



**PROPHOTONIX ISSUES PRELIMINARY RESULTS FOR THE YEAR ENDED DECEMBER
31, 2018
and Notice of Annual General Meeting**

(Salem, New Hampshire, April 5, 2019) 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, 2018.

Financial Overview

- Full year results slightly ahead of guidance issued to the market on November 2, 2018
- Revenue decreased 8% to \$16.4 million (2017: \$17.7 million)
- Gross profit decreased 20% to \$6.3 million (2017: \$7.9 million)
- Gross profit margin decreased to 38.7% (2017: 44.6%)
- Operating (loss) profit decreased to \$(1.0) million (2017: \$1.2 million).
- Adjusted EBITDA decreased to \$0.3 million (2017: \$2.0 million)
- Net (loss) income decreased 166% to (\$1.3) million (2017: \$2.0 million)
- Available borrowing capacity of \$0.2 million from its revolving credit facility at December 31, 2018 (2017: \$0.4 million)
- Order bookings of \$16.1 million (2017: \$19.6 million)
- Order backlog decreased to \$6.8 million (2017: \$7.3 million)
- Book-to-Bill ratio of 0.98 (2017: 1.11)
- Percentage revenue by market sectors: industrial 77%, medical 19%, and homeland security & defense 4% (2017: industrial 75%, medical 21%, and homeland security and defense 4%)
- Percentage revenue by geography: 48% Europe, 36% North America and 16% Rest of World (2017: 49% Europe, 37% North America and 14% Rest of World)

Tim Losik, President & CEO, Commented:

“2018 has been a challenging year for the Company with setbacks in revenue, gross profit, and net income. As announced in a trading update released by the Company on November 2, 2018, the Directors provided revised estimates for 2018 with revenue of \$16.0 million and a net loss of \$2.0 million. Actual revenue and net loss were slightly better than those described in November.

“As compared to 2017, sales decreased 8% to \$16.4 million due in large part to the decline in business with one customer’s delayed new product launch; gross profit decreased 20% primarily from unabsorbed manufacturing overhead due to lower sales volumes; and these factors contributed to the Company incurring an operating loss of \$1.0 million compared to an operating profit of \$1.2 million in 2017. In addition, R&D costs increased \$0.2 million to \$1.0 million (in line with budget), Selling, General, and Administrative costs increased \$0.4 million primarily due to increased stock based compensation expense, a non-cash movement in Foreign Currency Exchange loss of \$0.3 million compared with 2017 and zero tax benefit in 2018 versus \$0.5 million in 2017. These factors all contributed to the profit profile of the Company.

“The balance sheet remains consistent with the prior year with cash at year end of \$1.9 million (2017: \$2.2 million) and a current ratio of 1.68 compared to 1.62 at year end 2017.”

Customer and Product Development Initiatives

During the year, the ProPhotonix engineering and operations teams achieved several milestones. The PROdigii laser module, announced in January 2018, is a compact laser module controlled and monitored through a digital RS485 communication interface providing laser output control and performance monitoring. Integral thermal management ensures exceptional output wavelength stabilization with enhanced diode life due to superior output power control and the ability to maintain consistent power levels. The new digital laser platform is available in a range of wavelengths from 405nm to 850nm. Output powers of up 500mW continuous wave or 1W pulsed are available. The platform is ideally suited to high-speed automated inspection, 3D measurement especially in high ambient light or temperature conditions, chemical, and biomedical analysis.

In addition, significant advances have been made in the UV LED product family with enhancements in power levels of all products, features available to users, and reliability. Notably, the FX1 COBRA Cure was certified by Underwriter Laboratories (UL) during the year. The FX2 and FX3 curing products will also be submitted for UL certification in the future.

The Company’s laser module business, ProPhotonix (UK) Limited, successfully transitioned from ISO9001:2008 to ISO9001:2015 during 2018. ProPhotonix (UK) Limited has been continuously certified to the ISO9001 standard since 2003. International Organization for Standardization (ISO) 9001:2015 is the most recent version of the widely recognized ISO9001 standard that measures the effectiveness of a company’s quality management system and performance, with a focus on organization-wide risk-based thinking which provides additional assurance that ProPhotonix is focused on continuous improvement and achieving excellence in our customer service and delivery. Our Irish subsidiary was successfully transitioned to ISO9001:2015 in November 2017.

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 grow market share within existing market segments and to select new market segments.

Firstly, 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. Secondly, 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. 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

Bookings in the first thirteen weeks of 2019 are \$4.2 million (2018: \$4.3 million) and the backlog rests at \$7.8 million (2018: \$7.4 million). ProPhotonix has received initial production orders for a customer delayed product launch and expects fully to ramp up production in Q2 2019. Development of the Cobra Cure UV LED products continues with ever increasing intensity, as evidenced by the two recently awarded patents from the United States Patent and Trademark Office relating to the UVLED products. The Directors remain positive about our business pipeline and confident in our ability to resume growth.

Annual General Meeting and Posting of Results

The Company will hold its Annual General Meeting on May 16, 2019 at 10:00 a.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, 2018 in April 2019.

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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, 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.

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

PROPHOTONIX LIMITED
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(\$ in thousands except share and per share data)

	Years Ended December 31,	
	2018	2017
Revenue	\$ 16,401	\$ 17,743
Cost of Revenue	(10,057)	(9,822)
Gross Profit	6,344	7,921
Research & Development Expenses	(1,011)	(763)
Selling, General & Administrative Expenses	(6,327)	(5,951)
Operating (Loss) Income	(994)	1,207
Other Income, net	20	375
Foreign Currency Exchange (Losses) Gains	(232)	57
Warrant & Debt Acquisition Expense	(11)	(18)
Interest Expense	(91)	(49)
(Loss) Income Before Taxes	(1,308)	1,572
Income Tax Benefit	-	469
Net (Loss) Income	\$ (1,308)	\$ 2,041
Other Comprehensive Income:		
Foreign currency translation	(132)	51
Total Comprehensive (Loss) Income	\$ (1,440)	\$ 2,092
Net (Loss) Income Per Share:		
Basic and diluted:		
Basic net (loss) income per share	\$(0.014)	\$0.022
Diluted net (loss) income per share	\$(0.014)	\$0.020
Shares used in per share calculations - Basic	92,782,902	92,565,402
Shares used in per share calculations - Diluted	92,782,902	104,193,859

PROPHOTONIX LIMITED
CONSOLIDATED BALANCE SHEETS

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

December 31	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,939	\$ 2,150
Accounts receivable, less allowances of \$49 in 2018 and \$14 in 2017	2,872	3,114
Inventories, less allowances of \$615 in 2018 and \$633 in 2017 (Note 4)	2,399	2,280
Prepaid expenses and other current assets	289	235
Total current assets	7,499	7,779
Net property, plant and equipment (Note 5)	646	633
Deferred tax assets (Note 9)	454	475
Goodwill (Note 6)	405	424
Other long-term assets	423	239
Total assets	\$ 9,427	\$ 9,550
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit facility (Note 8)	\$ 1,096	\$ 1,293
Current portion of long-term debt (Note 8)	188	-
Accounts payable	1,791	1,638
Accrued payroll, benefits and incentive compensation	399	636
Deferred revenue	498	434
Accrued warranty expenses	170	184
All other accrued expenses	270	534
Current portion of capital lease obligations	63	95
Total current liabilities	4,475	4,814
Long term debt obligations, net of current portion (Note 8)	581	-
Long term capital lease obligations, net of current portion	94	98
Total liabilities	5,150	4,912
Stockholders' Equity:		
Common stock, par value \$0.001; shares authorized 250,000,000 at December 31, 2018 and at December 31, 2017; 93,000,402 shares issued and outstanding at December 31, 2018 and 92,565,402 shares issued and outstanding at December 31, 2017	93	93
Additional paid-in capital	114,067	112,987
Deferred compensation	(19)	(18)
Accumulated deficit	(110,746)	(109,438)
Accumulated other comprehensive income	882	1,014
Total stockholders' equity	4,277	4,638
Total liabilities and stockholders' equity	\$ 9,427	\$ 9,550

PROPHOTONIX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(\$ In thousands)

Years Ended December 31	2018		2017	
Cash flows from operating activities				
Net (loss) income	\$	(1,308)	\$	2,041
Adjustments to reconcile net income to net cash provided by operating activities:				
Stock-based compensation expense		1,075		645
Depreciation		169		100
Foreign exchange loss (gain)		77		(264)
Amortization of debt discount and financing costs		10		7
Allowance for inventories		5		33
Allowance for bad debt		37		5
Other changes in assets and liabilities:				
Accounts receivable		68		(553)
Inventories		(235)		141
Prepaid expenses and other current assets		(62)		97
Deferred tax asset		-		(475)
Accounts payable		233		(11)
Accrued expenses		(389)		(150)
Other assets and liabilities		(183)		(164)
Net cash (used in) provided by operating activities		(503)		1,452
Investing				
Purchase of property, plant and equipment		(200)		(170)
Net cash used in investing activities		(200)		(170)
Financing				
Proceeds from exercise of options and warrants		4		295
Net proceeds from issuance of debt		875		-
Borrowings of revolving credit facilities, net		(151)		96
Payments for capital leases		(138)		(81)
Principal repayment of long-term debt		(88)		(449)
Net cash provided by (used in) financing activities		502		(139)
Effect of exchange rate on cash		(10)		96
Net change in cash and equivalents		(211)		1,239
Cash and equivalents at beginning of period		2,150		911
Cash and equivalents at end of period	\$	1,939	\$	2,150
Supplemental cash flow information:				
Cash paid for interest	\$	91	\$	49

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			
Balance December 31, 2016	83,665	\$84	\$112,038	-	(\$111,479)	\$963	\$1,606
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	-	47	(47)	-	-	-
Share based compensation	-	-	616	29	-	-	645
Balance December 31, 2017	92,565	\$93	\$112,987	(\$18)	(\$109,438)	\$1,014	\$4,638
Net loss	-	-	-	-	(1,308)	-	(1,308)
Translation adjustment	-	-	-	-	-	(132)	(132)
Exercise of options	135	-	4	-	-	-	4
Deferred compensation	300	-	49	(49)	-	-	-
Share based compensation	-	-	1,027	48	-	-	1,075
Balance December 31, 2018	93,000	\$93	\$114,067	(\$19)	(\$110,746)	\$882	\$4,277

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 2017 and 2018 or the Company's annual audited accounts for 2018 to be published and sent to shareholders in accordance with Rule 19 of the AIM Rules for Companies. The 2018 accounts included herein are unaudited and therefore subject to change at the time the audited accounts are issued. The 2018 unaudited preliminary financial statements were prepared under US GAAP and were approved on April 4, 2019, by the Directors for issue on April 5, 2019. A copy of this announcement is available on the Company's website at www.prophotonix.com. It is intended that the Company's 2018 annual report and audited accounts will be available to shareholders in April 2019.

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 2018 and 2017 is as follows:

	(in thousands)	
	Year Ended December 31,	
	2018	2017
Net (loss) income	\$ (1,308)	\$ 2,041
Plus:		
Interest and other expense, net	314	(365)
Taxes	-	(469)
Depreciation	169	100
Stock based compensation	1,075	645
Adjusted EBITDA	<u>\$ 250</u>	<u>\$ 1,952</u>