1 March 2012

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

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

ProPhotonix Limited (London Stock Exchange - AIM: PPIX and PPIR, OTC: STKR.PK), a designer and manufacturer of LED light engines and laser diodes modules with operations in Ireland and the U.K., today announces its unaudited preliminary results for the year ended 31 December 2011.

Financial Highlights

- Revenue increased 12% to $17.0 million (FY 2010: $15.2 million)
- LED revenue increased 27% to $8.6 million (FY 2010: $6.8 million)
- Gross profit increased 9.2% to $6.3 million (FY 2010: $5.8 million)
- Gross profit margin stable at 37.4% (FY 2010: 38.2%)
- Operating loss reduced to $843,000 (FY 2010: loss $2.8 million)
- EBITDA break-even vs. $0.3 million loss in 2010 (excluding AIM flotation expenses and facility lease termination charges)
- Order bookings of $16.6 million (FY 2010: $15.1 million)
- Percentage revenue by market sectors: industrial 73%, medical 18%, and homeland security & defense 9%
- Percentage revenue by geography: 57% Europe, 33% North America and 10% Rest of World
- Cash balances of $4.1 million (FY 2010: $1.8 million)

Operational Highlights

- Implemented threefold increase in LED production capacity early in 2011
- Successful placing to raise $5.1 million (£3.3 million) completed in July 2011
- Completed realignment of sales organization along geographic lines and significantly increased size of sales force in Q4 2011
- Appointment of Luster LightTech as exclusive distributor in China
- Appointments of Tim Steel and Vincent Thompson as non-executive directors

Mark W. Blodgett, Chairman and Chief Executive Officer, commented: “2011 was an important year for ProPhotonix during which we significantly strengthened our R&D and sales efforts, expanded our product offering, and strengthened our balance sheet with the secondary stock offering last July. While disappointed with the slowdown in sales to several customers in the solar equipment industry in the second half, the Company reported improved financial results and experienced sales growth in 2011.”

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About ProPhotonix

ProPhotonix Limited, headquartered in Salem, New Hampshire, is an 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 Opnext, QSI, Sanyo, and Sony. The Company serves a wide range of markets including the machine vision, industrial inspection, defense, sensors, 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.

Full Year 2011 Financial Results

Revenue for the year ended 31 December 2011 was $17.0 million, an increase of 12% compared with $15.2 million in 2010. Gross profit was $6.3 million, an increase of 9% compared to $5.8 million in 2010. Gross profit margin decreased slightly to 37.4% from 38.2% in 2010 due to a shift in product mix and an increase in production costs. Foreign currency exchange positively impacted gross profit margin by $0.2 million.

Operating expenses, excluding intangible amortization and asset impairment charges, totaled $6.9 million versus $7.1 million in 2010, net of approximately $0.9 million of charges related to the London Stock Exchange AIM flotation and a facility lease termination charge. Consistent with our objectives, sales and marketing and research and development (R&D) expenses increased 15% in 2011 over 2010, while general and administrative expenses declined 29% over the same period. The operating loss was $0.8 million, as compared to a $1.7 million loss in 2010, excluding the AIM flotation expenses and facility lease termination charges of approximately $0.9 million and an impairment charge of $0.2 million. EBITDA was break-even versus a 2010 Adjusted EBITDA loss of $0.3 million, which excludes the AIM flotation expenses and facility lease termination charges. Net loss was $1.4 million compared to the 2010 net loss of $2.6 million. This includes a gain on sale of discontinued operations to the amount of $0.5 million and a loss from discontinued operations to the amount of $0.1 million, as well as the AIM flotation expenses and facility lease termination charges of $0.9 million.

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 division located in the United Kingdom (Hatfield Broad Oak). Corporate, marketing and the North American sales activities are based in Salem, New Hampshire, United States of America. With comparatively faster growth in the LED market in 2011 LED system revenue exceeded laser revenue for the first time.

Following the flotation on AIM in December 2010 and the successful placing to raise $5.1m in July 2011, the Company is positioned to make significant progress on in its strategy to combine its expertise in two key areas of optics: LEDs and lasers. The Company intends to capitalise on increasing opportunities in this area by designing and manufacturing high value, high margin components for global manufacturers of equipment.

In February 2011 the Company reorganized its sales force. Historically, the Company had sales personnel dedicated to either the LED or laser product lines. Commencing last spring the Company realigned sales personnel along geographic lines to more efficiently cover its global markets. With the completion of the secondary offering in July 2011, and the stated purpose of investing in sales, marketing and R&D, the Company first embarked on expanding the North America sales force to capitalize on the potential in the region. The North America sales force expansion was completed in the fourth quarter of 2011. Meanwhile, the Company focused on increasing Asian sales and in June 2011 added Luster LightTech ("Luster") as its exclusive distributer in China. Luster has a large sales force, and in conjunction with our engineers and technical salespeople, we expect that Luster will create a number of sales opportunities which were not previously available to ProPhotonix. In addition, the Company expects to add distributors in Taiwan and Korea in the near future. The Company understands that growing its Asian sales will be a longer term project. In Europe, where we focus on direct sales and supporting select distributors in specific countries, we recently added another salesperson covering Germany and expect to complete the build out of our European sales force during the first quarter of 2012.

Since late 2010, the Company has made significant investments in R&D, including expanding its R&D team in Cork, which now includes a full complement of optical, mechanical and electrical engineers and represents over 20% of the Company's total workforce of 100 employees. They are focused on continuing to develop proprietary products to meet clearly defined demand from our customers and the markets which we serve. During 2011 the Company developed and launched several new laser module and LED products for the industrial, mostly machine vision market, and medical markets as detailed below:

New Product Introduction - 2011

- InViso Micro: an extension to the existing InViso range that delivers line thicknesses as low as 16 µm at 120 mm working distance, while preserving InViso's innovative form factor
- COBRA Max: designed in the same slim modular form factor as the COBRA Slim with twice the illumination intensity
- COBRA Flex: an extreme brightness line light in a more compact form factor making it perfect for applications where space is restricted
- COBRA Slim FL: twice the illumination intensity as COBRA Slim designed specifically for short working distances
- LOTUS Line Light: undertaken further development to include UV products and is now available in 365nm or 395nm
- HL40023MG: a high power 404nm, 500mW violet laser diode from Opnext
- HL45023TG from Opnext: the first in a planned family of blue laser diodes, provides 60mW of optical output power at a 445nm while consuming 30 percent less power than existing commercially available blue lasers

LEDs are more energy efficient and longer-lasting than conventional alternatives such as halogen and incandescent lighting. With recent advances in LED technology, the Company is able to design and manufacture High Brightness (HB) LED arrays and light engines for the machine vision, medical and homeland security markets. This opens up a wide variety of long-term growth opportunities for the Company.

ProPhotonix's systems are largely based on chip-on-board (COB) technology, allowing the Company to create more densely packed LED light engines and arrays, which offers much brighter and more compact light devices compared to conventional LED packaging technologies. In early 2011 the Company brought on-line a threefold increase in COB LED production capacity providing ample production capacity for future growth. In addition, in 2011 the Company broadened its InViso platform of laser modules for the machine vision market and added Korean based QSI industrial laser diodes to its line of distributed diodes, which includes Opnext, Sanyo and Sony.

ProPhotonix sells its products principally into three markets: industrial, (primarily machine vision illumination, which represented 73% of total 2011 sales), medical (18%) and homeland security & defense (9%). 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. IMS Research in February 2010 estimated the market to be worth $119 million in 2011 and forecasts it to reach $154 million in 2013. The Company offers a selection of standard products, including modular COBRA line lights for the line scan market (glass, thin film, foil & textile production) and the InViso range for 3D machine vision inspection. More recently, the Company has been working on several potential high volume OEM (custom) applications for the semiconductor and automotive markets.

Medical

The medical market represents a larger potential market than the machine vision market. ElectroniCast Consultants estimated in November 2010 that medical products by 2016 will utilize 5.28 million LED chips representing approximately $186 million of sales at the LED chip level and a correspondingly higher turnover at the end product level. The Company has experienced some early successes in the medical (including dental) market. In addition, laser modules are used in the bio-medical field for flow cytometry and other applications, as well as patient positioning in the imaging market and dental scanning. The Company has already gained a foothold in the market, supplying a variety of applications, with current customers including the world leader in stationary imaging equipment, a portable x-ray equipment manufacturer, a dental imaging manufacturer and also a pioneer in the manufacturing of devices offering eye tracking capability utilizing ProPhotonix's custom infrared LED array. 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. Although the market, as a whole, is difficult to quantify, large markets include lasers and laser diodes for targeting and gun sights, and infrared LED illuminators for reading license plates (OCR - optical character recognition). The Company currently supplies five gun sight manufacturers in the US and Europe, as well as two of the leading manufacturers of Auto Number Plate Recognition (ANPR) systems. In 2011, Technavio research estimated that the global ANPR market will grow 30% CAGR to $579 million in 2014. While the illumination portion is only one part of these systems, OEM LED illuminator sales represent a significant growth opportunity for ProPhotonix over the next two years and the Company is currently targeting other OCR companies.

Outlook

Despite the well documented weakness in the solar equipment market in late 2011 which negatively impacted financial results, the Company made significant progress last year growing revenues, improving overall profitability, strengthening the balance sheet and broadening the Company's LED and laser product line.

With the strengthened sales force, including new distribution partners in Asia, the Company has a number of significant revenue opportunities in process in the industrial market, specifically in the semiconductor and automotive industries, as well as in the medical and homeland security markets. In addition, the R&D team was nearly doubled in 2011 to capitalize on several substantial opportunities and further customer-led product-line development. We are optimistic that these initiatives will have a positive impact on revenues and profitability in the second half of 2012 and into 2013.

Board

In March 2011, both Tim Steel and Vincent Thompson joined the Board as Non-Executive Directors of the Company. Tim Steel was previously Vice Chairman of Cazenove Capital Management Limited until the end of 2009 when he stepped down to pursue a portfolio career and work more closely with smaller developing businesses. Vincent Thompson has over 30 years' experience in corporate finance and spent the majority of his career with Morgan Grenfell & Co. Limited and Hambros Bank Limited (later Société Générale, following the takeover of Hambros Bank Limited) and was a Director at both. Both Tim and Vincent have made a significant contribution to the Company since their appointments.

Financial Reporting

At the time of the Company's admission to trading on AIM in December 2010, the Board elected to continue to report on a quarterly basis, as historically it had done in the United States. The Board, given the added expense and management time involved with quarterly reporting, has decided to move to a semi-annual reporting schedule which is in line with the reporting procedures of a vast majority of companies quoted on the AIM market of the London Stock Exchange. The Company will ensure that its shareholders are kept up to date with trading throughout the year and will release 'pre-close statements' in respect of each of its six month accounting periods on an on-going basis.

Consolidated Statements of Operations
($ in thousands except share and per share data)
(unaudited)

	Years Ended December 31, 2011	2010
Net Revenue	$ 16,977	$ 15,194
Cost of Revenue	10,631	9,384
Gross Profit	6,346	5,810
Research & Development Expenses	928	750
Selling, General & Administrative Expenses	5,986	7,215
Amortization of Intangible Assets	275	390
Operating Loss	(843)	(2,771)
Other Income / (Expense), net	(184)	688
Amortization of Debt Discount and Financing Costs	-	(551)
Interest Expense	(363)	(552)
Loss Before Taxes from Continuing Operations	(1,390)	(3,186)
Tax Provision (Benefit)	37	(111)
Net Loss from Continuing Operations	(1,427)	(3,075)
Gain on Sale of Discontinued Operations, net of tax	-	542
Loss from Discontinued Operations	(19)	(116)
Net Loss	$ (1,446)	$ (2,649)
Loss Per Share:		
Basic and diluted net loss per share from continuing operations	($0.02)	($0.07)
Basic and diluted net gain per share from gain on sale of discontinued operations	$0.00	$0.01
Basic and diluted net loss per share from discontinued operations	($0.00)	($0.00)
Basic and diluted net loss per share	($0.02)	($0.06)
Basic and diluted weighted average shares outstanding	63,485,600	44,950,980

FINANCIAL STATEMENTS

PROPHOTONIX LIMITED

CONSOLIDATED BALANCE SHEETS

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

December 31		**2011**		**2010**
Assets				
Current assets:				
Cash and cash equivalents	$	4,066	$	1,811
Accounts receivable, less allowances of $13 in 2011 and $47 in 2010		2,405		1,957
Inventories		1,694		1,892
Prepaid expenses and other current assets		288		295
Total current assets		8,453		5,955
Net property, plant and equipment		653		906
Goodwill		458		468
Acquired intangible assets, net		332		610
Other long-term assets		36		66
Total assets	$	9,932	$	8,005
Liabilities and Stockholders' Equity (Deficit)				
Current liabilities:				
Revolving credit facility	$	643	$	641
Current portion of long-term debt		1,587		600
Capital lease obligations		-		24
Accounts payable		1,456		2,003
Income taxes payable		29		-
Accrued expenses		780		1,368
Total current liabilities		4,495		4,636
Long-term debt, net of current portion		1,631		3,407
Other long-term liabilities		178		150
Total liabilities		6,304		8,193
Stockholders' equity (deficit):				
Common stock, par value $0.001; shares authorized 150,000,000 at December 31, 2011 and 100,000,000 at December 31, 2010; 76,059,456 shares issued and outstanding at December 31, 2011 and 52,510,174 shares issued and outstanding at December 31, 2010		76		53
Paid-in capital		110,751		105,678
Accumulated deficit		(107,621)		(106,175)
Accumulated other comprehensive income		422		256
Total stockholders' equity (deficit)		3,628		(188)
Total liabilities and stockholders' equity (deficit)	$	9,932	$	8,005

PROPHOTONIX LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

(unaudited)

Years Ended December 31	**2011**	**2010**
Operations		
Net loss	**$ (1,446)**	**$ (2,649)**
Loss from discontinued operations, net of tax	(19)	(116)
Gain on sale of discontinued operations, net of tax	-	542
Loss from continuing operations	**(1,427)**	**(3,075)**
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	199	501
Depreciation and amortization	601	917
Foreign exchange loss	286	-
Amortization of debt discount and financing costs	-	551
Non cash interest income	-	(7)
(Gain) loss on disposal of assets	8	(632)
Asset impairment	-	226
Provision for inventories	61	37
Provision for bad debts	-	49
Deferred taxes	-	(113)
Other change in assets and liabilities:		
Accounts receivable	(569)	(669)
Inventories	100	(698)
Prepaid expenses and other current assets	(1)	278
Accounts payable	(530)	901
Income taxes payable	29	-
Accrued expenses	(579)	276
Other assets and liabilities	29	-
Net cash used in continuing operations	**(1,793)**	**(1,458)**
Net cash used in discontinued operations	(19)	(116)
Net cash used in operating activities	**(1,812)**	**(1,574)**
Investing		
Proceeds from disposal of assets	-	3
Financing obligation payments	-	(136)
Purchase of property, plant and equipment	(95)	(464)
Net cash used in continuing operations	**(95)**	**(597)**
Net cash provided by discontinued operations		692
Net cash provided by (used in) investing activities	**(95)**	**95**
Financing		
Net proceeds from sale of common stock	4,897	863
Borrowings of revolving credit facilities, net	8	57
Principal repayment of long-term debt	(753)	(2,248)
Net cash provided by (used in) financing activities	**4,152**	**(1,328)**
Effect of exchange rate on cash	10	140
Net change in cash and equivalents	2,255	(2,667)
Cash and equivalents at beginning of year	1,811	4,478
Cash and equivalents at end of period	**$ 4,066**	**$ 1,811**
Supplemental cash flow information:		
Cash paid for interest	$ 363	$ 564
Cash paid for income tax	$ 15	$ -
Non cash investing and financing activities:		
Issuance of common stock to settle liabilities / debt	$ -	$ 1,274
Common stock issued in connection with financings	$ -	$ 16
Warrants issued in connections with financings	$ -	$ 24
Write-off of assets from sale-leaseback transaction	$ -	$ 2,821
Write-off of finance lease from sale-leaseback transaction	$ -	$ (3,450)

Notes to unaudited Preliminary Results

The financial information set out in this document does not constitute the Company's statutory accounts for 2010 or the Company's annual audited accounts for 2011 to be published and sent to its shareholders in accordance with Rule 19 of the AIM Rules for Companies. The 2011 unaudited preliminary financial statements were prepared under US GAAP and were approved for issue on 1 March 2012.

Cautionary Statement

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 unaudited consolidated financial statements presented in accordance with US-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 unaudited US-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 unaudited US-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 total year 2011 and 2010 is as follows:

	(in thousands) Year Ended December 31,	
	2011	**2010**
Net Loss	(1,446)	(2,649)
Gain on sale of discontinued operations	-	(542)
Loss from discontinued operations	19	116
Plus:		
Interest and other expense / (income), net	547	(136)
Depreciation	326	527
Intangible asset amortization	275	390
Asset impairment	-	226
Stock based compensation	199	501
Taxes	37	(111)
Amortization of Debt Discount & Financing Costs	-	551
EBITDA Loss	(43)	(1,127)
AIM listing expenses	-	754
Charges related to abandoned lease	-	115
Adjusted EBITDA Loss	(43)	(258)