements were prepared under US GAAP and were approved on March 24, 2014, by the Directors for issue on March 25, 2014. It is intended that the Company's 2013 annual report and audited accounts will be available to shareholders on or about April 25, 2014.

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 2013 and 2012 is as follows:

	(in thousands)	
	Year Ended December 31,	
	2013	**2012**
Net Loss	(1,153)	(2,903)
Plus:		
Interest and other expense / (income), net	45	(233)
Depreciation	212	278
Intangible asset amortization	120	118
Stock based compensation	169	143
Taxes	(73)	-
EBITDA Loss	(680)	(2,597)
Restructuring and nonrecurring charges	582	-
Adjusted EBITDA loss	(98)	(2,597)

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