

16 March 2015

ClearStar, Inc.
("ClearStar" or the "Company")



Preliminary Results

ClearStar (AIM: CLST), a leading technology and service provider to the background check industry, is pleased to announce its unaudited results for the twelve months ended 31 December 2014.

Financial Highlights

- Revenues increased by 37% to \$10.92 million (FY 2013: \$7.97 million)
- Gross profit increased by 29% to \$6.33 million (FY 2013: \$4.90 million)
- Adjusted pre-tax loss* was \$71,000 (FY 2013: pre-tax profit of \$710,000)
- Cash and cash equivalents at 31 December 2014 amounted to \$6.48 million (30 June 2014: \$0.52 million; 31 December 2013: \$0.29 million)

* Adjustments mean net of one-time IPO and SingleSource Services acquisition related costs of \$812,000, investments brought forward for the UK business launch of \$397,000, recruiting fees of key new hires of \$247,000, and income tax adjustments of \$122,000.

Operational Highlights

- Raised gross proceeds of approximately \$15 million through an initial public offering ("IPO") on AIM in July 2014 enabling an acceleration of strategy
- Transformational year with increased activity across all business segments, including:
 - New client acquisitions in existing markets
 - Larger sales team able to approach potential clients directly
 - Enhanced product offering improving user interface
- Completed the acquisition of SingleSource Services Corporation ("SingleSource") thereby bolstering the Company's Direct Services division, which now serves approximately 2,600 active clients compared with approximately 500 prior to acquisition
- Processed approximately 6.5 million (FY 2013: 5.6 million) screening services on over 2 million people (FY 2013: 1.7 million) that were provided to over 27,000 (FY 2013: 20,000) end users
- Awarded contract in UK in November 2014 by a world-renowned, leading global risk management consultancy for the development and hosting of a white-labelled, customised solution

Post Period-End Highlights

- Largest Medical Informational Services ("MIS") contract win to date, expected revenues of \$1.3-\$1.5 million annually
- Numerous contracts won in Direct Services
- Smooth integration process of SingleSource acquisition

Robert Vale, CEO of ClearStar, commented: "As a result of the IPO, 2014 was a transformational year, as it enabled us to accelerate and deliver on our growth strategy, resulting in top-line growth ahead of market expectations.

"Looking ahead, we have maintained the momentum of the second half of 2014 into the new year. Our Medical Information Services division is showing substantial growth, as is our Direct Services division. We continue to experience increasing demand for our screening services that we provide to our Channel Partners and Consumer Reporting Agencies, and expect an initial contribution from our recently set up Global division. We continue to innovate and scale our technology platform and invest in sales and marketing. As a result, the Board has a high level of confidence for delivering

strong growth in 2015 and beyond.”

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About ClearStar

ClearStar is a technology and service provider to the background check industry, supporting background screening companies, employers and employees with their recruitment and employment application decisions. ClearStar provides employment intelligence to its clients through a suite of IT applications for day-to-day use in their business. Employment intelligence aims to improve business insight to support better recruitment and other decisions affecting employees generally, by increasing the quality, reliability and visibility of information available to management.

The Directors of ClearStar believe that the Company offers one of the most complete independent IT application suites that provide employment intelligence. The suite comprises of a collection of applications which utilises data from over 3,000 sources ranging from résumés to records with local authorities. ClearStar’s primary business involves searching the relevant source of data for specific employment intelligence information based on clients’ bespoke requirements for its employment applicants. ClearStar extracts the required input and this information is then processed, allowing the client to make a swift decision in respect of the relevant applicant, thereby minimising bottlenecks in the hiring process. ClearStar’s ‘Aurora’ platform has delivered employment intelligence to over 27,000 employers, including many global blue-chip companies.

www.clearstar.net

Operational Review

ClearStar is delighted to announce its maiden full year results. During the 12 months ended 31 December 2014, the Company achieved strong growth across all of its divisions with revenues 37% higher at \$10.92 million (FY 2013: \$7.97 million). This was due to increased business from some of the Company's largest clients, new client wins and new product offerings.

ClearStar offers one of the most complete independent IT application suites that provides employment intelligence. Employment intelligence aims to improve business insight to support better recruitment and other decisions affecting employees generally by increasing the quality, reliability and visibility of information available to management.

Following the IPO in 2014, the ClearStar management team decided to accelerate the execution of its growth strategy in order to take advantage of the opportunities it was presented due to its raised profile. In the last five months of 2014, post the IPO, the Company has:

- Acquired clients in existing markets, adding new clients each week
- Expanded geographically outside the US with the establishment of its Global division in the UK, and immediately winning a contract with a world-renowned, leading global risk management consultancy headquartered in the UK. ClearStar is now the only background screening company with cross-border data centres compliant with relevant regulatory requirements in the EU as well as the US
- Completed the acquisition of SingleSource thereby bolstering its Direct Services division, which now serves approximately 2,600 active clients compared with approximately 500 prior to acquisition
- Expanded its sales team from two to 10 to support the growth in all its divisions
- Continued to innovate and develop products to improve the user experience, operational efficiencies and seamless business partner integrations. The Company continues to hire developers to maintain its technological lead over its competitors

Business Divisions

In order to satisfy the demand for the business application suite as part of the background screening process, the Company has the following four principal business divisions:

- a) Channel Partners and Consumer Reporting Agencies ("CRAs")
- b) Medical Information Services
- c) Direct Services
- d) Global

Channel Partners and CRAs Division

In this division, ClearStar provides white labelling technology. Data logistics services are provided to CRAs and Channel Partners who use the Company's technology to perform background checks on job applicants.

This is the largest contributor to overall revenues. Sales increased by 15% to \$6.55 million (FY 2013: \$5.68 million). This was primarily as a result of increased business from some of the Company's largest clients but also included new client wins. During the year, ClearStar made ongoing improvements to its offering to Channel Partners and CRAs, including adding new integration points to client-centric systems, such as applicant tracking systems; product development in areas of data distribution; and improvements to user interface.

Medical Information Services Division

In this division, ClearStar provides services, largely directly to employers, for the purpose of drug and alcohol tests.

This was the fastest growing division in the Company where sales increased by 90% to \$3.89 million in 2014 (FY 2013: \$2.05 million). This increase was derived from both gaining market share from competitors, and from its client base which are mainly in the healthcare, education, manufacturing and transportation industries.

Drug testing remains the largest contributor (approximately 85% of revenues in this division) and saw continued growth compared with the equivalent period last year. The division also commenced offering additional products such as clinical testing, occupational testing and increased steroid testing, all of which contributed to the growth in revenues. During the period, ClearStar conducted drug tests in 12 countries on behalf of US companies looking to hire personnel outside the US.

Direct Services Division

In this emerging segment, ClearStar provides background check services directly to employers.

In 2014, revenues in this division increased by 59% to \$382,000 (FY 2013: \$240,000) primarily from approximately 500 SMEs with up to 1000 employees. In the second half of the year, one of the highlights was the signing of an approximately \$100,000 annualised agreement with a major US logistics company.

In November 2014, ClearStar completed the acquisition of SingleSource, thereby transforming this business division. SingleSource adds over 2,200 active direct clients for whom it carried out background screening in 2014. SingleSource could not integrate drug testing or credit reporting on its platform. ClearStar is in the process of integrating SingleSource's clients on to its platform and will soon be able to offer additional services to these clients.

Global Division

Prior to the IPO, ClearStar had no presence outside the US. The Company set up its international base in the UK and expanded its international technology infrastructure by signing an agreement with Sungard, a leading technology services provider, for Enterprise Cloud Services and Managed Hosting Services at its data centres in the UK. Within a short space of time, the Company signed an agreement with a world-renowned, leading global risk management consultancy headquartered in the UK for the development and hosting of a white-labelled, customised employee screening solution. ClearStar will also host the Applicant Portal for a period of at least five years.

Financial Review

The Company recorded a strong financial performance, with total revenues increasing by 37% for the twelve months ended 31 December 2014 to \$10.92 million, compared with \$7.97 million for the twelve months ended 31 December 2013. All three revenue generating Business Units experienced strong growth, led by MIS with year-on-year growth of 90%, then Direct Services with 59%, and Channel Partners and CRAs with 15%. As a result of the above, the Company exceeded revenue market expectations by 8%.

Gross profit increased by 29% for the twelve months ended 31 December 2014 to \$6.33 million, compared with \$4.90 million for the twelve months ended 31 December 2013. Gross profit margin was 58.0% compared with 61.4% for the same period of the previous year. The decrease was primarily due to the shift in the product mix with an increased contribution to revenues from MIS, which has a lower gross margin than services to CRAs and Channel Partners. Management believes gross margin will improve due to on-going technology improvements and cost reductions among suppliers. As a result of the above, the Company exceeded gross profit expectations for 2014 by \$0.50 million.

Total operating expenses increased by 93% for the twelve months ended 31 December 2014 to \$8.07 million, compared with \$4.17 million for the twelve months ended 31 December 2013. Due to heightened demand for its products, the Company has been able to accelerate its growth plan and bring forward investment in many key areas that were originally anticipated for 2015 into H2 2014. These investments include (a) entering the UK screening market with the signing of an agreement with a world-renowned, leading global risk management consultancy and (b) strengthening and growing the Company's service team to capitalise on attractive market opportunities within the growing US screening market. The largest increase was in General and Administrative expenses, which increased by \$3.5 million from \$3.7 million in 2013 to \$7.2 million in 2014. This increase was primarily as a result of full-time human resources expanding from 29 at 31 December 2013 to 55 at 31 December 2014, which resulted in overall payroll-related costs increasing by \$2.2 million for the year. The two largest areas of headcount increases were in direct sales and software development.

The second largest increase in General and Administrative expenses was in professional services, which increased by \$0.8 million, primarily as a result of SingleSource Services acquisition-related cost, along with higher legal and accounting fees. The remaining increase is primarily a result of increased technology infrastructure and facilities costs.

Included in the operating expenses were approximately \$1.67 million in one-time adjustments and investments brought forward, with the largest components being the IPO and SingleSource Services acquisition-related cost of \$812,000, UK business launch of \$247,000, and recruiting fees of key new hires of \$247,000.

The Company reported an adjusted loss before taxes of approximately \$0.07 million compared with a profit before tax of approximately \$0.70 million for the same period of the prior year.

The Consolidated Balance Sheet expanded significantly as a result of the IPO, acquisition and overall business expansion. Total Assets increased from \$1.7 million on 31 December 2013 to \$14.3 million on 31 December 2014. The biggest increase is in cash and cash equivalents with an increase of \$6.2 million, followed by goodwill and other net intangible assets of \$4.4 million.

The Company's Total Liabilities as of 31 December 2014 were \$2.1 million, and Stockholders' Equity was \$12.2 million, resulting in a debt-to-equity ratio of 0.17.

The Company's Consolidated Statement of Cash Flows shows that the Company utilised \$1.2 million in cash from Operating Activities, and \$5.3 million from Investment Activities. These Investment Activities consisted of \$4.0 million from the acquisition of goodwill and intangible assets, \$0.80 million from capitalised software costs and \$0.49 million from the purchase of property and equipment. The net cash flow from Financing Activities was \$12.7 million, primarily as a result of the IPO.

Outlook

ClearStar has maintained the momentum of the second half of 2014 into the current year. Its MIS division continues to show substantial growth as the new products added to the core drug testing continue to increase their contribution. As announced on 2 February 2015, the MIS division was awarded a contract worth \$1.3-\$1.5 million annually from a background screening client.

Similarly, following the acquisition, the Company is migrating SingleSource's clients onto its platform. SingleSource was previously unable to integrate drug testing into its product offering, and it is expected that the MIS division will be able to upsell its products to SingleSource clients. The SingleSource acquisition has also bolstered the Direct Services division by increasing the number of direct clients by over 2,200. Consequently, management believes this business division will increase its contribution significantly in 2015.

The Company continues to experience increasing demand for its screening services that it provides to its Channel Partners and Consumer Reporting Agencies.

Following the set-up of the Global division, the Company has experienced a surge in interest from the UK market, and management believes the Company will be awarded further contracts during the year.

The Company continues to innovate and scale its technology platform, and is investing to boost its sales and marketing capability.

As a result of the demand outlined above and the Company's ongoing investment, the Board has a high level of confidence for delivering strong growth in 2015 and beyond.

CLEARSTAR, INC.
Consolidated Statements of Operations
(USD, in thousands)

	Year Ended 31 December 2014 (unaudited) \$	Year Ended 31 December 2013 \$
Net revenue	10,921	7,972
Cost of revenue	4,590	3,074
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Gross profit	6,331	4,898
Operating expenses		
Selling and marketing	216	117
Research and development	163	81
Depreciation and amortization	473	278
General and administrative	7,218	3,700
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Total operating expenses	8,070	4,176
Income (Loss) from operations	(1,739)	722
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Other expense		
Interest income (expense)	(7)	(12)
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Total other expense	(7)	(12)
Net income (loss) before taxes	(1,746)	710
Provision for income taxes	120	-
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Net income (loss)	(1,866)	710
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CLEARSTAR, INC.
Consolidated Balance Sheets
(USD, in thousands)

	As of 31 December 2014 (unaudited)	As of 31 December 2013
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	6,477	285
Accounts receivable - trade, net	1,096	664
Research and development tax credits	27	122
Prepaid expenses	212	43
Due from shareholders	-	33
Total current assets	<u>7,812</u>	<u>1,147</u>
Property and equipment, at cost		
Computer equipment	681	349
Furniture and fixtures	260	25
Leasehold improvements	63	11
Less accumulated depreciation	(154)	(297)
Total property and equipment, net	<u>850</u>	<u>88</u>
Other assets		
Goodwill and other intangibles	4,901	468
Deposits	13	4
Total other assets	<u>4,914</u>	<u>472</u>
Total assets	<u><u>13,576</u></u>	<u><u>1,707</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	574	17
Accrued liabilities	163	344
Deferred revenue	102	33
Current portion of long-term debt	-	36
Current portion of obligations under capital lease	82	-
Due to shareholder	-	58
Total current liabilities	<u>921</u>	<u>488</u>
Long-term liabilities		
Accrued liabilities	55	-
Deferred income taxes	120	-
Obligations under capital lease, net of current portion	271	-
Long-term debt, net of current portion	-	147
Total long-term liabilities	<u>446</u>	<u>147</u>
Stockholders' equity		
Common stock, \$0.0001 and no par value; 100,000,000 and 1,000 shares authorised, respectively; 36,302,900 and 1,000 shares issued and outstanding, respectively	4	332
Additional paid-in capital	13,346	15
Retained earnings	(1,141)	725
Stockholders' equity	<u>12,209</u>	<u>1,071</u>
Total liabilities and stockholders' equity	<u><u>13,576</u></u>	<u><u>1,707</u></u>

CLEARSTAR, INC.
Consolidated Statements of Changes in Stockholders' Equity

(USD, in thousands, except no. of shares)

	Common Stock		Additional Paid-in	Retained	Total
	Shares	Amount	Capital	Earnings	
	No.	\$	\$	\$	\$
Balances at 31 December 2012	1,000.00	332	15	200	546
Distributions	-	-	-	(185)	(185)
Net income	-	-	-	710	710
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Balances at 31 December 2013	1,000.00	332	15	725	1,071
Stock issued for cash prior to IPO	36.27	315	-	-	315
Contributed capital to holding company	(1,036.27)	(647)	647	-	-
Stock issued for contributed capital	20,725,400	2	-	-	2
Stock issued for cash at IPO, net of IPO costs of \$2,585	15,500,000	2	12,548	-	12,550
Stock issued for services	77,500	-	76	-	76
Stock-based compensation	-	-	61	-	61
Net loss	-	-	-	(1,866)	(1,866)
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Balances at 31 December 2014 (unaudited)	36,302,900	4	13,346	(1,141)	12,209

CLEARSTAR, INC.
Consolidated Statements of Cash Flows
(USD, in thousands)

	Year Ended 31 December 2014 (unaudited) \$	Year Ended 31 December 2013 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	(1,866)	710
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Change in allowance for doubtful accounts	12	(3)
Depreciation and amortization	473	278
Deferred income taxes	120	-
Stock issued for services	76	-
Stock-based compensation	61	-
Change in operating assets and liabilities:		
Accounts receivable	(445)	(116)
Research and development tax credits	95	(122)
Prepaid expenses	(152)	(24)
Deposits	(10)	(4)
Accounts payable	531	(23)
Accrued liabilities	(126)	155
Deferred revenue	70	(1)
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Total adjustments	705	139
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Net cash provided by (used for) operating activities	(1,161)	849
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of goodwill and other intangibles	(4,000)	-
Acquisition of property and equipment	(488)	(50)
Proceeds from disposition of property and equipment	-	2
Capitalised software development costs	(803)	(376)
Net advances made on amounts due from (to) shareholders	-	(3)
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Net cash used for investing activities	(5,291)	(427)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(183)	(15)
Principal payments on capital lease obligations	(38)	(45)
Proceeds from issuance of stock	12,865	-
Stockholder distributions	-	(185)
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Net cash provided by (used for) financing activities	12,644	(245)
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Net cash increase for year	6,192	178
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Cash and cash equivalents at beginning of year	285	108
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Cash and cash equivalents at end of year	6,477	285
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