September 9, 2015

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

INTERIM RESULTS FOR THE HALF YEAR ENDED JUNE 30, 2015

ProPhotonix Limited (London Stock Exchange - AIM: PPIX , OTC: STKR), a high technology designer and manufacturer of LED illumination systems and laser diode modules, today announces its unaudited interim results for the six months ended June 30, 2015.

Financial Highlights

- Revenue decreased 19% to $6.7 million, 10% of which was due to foreign currency rate fluctuation
- Gross profit decreased 13.8% to $2.8 million
- Gross profit margin increased to 41.2% (2014: 38.5%)
- Operating income of $0.1 million (2014: $(0.1) million)
- EBITDA of $0.3 million (2014: $0.1 million)
- Order bookings of $7.7 million
- 1.15 Book-to-Bill ratio (2014: 1.03)
- Percentage revenue by market sectors: 81% industrial, 15% medical, and 4% security & defense
- Percentage revenue by geography: 48% Europe, 39% North America and 13% Rest of World
- Available credit lines of $1.8 million

Operating Highlights

- Introduced 8 new products in the first half
- Patent application filing for unique thermal management invention
- Awarded two year supply agreement with pharmaceutical customer
- Entered into technology license agreement with technology institute

Tim Losik, President & CEO, commented:

Financial

ProPhotonix Limited’s results were impacted by continuing foreign currency exchange rate changes which skew various performance indicators. It is important to assess results in constant dollars, as we did in our 2014 results by highlighting the impact of foreign currency fluctuations last year.

Our constant dollar sales in the first half of 2015 were $7.5 million, as compared to the reported revenue of $6.7 million. Currency fluctuations accounted for approximately 10% of our year-on-year revenue decline. Other factors which influenced the fall in revenues included: one significant distributed product customer (which provided $500,000 of revenue at a lower margin in 2014) did not repeat in 2015; declines in two customers' demand rates which we anticipated at the beginning of the year; and expected sales from new customer engineering products which have been delayed. We fully expect these delayed projects to generate meaningful revenue in future periods.

Operating profit and EBITDA are much less impacted by currency fluctuations. Many of our expenses are denominated in the same currencies as revenue, a natural hedge, thus mitigating currency translation impact. In addition, the cost reduction implemented by the Company over the last two years significantly reduced our expense structure and break-even point. The Company generated constant dollar operating profit of $0.2 million (a $0.3 million increase on H1 2014) and EBITDA of $0.4 million (an increase of 229% on H1 2014). These results mark the fourth consecutive half-yearly positive EBITDA and second consecutive half-yearly positive operating income, cementing the Company's continued progress.

Our first half 2015 orders, in constant dollars, were $8.7 million (a 2% increase on H1 2014), while our backlog at the end of the first half is $6.2 million (an increase of 11% over year-end 2014). In addition, since the end of the first half, the Company has seen strong order bookings of $2.5M for the first two months of the third quarter. Recent announcements of supply agreements are not included in the June 30 or the third quarter-to-date order book, unless firm orders were received from the customers in the relevant periods.

The balance sheet continues to strengthen. Term debt of $277,000 was repaid in accordance with the various term loan facilities. Total net available credit from the Company's loan facilities was $1.8 million as of June 30, 2015. The Directors are comfortable with the cash flow of the business considering its plans and available credit facilities.

Strategy

As of June 2015, we mark the two year anniversary of the recapitalization of the Company and the march toward a sustainable business model. Since June 2013, we have focused our efforts on eliminating costs in the business as we strive to win new customers and improve margins.

Strategically, the Company is in transition. Historically, our product development has been customer directed. This approach has served us well for specific applications and we continue to offer bespoke product solutions. Over the past two years, we have assessed various markets and product features in order to develop a product strategy focusing on specific markets to complement our direct customer engagement. To this end, we are concentrating our engineering talents in a couple of defined market areas that we believe are poised for fast market expansion.

The first of these is the ultra violet (UV) LED and laser market for various applications including: printing, curing, 3D printing, bio-luminescence, medical microscopy, and other applications. Today, we also announced our latest UV LED light within the Cobra Cure™ family, which will be the first of several new products in this line up. As stated in the Cobra Cure announcement, the UV LED market is projected to grow at an annual rate of 40% between 2014 and 2019. For more information on Cobra Cure, please visit our website at www.prophotonix.com/products/UV-Solutions/.

Our other focus is on the continuing market requirement for multi-wavelength devices and systems; both laser and LED solutions. More and more customers are calling for multi-wavelength solutions requiring innovative optics, complex electronics, sensing capabilities, and software control. We see obvious opportunities which include a broad range of optical sensing and inspection applications in microscopy, industrial and security markets. We are in the research and development phase of these products and expect to announce various laser and LED products in the coming months.

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About ProPhotonix

ProPhotonix Limited, headquartered in Salem, New Hampshire, is a high technology 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 Ushio (formerly 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 2015 Financial Results

Revenue for the half year ended June 30 2015 was $6.7 million, a decrease of 19% compared with $8.3 million in the same period of 2014. Gross profit was $2.8 million, a decrease of 14% compared to $3.2 million in the first half of 2014. Gross profit margin improved to 41.2% from 38.5% in the same period 2014 due to a shift in product mix. Foreign currency exchange negatively impacted gross profit by approximately $(0.3) million and operating income was negatively impacted by approximately $(0.1) million.

Operating expenses, excluding intangible amortization charges, totaled $2.6 million versus $3.3 million in 2014 for the comparable period. Sales and marketing and research and development (R&D) expenses were down $0.6 million in 2015 as compared to the first half 2014 at $1.3 million, while general and administrative expenses decreased 6% over the same period. The operating profit was $0.1 million, as compared to a $0.1 million loss in the first half of 2014. EBITDA was $0.3 million as compared to an EBITDA of $0.1 million in 2014. The net loss was $0.2 million compared to the first half 2014 net loss of $0.5 million.

On the balance sheet, foreign currency differences arise on consolidation of subsidiaries whose functional currency is not the U.S. dollar. Our June 30 2015, accumulated other comprehensive income balance was $957,000, as compared to $(44,000) at June 30, 2014 and $812,000 at December 31, 2014.

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

	Six Months Ended June 30,	
	2015	**2014**
Revenue	$ 6,703	$ 8,319
Cost of sales	(3,941)	(5,116)
Gross profit	2,762	3,203
Operating expenses:		
Selling expenses	(965)	(1,343)
General and administrative	(1,387)	(1,476)
Research and development	(288)	(465)
Amortization of intangibles	-	(61)
Total operating expenses	(2,640)	(3,345)
Gain (loss) from operations	122	(142)
Other expense, net	(89)	(91)
Interest expense	(120)	(149)
Amortization of debt discount and financing costs	(86)	(102)
Loss from operations before income tax provision (benefit)	(173)	(484)
Income tax benefit	-	-
Net loss	(173)	(484)
Other comprehensive income:		
Foreign currency translation	145	102
Total comprehensive loss	$ (28)	$ (382)
Basic and diluted net loss per share	$ (0.00)	$ (0.01)
Basic and diluted weighted average shares outstanding	83,665	83,665

FINANCIAL STATEMENTS

PROPHOTONIX LIMITED

CONSOLIDATED BALANCE SHEETS

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

For the Periods Ended June 30, 2015 and 2014		2015		2014
Assets				
Current assets:				
Cash and cash equivalents	$	212	$	253
Accounts receivable, less allowances of $22 in 2015 and $35 in 2014		2,237		2,648
Inventories		1,705		2,049
Prepaid expenses and other current assets		135		198
Total current assets		4,289		5,148
Net property, plant and equipment		145		230
Goodwill		392		482
Acquired intangible assets, net		-		41
Other long-term assets		140		277
Total assets	$	4,966	$	6,178
Liabilities and Stockholders' (Deficit)				
Current liabilities:				
Revolving credit facility	$	1,088	$	1,219
Current portion of long-term debt net of unamortized discount of $13 at June 30, 2015 and $18 at June 30, 2014		955		570
Capital lease obligations		-		5
Accounts payable		1,079		1,612
Accrued expenses		1,016		985
Total current liabilities		4,138		4,391
Long-term debt, unamortized discount of $3 at June 30, 2015 and $17 at June 30, 2014		1,063		2,310
Other long-term liabilities		178		178
Total liabilities		5,379		6,879
Stockholders' (deficit):				
Common stock, par value $0.001; shares authorized 250,000,000 at June 30, 2015 and at June 30, 2014; 83,665,402 shares issued and outstanding at June 30, 2015 and at June 30, 2014		84		84
Paid-in capital		111,733		111,417
Accumulated deficit		(113,187)		(112,158)
Accumulated other comprehensive income		957		(44)
Total stockholders' (deficit)		(413)		(701)
Total liabilities and stockholders' deficit	$	4,966	$	6,178

PROPHOTONIX LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

(unaudited)

	Six Months Ended June 30,	
	2015	**2014**
Operations		
Net loss	$ (173)	$ (484)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	150	114
Depreciation and amortization	54	146
Foreign exchange gain	(25)	88
Amortization of debt discount and financing costs	72	95
Loss on disposal of assets	-	4
Provision for inventories	34	48
Provision for bad debts	3	22
Other change in assets and liabilities:		
Accounts receivable	145	(132)
Inventories	(207)	(111)
Prepaid expenses and other current assets	35	22
Accounts payable	(275)	82
Accrued expenses	118	(313)
Other assets and liabilities	4	-
Net cash used in operating activities	(65)	(419)
Financing		
Net borrowing of revolving credit facility	48	101
Proceeds from long-term debt issuance	-	175
Principal repayment of long-term debt	(277)	(4)
Net cash provided by (used in) financing activities	(229)	272
Investing		
Purchase of plant and equipment	(29)	(18)
Net cash used in investing activities	(29)	(18)
Effect of exchange rate on cash	204	16
Net change in cash and equivalents	(119)	(149)
Cash and equivalents, beginning of period	331	402
Cash and equivalents, end of period	$ 212	$ 253
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 120	$ 149

PROPHOTONIX LIMITED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY / (DEFICIT)
(in thousands)

	Common Stock		Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
	Shares	Par $0.001				
Balance December 31, 2014	83,665	$ 84	$ 111,583	$ (113,014)	$ 812	$ (535)
Net loss				(173)		(173)
Translation adjustment.......					145	145
Share based compensation	-	-	150	-	-	150
Balance June 30, 2015	83,665	$ 84	$ 111,733	$ (113,187)	$ 957	$ (413)

Values may not add due to rounding

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, 2015 and 2014; (ii) the financial position at June 30, 2015 and June 30, 2014; and (iii) the cash flows for the six month period ended June 30, 2015 and 2014. 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, 2015 and 2014 is as follows:

	(in thousands)	
	Six Months Ended June 30,	
	2015	**2014**
Net Loss	(173)	(484)
Plus:		
Interest and other expense, net	209	240
Amortization of debt discount and financing costs	86	102
Depreciation	54	85
Intangible asset amortization	-	61
Stock based compensation	150	114
EBITDA	326	118

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