15 March 2011

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

# PRELIMINARY FULL-YEAR RESULTS

**Robust revenue growth, solid margins and increased LED production capacity**

**Revenue increased 45%: gross margin up to 38.2%**

ProPhotonix Limited, (London Stock Exchange - AIM: PPIX and PPIR, OTC: STKR.PK), a designer and manufacturer of LED systems and laser modules, announces its preliminary unaudited financial results for the fourth quarter and year ended December 31, 2010.

**Full-Year 2010:**

- Revenue increased 45% to $15.2 million (2009: $10.5 million), up 47% adjusting for impact of currency fluctuation
- LED revenue increased 86% to $6.8 million (2009:$3.7 million)
- Gross margin increased to 38.2% (2009: 30.2%)
- Adjusted EBITDA (excluding AIM listing and related expenses) $0.3 million loss (2009: $2.0 million loss)
- Order bookings $15.1 million
- Percentage revenue by market sectors: industrial 74%, medical 19%, and homeland security & defense 7%
- Percentage revenue by geography: 57% Europe, 32% North America and 11% Rest of World.

***2010 Business Highlights***

- Successful flotation on the AIM market of the London Stock Exchange in December 2010
- Amended Company’s  term debt on favorable terms
- Four consecutive quarters of sequential growth
- Increased LED production capacity threefold in fourth quarter
- Made significant inroads into medical and solar equipment markets
- Launched the InViso™ laser product line for the machine vision market.

**Fourth-Quarter 2010:**

- Revenue increased by 56% to $4.1 million (Q4 2009: $2.7 million), up 60% adjusting for impact of currency fluctuation
- Revenue up 6% sequentially versus the third quarter of 2010
- Gross margin 38.7% (Q4 2009: 35.6%) (Q3 2010: 39.9%)
- Adjusted EBITDA break-even vs. $0.2 million loss in 2009 and a break-even in Q3, 2010,
- Order bookings $3.6 million, ending backlog $5.8 million

- Percentage revenue by market sectors: industrial 78%, medical 16%, and homeland security & defense 6%
- Percentage revenue by geography: 61% Europe, 28% North America and 11% Rest of World.

Mark W. Blodgett, CEO, said: "I am pleased to announce our first results since the Company's successful listing on AIM in December 2010. Significant growth in the medical and solar equipment markets, coupled with increased LED production capabilities, have resulted in quarter-on-quarter revenue growth throughout the year. There has been strong demand for our products in Europe.

"For the fourth quarter 2010, ProPhotonix achieved break-even at an adjusted EBITDA level. We will continue to grow our existing operations and remain confident about the Company's future prospects."

The Company will host a conference call at 14:30 G.M.T (10:30 E.D.T.) today, 15 March 2011. The conference call title is 'ProPhotonix – Final Results Conference Call' and the details are as follows:

| | Local number | Toll free |
|---|---|---|
| United Kingdom | +44 (0) 208 515 2302 | +44 (0) 800 358 0857 |
| United States | +1 480 629 9819 | +1 877 941 8631 |

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| | |
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## Chairman and CEO's statement

During 2010, the Company focused on growing its LED operations in Ireland, including a threefold production capacity expansion in the fourth quarter, and our laser business in England. The Company exhibited a significant improvement in its overall financial performance last year as evidenced by the 45% revenue growth led by an 86% increase in the sale of the Company's LED products. LED revenue growth and improved capacity utilization, led to an overall improvement in gross margin to 38.2% from 30.2% the prior year. This 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.

With the Company's operations solely located in the British Isles, we sought and completed the flotation of all our common shares on the London Stock Exchange's AIM market late in the fourth quarter. In conjunction with the flotation, the Company placed 7.9 million of common shares (at £0.20 per share), which included the conversion of term debt to equity. In addition, the Company amended its remaining term debt on favorable terms.

Based on four consecutive quarters of sequential growth and improved profitability, the Company is well positioned to build on last year's solid performance. The balance sheet is stronger, and debt amortization has been dramatically reduced, which bodes well for the future. In 2011 we expect to increase our investment in R&D, as well as strengthen both our product management and sales capabilities. As part of that effort, six weeks ago we merged our LED and laser sales forces into one global sales force, which has been organized along geographic rather than product/application lines. We believe this strategic shift improves scalability and will allow us to grow faster in important markets, such as the US and China. Late last year we began distributing laser diodes from the two leading diode manufacturers in Korea and Taiwan, which complements our diode offerings from Opnext, Sayno and Sony. Finally, we are currently evaluating how to best leverage our unique chip-on-board (COB) LED technology into the general illumination market where LEDs represent a small percentage of a very large established market. This represents a significant, long-term growth opportunity for ProPhotonix.

### Full-Year 2010 Financial Results

Total revenue for 2010 was $15.2 million, an increase of 45% (47.0%, adjusting for currency) compared with $10.5 million in 2009. Gross profit was $5.8 million, an increase of 84% compared to $3.2 million in 2009. Gross profit margin increased to 38% from 30% in 2009 due to higher volumes, a more favorable product mix, and productivity improvement initiatives. Foreign currency exchange impact on gross profit margin was negligible.

Operating expenses totaled $8.6 million, which included approximately $0.9 million of charges related to the AIM flotation, debt restructuring, impairment charge, and facility lease termination costs. Excluding these charges, the operating expenses increased 8% to $7.5 million from $6.9 million in 2009, excluding the impairment charge of $4.4 million. The net loss from continuing operations was $3.0 million, excluding the impairment charge, as compared to $4.9 million in 2009, excluding the impairment charge. The adjusted EBITDA loss was $0.3 million versus an EBITDA loss of $2.0 million in 2009. Net loss of $2.6 million includes a gain on sale of discontinued operations in the amount of $0.5 million and a loss from discontinued operations in the amount of $0.1 million. In comparison, the 2009 net loss was $1.2 million, which includes a gain on sale of discontinued operations in the amount of $4.9 million and a loss from discontinued operations in the amount of $0.7 million, as well as an impairment charge of $4.4 million.

**Fourth Quarter 2010 Financial Results**

Total revenue for the fourth quarter of 2010 of $4.1 million increased 56 percent (up 60%, adjusting for currency) from the fourth quarter of 2009. The growth in revenue comprised an increase in our LED segment of $0.8 million (+79%) over last year and an increase in our laser segment of approximately $0.6 million (+41%). The impact of foreign currency exchange year-on-year was negligible. The growth in revenues is mainly attributable to increased activities in Europe and Asia, where the Company saw year-on-year increases of approximately 97% and 107% respectively. Bookings for the fourth quarter of 2010 were $3.6 million and backlog was $5.8 million at December 31, 2010.

Gross profit was $1.6 million for the fourth quarter of 2010, an increase of 70% compared to $0.9 million in the fourth quarter of 2009. Fourth quarter 2010 gross profit margin was 38.7% compared with 35.6% in the comparable quarter in 2009 due to higher volumes, a more favorable product mix, and productivity improvement initiatives. Foreign currency exchange impact on gross profit margin was negligible.

Operating expenses totaled $2.0 million, net of an impairment charge of $0.2 million, an increase of 35% versus $1.5 million in the fourth quarter of 2009, net of an impairment charge of $4.4 million. The increase in expenses primarily relates to increased selling expenses associated with the 56% revenue growth. The net loss from continuing operations was $0.4 million, net of an impairment charge of $0.2 million, as compared to a net operating loss of $0.6 million for the fourth quarter 2009, net of the impairment charge of $4.4 million.

EBITDA was nearly break-even for the quarter, net of a debt restructuring charge, as compared to $0.2 million loss for the fourth quarter of 2009. Net income of $0.2 million includes a gain on sale of discontinued operations to the amount of $0.6 million and the impairment charge of $0.2 million. In comparison, the 2009 net income was $2.6 million, which includes a gain on sale of discontinued operations of $4.9 million and a loss from discontinued operations of $0.5 million, as well as an impairment charge of $4.4 million.

As a part of completing the flotation on the London Stock Exchange's AIM, the Company sold approximately 3.8 million shares of common stock for cash, raising $1.2 million. In addition, one of the debt holders converted an additional $1.3 million of debt to common stock resulting in the issuance of an additional 4.0 million shares of common stock. Listing and issuance costs totaled approximately $1.0 million, of which $0.7 million was expensed in the second and third quarters of 2010 and the remaining amount was recorded against the proceeds from the sale.

In addition to the Placing Proceeds and debt conversion, the Company amended the payment obligations of its remaining term debt. Prior to the amendments, a total of $4.3 million of debt was due for repayment in full between November 2010 and October 2011. The amendments result in $1.6 million to be paid out over two years through December 2012 and $2.7 million to be paid over a five year period through June 2015 (interest only payments through June 2012 with principal payable monthly over a three year period beginning in July, 2012 and ending in June, 2015).

**Outlook**

The general rebound in the world economy in 2010, along with a significant increase in sales to the solar production equipment industry, increased sales 51% in the industrial market. Sales to the medical sector increased 91% year over year as the Company's LED products shifted into production with two key medical customers, and laser sales to a world leading medical imaging company increased over the course of the year. Sales of LED light sources to all markets should benefit from the fact that they are significantly more energy efficient and longer lasting than traditional light sources such as halogen, metal halide and fluorescent. Industrial customers are becoming increasingly cognisant of the benefits of our LED systems. We are hopeful these trends will continue in 2011. The general illumination market is in the midst of a major transition and we see this as long-term growth opportunity for the Company. LED lighting currently represents less than 3% of the $100 billion lighting market and is expected to increase significantly over the next decade. ProPhotonix currently manufactures high performance LED light engines, which means very compact, high-brightness light sources, for the industrial inspection and medical markets and will explore ways in which this energy efficient technology can be commercialized for the general illumination market. This may include end-user products, as well as joint ventures with established lighting providers that can incorporate our COB LED components into their products.

### SAFE HARBOR STATEMENT

This press release contains forward-looking statements. 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.

**ProPhotonix Limited**

**Consolidated Statement of Operations**

(Unaudited)

($ In thousands except share and per share data)

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Net Sales | $4,148 | $2,655 | $15,194 | $10,456 |
| Cost of Sales | 2,541 | 1,710 | 9,384 | 7,298 |
| Gross Profit | 1,607 | 945 | 5,810 | 3,158 |
| Research & Development Expenses | 233 | 131 | 750 | 555 |
| Selling, General & Administrative Expenses | 1,713 | 1,248 | 7,215 | 5,680 |
| Asset Impairment | 226 | 4,377 | 226 | 4,377 |
| Amortization of Intangible Assets | 96 | 135 | 390 | 694 |
| Operating Loss | (661) | (4,946) | (2,771) | (8,148) |
| Interest Income & Other Income/(Expense) | 543 | (2) | 688 | 928 |
| Amortization of Debt Discount and Financing Costs | (272) | (322) | (551) | (1,704) |
| Interest Expense | (114) | (272) | (552) | (393) |
| Loss Before Taxes from Continuing Operations | (504) | (5,542) | (3,186) | (9,317) |
| Tax Benefit | (59) | (3,752) | (111) | (3,966) |
| Net Loss from Continuing Operations | (445) | (1,790) | (3,075) | (5,351) |
| Gain on sale of discontinued operations | 600 | 4,875 | 542 | 4,875 |
| Income / (loss) from discontinued operations | 10 | (487) | (116) | (701) |
| Net Income (Loss) | $165 | $2,598 | $(2,649) | $(1,177) |
| Income (Loss) Per Share | | | | |
| Basic and diluted net loss per share from continuing operations | ($0.01) | ($0.04) | ($0.07) | ($0.12) |
| Basic and diluted net income per share from gain on sale of discontinued operations | $0.01 | $0.11 | $0.01 | $0.11 |
| Basic and diluted net loss per share from discontinued operations | $0.00 | ($0.01) | ($0.00) | ($0.02) |
| Basic and diluted net loss per share | $0.00 | $0.06 | ($0.06) | ($0.03) |
| Basic and diluted weighted average shares outstanding | 47,043,053 | 44,124,936 | 44,950,980 | 43,641,373 |

**PROPHOTONIX LIMITED**

**CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

($ In thousands except share and per share data)

| **Years Ended December 31** | **2010** | **2009** |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,811 | $ 4,478 |
| Accounts receivable, less allowances of $47 in 2010 and $5 in 2009 | 2,023 | 1,473 |
| Inventories | 1,892 | 1,282 |
| Prepaid expenses and other current assets | 229 | 502 |
| Total current assets | 5,955 | 7,735 |
| Net property, plant and equipment | 906 | 3,835 |
| Goodwill | 468 | 508 |
| Acquired intangible assets, net | 610 | 1,260 |
| Other long-term assets | 66 | 38 |
| Total assets | $ 8,005 | $ 13,376 |
| Liabilities and Stockholders' Deficit | | |
| Current liabilities: | | |
| Current portion of long-term debt, net of unamortized discount of $0 in 2010 and $358 in 2009 | $ 600 | $ 3,798 |
| Revolving credit facility | 641 | 568 |
| Capital lease obligations | 24 | 85 |
| Current portion of financing lease obligations | - | 413 |
| Accounts payable | 2,003 | 1,142 |
| Accrued expenses | 1,368 | 1,117 |
| Total current liabilities | 4,636 | 7,123 |
| Long-term debt, net of unamortized discount of $0 in 2010 and $193 in 2009 | 3,407 | 3,281 |
| Capital lease obligations, net of current portion | - | 24 |
| Financing lease obligations, net of current portion | - | 3,196 |
| Other long-term liabilities | 150 | - |
| Deferred income taxes | - | 67 |
| Total liabilities | 8,193 | 13,691 |
| Commitments and contingencies | | |
| Stockholders' deficit: | | |
| Common stock, par value $0.001 shares authorized 100,000,000; 52,510,174 shares issued and outstanding at December 31, 2010 and 44,616,458 shares issued and outstanding at December 31, 2009 | 53 | 45 |
| Paid-in capital | 105,678 | 103,048 |
| Accumulated deficit | (106,175) | (103,526) |
| Accumulated other comprehensive income | 256 | 118 |
| Total stockholders' deficit | (188) | (315) |
| Total liabilities and stockholders' deficit | $ 8,005 | $ 13,376 |

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

| **Years Ended December 31** | **2010** | **2009** |
|---|---|---|
| **Operations** | | |
| **Net loss** | **$ (2,649)** | **$ (1,177)** |
| Loss from discontinued operations, net of tax | (116) | (701) |
| Gain on sale of discontinued operations, net of tax | 542 | 4,875 |
| **Loss from continuing operations** | **(3,075)** | **(5,351)** |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Stock-based compensation expense | 501 | 514 |
| Depreciation and amortization | 917 | 1,213 |
| Amortization of debt discount and financing costs | 551 | 1,704 |
| Non cash interest (income) / expense | (7) | 211 |
| (Gain) on disposal of assets | (632) | (29) |
| Asset impairment | 226 | 4,377 |
| Provision for inventories | 37 | 39 |
| Provision for bad debts | 49 | 16 |
| Change in fair value of warrant liability | - | (50) |
| Deferred taxes | (113) | (3,944) |
| Other change in assets and liabilities: | | |
| Accounts receivable | (669) | 175 |
| Inventories | (698) | 153 |
| Prepaid expenses and other current assets | 278 | (303) |
| Accounts payable | 901 | (1,791) |
| Accrued expenses | 276 | 590 |
| Other assets and liabilities | - | 18 |
| **Net cash used in continuing operations** | **(1,458)** | **(2,458)** |
| Net cash used in discontinued operations | (116) | (17) |
| **Net cash used in operating activities** | **(1,574)** | **(2,475)** |
| **Investing** | | |
| Proceeds from disposal of assets | 3 | - |
| Financing obligation payments | (136) | (271) |
| Purchase of property, plant and equipment | (464) | (64) |
| **Net cash used in continuing operations** | **(597)** | **(335)** |
| Net cash provided by discontinued operations | 692 | 13,010 |
| **Net cash provided by (used in) investing activities** | **95** | **12,675** |
| **Financing** | | |
| Net proceeds from sale of common stock | 863 | 13 |
| Borrowings of revolving credit facilities, net | 57 | (3,372) |
| Proceeds from long-term debt issuance | - | 500 |
| Principal repayment of long-term debt | (2,248) | (4,658) |
| Decrease in restricted cash | - | 7 |
| Payment of debt acquisition costs | - | (400) |
| **Net cash used in continuing activities** | **(1,328)** | **(7,910)** |
| Net cash used in discontinued operations | - | (62) |
| **Net cash used in financing activities** | **(1,328)** | **(7,972)** |
| Effect of exchange rate on cash | 140 | 615 |
| Net change in cash and equivalents | (2,667) | 2,843 |
| Cash and equivalents at beginning of year | 4,478 | 1,635 |
| **Cash and equivalents at end of year** | **$ 1,811** | **$ 4,478** |
| Supplemental of cash flow information: | | |
| Cash paid for interest | $ 564 | $ 450 |
| Cash paid for income tax | - | - |
| Fair value of restricted stock issued | - | - |
| Common stock and warrants issued in connections with financings | $ - | $ 528 |
| Issuance of common stock to settle liabilities | $ 1,290 | $ 370 |
| Common stock issued in connection with financings | $ - | $ - |
| Warrants issued in connection with financings | $ 24 | $ 38 |
| Assets acquired under lease arrangements | $ - | $ 371 |

**Use of Non-GAAP Financial Measures**

The Company provides non-GAAP financial measures, such as EBITDA and adjusted 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) and adjusted EBITDA for the fourth quarters and years ended 2010 and 2009 are as follows:

| | Three Months Ended | | Twelve Months Ended | |
|---|---|---|---|---|
| | ($ in thousands) (Unaudited) | | | |
| | December 31, | | | |
| | 2010 | 2009 | 2010 | 2009 |
| Net Income / (Loss) | $165 | $2,598 | $(2,649) | $(1,177) |
| Gain on sale of discontinued operations | (600) | (4,875) | (542) | (4,875) |
| (Income) /loss from discontinued operations | (10) | 487 | 116 | 701 |
| Plus: | | | | |
| Interest and other expense/(income), net | (429) | 274 | (136) | (535) |
| Depreciation | 148 | 132 | 527 | 544 |
| Intangible asset amortization | 96 | 135 | 390 | 694 |
| Asset Impairment | 226 | 4,377 | 226 | 4,377 |
| Stock based compensation | 94 | 87 | 501 | 514 |
| Taxes | (59) | (3,752) | (111) | (3,966) |
| Amortization of Debt Discount & Financing Costs | 272 | 322 | 551 | 1,704 |
| EBITDA Loss | (97) | (215) | (1,127) | (2,019) |
| Debt restructuring/AIM Listing expenses | 50 | - | 754 | - |
| Facility lease termination costs | - | - | 115 | - |
| Adjusted EBITDA Loss | $(47) | $(215) | $(258) | $(2,019) |