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March 14, 2018

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

## **PRELIMINARY RESULTS FOR THE YEAR ENDED DECEMBER 31, 2017 And Notice of Annual General Meeting**

ProPhotonix Limited (London Stock Exchange - AIM: PPIX & PPIR, OTC: STKR), a high technology 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, 2017.

### **Financial Highlights**

- Revenue increased 9% to \$17.7 million (2016: \$16.2 million)
- Gross profit increased 7% to \$7.9 million (2016: \$7.4 million)
- Gross profit margin decreased slightly to 44.6% (2016: 45.4%)
- Operating profit decreased 19% to \$1.2 million (2016: \$1.5 million). Excluding stock compensation, operating profit increased 11% to \$1.9 million (2016: \$1.7 million)
- Net income increased 63% to \$2.0 million (2016: \$1.3 million)
- Available borrowing capacity of \$0.4 million from its revolving credit facility at December 31, 2017 (2016: \$0.4 million)
- Adjusted EBITDA increased 12% to \$2.0 million (2016: \$1.8 million)
- Order bookings of \$19.6 million (2016: \$16.7 million)
- Order backlog increased to \$7.3 million (2016: \$5.6 million) Book-to-Bill ratio of 1.11 (2016: 1.03)
- Percentage revenue by market sectors: industrial 75%, medical 21%, and homeland security & defense 4% (2016: industrial 82%, medical 14%, and homeland security and defense 4%)
- Percentage revenue by geography: 49% Europe, 37% North America and 14% Rest of World (2016: 48% Europe, 42% North America and 10% Rest of World)

## **Tim Losik, President & CEO, Commented:**

“2017 has been a successful year for the Company and we have continued our progressive financial momentum from the past two years. We have achieved consecutive half-yearly periods of positive operating income, net income, and Adjusted EBITDA and delivered growth across key metrics. The year has also positioned us well for 2018, with a record order backlog.

“As compared to 2016, sales grew 9% to \$17.7 million, gross profit improved 7%, and operating income increased 11%, excluding stock compensation expense. Net income increased 63% from increased gross profit, R&D tax credits, the net benefit of various tax attributes, and the change in foreign currency translation, which were partially offset by a full year of expenses related to the addition of sales personnel in late Q4 2016, and the increase in stock compensation as noted above. Adjusted EBITDA also improved 12% over 2016. Order bookings of \$19.6 million, represented a 17.7% increase from 2016 bookings of \$16.7 million, ending the year with a book to bill ratio of 1.11 (2016: 1.03).

“The term debt of the Company was paid in full by June 2017 providing a stronger balance sheet and financial condition. Also during 2017, the Company received a capital asset grant from the Irish Development Authority ("IDA") through its Business Asset Program, aimed at supporting the growth of IDA client companies investing in new manufacturing capability and capacity. This grant provides an element of funding for a new state-of-the-art UV LED lamp production line. Finally, the ProPhotonix team continues to execute on its long term strategies by successfully launching new products, which we believe will produce positive results during 2018 and beyond.”

## **Customer and Product Development Initiatives**

During the year, the ProPhotonix engineering team completed the development of several products and implemented a number of new technology capabilities. The new Cobra Multispec line light of 12 Wavelengths was announced in January 2018. In addition, ProPhotonix received the Vision Systems Design 2017 Innovators award in April 2017 for our previously announced Cobra RGB line light. ProPhotonix is nearing completion of its laser development financed by a European Union funded Fast Track to Innovation program. This development effort has allowed the Company to develop a laser with digital control, intense stability through thermal electric cooling, and digital data logging and monitoring. The grant provided the Company with up to €360,000 of funding when originally awarded in 2016. The development project is expected to complete by June 2018. In addition, we continued to work with many of our major original equipment manufacturer ("OEM") customers in new product development efforts to improve their products and processes.

## **Strategy and Markets**

ProPhotonix consists of two business units: the LED systems manufacturing business based in Ireland (Cork), and the 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 to grow revenues from existing customers, to win new customers, release new products, and market expansion within existing market segments and to select new market segments.

First, our existing customers and relationships are vital to our continuing growth and success. Their success helps feed our success and provides us with the opportunity to develop new products and market solutions for other customers and applications. Second, the Company's strategy remains established in its OEM heritage as well as the development of products directed at specific markets. ProPhotonix has

made and will continue to make investments in commercially attractive OEM opportunities and product development including UV LED, multi-wavelength devices and laser technology advances, in the fulfillment of our strategy. We continue to concentrate our engineering capacity in these defined projects and areas that we believe are poised for fast market expansion.

The first of these is the UV LED and laser market for various applications including: printing, curing, bonding, 3D printing, bio-luminescence, medical microscopy and other applications. The Company has launched several versions of its COBRA Cure™ product and continues to work with many potential customers in their applications using this technology. We plan to continue to launch new higher power products while continuously enhancing our current product lines to serve this market during 2018 and beyond.

ProPhotonix also continues to focus on the market requirements for multi-wavelength devices and systems, both laser and LED solutions. Increasingly, customers are seeking multi-wavelength solutions requiring innovative optics, complex electronics, on-board sensing capabilities and sophisticated software control. We see opportunities which include a broad range of applications in printing, microscopy, industrial inspection and sorting, solar simulation and security markets. As announced in January 2017, the Company introduced the Cobra Multispec, a 12-wavelength modular designed line light as a follow-on product to the Cobra RGB. We intend to continue to enhance and expand this offering as market demand dictates.

ProPhotonix sells its products principally into three markets: industrial (primarily machine vision illumination), medical, and homeland security and defense. The Company expects growth opportunities in all three of these markets as described further 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.

#### *Medical*

The medical and dental market requires many different LED systems and laser modules for unique processes, procedures, and applications. The Company provides a variety of products for medical and dental applications to current customers including a world leader in stationary imaging equipment, a portable x-ray equipment and dental imaging manufacturer and a surgical illumination device manufacturer. 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 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 2018 with a strong order backlog and continues to development products and capabilities with new and existing customers. Development of the Cobra Cure UV LED products continues with ever increasing intensity and progress is being made with several potential major customers for these products. We believe that these products will gain market acceptance during 2018. With the strong order book at the beginning of the year, the Directors remain positive about our business pipeline and confident in our ability to achieve continued positive momentum toward our profitability objectives.

## Annual General Meeting and Posting of Results

The Company will hold its Annual General Meeting on May 17, 2018 at 2:00 p.m. British Summer Time at the offices of K&L Gates LLP, One New Change, London EC4M 9AF. The Company intends to publish its final audited accounts for the year ended December 31, 2017 in April 2018.

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## About ProPhotonix

ProPhotonix Limited, headquartered in Salem, New Hampshire, is a high technology 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](http://www.prophotonix.com).

**PROPHOTONIX LIMITED**  
**Condensed Consolidated Statements of Income and Comprehensive Income**  
(in thousands except share and per share data)

	<b>Years Ended December 31,</b>	
	<b>2017 (Unaudited)</b>	<b>2016 (Audited)</b>
Revenue	\$ 17,743	\$ 16,245
Cost of Revenue	(9,822)	(8,862)
Gross Profit	7,921	7,383
Research & Development Expenses	(763)	(814)
Selling, General & Administrative Expenses (see impact of stock compensation in our Non GAAP financial reconciliation)	(5,951)	(5,077)
Operating Income	1,207	1,492
Other Income, net	375	344
Foreign Currency Translation Gain (Losses)	57	(360)
Warrant & Debt Acquisition Expense	(18)	(88)
Interest Expense	(49)	(133)
Income Before Taxes	1,572	1,255
Income Tax Benefit	469	-
Net Income	\$ 2,041	\$ 1,255
Other Comprehensive Income:		
Foreign currency translation	51	(19)
Total Comprehensive Income	\$ 2,092	\$ 1,236
Net Income Per Share:		
Basic and diluted:		
Basic net income per share	\$0.022	\$0.015
Diluted net income per share	\$0.020	\$0.014
Shares used in per share calculations - Basic	92,565,402	83,665,402
Shares used in per share calculations - Diluted	104,193,859	90,740,402

**PROPHOTONIX LIMITED**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands except share data)

<b>December 31</b>	<b>2017</b> (Unaudited)	<b>2016</b> (Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,150	\$ 911
Accounts receivable, less allowances of \$14 in 2017 and \$30 in 2016	3,114	2,302
Inventories	2,280	2,155
Prepaid expenses and other current assets	235	298
Total current assets	7,779	5,666
Net property, plant and equipment	633	342
Deferred tax asset	475	-
Goodwill	424	372
Other long-term assets	239	74
<b>Total assets</b>	<b>\$ 9,550</b>	<b>\$ 6,454</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Revolving credit facility	\$ 1,293	\$ 1,049
Current portion of long-term debt	-	402
Accounts payable	1,638	1,454
Accrued expenses	1,788	1,823
Current portion of capital lease	95	68
Total current liabilities	4,814	4,796
Long-term capital lease obligations, net of current portion	98	52
<b>Total liabilities</b>	<b>4,912</b>	<b>4,848</b>
<b>Stockholders' Equity:</b>		
Common stock, par value \$0.001; shares authorized 250,000,000 at December 31, 2017 and at December 31, 2016; 92,565,402 shares issued and outstanding at December 31, 2017 and 83,665,402 at December 31, 2016	93	84
Additional paid-in capital	112,969	112,038
Accumulated deficit	(109,438)	(111,479)
Accumulated other comprehensive income	1,014	963
<b>Total stockholders' equity</b>	4,638	1,606
<b>Total liabilities and stockholders' equity</b>	<b>\$ 9,550</b>	<b>\$ 6,454</b>

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

<b>Years Ended December 31</b>	<b>2017</b> (Unaudited)	<b>2016</b> (Audited)
<b>Cash flows from operating activities</b>		
Net income	\$ 2,041	\$ 1,255
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	645	178
Depreciation	100	75
Foreign exchange (gain)/loss	(264)	74
Amortization of debt discount and financing costs	7	60
Provision for inventories	33	120
Provision for bad debts	5	9
Other changes in assets and liabilities:		
Accounts receivable	(553)	360
Inventories	141	(809)
Prepaid expenses and other current assets	97	(168)
Deferred tax asset	(475)	-
Accounts payable	(11)	246
Accrued expenses	(150)	836
Other assets and liabilities	(164)	6
<b>Net cash provided by operating activities</b>	<b>1,452</b>	<b>2,242</b>
<b>Investing</b>		
Purchase of property, plant and equipment	(170)	(121)
<b>Net cash used in investing activities</b>	<b>(170)</b>	<b>(121)</b>
<b>Financing</b>		
Exercise of options and warrants	295	-
Borrowings of revolving credit facilities, net	96	(237)
Capital lease	(81)	(66)
Principal repayment of long-term debt	(449)	(1,100)
<b>Net cash used in financing activities</b>	<b>(139)</b>	<b>(1,403)</b>
Effect of exchange rate on cash	96	(241)
Net change in cash and equivalents	1,239	477
Cash and equivalents at beginning of period	911	434
<b>Cash and equivalents at end of period</b>	<b>\$ 2,150</b>	<b>\$ 911</b>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 49	\$ 133

**PROPHOTONIX LIMITED**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)

	<u>Common Stock</u>				Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Par \$0.001	Paid in Capital	Deferred Compensation			
<b>Balance December 31, 2015</b>	<b>83,665</b>	<b>\$84</b>	<b>\$111,860</b>	-	<b>(\$112,734)</b>	<b>\$982</b>	<b>\$192</b>
Net profit	-	-	-	-	1,255	-	1,255
Translation adjustment	-	-	-	-	-	(19)	(19)
Share based compensation	-	-	178	-	-	-	178
<b>Balance December 31, 2016</b>	<b>83,665</b>	<b>\$84</b>	<b>\$112,038</b>	-	<b>(\$111,479)</b>	<b>\$963</b>	<b>\$1,606</b>
Net profit	-	-	-	-	2,041	-	2,041
Translation adjustment	-	-	-	-	-	51	51
Exercise of options	6,700	7	231	-	-	-	238
Exercise of warrants	1,900	2	55	-	-	-	57
Deferred compensation	300	0	47	(47)	-	-	0
Share based compensation	-	-	616	29	-	-	645
<b>Balance December 31, 2017</b>	<b>92,565</b>	<b>\$93</b>	<b>\$112,987</b>	<b>(\$18)</b>	<b>(\$109,438)</b>	<b>\$1,014</b>	<b>\$4,638</b>



## **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 2016 and 2017 or the Company's annual audited accounts for 2017 to be published and sent to shareholders in accordance with Rule 19 of the AIM Rules for Companies. The 2017 accounts included herein are unaudited and therefore subject to change at the time the audited accounts are issued. The 2017 unaudited preliminary financial statements were prepared under US GAAP and were approved on March 13, 2018, by the Directors for issue on March 14, 2018. A copy of this announcement is available on the Company's website at [www.prophotonix.com](http://www.prophotonix.com). It is intended that the Company's 2017 annual report and audited accounts will be available to shareholders in April 2018.

## **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 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 Adjusted 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 income to Adjusted EBITDA for the total year 2017 and 2016 is as follows:

	<b>(in thousands)</b>	
	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Net income	\$ 2,041	\$ 1,255
Plus:		
Interest and other expense, net	(365)	237
Taxes	(469)	-
Depreciation	100	75
Stock based compensation	645	178
Adjusted EBITDA	<u>\$ 1,952</u>	<u>\$ 1,745</u>