22 September 2015

ClearStar, Inc.
(“ClearStar” or the “Company”)

Interim Results for Six Months Ended 30 June 2015

ClearStar (AIM: CLST), a leading technology and service provider to the background check industry, is pleased to announce its unaudited results for the six months ended 30 June 2015.

Financial Highlights

- Revenues increased by 43% to $7.5 million (H1 2014: $5.2 million)
- Gross profit increased by 49% to $4.5 million (H1 2014: $3.0 million)
- Gross margin increased by 240 basis points to 60.5% (H1 2014: 58.1%)
- EBITDA was negative $1.3 million (H1 2014: negative $184,000)
- As of 30 June 2015, the Company had net cash of $4.2 million (31 December 2014: $6.5 million; 30 June 2014: $350,000)

Operational Highlights

- Increased sales across all divisions, with growth in business from existing customers and the addition of new clients and markets
- Integration of SingleSource Services Corporation (“SingleSource”) acquisition resulted in significant growth in direct sales customers with Direct Services revenues increasing to $1.8 million (H1 2014: $0.1 million)
- Medical Information Services (“MIS”) division was awarded its largest single contract to date, which is expected to be worth $1.3 - $1.5 million annually with revenue realisation anticipated to begin Q4 2015
- Processed approximately 3.6 million screening services (H1 2014: 3.2 million) on over 1.1 million people (H1 2014: 1.0 million) that were provided to over 23,000 (H1 2014: 21,000) end-users

Post Period-End Highlights

- Significant milestone reached with the commencing of implementation of a customised solution for a leading global risk management consultancy headquartered in the UK, with revenue realisation expected to begin Q4 2015
- First multilingual order, in France, for new global platform – for employment and residential screening
- Direct sales contract, worth c. $250,000 p.a., awarded by one of the world’s largest cash handling services companies and has been implemented
- Headcount reduction and realignment of sales team, which is on track to reduce operating expenses by approximately $1.2 million on an annualised basis

Robert Vale, CEO of ClearStar, commented: “We are pleased to have executed on all fronts of new technology development, diversification of product offerings and expansion into international markets. This is reflected in our substantial increase in revenue, that our brand is emerging as a market leader in risk mitigation and that we have attracted some of the most accomplished sales professionals in our sector.

“We entered the second half of 2015 with a larger sales pipeline than at the same point in the prior year, and have continued to make progress across all of our divisions. Consequently, we expect to report significant growth in revenues for the full year, broadly in line with market expectations.

Looking further ahead, our strategy positions the Company to deliver strong, higher margin, growth for years to come."

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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

During the six months ended 30 June 2015, the Company achieved strong growth with revenues 43% higher at $7.49 million (H1 2014: $5.24 million). This was due to increased business across all three divisions, along with additional revenues of $1.3 million as a result of the Company's acquisition of SingleSource in December 2014.

ClearStar continued to focus heavily on R&D to sustain innovation and product development to improve user experience, increase operational efficiencies and ensure seamless business partner integrations. In particular, the Company achieved a significant milestone with the completion of the development of its new global platform to satisfy interface, compliance and architectural demands outside the US, and commencement of implementation.

Channel Partners and Consumer Reporting Agencies ("CRAs") Division

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

The division continued to be the largest contributor to overall revenues. Sales for the first six months of 2015 increased by 8% to $3.45 million (H1 2014: $3.19 million). This was primarily as a result of increased business from some of the Company's largest clients. During the period, 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 to organisations for the purpose of drug and alcohol tests for employees.

Sales for the first six months of 2015 increased by 22% to $2.27 million (H1 2014: $1.86 million). This was derived from both gaining market share from competitors, and from growth amongst its existing client base which is mainly in the healthcare, education, manufacturing and transportation industries.

Drug testing remains the largest contributor to division revenues, accounting for approximately 85%. However, growth in the division's other products, such as clinical testing and occupational testing, also contributed to the increase in revenues.

During the period, the MIS division was awarded its largest single contract to date, which is expected to be worth $1.3-$1.5 million annually. This service is being delivered via the Company's recently-released paperless chain of custody software (WebCCF) and is expected to commence generating revenue in Q4 2015.

Direct Services Division

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

This was the fastest growing division in the Company with organic revenues increasing by 190% to $438,000 (H1 2014: $150,000), primarily from approximately 500 SMEs with up to 1,000 employees.

In December 2014, ClearStar completed the acquisition of SingleSource, thereby transforming this business division. This resulted in a significant increase in direct sales customers and approximate revenue growth of $1.3 million. The Direct Services division now serves approximately 2,300 active clients compared with approximately 500 prior to acquisition.

During the period, ClearStar strengthened and expanded its direct sales and services team, with the addition of several experienced sales people and operational support personnel, to capitalise on attractive market opportunities within the growing US screening market. This has enabled the Company to upscale, targeting larger customer accounts, and resulted in the increase in the direct sales pipeline to over $10 million in annualised revenues.

Additionally, post period end, the Company won a direct sales contract with a division of one of the world's largest cash handling services companies, with anticipated initial revenues of approximately $250,000 annually. The contract has already commenced generating revenues.

Global Division

The Global Division is the Company's newest unit, having being established following ClearStar's IPO in July 2014 with the Company setting up its international base in the UK. Prior to this, ClearStar had a limited presence outside the US. Today, ClearStar can supply background checks globally.

During the first half of 2015, ClearStar achieved a significant milestone with the commencement of the implementation of a new global platform to satisfy interface and architectural demands outside the US. The Directors of the Company believe that 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. In addition, the Company commenced the implementation of a customised, white-labelled solution for a world-renowned, leading global risk management consultancy headquartered in the UK. Under the agreement, ClearStar will host this platform as well as the Applicant Portal for a period of at least five years. The contract is expected to commence generating revenue in Q4 2015.

Post period end, ClearStar signed a contract with a screening company located in France to license the Company's new global platform for both employment and tenant screening. Significantly, this represented the first multi-lingual implementation of the system.

Post Period End – Operational Efficiencies

In July 2015, in recognition of the evolving nature of the business, the Company commenced the implementation of realignment initiatives. The Company is in the process of streamlining the organisation, which is rendered possible by increased operational and technological efficiencies as well as synergies through the acquisition of SingleSource. This initiative will result in an approximately 14% headcount reduction.

As a result of this expense cutting exercise, the Company expects to recognise approximately $1.2 million of savings on an annualised basis from 2016 as well as benefiting from an initial contribution in the second half of 2015.

Financial Review

The Company recorded a strong financial performance, with total revenues increasing by 43% for the six months ended 30 June 2015 to $7.49 million compared with $5.24 million for the six months ended 30 June 2014. Organic revenue growth, which excludes the contribution from SingleSource, was approximately 18% year-on-year. All three revenue-generating business units experienced strong organic growth, led by Direct Services with year-on-year growth of 190% followed by MIS with 22% and Channel Partners and CRAs with 8%.

Gross profit increased by 49% for the six months ended 30 June 2015 to $4.53 million, compared with $3.05 million for the six months ended 30 December 2014. Gross profit margin improved by 240 basis points to 60.5% from 58.1% for the same period of the previous year. The increase was primarily due to the shift in the product mix with an increased contribution to revenues from Direct Services, which has a higher gross margin than services to MIS and CRAs, along with purchase economies. Management believes gross margin will continue to improve due to on-going economies of scale being achieved.

Total operating expenses, net of depreciation and amortisation, were $5.8 million for the six months ended 30 June 2015 compared with $2.9 million for the six months ended 30 June 2014. The largest component of operating expenses was general and administrative, which was $4.0 million for the six months ended 30 June 2015 compared with $2.5 million for the same period of the previous year. This $1.5 million increase was attributable to an increase of approximately $1.0 million in staff costs and an increase of $440,000 in costs associated with the operations of SingleSource that was acquired in December 2014.

Research and Development was $1.0 million for the six months ended 30 June 2015 compared with $125,000 for the same period of the previous year. This increase is attributable to increased staff costs in both software development and in the Company's Global Division. Sales and marketing expenses were $850,000 for the six months ended 30 June 2015 compared with $260,000 for the same period of the previous year, primarily attributable to an increase in experienced sales professionals in the Direct Services division.

As a result, EBITDA for H1 2015 was a negative $1.3 million. The Company reported a loss before tax of approximately $1.8 million in H1 2015 compared with a loss before tax of approximately $32,000 for the same period of the prior year.

The Consolidated Balance Sheet as of 30 June 2015 remained strong. Total assets were $12.2 million on 30 June 2015 with the largest assets being goodwill and other net intangible assets of $4.9 million, net cash of $4.2 million and accounts receivable of $1.8 million.

The Company's total liabilities as of 30 June 2015 were $1.6 million, and stockholders' equity was $10.6 million, resulting in a debt-to-equity ratio of 0.15. Total liabilities decreased 43% compared with $2.7 million at 30 June 2014 (31 December 2014: $1.3 million).

The Company utilised $1.7 million in cash in operating activities and $510,000 in investment activities. These investment activities consisted of $420,000 in capitalised software costs. There were no financing activities during the period.

Outlook

ClearStar entered the second half of 2015 with a greater sales pipeline than at the same point in the prior year. The Company has continued to make progress in all of its divisions, in particular, the Direct Services division and achieving a number of milestones in the Global Division. As a result, the Board anticipates reporting significant growth in revenues for full year 2015, broadly in line with market expectations.

Looking further ahead, the Company will enter 2016 with a considerably lower cost base. In addition, the Company expects demand for its services across its divisions to continue to increase. Consequently, the Board remains confident of achieving sustained growth and of delivering value to shareholders.

CLEARSTAR, INC.

Consolidated Statements of Operations

(USD, in thousands)

	Six Months Ended 30 June 2015 (Unaudited)	Six Months Ended 30 June 2014 (Unaudited)	Year Ended 31 December 2014
	$	$	$
Net revenue	7,491	5,242	10,921
Cost of revenue	2,960	2,194	4,590
Gross profit	4,531	3,048	6,331
Operating expenses			
Selling and marketing	850	260	795
Research and development	999	125	646
Depreciation and amortisation	534	160	473
General and administrative	3,972	2,527	6,157
Total operating expenses	6,355	3,072	8,071
Loss from operations	(1,824)	(24)	(1,740)
Other expense			
Interest expense	(12)	(8)	(7)
Total other expense	(12)	(8)	(7)
Net loss before taxes	(1,836)	(32)	(1,747)
Provision for income taxes	5	-	4
Net loss	(1,841)	(32)	(1,751)

The accompanying notes are an integral part of the consolidated financial statements.

CLEARSTAR, INC.

Consolidated Balance Sheets

(USD, in thousands)

	As of 30 June 2015 (Unaudited) $	As of 30 June 2014 (Unaudited) $	As of 31 December 2014 $
ASSETS			
Current assets			
Cash	4,201	516	6,477
Accounts receivable - trade, net	1,759	1,257	1,096
Research and development tax credits	27	122	27
Prepaid expenses	465	104	212
Prepaid IPO costs	-	975	-
Due from shareholders	-	33	-
Total current assets	6,452	3,007	7,812
Property and equipment, at cost			
Computer equipment	741	570	681
Furniture and fixtures	279	48	260
Leasehold improvements	72	15	63
Less accumulated depreciation	(273)	(335)	(154)
Total property and equipment, net	819	298	850
Other assets			
Goodwill and other intangible assets, net	4,906	696	4,901
Deposits	11	10	13
Total other assets	4,917	707	4,914
Total assets	12,188	4,012	13,576
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	835	1,486	574
Accrued liabilities	347	689	164
Deferred revenue	91	41	102
State income taxes	4	-	4
Current portion of long-term debt	-	36	-
Current portion of obligations under capital lease	89	43	82
Due to shareholder	-	43	-
Other current liabilities	-	40	-
Total current liabilities	1,366	2,377	926
Long-term liabilities			
Accrued liabilities	52	-	55
Obligations under capital lease, net of current portion	220	151	271
Long-term debt, net of current portion	-	130	-
Total long-term liabilities	272	281	326
Stockholders' equity			
Common stock, $0.0001, $0.0001 and no par value, respectively; 100,000,000, 1,000 and 100,000,000 shares authorised, respectively; 36,302,900, 1,000 and 36,306,900 shares issued and outstanding, respectively	4	647	4
Additional paid-in capital	13,413	15	13,346
Retained earnings	(2,867)	693	(1,026)
Stockholders' equity	10,550	1,354	12,324
Total liabilities and stockholders' equity	12,188	4,012	13,576

The accompanying notes are an integral part of the consolidated financial statements.

CLEARSTAR, INC.
Consolidated Statements of Changes in Stockholders' Equity
(USD, in thousands, except no. of shares)

	Common Stock		Additional Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
	No.	$	$	$	$
Balances at 1 January 2014	**1,000.00**	**332**	**15**	**725**	**1,071**
Stock issued for cash prior to IPO	36.27	315	-	-	315
Net loss	-	-	-	(32)	(32)
Balances at 30 June 2014 (unaudited)	**1,036.27**	**647**	**15**	**693**	**1,354**
Reclassification of contributed capital	(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	15,577,500	2	12,624	-	12,626
Non-cash stock compensation	-	-	61	-	61
Net loss	-	-	-	(1,719)	(1,719)
Balances at 31 December 2014	**36,302,900**	**4**	**13,346**	**(1,026)**	**12,324**
Non-cash stock compensation	-	-	66	-	66
Net loss	-	-	-	(1,841)	(1,841)
Balances at 30 June 2015 (unaudited)	**36,302,900**	**4**	**13,413**	**(2,867)**	**10,550**

The accompanying notes are an integral part of the consolidated financial statements.

CLEARSTAR, INC.

Consolidated Statements of Cash Flows

(USD, in thousands)

	Six Months Ended 30 June 2015 (Unaudited) $	Six Months Ended 30 June 2014 (Unaudited) $	Year Ended 31 December 2014 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(1,841)	(32)	(1,751)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Change in allowance for doubtful accounts	38	-	12
Depreciation and amortisation	534	160	473
Non-cash stock compensation	66	-	61
Change in operating assets and liabilities:			
Accounts receivable	(701)	(595)	(445)
Research and development tax credits	-	-	95
Prepaid expenses	(250)	(60)	(152)
Net advances (payments) on amounts due from/to shareholders	-	10	(26)
Deposits	2	(7)	(10)
Accounts payable	261	1,442	557
Accrued liabilities	180	345	(125)
Deferred revenue	(12)	8	70
State income taxes	-	-	4
Other current liabilities	-	40	-
Total adjustments	118	1,343	514
Net cash provided by (used for) operating activities	(1,723)	1,311	(1,237)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of goodwill and intangibles	-	-	(4,000)
Acquisition of property and equipment	(89)	(47)	(489)
Capitalised software development costs	(420)	(350)	(803)
Net cash used for investing activities	(509)	(397)	(5,292)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on long-term debt	-	(18)	(183)
Principal payments on capital lease obligations	(44)	(6)	(38)
Proceeds from issuance of stock	-	315	12,942
Prepaid IPO financing costs	-	(975)	-
Net cash provided by (used for) financing activities	(44)	(684)	12,721
Net cash increase for year	(2,276)	230	6,192
Cash at beginning of year	6,477	285	285
Cash at end of year	**4,201**	**516**	**6,477**

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. Summary of Significant Accounting Policies

a) Nature of Operations

ClearStar, Inc. ("ClearStar"), an exempt company incorporated in the Cayman Islands on 23 April 2014, is a holding company that owns a 100% interest in ClearStar, Inc. (''ClearStar US''), an entity formed on 23 March 1995, and incorporated in the state of Delaware, and ClearStar Limited ("ClearStar UK"), a dormant entity formed in the United Kingdom on 17 January 2014. As detailed in Note 8, the interest in ClearStar US was transferred to ClearStar on 1 July 2014. The interest in ClearStar UK was transferred to ClearStar on 22 July 2014. The Company 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. The Company 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.

b) Principles of Consolidation

The consolidated financial statements include the accounts of ClearStar and its 100% owned subsidiaries, ClearStar US and ClearStar UK (collectively the "Company"). As discussed in further detail in Note 8, on 1 July 2014, prior to the IPO, the previous shareholders of ClearStar US contributed all of their ownership interests in ClearStar US to ClearStar in exchange for Ordinary Shares in the Company. As a result of the exchange, all ClearStar US common shares became owned by ClearStar, which in turn became owned by the previous shareholders of ClearStar US. The acquisition of the ClearStar US common shares was accounted for as a combination of entities under common control and did not result in a change in control of ClearStar US and, accordingly, was recorded at historical cost. Other than ClearStar US, the Company has no other operations. Therefore, the Company has reported its financial condition and results of operations with an effective date of 1 January 2014.

ClearStar Logistics, Inc., an entity that was owned by the shareholders of ClearStar US, was formed in 2007 as an S Corporation and incorporated in the state of Delaware, to enter into certain supplier and customer contracts relating to background checks. Beginning in 2010, the revenues and costs relating to all the contracts of ClearStar Logistics, Inc. were recorded in the books of ClearStar US, as all the corresponding operations relating to the contracts were conducted by ClearStar US. On 27 June 2014, ClearStar Logistics, Inc. and ClearStar US merged, with ClearStar US being the surviving entity. All of the outstanding shares of capital stock of ClearStar Logistics, Inc., were cancelled, and ClearStar US became successor to and acquired all of ClearStar Logistics, Inc.'s right, title and interest in and to its assets and assumed all of its liabilities and obligations. The merger was a non-taxable event for each of ClearStar Logistics, Inc. and ClearStar US. As such, the consolidated financial statements of the Company include all of the trading activities, assets and liabilities of ClearStar US and ClearStar Logistics, Inc.

All significant intercompany transactions and balances have been eliminated in consolidation.

c) Basis of Accounting

The Historical Financial Information has been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (''US GAAP'').

d) Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates are used for, but not limited to, the allowance for doubtful accounts, depreciable lives of property and equipment, certain accrued liabilities, amortisation of other intangible assets and income taxes. Actual results could differ from these estimates.

e) Concentration of Credit Risk Arising From Cash Deposits in Excess of Insured Limits

The Company maintains cash balances at certain financial institutions. The accounts are insured by the Federal Deposit Insurance Corporation up to $250,000 per financial institution. From time to time, the Company's cash balances exceed such limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risks on cash.

f) Accounts Receivable

The Company extends credit to customers located globally based on the size of the customer, its payment history, and other factors. The Company generally does not require collateral to support customer receivables. The Company provides an allowance for doubtful accounts based upon a review of the outstanding accounts receivable, historical collection information and existing economic conditions. The Company determines if receivables are past due based on days outstanding, and amounts are written off when determined to be uncollectable by management. The maximum accounting loss from the credit risk associated with accounts receivable is the amount of the receivable recorded, which is the face amount of the receivable, net of the allowance for doubtful accounts.

g) Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are expensed currently, while renewals and betterments that materially extend the life of an asset are capitalised. The cost of assets sold, retired, or otherwise disposed of, and the related allowance for depreciation are eliminated from the accounts, and any resulting gain or loss is recognised.

Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets, which are as follows:

Computer equipment	3 – 4 years
Furniture and fixtures	5 – 7 years
Leasehold improvements	Lesser of estimated useful life or life of the lease

Depreciation expense for the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014 was approximately $119,000, $36,000 and $119,000, respectively.

h) Goodwill

Goodwill recorded in the consolidated financial statements represents the excess of the purchase price of SingleSource over the fair value of acquired net assets on the date of acquisition in December 2014 (see Note 2). Goodwill is not amortised since it has an indefinite life. Accordingly, the carrying value of goodwill is reviewed for impairment by the Company annually, or more often if events or circumstances indicate that there may be impairment.

The Company tests goodwill for impairment under a two-step approach. The first step of the goodwill impairment test compares the fair value of the Company with its carrying amount, including goodwill. If the carrying amount exceeds its fair value, the second step of the goodwill impairment test will be performed to measure the amount of the impairment loss. This is determined by comparing the implied fair value of the Company's goodwill with the carrying amount of that goodwill. If the carrying amount of the goodwill exceeds the implied fair value of that goodwill, the Company will recognise an impairment loss as an expense.

i) Intangible Assets

Intangible assets, other than capitalised software development costs, arose from the purchase of certain assets of SingleSource and are reported net of amortisation. These costs are amortised using the straight-line method over their estimated useful life. The estimated useful life for customer relationships and trade name are 7 and 1 year(s), respectively.

The Company has capitalised external direct costs of services consumed in developing and obtaining internal-use computer software and the payroll and payroll-related costs for employees who are directly associated with and who devote time to developing the internal-use computer software.

Management's judgment is required in determining the point at which various projects enter the application development stage at which costs may be capitalised, in assessing the ongoing value of the capitalised costs, and in determining the estimated useful lives over which the costs are amortised. Costs in relation to the preliminary stages of projects are expensed in the period in which they are incurred. The Company expects to continue to invest in internally developed software and to capitalise costs in accordance with US GAAP.

j) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, and purchased intangible assets subject to amortisation, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognised to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party independent appraisals, as considered necessary.

k) Revenue Recognition

The Company requires that four basic criteria be met before revenue can be recognised for all transactions: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) delivery has occurred. Fixed monthly fees are derived primarily from customers' use of services that are provided for an agreed number of transactions. Arrangements for these services generally have terms of one year or less and the fixed monthly fees are recognised as services are provided. One-time setup fees are recognised based on the Company's configuring and activating customers on internal and third party systems. The Company recognises one-time setup fees revenue ratably over 12 months or the period beyond which the initial contract term is expected to extend and the customer continues to benefit, whichever is longer. Annual certification fees are billed annually and are recognised ratably over the contract period. The Company recognises revenue from the sale of screening reports and drug testing services at the time of delivery as the Company has no significant ongoing obligation after delivery.

Deferred revenue consists of payments received in advance of revenue recognition and contractual billings in excess of recognised revenue.

Unbilled receivables consist of revenue earned but not yet invoiced. Such amounts are billed during the following month.

l) Advertising

The Company expenses advertising costs as incurred. Advertising expenses for the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014 were approximately $228,000, $43,000 and $216,000, respectively.

m) Income Taxes

ClearStar is incorporated as an exempted company in the Cayman Islands which currently does not levy income taxes on individuals or companies. ClearStar and its operating subsidiary, ClearStar US, are both taxed as corporations for US federal income tax purposes.

ClearStar US, with the consent of its stockholders, previously had elected under the Internal Revenue Code and similar state statutes to be an S Corporation. In lieu of federal corporate income taxes, the stockholders of an S Corporation were taxed on their proportionate share of ClearStar US's taxable income. Therefore, no provision for income taxes was made in the consolidated financial statements prior to 1 July 2014.

Following the merger described in Note 1b of the footnotes and effective 1 July 2014, ClearStar US ceased to be an S Corporation and is liable for corporate income taxes. Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognised for differences between the basis of assets and liabilities for financial statement and income tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets or liabilities are recovered or settled. Deferred taxes are also recognised for operating losses that are available to offset future taxable income. The tax provision differs from the expense that would result from applying federal statutory rates to income before income taxes primarily because of the marginal tax rates used to compute deferred taxes, the effect of state taxes, and permanent differences between determining income for financial statement purposes and taxable income.

The Company is subject to tax audits in numerous jurisdictions, including the United States, individual states and localities, and internationally. Tax audits by their nature are often complex and can require several years to complete. In the normal course of business, the Company is subject to challenges from the Internal Revenue Service ("IRS") and other tax authorities regarding amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. The Company accounts for the uncertain tax provisions using a minimum probability threshold that a tax position must meet before a financial statement benefit is recognised. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognised is measured as the largest amount of benefit that is greater than fifty per cent. likely of being realised upon ultimate settlement. The Company recognises interest and penalties related to unrecognised tax benefits as part of income tax expense. The cumulative effect of considering uncertain tax positions resulted in no uncertain tax liability in the consolidated balance sheets. At 30 June 2015 and 2014 and at 31 December 2014, the Company does not have any unrecognised tax benefits.

The Company is not subject to income tax examinations for years ending prior to 31 December

2011.

n) Stock-Based Compensation

The Company values stock options at the time of grant using a Black-Scholes model approach and records that fair market value as compensation expense over the service period. Stock-based compensation expense for the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014 was approximately $66,000, $0 and $61,000, respectively.

o) Fair Value of Financial Instruments

Due to the short-term nature of cash, accounts receivable, prepaid expenses, accounts payable, and accrued liabilities, their fair value approximates carrying value. The carrying value of the long-term debt and due to and from shareholders approximate fair value as they are based on the instruments' interest rate, terms, maturity date and collateral, if any, in comparison to the Company's incremental borrowing rate for similar financial instruments.

In specific circumstances, certain assets and liabilities are reported or disclosed at fair value. Fair value is the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the Company's principal market for such transactions. If there is not an established principal market, fair value is derived from the most advantageous market.

Valuation inputs are classified in the following hierarchy:

(i) Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
(ii) Level 2 inputs are directly or indirectly observable valuation inputs for the asset or liability, excluding Level 1 inputs.
(iii) Level 3 inputs are unobservable inputs for the asset or liability.

Highest priority is given to Level 1 inputs and the lowest priority to Level 3 inputs. Acceptable valuation techniques include the market approach, income approach, and cost approach. In some cases, more than one valuation technique is used.

p) Reclassifications

Certain reclassifications have been made to the 2014 consolidated financial statement presentation to correspond to the current period's format. These reclassifications have no effect on previously reported net income.

2. Acquisition

Effective 16 December 2014 (“Closing Date”), the Company purchased certain assets of SingleSource in a transaction accounted for as a business acquisition for a total cash consideration of $4 million: $3.2 million at closing plus $800,000 paid in escrow to be distributed after the one year anniversary of the Closing Date and contingent upon achieving calendar year 2015 target revenues of at least 90% of calendar year 2014 revenues as agreed between the Company and the Sellers. SingleSource provides background screening services directly to its customer base, which consists primarily of faith-based organisations and retail franchisees; the acquisition is in line with the Company’s strategy of growing its Direct Sales. The following table summarises the purchase consideration paid for and the amounts of estimated fair value of the assets acquired at the Closing Date:

	Amount $000
Prepaid expenses	15
Goodwill	2,283
Customer relationships	1,673
Trade name	29
	4,000

In conjunction with the purchase agreement, a one-year consulting agreement with the Seller was obtained in which $100,000 will be paid in equal monthly instalments. The Seller will also earn a commission of 12% on the first year of revenue for new business during the term of the consulting agreement.

Effective 21 August 2015, the Company executed a separation agreement with the Seller to terminate the consulting arrangement in exchange for an early release of the aforementioned funds in escrow and a lump sum payment of approximately $150,000, representing the remaining consulting fees, estimated commissions and expense reimbursements due to the Seller.

3. Accounts Receivable

Accounts receivable consisted of the following:

	As of 30 June 2015 (Unaudited) $000	As of 30 June 2014 (Unaudited) $000	As of 31 December 2014 $000
Trade accounts receivable	395	281	296
Unbilled receivables	1,414	976	812
Allowance for doubtful accounts	(50)	-	(12)
	1,759	1,257	1,096

4. Goodwill and Other Intangible Assets

Goodwill and other intangible assets were comprised of the following at 30 June 2015:

		Gross Cost			Accumulated Amortisation			
	Life (years)	Beginning $000	Additions $000	Ending $000	Beginning $000	Additions $000	Ending $000	Net
Goodwill	Indefinite	2,283	-	2,283	-	-	-	2,283
Software Development	3	1,524	420	1,944	607	281	888	1,056
Customer Relationships	7	1,672	-	1,672	-	119	119	1,553
Trade name	1	29	-	29	-	15	15	14
		5,508	420	5,928	607	415	1,022	4,906

Approximate aggregate future amortisation expense is as follows:

Year Ending 30 June

	Amount $000
2016	727
2017	713
2018	347
2019	239
2020	239
2021 and beyond	358
	2,623

5. Long-term Debt and Lines of Credit

On 30 July 2013, ClearStar US refinanced its lines of credit with a financial institution through a term loan; the lines of credit were previously limited to advances up to $400,000. The amount refinanced under the term loan was $198,405 and carried a fixed interest rate equal to 5.42 per cent. per annum with a maturity date of 30 July 2018. The term loan was collateralised by substantially all the assets of ClearStar US and was personally guaranteed by two Shareholders. In July 2014, the term loan was paid in full.

The term loan was comprised of the following:

	As of 30 June 2015 (Unaudited) $000	As of 30 June 2014 (Unaudited) $000	As of 31 December 2014 $000
Term loan payable in monthly instalments of principal and interest of $3,790	-	166	-
Less: current portion	-	(36)	-
Total long-term debt	-	130	-

6. Commitments and Contingencies

- Operating Leases

The Company leases office space and equipment. The lease agreements expire on various dates through February 2022.

Minimum lease payments under operating leases are recognised on a straight-line basis over the term of the lease including any periods of free rent. Rental expense for the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014 was approximately $210,000, $91,000 and $336,000, respectively.

At 31 December 2014, future minimum lease payments under non-cancellable operating leases were as follows:

Year Ending 30 June:

	Amount $000
2016	250
2017	207
2018	181
2019	180
2020	99
2021 and beyond	172
	1,089

- Capital Leases

During 2014, the Company leased computer equipment under two agreements classified as capital leases that expire through November 2018. The lease obligations bear an interest rate of up to 8.7 per cent. per annum and are payable in monthly instalments totalling $9,334.

Assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over the shorter of the estimated useful lives or the lease term if ownership does not transfer to the Company at the end of the lease. Depreciation of assets under capital leases is included in depreciation expense.

Computer equipment held under capital leases consisted of the following:

	As of 30 June 2015 (Unaudited) $000	As of 30 June 2014 (Unaudited) $000	As of 31 December 2014 $000
Cost of equipment and installation	390	201	390
Less: accumulated depreciation	(91)	(17)	(42)
	299	184	348

At 30 June 2015, future minimum lease payments under capital lease agreements consist of the following:

Year Ending 30 June:	Amount $000
2016	107
2017	112
2018	107
2019	19
	345
Less: interest	(36)
	309
Less: current portion	(89)
	220

- Board of Director Fees

Effective 30 May 2014, the Company contracts with two non-executive directors ("NEDs") for 3-year terms subjective to renewal for successive one-year periods. The Company pays approximately $100,000 per annum to the NEDs. For the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014, director fees were approximately $53,000, $0 and $56,000, respectively. Options granted to the NEDs were approximately 72,000 shares, vesting over a one-year term (Note 9).

- Long-Term Vendor Commitment

In November 2014, the Company executed a three-year vendor contract for data centre and related services, requiring an annual fee of approximately $198,000, payable in equal monthly instalments in advance through January 2018.

7. Income Taxes

Effective 1 July 2014, ClearStar US ceased as an S Corporation and became liable for corporate income taxes.

- Tax effects of temporary differences are as follows:

	As of 30 June 2015 (Unaudited) $000	As of 31 December 2014 $000
Current deferred tax assets (liabilities):		
Allowance for doubtful accounts	18	4
Prepaid expenses	(66)	(26)
Amortisation of software development	(182)	(164)
Accrued liabilities	71	19
Deferred revenue	21	6
Other adjustments	-	(5)
Total current	(138)	(166)
Non-current deferred tax assets (liabilities):		
Basis differences in property and equipment	(31)	(57)
Amortisation of software development	(177)	(159)
Amortisation of other intangible assets	27	24
Net operating losses	1,241	673
Stock-based compensation	45	21
Tax credits	26	26
Other adjustments	3	3
Total non-current	1,134	531
Less: valuation allowance	(996)	(365)
Net deferred tax assets (liabilities)	-	-

Deferred tax assets and liabilities are recognised for the expected tax consequences of temporary differences between the book and tax bases of the Company's assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realised. Management does not expect deferred tax assets to be fully realised in future years. Therefore, a valuation allowance has been recorded.

- The components of the provision for income taxes are as follows:

	As of 30 June 2015 (Unaudited) $000	As of 31 December 2014 $000
Current tax expense:		
Federal	-	-
State	5	4
	5	4
Deferred tax expense (benefit):		
Federal	-	-
State	-	-
	-	-
Total provision for income taxes	5	4

The effective income tax rate differs from the federal statutory income tax rate due to state income taxes, certain non-deductible expenses and a increase of approximately $631,000 in the valuation allowance for the period.

At 30 June 2015, the Company had approximately $3,556,000 in net operating loss carryforwards ("NOL") available to use against taxable income. The NOL's expire through 2035.

8. Stockholders' Equity

On 26 June 2014, the directors amended and restated ClearStar US's articles to increase the authorised common shares from 1,000 to 10,000 shares.

Pursuant to the contribution agreement dated 1 July 2014 by and among the previous shareholders of ClearStar US (the ''Contributors'') and ClearStar, an exempt company incorporated in the Cayman Islands, each Contributor contributed all of their right, title and interest in and to the capital stock of ClearStar US to ClearStar as a capital contribution. In exchange, ClearStar issued 20,725,400 shares of Ordinary Shares of $0.0001 par value to the Contributors in the same proportion as the capital stock contributed into ClearStar. Following such contribution, the Contributors no longer owned capital stock of ClearStar US and owned all of the outstanding Ordinary Shares of ClearStar. ClearStar owns all of the outstanding capital stock of ClearStar US. ClearStar maintains authorised shares of 100,000,000 $0.0001 par value Ordinary Shares.

On 11 July 2014, ClearStar issued an additional 15,577,500 shares of Ordinary Shares for $0.97 per share ("the Issuance") as a result of an initial public offering (the "IPO") on AIM which raised approximately $15,000,000 in gross proceeds. The Company incurred costs in the Issuance of approximately $2,586,000. The Company received net proceeds of approximately $12,638,000.

9. Stock-Based Compensation

In June 2014, the Company's Board of Directors ("Board") adopted the 2014 Share Option and Incentive Plan (the "Plan") that authorised the Board to grant options and restricted stock to employees and directors to acquire up to 3,000,000 shares of the Company's Ordinary Shares. The option price generally may not be less than the underlying stock's fair market value on the date of the grant. The options generally vest ratably up to a three-year period beginning the date of grant and expire as determined by the Board, but not more than 10 years from the date of grant. The amounts granted each calendar year is limited depending on certain terms of the Plan. As of 30 June 2015, approximately 1,572,000 shares remain available for grant under the Plan. The Plan terminates in June 2024.

The following table summarises activity of the Company's stock options during the period from 10 June 2014 to 31 December 2014:

	Shares	Weighted-Average Exercise Price
Outstanding at 10 June 2014	-	-
Granted	1,407,165	$0.97
Forfeited or cancelled	(117,000)	$0.97
Outstanding at 31 December 2014	1,290,165	$0.97
Granted	285,000	$0.91
Forfeited or cancelled	(147,000)	$0.97
Outstanding at 30 June 2015	1,428,165	$0.97
Exercisable at 30 June 2015	36,082	$0.97

The following is a summary of nonvested options as of 30 June 2015 and changes during the period from 10 June 2014 to 30 June 2015:

	Shares	Weighted-Average Fair Value
Nonvested at 10 June 2014	-	-
Granted	1,407,164	$0.27
Vested	(36,082)	$0.23
Forfeited or cancelled	(117,000)	$0.27
Nonvested at 31 December 2014	1,254,082	$0.27
Granted	285,000	$0.28
Vested	-	-
Forfeited or cancelled	(147,000)	$0.27
Nonvested at 30 June 2015	1,392,082	$0.27

As of 30 June 2015, there was approximately $253,000 of total unrecognised compensation costs related to unvested stock options, which is expected to be recognised over a weighted-average period of 1.99 years.

The following assumptions were used for the Black-Scholes option pricing model:

	2015	2014
Weighted-average fair value on day of grant	$0.28	$0.27
Risk-free interest rate	1.00%	1.00%
Expected dividend yield	0.00%	0.00%
Expected volatility	36.93%	33.42%
Weighted-average expected life of option	4.00 years	3.94 years

10. Employee Retirement Plan

The Company sponsors an employee retirement plan known as the ClearStar, Inc. 401(k) Profit Sharing Plan Trust (the ''401k Plan''). Under the 401k Plan, employees may contribute up to the maximum contributions as set periodically by the Internal Revenue Service. Additionally, the Company may make a discretionary contribution to the 401k Plan. The employee contributions vest over six years. Participant contributions are always 100 per cent. vested.

For the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014, matching contributions were approximately $72,000, $37,000 and $64,000, respectively.

11. Concentrations

- Significant Vendor

A significant vendor is defined as one from which the Company receives at least 10 per cent. of its total purchases. For the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014, the Company had purchases from three suppliers totalling approximately $1,786,000, $1,643,000 and $3,341,000 which comprised approximately 60, 75 and 73 per cent. of the Company's purchases, respectively. The liabilities balance included approximately $307,000, $544,000 and $215,000 to these vendors at 31 December 2014 and 2013, respectively.

- Significant Customer

A significant customer is defined as one from whom at least 10 per cent. of annual revenue is derived. For the six months ended 30 June 2014 and the year ended 31 December 2014, the Company had sales to one customer totalling approximately $743,00 and $1,491,000, which comprised approximately 14 and 14 per cent., respectively. At 30 June 2014 and 31 December 2014, the accounts receivable balance included approximately $162,000 and $87,000, respectively. There were no significant customers for the six months ended 30 June 2015.

12. Related Party Transactions

Amounts due from and to related parties resulted from advances between the Company and its shareholders. Amounts due from shareholders at 30 June 2015 and 2014, and 31 December 2014 were approximately $0, $33,000 and $0, respectively. Amounts due to shareholder at 30 June 2015 and 2014, and 31 December 2014 were approximately $0, $43,000 and $0, respectively.

The Company contracted with two companies, owned by certain shareholders of the Company, to provide consulting services. During the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014, the Company incurred approximately $12,000, $25,000 and $43,000, respectively, in consulting fees to these related parties.

The Company leased two of its office spaces from Flying Diamond, LLC, a company owned by two shareholders (see Note 6a). Rental expense paid to the related party for the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014 was approximately $42,000, $69,000 and $210,000, respectively. Approximately $72,000 of the 2014 rental expense represents an early lease termination fee.

On 6 June 2014, the Company executed a promissory note for $315,000 payable from a stockholder in conjunction with a stock subscription agreement to purchase 36.27 shares of common stock. The principal and accrued interest were due the earlier of 31 December 2014 or at the time the Company is listed on the AIM Market of the London Stock Exchange. The note bore interest of 0.25 per cent. per annum and was secured by the stockholder's capital stock of ClearStar US. The note and related accrued interest was paid in full on 27 June 2014.

13. Subsequent Events

In July 2015, the Company granted 240,000 options to purchase Ordinary Shares to employees. Approximately 126,000 options were forfeited through August 2015.

Effective 14 July 2015, ClearStar introduced a Depository Interest programme to enable its ordinary shares to be traded in CREST by qualifying shareholders. As a result, there are two lines of capital stock – restricted under the existing ticker CLST and unrestricted under the new ticker CLSU.

The Company evaluated subsequent events through 22 September 2015, when these consolidated financial statements were available to be issued. With the exception of the two events noted above and the disclosure in Note 2, management is not aware of any significant events that occurred subsequent to the consolidated balance sheet date but prior to the filing of this report that would have a material impact on the consolidated financial statements.