INTERIM RESULTS FOR THE HALF YEAR ENDED JUNE 30, 2016

(Salem, New Hampshire, September 8, 2016) ProPhotonix Limited (OTC: STKR and London Stock Exchange - AIM: PPIX), 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, 2016.

Financial Highlights

- Revenue increased 20% to $8.1 million (2015: $6.7 million)
- Gross profit increased 29.8% to $3.6 million (2015: $2.8 million)
- Gross profit margin increased to 44.4% (2015: 41.2%)
- Operating income increased significantly to $0.7 million (2015: $0.1 million)
- Net income of $0.4 million (2015: loss $0.2 million)
- EBITDA increased significantly to $0.9 million (2015: $0.3 million)
- Order bookings of $8.8 million (2015: $7.7 million)
- 1.09 Book-to-Bill ratio (2015: 1.15)
- Percentage revenue by market sectors: 84% industrial, 11% medical and 5% security & defense (2015: 81% industrial, 15% medical and 4% security & defense)
- Percentage revenue by geography: 48% Europe, 42% North America and 10% Rest of World (2015: 48% Europe, 39% North America and 13% Rest of World)
- Available credit lines of $2.0 million

Operating Highlights

- Introduced 3 new products in the first half
- Renegotiated the terms of credit facility with Barclays
- Booked a $1.1 million order for the delivery of laser modules during H2 2016 and early 2017 with one of the Company's largest customers

Tim Losik, President & CEO, commented:

Financial
"The first half results mark the sixth consecutive half-yearly positive EBITDA, fourth consecutive half-yearly positive operating income and the second consecutive half-yearly positive net income reported by the Company; clearly demonstrating the Company's continued financial progress. Sales in the first half of 2016 were up 20% to $8.1 million from $6.7 million in 2015; both businesses (Lasers/Diodes and LED) contributed to the revenue growth. Operating profit dramatically improved to $0.7 million compared to $0.1 million in 2015, a 600% increase. Net income for the first half improved to $0.4 million compared to a loss of $0.2 million in the first half of 2015. Of note, both operating income and net income include increased Development/Engineering costs ($150,000) associated with investment and expenditure in the UV printing and curing market and customer expansion. Also, net income was

negatively impacted by the dramatic decline in the British Pound versus U.S. Dollar foreign currency translation rate during the last week of June 2016 (approximately $180,000 non-cash impact) following the result of the EU referendum.

"The Company's balance sheet continues to strengthen. Principal on term debt of $553,000 was repaid and the net available credit from the Company's loan facilities was $2.0 million as of June 30, 2016. Also, on February 10, 2016, the Company entered into an amendment to its revolving credit facility with Barclays Sales Finance to (i) increase the line from £1,400,000 to £1,500,000; (ii) to reduce certain fees and service charges; and (iii) increase the borrowing rate from 80% to 85% while extending the minimum period of this amendment to 12 months to February 10, 2017 with a rolling evergreen provision. The Directors are comfortable with the cash flow of the business considering its plans and available credit facilities."

Strategy

"Since June 2013, our short-term strategy has been to eliminate costs, win new customers, and improve margins. Our results for the first half of 2016, building on our full year 2015 results demonstrate that these short term strategies, put into place at the time of the recapitalization of the Company, have succeeded in creating a sustainable business model.

"The Company's longer term strategy, as noted in the 2015 Statement to Shareholders in the annual report, continues to be one of strategic repositioning to include a market(s) directed product portfolio. As a result of this longer term strategy, some of our engineering talents continue to be concentrated in defined market areas that we believe are poised for fast market expansion. ProPhotonix is investing in additional engineering resources and will continue to make such investments in fulfillment of our strategy. In addition, ProPhotonix is in the process of expanding its sales team to increase our world-wide sales coverage."

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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, UV Printing and UV Curing, 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 2016 Financial Results

Revenue for the half year ended June 30 2016 was $8.1 million, an increase of 20% compared with $6.7 million in the same period of 2015. Gross profit was $3.6 million, an increase of 29.8% compared to $2.8 million in the first half of 2015. Gross profit margin improved to 44.4% from 41.2% in the same period in 2015 due to an increase in volume and a shift in product mix.

Operating expenses totaled $2.8 million versus $2.6 million for the comparable period in 2015. Sales and marketing and research and development (R&D) expenses were up $0.1 million in 2016 compared to the first half 2015 at $1.4 million, while general and administrative expenses increased by 5% over the same period. The operating profit was $0.7 million, as compared to a $0.1 million in the first half of 2015. EBITDA was $0.9 million as compared to $0.3 million in 2015. The net income was $0.4 million compared to the first half 2015 net loss of $0.2 million.

On the balance sheet, the Company continues to pay down term debt in accordance with the note provisions. The balance of term debt at June 30, 2016 was $1.0 million, and has 12 months of amortisation remaining. Available credit at June 30, 2016 was $2.0 million. The Company has not drawn down on its term notes since April, 2014.

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

	Six Months Ended June 30,	
	2016	**2015**
Revenue	$ 8,067	$ 6,703
Cost of sales	(4,482)	(3,941)
Gross profit	3,585	2,762
Operating expenses:		
Selling expenses	(953)	(965)
General and administrative	(1,452)	(1,387)
Research and development	(437)	(288)
Total operating expenses	(2,842)	(2,640)
Income from operations	743	122
Other expense, net	(203)	(89)
Interest expense	(81)	(120)
Amortization of debt discount and financing costs	(51)	(86)
Income (loss) before income tax	408	(173)
Income tax	-	-
Net income (loss)	408	(173)
Other comprehensive (loss) income:		
Foreign currency translation	(14)	145
Total comprehensive income (loss)	$ 394	$ (28)
Net income (loss) per share:		
Basic net income (loss) per share	$ 0.005	$ (0.002)
Diluted net income (loss) per share	$ 0.005	$ (0.002)
Shares used in per share calculation - basic	83,665	83,665
Shares used in per share calculation - diluted	88,190	83,665

FINANCIAL STATEMENTS

PROPHOTONIX LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS

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

For the Periods Ended June 30, 2016 and 2015	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 432	$ 212
Accounts receivable, less allowances of $35 in 2016 and $22 in 2015	2,599	2,237
Inventories	1,915	1,705
Prepaid expenses and other current assets	176	135
Total current assets	**5,122**	4,289
Net property, plant and equipment	171	145
Goodwill	392	392
Other long-term assets	82	32
Total assets	$ **5,767**	$ 4,858
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Revolving credit facility	$ 1,579	$ 1,082
Current portion of long-term debt, net	975	878
Accounts payable	1,134	1,079
Accrued expenses	1,217	1,016
Total current liabilities	**4,905**	4,055
Long-term debt, net	-	1,038
Other long-term liabilities	178	178
Total liabilities	**5,083**	5,271
Stockholders' Equity (deficit):		
Common stock, par value $0.001; shares authorized 250,000,000 at June 30, 2016 and at June 30, 2015; 83,665,402 shares issued and outstanding at June 30, 2016 and at June 30, 2015	84	84
Paid-in capital	111,958	111,733
Accumulated deficit	(112,326)	(113,187)
Accumulated other comprehensive income	968	957
Total stockholders' equity (deficit)	**684**	(413)
Total liabilities and stockholders' equity (deficit)	$ **5,767**	$ 4,858

PROPHOTONIX LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

(unaudited)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Operations		
Net Income (loss)	$ 408	$ (173)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock based compensation	98	150
Depreciation and amortization	35	54
Foreign exchange (gain) loss	(32)	(25)
Amortization of debt discount and financing costs	51	86
Provision for inventories	47	34
Provision for bad debts	13	3
Other change in assets and liabilities:		
Accounts receivable	209	145
Inventories	(405)	(207)
Prepaid expenses and other current assets	(36)	35
Accounts payable	(156)	(275)
Accrued expenses	165	118
Other assets and liabilities	(13)	(10)
Net cash provided by (used in) operating activities	**384**	(65)
Financing		
Net borrowing of revolving credit facility	221	48
Principal repayment of long-term debt	(553)	(277)
Net cash used in financing activities	**(332)**	(229)
Investing		
Purchase of plant and equipment	(70)	(29)
Net cash used in investing activities	**(70)**	(29)
Effect of exchange rate on cash	16	204
Net change in cash and equivalents	(2)	(119)
Cash and equivalents, beginning of period	434	331
Cash and equivalents, end of period	$ **432**	$ 212
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 81	$ 120

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)
(unaudited)

	Common Stock					
	Shares	Par $0.001	Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance December 31, 2015	83,665	$ 84	$ 111,860	$ (112,734)	$ 982	$ 192
Net profit				408		408
Translation adjustment					(14)	(14)
Share based compensation	-	-	98	-	-	98
Balance June 30, 2016	83,665	$ 84	$ 111,958	$ (112,326)	$ 968	$ 684

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, 2016 and 2015; (ii) the financial position at June 30, 2016 and June 30, 2015; and (iii) the cash flows for the six month period ended June 30, 2016 and 2015. 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.

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, 2016 and 2015 is as follows:

	(in thousands) Six Months Ended June 30,	
	2016	**2015**
Net Income (Loss)	408	(173)
Plus:		
Interest and other expense, net	284	209
Amortization of debt discount and financing costs	51	86
Depreciation	35	54
Stock based compensation	98	150
EBITDA	876	326

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