September 6, 2018

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement via a Regulatory Information Service ("RIS"), this inside information is now considered to be in the public domain.

ProPhotonix Limited

("ProPhotonix" or "the Company")

INTERIM RESULTS FOR THE HALF YEAR ENDED JUNE 30, 2018

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 interim results for the six months ended June 30, 2018.

Financial Highlights

- Revenue increased 3.9% to $8.8 million (H1-2017: $8.5 million)
- Gross profit decreased 9.7% to $3.4 million (H1-2017: $3.8 million) mainly due to a reduction in gross margin of 38.6% (H1-2017: 44.4%)
- Operating loss of $0.4 million (H1-2017: $0.6 million operating income) excluding stock compensation expense and operating income of $0.1 million (H1-2017: $0.7 million)
- Net loss of $0.5 million (H1-2017: $0.6 million net income)
- Adjusted EBITDA of $0.2 million (H1-2017: $0.7 million). Please see the reconciliation of net income to adjusted EBITDA below.
- Order bookings of $9.0 million (H1-2017: $8.8 million)
- Book-to-Bill ratio of 1.03 (H1-2017: 1.01)
- Percentage revenue by market sectors: 81% industrial, 16% medical and 3% security & defense (H1-2017: 75% industrial, 22% medical and 3% security & defense)
- Percentage revenue by geography: 56% Europe, 31% North America and 13% Rest of World (H1-2017: 43% Europe, 44% North America and 13% Rest of World)

Recent Operational Highlights

- Vision Systems Design 2018 awarded ProPhotonix its Innovators Silver Award in April 2018
- Expansion of product offering and market applications with new high powered 405nm and 638nm laser diodes and 3 meter COBRA RGB line light
- New four year £0.7 million term loan secured for additional machinery and equipment and expansion of the Company's manufacturing operations
- Ed Dolan appointed as CFO in March 2018

Tim Losik, President & CEO, commented:

Financial

"Sales in the first half of 2018 were up 3.9% primarily due to an increase in Laser & Diode product sales offsetting a modest decline in LED sales. Gross profit margin fell to 38.6% compared with 44.4% for the same period in 2017, mainly due to a shift in product mix. Gross margins are expected to range between 40-45% going forward but this depends on the mix and volume of sales. In the first half of 2018 we experienced an operating loss of $0.4 million compared to operating income of $0.6 million in 2017. The operating loss mainly resulted from increased stock compensation expense as well as lower profit margins from a shift in product mix and continued investment to support future growth of the business."

"On June 14, 2018, the Company announced it had entered into a £700,000 four-year term loan facility with SQN Secured Income Fund PLC ("SQN"). The proceeds from the loan are to provide additional working capital and capital expenditure investments in support of our growth initiatives. Also, as of June 30, 2018, the Company had $382,000 borrowing availability on its Sales Finance facility through Barclays Bank. The Directors are comfortable with the cash flow of the business considering its plans and available credit facilities."

Strategy

"The strategy of the Company 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. 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 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."

Enquiries:

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David Foreman
Richard Salmond

Half Year 2018 Financial Results

Revenue for the half year ended June 30, 2018 was $8.8 million, an increase of 3.9% compared with $8.5 million in the same period of 2017. Gross profit was $3.4 million, a decrease of 9.3% compared to $3.8 million in the first half of 2017. Gross profit margin fell to 38.6% compared with 44.4% for the same period in 2017, mainly due to a shift in product mix.

Operating expenses totaled $3.8 million versus $3.2 million for the comparable period. Sales and marketing expenses increased $0.2 million to $1.4 million primarily due to increased stock compensation of $0.2 million. General and administrative expenses increased $0.4 million to $2.1 million primarily due to increased stock compensation of $0.3 million. Research and development expenses remained relatively flat to the prior year at $0.4 million.

The combination of reduced gross profit and increased operating expenses resulted in an operating loss of $0.4 million, compared with an operating profit of $0.6 million in the first half of 2017.

Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, stock-based compensation and impairment charges) was $0.2 million, as compared to $0.7 million in the first half of 2017. Please see the reconciliation of net income to adjusted EBITDA below.

Net loss was $0.5 million, as compared to $0.6 million of net income in the first half 2017.

The balance sheet continues to strengthen and as compared to June 30, 2017, net assets increased by $2.1 million (45%) primarily from the generation of net cash flow of $0.9 million and the recognition of a deferred tax asset of $0.5 million. As of June 30, 2018, the Company held a net cash position of $486,000 versus a net debt position as of June 30, 2017 of $360,000.

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

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Revenue	$ 8,839	$ 8,511
Cost of sales	(5,431)	(4,736)
Gross profit	**3,408**	**3,775**
Operating expenses:		
Selling expenses	(1,363)	(1,153)
General and administrative	(2,063)	(1,621)
Research and development	(414)	(430)
Total operating expenses	**(3,840)**	**(3,204)**
(Loss) income from operations	(432)	571
Other (expense) income, net	(54)	73
Interest expense	(21)	(29)
Amortization of debt discount and financing costs	-	(18)
(Loss) income before income tax	**(507)**	**597**
Income tax	-	-
Net (loss) income	**(507)**	**597**
Other comprehensive income:		
Foreign currency translation	(42)	17
Total comprehensive (loss) income	**$ (549)**	**$ 614**
Net (loss) income per share:		
Basic net (loss) income per share	**$ (0.005)**	**$ 0.007**
Diluted net (loss) income per share	**$ (0.005)**	**$ 0.006**
Shares used in per share calculation – basic	93,000	90,825
Shares used in per share calculation – diluted	109,191	107,760

FINANCIAL STATEMENTS

PROPHOTONIX LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands except share and per share data

(unaudited)

For the Periods Ended June 30, 2018 and 2017	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 3,033	$ 831
Accounts receivable, less allowances of $52 in 2018 and $21 in 2017	3,159	2,393
Inventories	2,761	2,495
Prepaid expenses and other current assets	439	397
Total current assets	**9,392**	**6,116**
Net property, plant and equipment	738	577
Goodwill	413	403
Deferred tax asset	463	-
Other long-term assets	380	81
Total assets	**$ 11,386**	**$ 7,177**
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit facility	$ 1,560	$ 1,085
Current portion of long-term debt, net	181	-
Accounts payable	2,051	1,566
Accrued expenses	2,037	1,756
Current portion of capital lease	100	98
Total current liabilities	**5,929**	**4,505**
Long-term debt, net of debt acquisition charges	684	-
Long-term capital lease obligations, net of current portion	122	104
Total liabilities	**6,735**	**4,609**
Stockholders' Equity:		
Common stock, par value $0.001; shares authorized 250,000,000 at June 30, 2018 and at June 30, 2017; 93,000,402 shares issued and outstanding at June 30, 2018 and 90,825,402 at June 30, 2017	93	91
Paid-in capital	113,531	112,378
Accumulated deficit	(109,945)	(110,881)
Accumulated other comprehensive income	972	980
Total stockholders' equity	**4,651**	**2,568**
Total liabilities and stockholders' equity	**$ 11,386**	**$ 7,177**

PROPHOTONIX LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

(unaudited)

	Six Months Ended June 30,	
	2018	**2017**
Operations		
Net (loss) income	$ (507)	$ 597
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	559	118
Depreciation	91	33
Foreign exchange loss (gain)	32	(175)
Amortization of debt discount and financing costs	-	7
Provision for inventories	3	43
Provision for bad debts	38	13
Other change in assets and liabilities:		
Accounts receivable	(164)	106
Inventories	(561)	(204)
Prepaid expenses and other current assets	(199)	(79)
Accounts payable	469	(7)
Accrued expenses	284	(185)
Other assets and liabilities	(142)	(6)
Net cash (used) provided by operating activities	**(97)**	**261**
Financing		
Exercise of options and warrants	3	229
Net borrowing (repayment) of revolving credit facility	345	(53)
Capital lease	40	(41)
Debt issuance costs	(42)	-
Net borrowing (principal repayment) of long-term debt	865	(425)
Net cash provided by (used in) financing activities	**1,211**	**(290)**
Investing		
Purchase of plant and equipment	(201)	(112)
Net cash used in investing activities	**(201)**	**(112)**
Effect of exchange rate on cash	(30)	61
Net change in cash and equivalents	883	(80)
Cash and equivalents, beginning of period	2,150	911
Cash and equivalents, end of period	**$ 3,033**	**$ 831**
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 21	$ 29

PROPHOTONIX LIMITED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

In thousands

(unaudited)

	Common Stock							
	Shares	Par $0.001	Paid in Capital	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance December 31, 2017	**92,565**	**$93**	**$112,987**	**$(18)**	**($109,438)**	**$1,014**	**$4,638**
Net profit	-	-	-	-	(507)	-	(507)
Translation adjustment	-	-	-	-	-	(42)	(42)
Exercise of options	135	0	3	-	-	-	3
Deferred compensation	300	0	48	(48)	-	-	0
Share based compensation	-	-	492	67	-	-	559
Balance June 30, 2018	**93,000**	**93**	**$113,530**	**$1**	**($109,945)**	**$972**	**$4,651**

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 (loss) income for the six month periods ended June 30, 2018 and 2017; (ii) the financial position at June 30, 2018 and June 30, 2017; and (iii) the cash flows for the six month period ended June 30, 2018 and 2017. These unaudited interim results are not necessarily indicative of results for a full year or any other interim period. Copies of this announcement are available on the Company's website at www.prophotonix.com.

Revenue Recognition

From 1 January 2018, the Company will adopt ASC 606, Revenue from Contracts with Customers.

ASC 606 outlines principles for the measurement and recognition of revenue from contracts with customers, with the core principle being that revenue should be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of goods and services to the customer. In order to achieve this objective, the standard sets out a five-step model:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations.
5. Recognise revenue when or as the entity satisfies a performance obligation.

The standard also covers the accounting for the incremental costs of obtaining a contract and the costs to fulfil a contract, together with presentation and disclosure requirements.

The impact of applying ASC 606 to the Company's financial statements has been assessed by income stream and no changes in revenue recognition policies will be required.

All contracts at June 30, 2018 were deemed to have normal requirements that included only currently offered warranty periods. There were no contracts in backlog that carried an enhanced performance criteria clause, which would require the entity to treat the revenue recognition differently than under ASC 605.

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 will 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, stock-based compensation and impairment charges) as a non-GAAP financial measure in this press release. A reconciliation of net income to adjusted EBITDA for the six months ended June 30, 2018 and 2017 is as follows:

	In thousands	
	Six Months Ended June 30,	
	2018	2017
Net (loss) income	$(507)	$597
Plus:		
Interest and other (income) expense, net	75	(33)
Amortization of debt discount and financing costs	-	7
Depreciation	91	33
Stock based compensation	559	118
Adjusted EBITDA	$218	$722

About ProPhotonix

ProPhotonix Limited, headquartered in Salem, New Hampshire, is a high technology designer and manufacturer of LED illumination systems and laser diode modules for industry leading OEMs and medical equipment companies. In addition, the Company distributes premium diodes for Ushio, Osram, QSI, and Panasonic. 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.