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

INTERIM RESULTS FOR THE HALF YEAR ENDED 30 JUNE 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, September 5, 2013, announces its unaudited interim results for the six months ended June 30, 2013.

Financial Highlights

- Revenue increased 9% to $7.4 million (FY 2012: $6.8 million)
- Revenue increased 10% for Laser diode modules and diodes and 7% for LED systems
- Gross profit increased 41.0% to $3.0 million (FY 2012: $2.1 million)
- Gross profit margin increased to 40.4% (FY 2012: 31.1%)
- Operating loss decreased to $1.1 million(1) (FY 2012: loss of $1.7 million)
- EBITDA loss of $0.9 million(1) vs. $1.4 million in 2012
- Order bookings of $8.4 million (FY 2012: $7.9 million)
- Percentage revenue by market sectors: industrial 78%, medical 16%, and security & defense 6%
- Percentage revenue by geography: 53% Europe, 29% North America and 18% Rest of World
- Secured loan financing of $3.0 million
- Cash balance of $0.7 million (June 30, 2012: $3.0 million); available credit lines of $2.3 million, after draw-down of $0.6M in June.

(1) Includes restructuring and non-recurring costs of $582,000

Operational Highlights

- ProPhotonix expanded its distributed product portfolio. The portfolio now includes high powered laser devices from Oclaro, augmenting a multi-year relationship between our companies. In addition, the Company and Osram Opto Semiconductors embraced a mutual agreement for ProPhotonix to distribute Osram's ground breaking green (515nm and 520nm) and blue (450nm) Direct Diode Lasers.
- 1.15 Book-to-Bill ratio from existing customers and significant new customer activity, of which 10 new customers amounted to $1.8 million of first half bookings.

Tim Losik, President & CEO, Commented:

"During the first half 2013, the Company has experienced an improvement in business activity with order bookings through the first six months of 2013 totaling $8.4 million and the June 30, 2013 backlog of unshipped orders, $6.2 million, up 16% since December 31, 2012. The Company ended the first six months of 2013 with a book-to-bill ratio of 1.15. New customer activity is a cornerstone focus for growth and I am pleased that we are embracing new customers every day. Ten new customers accounted for $1.8 million of bookings in the first half, in both businesses, across several market sectors: industrial, medical/dental, semiconductor, and robotics. The investment in our sales team is reaping rewards. In addition, we are seeing broad interest in the green and blue Direct Diode Lasers by Osram and believe this will allow growth within the existing customer base and new customer activity.

“As announced on June 21, 2013 the Company secured $3.0 million of new loan financing with net availability of $2.5 million through an existing lender to the Company alongside a new lender. We are confident this capital puts ProPhotonix on solid footing to continue the execution of its strategy. As we execute our strategy and grow, we will seek additional sources of capital in order to expand our product and market positioning and to reduce our cost structure.

“Excluding restructuring and one-time charges of $582K, we produced significant improvements in the operating performance versus the first half 2012, including: Operating Income improved 69%, EBITDA improved 80%, and Net Income improved 47%. The improvement in operating performance is the result of increased revenue, product mix, cost reductions, and overhead absorption. The actions taken to reduce costs in the first half will significantly reduce our break-even point on a go forward basis. Following the financing on June 21, 2013, and having assessed future trading forecasts, the Company believes that it has sufficient financing to allow it to trade for the foreseeable future.

“The outlook for ProPhotonix is very encouraging and despite global economic head winds, to which we are not immune, order activity has improved in the first half 2013, while our opportunity pipeline continues to grow.”

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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.

Half Year 2013 Financial Results

Revenue for the half year ended June 30 2013 was $7.4 million, an increase of 9% compared with $6.8 million in the same period of 2012. Gross profit was $3.0 million, an increase of 41% compared to $2.1 million in the first half of 2012. Gross profit margin increased to 40.4% from 31.1% in the same period 2012 due to a shift in product mix, material cost reductions and higher volumes. Foreign currency exchange impact on gross profit and operating income was negligible.

Operating expenses, excluding intangible amortization charges, totaled $4.0 million versus $3.7 million in 2012 for the comparable period. Included in the 2013 operating expenses are approximately $0.6 million related to restructuring and nonrecurring charges. Sales and marketing and research and development (R&D) expenses decreased 5% in 2013 from the first half 2012, while general and administrative expenses increased 21% over the same period. Without the restructuring and nonrecurring charges, general and administrative expenses would have declined by 11% from the same period in 2012. The operating loss was $1.1 million, as compared to a $1.7 million loss in the same period 2012. Excluding the restructuring and nonrecurring charges, the operating loss would have been $0.5 million, an improvement of 69% from the first half 2012. EBITDA, excluding the $0.6 million restructuring and nonrecurring charges, was a loss of $0.3 million versus an EBITDA loss in 2012 of $1.4 million, an improvement of 80% from the first half 2012. The net loss was $1.5 million compared to the first half 2012 net loss of $1.8 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, United States of America.

The Company is well positioned to make significant progress on in its strategy to combine its expertise in two key areas of optics: LEDs and lasers. The Company intends to capitalize on increasing opportunities in this area by designing and manufacturing high value, high margin components for global manufacturers of equipment.

The Company has made significant investments in R&D, including expanding its R&D team, which now includes a full complement of optical, mechanical and electrical engineers and represents over 20% of the Company’s total workforce of 96 employees. They are focused on continuing to develop proprietary products to meet clearly defined demand from our customers and the markets which we serve. In this regard, progress during the first half included a range of new laser module and LED OEM opportunities including development for new customer applications. Currently, the majority of the Company’s R&D and product development activities are specifically tied to future customer requirements.

PROPHOTONIX LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
In thousands except share and per share data
(unaudited)

	Six Months Ended June 30,	
	2013	**2012**
Revenue	$ 7,365	$ 6,787
Cost of sales	(4,393)	(4,679)
Gross profit	2,972	2,108
Operating expenses:		
Selling expenses	(1,317)	(1,446)
General and administrative	(2,221)	(1,839)
Research and development	(473)	(428)
Amortization of intangibles	(60)	(60)
Total operating expenses	(4,071)	(3,773)
Loss from operations	(1,099)	(1,665)
Other income / (expense), net	(393)	22
Interest expense	(95)	(142)
Amortization of debt discount and financing costs	(6)	-
Loss from operations before income tax provision (benefit)	(1,593)	(1,785)
Income tax benefit	74	29
Net loss	(1,519)	(1,756)
Other comprehensive income (loss):		
Foreign currency translation	151	204
Total comprehensive loss	$ (1,368)	$ (1,552)
Basic and diluted net loss per share	$ (0.02)	$ (0.02)
Basic and diluted weighted average shares outstanding	76,474	76,060

FINANCIAL STATEMENTS
PROPHOTONIX LIMITED
CONSOLIDATED BALANCE SHEETS
($ in thousands except share and per share data)

(unaudited)

For the Periods Ended June 30, 2013 and 2012	**2013**	**2012**
Assets		
Current assets:		
Cash and cash equivalents	$ 726	$ 2,953
Accounts receivable, less allowances of $92 in 2013 and $30 in 2012	2,361	1,976
Inventories	1,943	1,835
Prepaid expenses and other current assets	95	285
Total current assets	5,125	7,049
Net property, plant and equipment	384	568
Goodwill	460	444
Acquired intangible assets, net	156	265
Other long-term assets	448	35
Total assets	$ 6,573	$ 8,361
Liabilities and Stockholders' (Deficit) Equity		
Current liabilities:		
Revolving credit facility	$ 607	$ 752
Current portion of long-term debt net of unamortized discount of $15 at June 30, 2013 and $0 at June 30, 2012	-	1,268
Capital lease obligations	10	10
Accounts payable	1,952	1,559
Accrued expenses	1,755	921
Total current liabilities	4,324	4,510
Long-term debt, unamortized discount of $40 at June 30, 2013 and $0 at June 30, 2012	2,442	1,517
Long-term capital lease obligation, net of current portion	5	14
Other long-term liabilities	178	178
Total liabilities	6,949	6,219
Stockholders' (deficit) equity:		
Common stock, par value $0.001; shares authorized 150,000,000 at June 30, 2013 and June 30, 2012; 83,665,402 shares issued and outstanding at June 30, 2013 and 76,059,477 shares issued at June 30, 2012	84	76
Paid-in capital	111,209	110,814
Accumulated deficit	(112,041)	(109,373)
Accumulated other comprehensive income	372	625
Total stockholders' (deficit) equity	(376)	2,142
Total liabilities and stockholders' equity	$ 6,573	$ 8,361

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Operations		
Net loss	$ (1,519)	$ (1,756)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	75	63
Depreciation and amortization	167	208
Foreign exchange gain	154	220
Amortization of debt discount and financing costs	6	-
Loss on disposal of assets	12	-
Deferred taxes	(74)	-
Provision for inventories	77	12
Provision for bad debts	62	25
Other change in assets and liabilities:		
Accounts receivable	(235)	347
Inventories	(17)	(208)
Prepaid expenses and other current assets	138	(4)
Accounts payable	(23)	147
Income taxes payable	-	(29)
Accrued expenses	685	170
Net cash used in operating activities	(492)	(805)
Financing		
Net borrowing of revolving credit facility.	(44)	104
Proceeds from long-term debt issuance	640	-
Principal repayment of long-term debt	(310)	(366)
Debt issuance costs	(358)	-
Net cash used in financing activities	(72)	(262)
Investing		
Purchase of plant and equipment	(9)	(48)
Net cash used in investing activities	(9)	(48)
Effect of exchange rate on cash	21	2
Net change in cash and equivalents	(552)	(1,113)
Cash and equivalents, beginning of period	1,278	4,066
Cash and equivalents, end of period	$ 726	$ 2,953
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 70	$ 127
Assets acquired under lease arrangement	$ -	$ 27
Common stock issued in connection with financing	$ 193	$ -
Warrants issued in connection with financing	$ 55	$ -

PROPHOTONIX LIMITED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY / (DEFICIT)

(in thousands)

	Common Stock					
	Shares	Par $0.001	Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
Balance December 31, 2012	76,060	$ 76	$ 110,893	$ (110,521)	$ 222	$ 670
Net loss				(1,519)		(1,519)
Translation adjustment ..					150	150
Share based compensation	-	-	75	-	-	75
Issuance of common stock to settle liabilities	7,606	8	185	-	-	193
Issuance of warrants for financings	-	-	55	-	-	55
Balance June 30, 2013	83,666	$ 84	$ 111,209	$ (112,041)	$ 372	$ (376)

Notes to unaudited Interim Results

Basis of Presentation

The Company financial reports are issued under the recognition and measurement principles of United States Generally Accepted Accounting Principles (GAAP). The accompanying unaudited condensed consolidated financial reports reflect all adjustments of a normal recurring nature necessary for a fair statement of the (i) results of operations and comprehensive income (loss) for the six month periods ended June 30, 2013 and 2012; (ii) the financial position at June 30, 2013 and June 30, 2012; and (iii) the cash flows for the six month period ended June 30, 2013 and 2012. These interim results are not necessarily indicative of results for a full year or any other interim period.

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 six months ended June 30, 2013 and 2012 is as follows:

	(in thousands)	
	Six Months Ended June 30,	
	2013	2012
Net Loss	(1,519)	(1,756)
Plus:		
Interest and other expense, net	488	120
Amortization of debt discount and financing costs	6	-
Depreciation	107	148
Intangible asset amortization	60	60
Stock based compensation	75	63
Tax benefit	(74)	(29)
EBITDA loss	(857)	(1,394)
Restructuring and nonrecurring charges	582	-
Adjusted EBITDA loss	(275)	(1,394)

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