4 May 2011

ProPhotonix Limited
(“ProPhotonix” or “the Company”)

FIRST QUARTER TRADING UPDATE

ProPhotonix Limited, (London Stock Exchange - AIM: PPIX and PPIR, OTC: STKR.PK), a designer and manufacturer of LED systems and laser modules as well as a distributor of premium vendors’ laser diodes, announces its financial results for the first quarter ended March 31, 2011.

First-Quarter 2011 Financial Highlights:

- Revenue increased by 25% to $4.3 million (Q1 2010: $3.5 million), up 24% adjusting for impact of currency fluctuation
- Revenue up 5% sequentially versus the fourth quarter of 2010
- Six consecutive quarters of sequential growth
- LED revenue increased 79% to $2.3 million (Q1 2010: $1.3 million)
- Gross profit increased 38% from $1.2 million to $1.6 million
- Gross margin 38.0% (Q1 2010: 34.2%) (Q4 2010: 39.0%)
- EBITDA profit of $29,000 vs. $247,000 loss in 2010, adjusted for an abandoned facility charge, and a loss of $48,000 in Q4 2010, adjusted for AIM expenses of $50,000
- Order bookings $4.9 million, ending backlog $6.4 million
- Percentage revenue by market sectors: industrial 80%, medical 14% and homeland security & defense 6%;
- Percentage revenue by geography: 53% Europe, 38% North America and 9% Rest of World

Mark W. Blodgett, Chairman & CEO, said: “I am pleased to announce these results for the first quarter ended March 31, 2011. The Company grew 25% year over year and 5% sequentially, marking the sixth straight quarter of sequential revenue growth. Geographically, ProPhotonix achieved improved sales in the North American market, where we had 53% year over year growth, and 45% growth sequentially. We also achieved continued growth in the European market led by strong sales to the German solar equipment industry. The industrial and medical market sales were up year over year at 35% and 9% respectively, however, homeland security & defense sales were down 24% mainly due to lower laser diode sales to one defense customer.”

“Order bookings at $4.9 million were strong, particularly at the end of the first quarter, which bodes well for continued growth, particularly in the Company’s LED business. Profitability improved measurably as sales, general and administrative expenses were flat year over year and the Company achieved EBITDA breakeven for the period compared to a $0.2 million loss the prior year first quarter."

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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, Sanyo & 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, and Europe. For more information about ProPhotonix and its innovative products, visit the Company's web site at www.prophotonix.com.

First Quarter 2011 Financial Results

Total revenue for the first quarter of 2011 of $4.3 million increased 25 percent (up 24%, adjusting for currency) from the first quarter of 2010. The growth in revenue was comprised of an increase in the LED segment of $1.0 million (+79%) over last year and a decrease in the laser segment of approximately $0.1 million (-6%). The growth in revenues is mainly attributable to increased activities in the U.S.A. and Europe, where the Company saw year-on-year increases of approximately 76% and 17% respectively. Bookings for the first quarter of 2011 were $4.9 million and backlog was $6.4 million at March 31, 2011.

Gross profit was $1.6 million for the first quarter of 2011, an increase of 38% compared to $1.2 million in the first quarter of 2010. First quarter 2011 gross profit margin was 38.0% compared with 34.2% in the comparable quarter in 2010 due to higher volumes, a more favorable product mix, and productivity improvement initiatives.

Operating expenses, excluding amortization charges, totaled $1.8 million for the first quarter of 2011, an increase of 5% versus $1.7 million in the first quarter of 2010, net of the charges related to an abandoned facility. General and Administrative expenses decreased approximately $0.1 million, mainly due to a decrease in facility depreciation costs related to the Salem facility, and decreased stock compensation charges. Selling expenses increased $0.1 million, or 26%, in line with the 25% revenue growth; while R&D expenses increased 56%, or by approximately $0.1 million. The net loss from continuing operations was $0.2 million as compared to a net operating loss of $0.6 million for the first quarter 2010, net of the charges related to the abandoned facility.

EBITDA was $29,000 for the quarter as compared to a $247,000 loss for the first quarter of 2010, net of a charge for an unused facility of $0.1 million. Net loss of $0.3 million includes a gain on foreign currency translation charges of $0.1 million. In comparison, the 2010 net loss was $1.3 million, which includes a loss on foreign currency translation charges of approximately $0.3 million.

Outlook

The Company continues to exhibit significant improvement in its overall financial performance versus last year as evidenced by a 79% increase in the sales of the Company's LED products. LED products, particularly those sold into medical and solar equipment industries, exhibit robust gross margins, which when combined with higher revenue volumes and improved capacity utilization, led to an overall improvement in gross margin to 38% from 34% the prior year. Sales in the laser division declined 6% year over year primarily due to higher sales of laser diodes in the first quarter of 2010, which benefited from a last time buy of several lines of discontinued diodes by an Asian diode manufacturer. The significant improvement in gross profit represents a significant accomplishment for the Company, which when combined with lower corporate overhead and ongoing cost management led to a significant improvement in overall financial operating performance. Based on strong first quarter order bookings and six consecutive quarters of sequential revenue growth and improved profitability, the Company is well positioned for 2011.

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 income / (loss) for the first quarter ended 2011 is as follows:

	Three Months Ended (in thousands) March 31,	
	2011	**2010**
Net Loss	(263)	(1,319)
Loss from discontinued operations	49	59
Plus:		
Interest and other expense (net)	21	522
Depreciation	78	122
Intangible asset amortization	81	99
Stock based compensation	63	120
Tax benefit	-	(64)
Amortization of Debt Discount & Financing Costs	-	99
EBITDA Profit / (Loss)	29	(362)
Charges related to abandoned lease	-	115
Adjusted EBITDA Profit / (Loss)	29	(247)

Consolidated Statements of Operations
($ In thousands except share and per share data)
(unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net Sales	$4,338	$3,482
Cost of Sales	2,690	2,290
Gross Profit	1,648	1,192
Research & Development Expenses	239	153
Selling, General & Administrative Expenses	1,521	1,643
Amortization of Intangible Assets	81	99
Operating Loss	(193)	(703)
Other Income / (Expense), net	75	(328)
Amortization of Debt Discount and Financing Costs	-	(99)
Interest Expense	(96)	(194)
Loss Before Taxes from Continuing Operations	(214)	(1,324)
Tax Benefit	-	(64)
Net Loss from Continuing Operations	(214)	(1,260)
Loss from Discontinued Operations	(49)	(59)
Net Loss	$ (263)	$ (1,319)
Loss Per Share		
Loss from Continuing Operations	($0.01)	($0.03)
Loss from Discontinued Operations	($0.00)	($0.00)
Net loss per share	($0.01)	($0.03)
Weighted Average Shares Outstanding	52,351,650	44,163,269

PROPHOTONIX LIMITED
CONSOLIDATED BALANCE SHEETS
In thousands except share and per share data
Unaudited

	March 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 1,029	$ 1,811
Accounts receivable less allowances of $34 at March 31, 2011 and $47 at December 31, 2010	2,240	2,023
Inventories	2,086	1,892
Prepaid expenses and other current assets	234	229
Total current assets	5,589	5,955
Net property, plant and equipment	901	906
Goodwill	498	468
Acquired intangible assets, net	551	610
Other long-term assets	61	66
Total assets	$ 7,600	$ 8,005
Liabilities and Stockholders' Deficit		
Current liabilities:		
Revolving credit facility	$ 802	$ 641
Current portion of long-term debt	600	600
Current portion of capital lease obligations	17	24
Accounts payable	1,831	2,003
Accrued expenses	1,256	1,368
Total current liabilities	4,506	4,636
Long-term debt, net of current portion	3,424	3,407
Other long-term liabilities	178	150
Total liabilities	8,108	8,193
Stockholders' deficit:		
Common stock, par value $0.001; shares authorized 100,000,000; 52,510,174 shares issued and outstanding at March 31, 2011 and December 31, 2010	53	53
Paid-in capital	105,741	105,678
Accumulated other comprehensive income	136	256
Accumulated deficit	(106,438)	(106,175)
Total stockholders' deficit	(508)	(188)
Total liabilities and stockholders' deficit	$ 7,600	$ 8,005

PROPHOTONIX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
($ In thousands)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Operations		
Net loss	$ (263)	$ (1,319)
Loss from discontinued operations, net of tax	(49)	(59)
Loss from continuing operations	(214)	(1,260)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	63	120
Depreciation and amortization	159	222
Amortization of debt discount and financing costs	-	99
Provision for inventories	9	7
Provision for bad debts	-	4
Deferred income taxes	-	(64)
Other change in assets and liabilities:		
Accounts receivable	(113)	(640)
Inventories	(112)	(48)
Prepaid expenses and other current assets	3	50
Accounts payable	(258)	322
Accrued expenses	(157)	(101)
Net cash used in operating activities	(592)	(1,289)
Net cash used in discontinued operations	(49)	(59)
Net cash used in operating activities	(641)	(1,348)
Financing		
Borrowing of revolving credit facility	137	304
Principal repayment of long-term debt	(157)	(903)
Net cash used in financing activities	(20)	(599)
Investing		
Payment of financing obligation	-	(36)
Purchase of plant and equipment	(32)	(15)
Net cash used in investing activities	(32)	(51)
Effect of exchange rate on cash	(89)	355
Net change in cash and equivalents	(782)	(1,643)
Cash and equivalents, beginning of period	1,811	4,478
Cash and equivalents, end of period	$ 1,029	$ 2,835
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 96	$ 190
Cash paid for taxes	$ 15	$ -