

22 March 2016

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



Preliminary Results

Increased revenues and reduced cost base resulted in EBITDA positive for H2 2015

ClearStar (AIM: CLST and CLSU), 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 2015.

Financial Highlights

- Revenues increased by 42% to \$15.5 million (FY 2014: \$10.9 million)
- Gross profit increased by 50% to \$9.5 million (FY 2014: \$6.3 million)
- Gross margin increased by 320 basis points to 61.2% (FY 2014: 58.0%)
- Operating expenses reduced by over \$1.8 million on an annualised basis during H2 2015, primarily due to the implementation of operational and technological efficiencies from the integration of SingleSource Services Corporation ("SingleSource"), following the acquisition of its assets in December 2014
- EBITDA improved better than expected to \$956,000 loss (FY 2014: \$1.3 million loss), due to positive EBITDA in H2 2015 of \$334,000 (H2 2014: \$1.4 million loss)
- As of 31 December 2015, the Company had net cash of \$3.9 million (30 June 2015: \$4.2 million)

Operational Highlights

- Increased sales across all divisions, with growth in business activity from existing clients through the introduction of new software functionality and the cross-selling of services as well as from the addition of new clients and markets
- Processed approximately 7.2 million screening services (FY 2014: 6.5 million) on over 2.2 million people (FY 2014: 2.0 million) that were provided to over 28,000 (FY 2014: 27,000) end-users
- Successful integration of SingleSource resulted in significant growth in direct sales customers with Direct Services revenues increasing to \$3.8 million (FY 2014: \$0.5 million)
- Channel Partners and Consumer Reporting Agencies ("CRAs") Division continued to be the largest contributor to revenues
- Direct Services Division was the fastest growing division in the Company with revenues increasing by 660% to \$3.8 million (FY 2014: \$0.5 million)
- Medical Information Services Division sales grew by 23% year-on-year as it gained market share from competitors and saw growth amongst its existing client base
- Global Division developed a new platform to satisfy interface and architectural demands outside the US and commenced preparations to deliver first multi-lingual contract in France
- Three-year contract with leading global relocation and specialised logistics solutions provider will include maiden deployment of biometrics recognition software and mobile solution

Robert Vale, CEO of ClearStar, commented: "This has been a transformational year for ClearStar as we've increased sales across all of our divisions. We have introduced operational efficiencies and reduced the cost base thereby positioning the Company for growth. We continued to focus on the development of our technology, which resulted in the introduction of leading-edge solutions for mobile devices and including biometrics recognition software as well as the initial deployment of our global platform.

“The Company entered 2016 with strong revenue momentum. The Company is receiving increasing demand for its services across its divisions, which it expects to continue. In addition, as a result of the cost control measures and operational efficiencies, the Company now has the right people focused on the right markets at a greatly reduced cost base thereby strengthening the foundations of the business. Consequently, the Board is confident of achieving sustained growth and of delivering value to shareholders.”

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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 4,200 sources and 240 countries 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 decision-making process. ClearStar’s ‘Aurora’ platform has delivered employment intelligence to over 28,000 employers, including many global blue-chip companies.

www.clearstar.net

Operational Review

During the twelve months ended 31 December 2015, the Company achieved strong growth with revenues 42% higher at \$15.5 million (FY 2014: \$10.9 million). This was due to increased business activity across all three divisions, along with additional revenues of \$2.7 million as a result of the Company's acquisition of SingleSource in December 2014.

In recognition of the evolving nature of the business, during the second half of the year, ClearStar implemented cost control and operational efficiency initiatives to streamline the Company. This was rendered possible through increased operational and technological efficiencies as well as synergies through the acquisition of SingleSource, such as the migration of all customers to a single platform. The Company successfully executed on, and expedited, the implementation, which resulted in the reduction of operating expenses by approximately \$1.9 million on an annualised basis in the second half of the year.

ClearStar maintained its focus on R&D to sustain innovation and product development to introduce new functionality to improve user experience, increase operational efficiencies and ensure seamless business partner integrations. 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. ClearStar also commenced the implementation of its biometrics recognition software and a device agnostic solution with electronic address book – aimed for use on mobile devices – that are designed to increase the speed and efficiency of the recruitment process, whilst enhancing the applicant screening experience. This is particularly beneficial for remote hiring and when large numbers of temporary workers are employed on a sustained basis.

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 2015 increased by 8% to \$6.97 million (FY 2014: \$6.45 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.

Direct Services Division

In this emerging segment, ClearStar provides background check services directly to clients, which are mainly employers.

This was the fastest growing division in the Company with revenues increasing by 660% to \$3.8 million (FY 2014: \$0.5 million).

In December 2014, ClearStar completed the acquisition of SingleSource, thereby transforming this business division. This resulted in a significant increase in direct sales clients and approximate revenue growth of \$2.7 million in 2015. The Direct Services division now serves approximately 2,900 active clients compared with approximately 500 in 2014 prior to the acquisition and 2,300 in H1 2015.

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. As a result, in the second half of the year, the Company won its largest direct sales contract to date with the award of a three-year mandate, which has an estimated value of \$500,000 per year with revenue recognition to commence in H2 2016, by a leading global relocation and specialised logistics solutions provider, which is headquartered in the US.

Medical Information Services Division

In this division, ClearStar provides services to organisations for the purpose of drug and alcohol tests, mainly for employees.

Sales for 2015 increased by 23% to \$4.8 million (FY 2014: \$3.9 million). This was derived from both gaining market share from competitors, and from growth amongst ClearStar's 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.

Global Division

The Global Division is the Company's newest unit, having been 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 2015, ClearStar achieved a significant milestone with the development of a new global platform to satisfy interface and architectural demands outside the US. In the second half of the year, ClearStar commenced preparations to deliver 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 represents the first multi-lingual implementation of the system.

Financial Review

The Company recorded a strong financial performance, with total revenues increasing by 42% for the twelve months ended 31 December 2015 to \$15.5 million compared with \$10.9 million in the prior year. All three revenue-generating business units experienced strong growth, led by Direct Services with year-on-year growth of 660% followed by MIS with 23% and Channel Partners and CRAs with 8%.

Gross profit increased by 50% for the twelve months ended 31 December 2015 to \$9.5 million, compared with \$6.3 million for the twelve months ended 31 December 2014. Gross profit margin improved by 320 basis points to 61.2% from 58.0% 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 and continued growth in the Direct Services division.

Research and Development was \$808,000 for the twelve months ended 31 December 2015 compared with \$646,000 for the same period in 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 \$1.5 million for the twelve months ended 31 December 2015 compared with \$795,000 in 2014, primarily due to an increase in experienced sales professionals in the Direct Services division.

Total operating expenses, net of depreciation and amortisation, were \$10.4 million for the twelve months ended 31 December 2015 compared with \$7.6 million for the twelve months ended 31 December 2014. The largest component of operating expenses was general and administrative, which was \$8.2 million for the twelve months ended 31 December 2015 compared with \$6.2 million for the same period in the previous year. This \$2.0 million increase was largely attributable to an increase of \$857,000 in costs associated with the operations of SingleSource that was acquired in December 2014. However, as a result of the cost control initiatives introduced in the second half of 2015, the Company achieved a reduction in operating expenses of approximately \$1.9 million on an annualised basis.

As a result of the reduction in operating expenses, EBITDA for the twelve months ended 31 December 2015 was significantly improved at a \$956,000 loss (FY 2014: \$1.3 million). This was primarily due to the Company achieving positive EBITDA of \$334,000 for the second half of the year compared with expectations of reaching around breakeven for H2 2015.

The Company reported a loss before tax of approximately \$2.3 million for 2015 compared with a loss before tax of approximately \$1.7 million for the prior year.

The Consolidated Balance Sheet as of 31 December 2015 remained strong. Total assets were \$11.8 million on 31 December 2015 (30 June 2015: \$12.2 million) with the largest assets being goodwill and other net intangible assets of \$5.3 million, net cash of \$3.9 million and accounts receivable of \$1.6 million.

The Company's total liabilities as of 31 December 2015 were \$1.7 million (30 June 2015: \$1.6 million), and stockholders' equity was \$10.2 million (30 June 2015: \$10.6 million), resulting in a debt-to-equity ratio of 20%. Long-term liabilities decreased to \$221,000 at 31 December 2015 from \$272,000 at 30 June 2015 and \$326,000 at 31 December 2014.

The Company utilised \$1.0 million in cash in operating activities and \$1.5 million in investment activities. These investment activities consisted of \$1.4 million in capitalised software costs. The Company paid \$90,000 on financing activities related to capital lease obligations.

Outlook

The Company entered 2016 with continued strong revenue momentum. The Company is receiving increasing demand for its services across each of its divisions, which it expects to continue. The development, and introduction, of new software functionality for existing clients is expected to continue to drive revenue growth. In addition, as a result of the cost control measures and operational efficiencies, the Company now has the right people focused on the right markets at a greatly reduced cost base thereby strengthening the foundations of the business. Consequently, the Board is confident of achieving sustained growth and of delivering value to shareholders.

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

| | Year Ended 31 December 2015 (unaudited) \$ | Year Ended 31 December 2014 \$ |
|---------------------------------|-----------------------------------------------------------|--------------------------------------------|
| Net revenue | 15,516 | 10,921 |
| Cost of revenue | 6,023 | 4,590 |
| Gross profit | <u>9,493</u> | <u>6,331</u> |
| Operating expenses | | |
| Selling and marketing | 1,474 | 795 |
| Research and development | 808 | 646 |
| Depreciation and amortization | 1,287 | 473 |
| General and administrative | 8,167 | 6,157 |
| Total operating expenses | <u>11,736</u> | <u>8,071</u> |
| Loss from operations | <u>(2,243)</u> | <u>(1,740)</u> |
| Other expense | | |
| Interest expense | (22) | (7) |
| Total other expense | <u>(22)</u> | <u>(7)</u> |
| Net loss before taxes | (2,265) | (1,747) |
| Provision for income taxes | 1 | 4 |
| Net loss | <u><u>(2,266)</u></u> | <u><u>(1,751)</u></u> |

CLEARSTAR, INC.
Consolidated Balance Sheets
(USD, in thousands)

| | As of 31 December 2015 (Unaudited) | As of 31 December 2014 |
|-----------------------------------------------------------------------------------------------------------|---------------------------------------------|------------------------------|
| | \$ | \$ |
| ASSETS | | |
| Current assets | | |
| Cash | 3,893 | 6,477 |
| Accounts receivable - trade, net | 1,609 | 1,096 |
| Research and development tax credits | 82 | 27 |
| Prepaid expenses | 291 | 212 |
| Total current assets | <u>5,875</u> | <u>7,812</u> |
| Property and equipment, at cost | | |
| Computer equipment | 749 | 681 |
| Furniture and fixtures | 279 | 260 |
| Leasehold improvements | 72 | 63 |
| Less accumulated depreciation | (412) | (154) |
| Total property and equipment, net | <u>688</u> | <u>850</u> |
| Other assets | | |
| Goodwill and other intangible assets | 5,268 | 4,901 |
| Deposits | 11 | 13 |
| Total other assets | <u>5,279</u> | <u>4,914</u> |
| Total assets | <u><u>11,842</u></u> | <u><u>13,576</u></u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | 1,203 | 574 |
| Accrued liabilities | 82 | 164 |
| Deferred revenue | 54 | 102 |
| State income taxes | - | 4 |
| Current portion of obligations under capital lease | 92 | 82 |
| Total current liabilities | <u>1,431</u> | <u>926</u> |
| Long-term liabilities | | |
| Accrued liabilities | 50 | 55 |
| Obligations under capital lease, net of current portion | 171 | 271 |
| Total long-term liabilities | <u>221</u> | <u>326</u> |
| Stockholders' equity | | |
| Common stock, \$0.0001 par value; 100,000,000 shares authorised; 36,302,900 shares issued and outstanding | 4 | 4 |
| Additional paid-in capital | 13,478 | 13,346 |
| Retained earnings | (3,292) | (1,026) |
| Stockholders' equity | <u>10,190</u> | <u>12,324</u> |
| Total liabilities and stockholders' equity | <u><u>11,842</u></u> | <u><u>13,576</u></u> |

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

| | Common Stock | | Additional | Retained | |
|--------------------------------------------------|-------------------|------------|---------------|----------------|---------------|
| | Shares | Amount | Paid-in | Earnings | Total |
| | No. | \$ | Capital | (Accumulated | |
| | | | \$ | Deficit) | \$ |
| | | | | \$ | |
| Balances at 1 January 2014 | 1,000.00 | 332 | 15 | 725 | 1,071 |
| Stock issued for cash prior to IPO | 36.27 | 315 | - | - | 315 |
| Reclassification of contributed capital | (1,036.27) | (647) | 647 | - | - |
| Stock issued for contributed capital | 20,725,400 | 2 | - | - | 2 |
| Stock issued at IPO, net of IPO costs of \$2,586 | 15,577,500 | 2 | 12,624 | - | 12,626 |
| Non-cash stock compensation | - | - | 61 | - | 61 |
| Net loss | - | - | - | (1,751) | (1,751) |
| Balances at 31 December 2014 | 36,302,900 | 4 | 13,346 | (1,026) | 12,324 |
| Non-cash stock compensation | | | 132 | | 132 |
| Net loss | | | | (2,266) | (2,266) |
| Balances at 31 December 2015 | 36,302,900 | 4 | 13,478 | (3,292) | 10,190 |

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

| | Year Ended 31 December 2015 (unaudited) \$ | Year Ended 31 December 2014 \$ |
|------------------------------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | (2,266) | (1,751) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Change in allowance for doubtful accounts | 5 | 12 |
| Depreciation and amortization | 1,287 | 473 |
| Non-cash stock compensation | 132 | 61 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (518) | (445) |
| Research and development tax credits | (55) | 95 |
| Prepaid expenses | (79) | (152) |
| Net payments made on amounts due to shareholders | - | (26) |
| Deposits | 2 | (10) |
| Accounts payable | 629 | 557 |
| Accrued liabilities | (86) | (125) |
| Deferred revenue | (48) | 70 |
| State income taxes | (4) | 4 |
| | <hr/> | <hr/> |
| Total adjustments | 1,265 | 514 |
| | <hr/> | <hr/> |
| Net cash used for operating activities | (1,001) | (1,237) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of goodwill and intangibles | - | (4,000) |
| Acquisition of property and equipment | (96) | (488) |
| Capitalised software development costs | (1,396) | (803) |
| | <hr/> | <hr/> |
| Net cash used for investing activities | (1,493) | (5,292) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on long-term debt | - | (183) |
| Principal payments on capital lease obligations | (90) | (38) |
| Proceeds from issuance of stock | - | 12,942 |
| | <hr/> | <hr/> |
| Net cash provided by (used for) financing activities | (90) | 12,721 |
| | <hr/> | <hr/> |
| Net cash decrease for year | (2,584) | 6,192 |
| | <hr/> | <hr/> |
| Cash at beginning of year | 6,477 | 285 |
| | <hr/> | <hr/> |
| Cash at end of year | 3,893 | 6,477 |
| | <hr/> <hr/> | <hr/> <hr/> |