



**PROPHOTONIX ANNOUNCES PRELIMINARY RESULTS FOR THE YEAR ENDED
DECEMBER 31, 2016
Annual General Meeting Date**

(Salem, New Hampshire, March 14, 2017) ProPhotonix Limited (OTC: STKR and London Stock Exchange - AIM: PPIX), 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, 2016.

Annual General Meeting and Posting of Results

The Company will hold the Annual General Meeting of the Shareholders on May 18, 2017 at 2:00 PM British Summer Time at the offices of K&L Gates LLP, One New Change, London EC4M 9AF. Only shareholders who hold shares at the close of business on the record date of March 23, 2017 may vote at the Annual General Meeting. The Company intends to publish the audited accounts for 2016 and post them to the Company's web site on or about April 6, 2017.

Financial Highlights

- Revenue increased 13% to \$16.2 million (2015: \$14.4 million)
- Net Income increased 348% to \$1.3 million (2015: \$0.3 million)
- EBITDA increased 49% to \$1.8 million (2015: \$1.2 million)
- Operating profit increased 89% to \$1.5 million (2015: \$0.8 million)
- Gross profit margin improved to 45.4% (2015: 41.4%)
- Gross profit increased 24% to \$7.4 million (2015: \$6.0 million)
- Order bookings of \$16.7 million (2015: \$15.7 million)
- 1.03 Book-to-Bill ratio (2015: 1.09)
- Percentage revenue by market sectors: industrial 82%, medical 14%, and homeland security & defense 4% (2015: industrial 79%, medical 17%, and homeland security and defense 4%)
- Percentage revenue by geography: 48% Europe, 42% North America and 10% Rest of World (2015: 47% Europe, 41% North America and 12% Rest of World)
- Term debt declined \$1.1 million to \$0.4 million at December 31, 2016
- Available borrowing capacity of \$0.4 million from its revolving credit facility at December 31, 2016 (2015: \$0.5 million)

Tim Losik, President & CEO, Commented:

"We continued our positive financial momentum from the prior year and have now achieved seven consecutive half-yearly periods of positive EBITDA, five consecutive half-yearly periods of positive operating income, and a second year of net income. As compared to 2015, sales grew 13% to \$16.2 million, operating income increased 89%, EBITDA increased 49%, and net income increased 348% as a result of the improvement in operating income, reduced financing costs and a contingent tax benefit. We also paid down \$1.1 million of term debt in accordance with the various loan provisions. In addition, the ProPhotonix team continues to execute on its long term strategies by successfully launching new products, which we believe will help set the stage for 2017 and beyond."

Full Year 2016 Financial Results

Revenue increased by 13% during 2016 and the gross margin rate improved to 45% resulting from a volume increase and better product mix. Operating expenses totaled \$5.9 million (2015: \$5.2 million) with sales and marketing expenses up 15% compared to last year at \$2.1 million, research and development expenses up \$0.2 million, approximately 25%, while general and administrative expenses increased by approximately \$0.3 million, 11% over 2015. The Company achieved an operating profit of \$1.5 million (2015: \$0.8 million) and EBITDA of \$1.8 million (2015: \$1.2 million). These factors contributed to ProPhotonix's financial improvement and positive net income of \$1.3 million (2015: \$0.3 million). The balance sheet also continued to improve in 2016. Term debt declined by \$1,100,000 to \$402,000 as at December 31, 2016.

During 2016, order bookings increased 6% to \$16.7 million (2015: \$15.7 million), with the book-to-bill ratio at 1.03 (2015: 1.09). Our order book at December 31, 2016 was \$5.6 million (2015: \$5.6 million).

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. Furthermore, we announced the Company's Cobra™ Cure FX2 and FX3 products, as well as our new Cobra™ RGB LED line light. We signed a services agreement with a major medical company in 2016, working to develop a lighting solution for their application. In addition, we entered into an EU funded Fast Track to Innovation program to partner with other participants, including the end customer, in the development of a high power digital laser for a railway industry inspection system. The grant estimate is for up to €360,000 with completion of the entire development project on June 1, 2018.

Building toward the future:

As noted in the Statement to the Shareholders in last year's annual report, the Company's longer term strategy continues to be one of strategic repositioning to include a market(s) directed product portfolio complementing our robust OEM centered business. During 2016, a substantial amount of R&D costs were incurred relating to the development of Cobra Cure products and the multispectral LED products. ProPhotonix has and will continue to make such investments in fulfillment of our strategy. On December 6, 2016, ProPhotonix announced the expansion of its sales team to increase our world-wide sales coverage; with expected further expansion in 2017.

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 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 growth in revenue through its existing customers, new customer activity, and new product and market expansion.

We continue to focus on two promising opportunities, concentrating our engineering talents in defined market 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, bioluminescence, medical microscopy and other applications. As noted above, the Company continued its progress in this area with the follow-on COBRA Cure™ product releases. We plan to launch new higher power products while continuously evolving our current product lines to serve this market in 2017 and beyond.

Our remaining focus is on the continuing market requirement 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, embedded camera and sensor calibration, solar simulation and security markets. As noted, the Company has introduced two new products addressing this market (RGB and Multispec). We intend 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 foresees growth opportunities in all three markets it serves which are briefly described 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 over the next several years 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 2017 with a strong order book, and is working with several prospective customers utilizing the Cobra™ Cure FX series of products for their specific applications. However, there are many complexities and uncertainties which may adversely affect ProPhotonix: economic slowdown, Brexit uncertainty and an ever changing world-wide political landscape. Our management does not dwell on these uncontrollable matters, but remains acutely aware of the necessity for swift response and change if needed. With the backdrop of uncertainty, we remain positive about our business pipeline and confident in our ability to achieve continued positive momentum toward our profitability objectives.

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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

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

	Years Ended December 31,	
	2016 (Unaudited)	2015 (Audited)
Revenue	\$ 16,245	\$ 14,411
Cost of Revenue	(8,862)	(8,441)
Gross Profit	7,383	5,970
Research & Development Expenses	(814)	(654)
Selling, General & Administrative Expenses	(5,077)	(4,526)
Operating Income	1,492	790
Other Income, net	344	131
Foreign Currency Translation Losses	(360)	(259)
Warrant & Debt Acquisition Expense	(88)	(158)
Interest Expense	(133)	(224)
Income Before Taxes	1,255	280
Income Taxes	-	-
Net Income	\$ 1,255	\$ 280
Other Comprehensive Income:		
Foreign currency translation	(19)	170
Total Comprehensive Income	\$ 1,236	\$ 450

Net Income Per Share:		
Basic and diluted:		
Basic net income per share	\$0.015	\$0.003
Diluted net income per share	\$0.014	\$0.003
Shares used in per share calculations - Basic	83,665,402	83,665,402
Shares used in per share calculations - Diluted	90,740,402	83,665,402

FINANCIAL STATEMENTS
PROPHOTONIX LIMITED
CONDENSED CONSOLIDATED BALANCE SHEETS

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

December 31	2016 (Unaudited)	2015 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 911	\$ 434
Accounts receivable, less allowances of \$30 in 2016 and \$21 in 2015	2,302	2,751
Inventories	2,155	1,550
Prepaid expenses and other current assets	298	140
Total current assets	5,666	4,875
Net property, plant and equipment	342	132
Goodwill	372	385
Other long-term assets	74	81
Total assets	\$ 6,454	\$ 5,473
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit facility	\$ 1,049	\$ 1,334
Current portion of long-term debt	402	966
Accounts payable	1,454	1,260
Accrued expenses	1,823	1,035
Current portion of capital lease	68	-
Total current liabilities	4,796	4,595
Long-term debt, net of current portion	-	508
Long-term capital lease obligations, net of current portion	52	-
Other long term liabilities	-	178
Total liabilities	4,848	5,281
Stockholders' Equity:		
Common stock, par value \$0.001; shares authorized 250,000,000 at December 31, 2016 and at December 31, 2015; 83,665,402 shares issued and outstanding at December 31, 2016 and at December 31, 2015		
Additional paid-in capital	84	84
Accumulated deficit	112,038	111,860
Accumulated other comprehensive income	(111,479)	(112,734)
Total stockholders' equity	963	982
Total liabilities and stockholders' equity	\$ 6,454	\$ 5,473

PROPHOTONIX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

Years Ended December 31	2016 (Unaudited)	2015 (Audited)
Cash flows from operating activities		
Net income	\$ 1,255	\$ 280
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	178	277
Depreciation and amortization	75	101
Foreign exchange (gain)	74	(51)
Amortization of debt discount and financing costs	60	130
Provision for inventories	120	95
Provision for bad debts	9	4
Other changes in assets and liabilities:		
Accounts receivable	360	(362)
Inventories	(809)	(127)
Prepaid expenses and other current assets	(168)	22
Accounts payable	246	(58)
Accrued expenses	836	136
Other assets and liabilities	6	(47)
Net cash provided by operating activities	2,242	400
Investing		
Purchase of property, plant and equipment	(121)	(77)
Net cash used in investing activities	(121)	(77)
Financing		
Borrowings of revolving credit facilities, net	(237)	312
Capital lease	(66)	-
Principal repayment of long-term debt	(1,100)	(750)
Net cash used in financing activities	(1,403)	(438)
Effect of exchange rate on cash	(241)	218
Net change in cash and equivalents	477	103
Cash and equivalents at beginning of period	434	331
Cash and equivalents at end of period	\$ 911	\$ 434
Supplemental cash flow information:		
Cash paid for interest	\$ 133	\$ 224

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

	Common Stock		Additional 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)
Share based compensation, net of forfeitures	-	-	277	-	-	277
Translation adjustment	-	-	-	-	170	170
Net Income	-	-	-	280	-	280
Balance December 31, 2015	83,665	\$ 84	\$111,860	\$ (112,734)	\$ 982	\$ 192
Share based compensation, net of forfeitures	-	-	178	-	-	178
Translation adjustment	-	-	-	-	(19)	(19)
Net Income	-	-	-	1,255	-	1,255
Balance December 31, 2016	83,665	\$ 84	\$112,038	\$ (111,479)	\$ 963	\$ 1,606

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 2015 and 2016 or the Company's annual audited accounts for 2016 to be published and sent to its shareholders in accordance with Rule 19 of the AIM Rules for Companies. The 2016 accounts included herein are unaudited and therefore subject to change at the time the audited accounts are issued. The 2016 unaudited preliminary financial statements were prepared under US GAAP and were approved on March 13, 2017, by the Directors for issue on March 14, 2017. A copy of this announcement is available on the Company's website at www.prophotonix.com. It is intended that the Company's 2016 annual report and audited accounts will be available to shareholders on or about April 6, 2017.

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, and stock-based compensation) as a non-GAAP financial measure in this press release. A reconciliation of net income to EBITDA for the total year 2016 and 2015 is as follows:

	(in thousands)	
	Year Ended December 31,	
	2016	2015
Net Income	\$ 1,255	\$ 280
Plus:		
Interest and other expense, net	237	510
Depreciation	75	101
Stock based compensation	178	277
EBITDA	<hr/> \$ 1,745	<hr/> \$ 1,168