

28 March 2017

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



### Preliminary Results

ClearStar (AIM: CLSU and CLST), a leading technology and service provider to the background check industry, announces its unaudited results for the year ended 31 December 2016.

#### Financial Highlights

- Revenue increased by 3% to \$16.0 million (2015: \$15.5 million)
- Gross margin maintained at 61.3% (2015: 61.2%)
- General and administrative expenses reduced by 7.8% to \$7.5 million (2015: \$8.2 million)
- EBITDA improved by \$290,000 to a \$666,000 loss (2015: \$956,000 loss)
- As of 31 December 2016, the Company had net cash of \$2.4 million (30 June 2016: \$3.1 million; 31 December 2015: \$3.9 million)

#### Operational Highlights

##### *Direct Services*

- Significant progress in direct services resulting in organic revenue growth of approximately 77% to \$1.9 million (2015: \$1.1 million)
- Successful in targeting larger, higher-volume direct clients, with particular demand in the transportation industry
- Benefitted from the strengthening direct services sales team and introduction of the new ClearID and ClearContact solutions
- Strong organic growth mitigated the contraction in revenue due to the attrition of clients gained through the SingleSource acquisition, with total Direct Services Division revenues slightly above the previous year at \$3.80 million (2015: \$3.77 million)

##### *Channel Partner and Consumer Reporting Agencies ("CRAs")*

- Channel Partner and Consumer Reporting Agency revenue grew by 4% to \$12.2 million (2015: \$11.7 million) with increased demand for ClearStar's technologically-differentiated suite of products and solutions
- Largest service offering by revenue was medical information services, which accounted for 39% of division sales
- Ongoing improvement to offering, including adding new integration points, product development in areas of data distribution and improvements to user interface

##### *Technology and Product Advancement*

- Gained initial traction from the development of its global platform to satisfy interface, compliance and architectural demands outside the US
- The Company's clinical testing service was made available via ClearStar's proprietary WebCCF technology and number of collection sites increased to over 15,000

##### *Post period*

- As announced today, ClearStar has been awarded a contract by IntelliCentrics, a global leader in vendor credentialing in the healthcare industry, to provide its medical information services to streamline the drug and titer testing process

Robert Vale, CEO of ClearStar, commented: "These results demonstrate that ClearStar's underlying businesses are robust and continue to deliver revenue growth. 2016 was a significant year for us as we streamlined our business, strengthened our direct sales team and launched our global platform.

ClearStar now provides a suite of advanced services, directly and indirectly through our Channel Partner and CRA customers, on a global basis.

As a result, we entered 2017 well positioned with a stronger client base and more comprehensive service offering compared with the previous year. The fluidity of the labour market continues to expand thereby increasing the demand for our direct services and providing new opportunities for revenue generation. Our global platform, Sphere, is gaining traction, with the strong initial client response, strengthening our belief that we can generate meaningful global revenue in 2017. Consequently, we are confident of delivering continued growth and shareholder value, and we look forward to updating the market as the year progresses.”

#### Enquiries:

|  |                  |
|--|------------------|
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The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

#### About ClearStar

ClearStar, Inc. is a leading and trusted background check technology, strategic services and decision-making information provider to employers and background screening companies.

A seven-time Inc. 5000 honouree and founding member of the National Association of Professional Background Screeners, ClearStar has provided innovative technology solutions to businesses in the human capital management industry from its corporate offices in Alpharetta, Georgia since 1995. For more information about ClearStar, please visit: [www.clearstar.net](http://www.clearstar.net).

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## Operational Review

During the twelve months ended 31 December 2016, the Company achieved 3% revenue growth to \$16.0 million (2015: \$15.5 million). This was based on processing approximately 7.8 million screening services (2015: 7.2 million) on over 2.3 million people (2015: 2.2 million) that were provided to over 28,000 end-users (2015: 28,000).

### ***Direct Services Division***

During the period, ClearStar strengthened and expanded its direct sales and services team to capitalise on attractive market opportunities within the growing US screening market. In particular, the Company recruited employees with significant experience and expertise in engaging with large companies, which is ClearStar's primary target market. As a result, Direct Services Division organic revenues increased by 77% to \$1.9 million (2015: \$1.1 million), and the Company was successful in 'upscaling' its client base by targeting larger, higher-volume direct clients, with particular demand in the transportation industry. In addition, the Company is continuing to benefit from the changing demands of the ever-increasing 'gig economy' and casual and transitory nature of the labour market.

ClearStar commenced the on-boarding process for the three-year contract, signed at the end of 2015, with a leading global relocation and specialised logistics solutions provider, which includes the maiden deployment of the Company's biometric recognition software and electronic address book solution that were also launched during the period as ClearID and ClearContact. The Company is receiving increasing interest in these mobile-centric solutions from employers that rely on remote hiring or where large numbers of temporary workers are employed on a sustained basis, and commenced several trials with potential clients. Significantly, this customer is also making an initial deployment of the Company's global platform, Sphere, as described below.

Within direct services, the sales of direct medical information services increased by 56% to \$745,000 (2015: \$478,000), and is now serving around 600 clients.

As previously announced, the Company experienced attrition among its acquired SingleSource client base as a result of a large proportion of the smaller clients choosing not to invest in upgrading their compliance standards to meet ClearStar's requirements. However, this was largely mitigated by the growth in organic sales resulting in total Direct Services Division revenues of \$3.80 million (2015: \$3.77 million).

Post period, as announced today, ClearStar has been awarded a contract by IntelliCentrics, the healthcare industry leader with over 10,000 distinct installations of vendor credentialing across the US, Canada and the UK. ClearStar's automated titer and drug screening solution, made available via the Company's proprietary WebCCF technology, will be integrated into IntelliCentrics' SEC<sup>3</sup>URE program for hospitals and healthcare organisations. The SEC<sup>3</sup>URE healthcare experience is designed to allow hospitals to control access by healthcare industry representatives by ensuring only those that comply with the hospital's specific policies gain access to patient sensitive or restricted areas. The Company's automated order placement, registration and automatic transmission solution will eliminate the traditional paper-intensive forms and inefficient way of collating data for titer and drug screening tests.

### ***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 and to provide services to organisations for the purpose of medical testing, mainly for employees.

The division continued to be the largest contributor to overall revenues. Sales for 2016 increased by 4% to \$12.2 million (2015: \$11.8 million). This was primarily as a result of increased business from some of the Company’s largest clients. The primary services contributor to revenues was medical information services, which consisted mostly of drug testing but also clinical testing and occupational testing, which accounted for \$4.9 million (2015: \$4.8 million) of the division’s sales. The Company increased the number of employers that it provides its medical testing and results review services to over 14,500.

### ***Technology and Product Advancement***

During the period, the Company launched its global platform, Sphere, which was developed to satisfy interface, compliance and architectural demands outside the US. The Company has begun processing international records on Sphere, including initial records for its largest direct sales customer. The Company is receiving increasing interest in its global solutions from US-based organisations that have global operations or that require access to the global records of prospective employees as well as businesses based outside of the US. Management is confident of more widespread usage of Sphere in 2017 and expects meaningful revenue contribution from its global customers.

ClearStar achieved certification from the U.S. Department of Commerce under the EU-U.S. Privacy Shield for the transfer of personally identifiable information (PII) from the European Union to the United States. The EU-U.S. Privacy Shield Framework was designed by the U.S. Department of Commerce and the European Commission to provide companies on both sides of the Atlantic with a mechanism to comply with EU data protection requirements when transferring personal data from the EU to the US. The certification represents a further testament to the strength of ClearStar’s privacy and compliance standards as well as differentiating the Company from its competitors.

The Company grew its network of collection sites for its medical information services to over 15,000 and made its clinical testing service available via its proprietary WebCCF technology. WebCCF is ClearStar’s online laboratory registration and electronic custody and control form technology with mobile wallet-integration to enable a completely paperless screening process, which expedites the onboarding of new hires and efficiently manages the ongoing compliance testing of the workforce. The Company believes that the ease-of-use of this solution is a market differentiator for ClearStar and that sales in clinical testing will increase as result of its availability via WebCCF.

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### **Financial Review**

The Company continued to achieve revenue growth with total revenues increasing by 3% for the year ended 31 December 2016 to \$16.0 million compared with \$15.5 million for the year ended 31 December 2015.

Gross profit increased by 4% to \$9.8 million (2015: \$9.5 million) and gross profit margin was maintained at 61.3% (2015: 61.2%). This increase was primarily due to achieving greater purchase economies.

Total operating expenses, including depreciation and amortisation, increased by approximately \$194,000, or 1.7%, to \$11.9 million for 2016 compared with \$11.7 million for 2015.

General and administrative expenses decreased by approximately \$636,000, or 7.8%, to \$7.5 million for 2016 compared with \$8.2 million for the prior year, primarily due to better operating efficiencies achieved from the integration of the SingleSource acquisition.

Selling and marketing expenses were reduced by approximately \$175,000, or 11.9%, to \$1.3 million (2015: \$1.5 million), primarily due to the consolidation of the SingleSource sales and marketing team.

Research and development increased by approximately \$863,000, or 107%, to \$1.7 million for 2016 compared with \$808,000 for 2015. This was primarily due to more products going into production, including Sphere, which changes the accounting treatment of much of the software development costs from being capitalised to being expensed.

Depreciation and amortisation increased by approximately \$142,000, or 11%, to \$1.4 million (2015: \$1.3 million), primarily due to more products going into production, including Sphere, and thereby commencing amortising on the capitalised asset.

EBITDA for 2016 improved by \$290,000 to a \$666,000 loss, compared with \$956,000 loss for the prior year. The Company reported a loss before tax of approximately \$2.1 million in 2016 compared with a loss before tax of approximately \$2.3 million for 2015.

As of 31 December 2016, total assets were \$9.7 million with the largest assets being goodwill and other intangible assets of \$5.0 million, net cash of \$2.4 million, and accounts receivable of \$1.4 million. For 2016, the Company utilised \$1.5 million in cash compared with \$2.6 million in the prior year, a 43% improvement in cash utilisation.

The Company's total liabilities as of 31 December 2016 were \$1.6 million, and stockholders' equity was \$8.1 million, resulting in a debt-to-equity ratio of 20%.

The Company utilised \$460,000 in cash in operating activities compared with \$1.0 million for the previous year, mainly due to improvement in working capital accounts. The Company used \$0.9 million in investment activities compared with \$1.5 million for the previous year. This reduction is primarily the result of lower capitalised software development costs as more products were brought into production during the course of the year. The Company paid \$96,000 in financing activities related to capital lease obligations.

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## Outlook

2016 was a significant year for ClearStar as the Company streamlined its business, strengthened the direct sales team and launched its global platform. ClearStar now provides a suite of advanced services, directly and indirectly through our Channel Partner and CRA customers, on a global basis.

As a result, the Company entered 2017 well positioned with a stronger client base and a more comprehensive service offering compared with the previous year.

The fluidity of the labour market continues to expand thereby increasing the demand for ClearStar's direct services and providing new opportunities for revenue generation. The Company's global platform, Sphere, is gaining traction, with the strong initial client response strengthening management's belief in generating meaningful global revenue in 2017. Consequently, the Board is confident of delivering continued growth and shareholder value, and looks forward to updating the market as the year progresses.

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

|                                 | Year Ended<br>31 December<br>2016<br>(Unaudited)<br>\$ | Year Ended<br>31 December<br>2015<br>\$ |
|---------------------------------|--|---|
| <b>Net revenue</b>              | 16,032   | 15,516                                  |
| Cost of revenue                 | <u>6,197</u>   | <u>6,023</u>                            |
| <b>Gross profit</b>             | <u>9,835</u>   | <u>9,493</u>                            |
| <b>Operating expenses</b>       |  |   |
| Selling and marketing           | 1,299  | 1,474                                   |
| Research and development        | 1,671  | 808                                     |
| Depreciation and amortisation   | 1,429  | 1,287                                   |
| General and administrative      | <u>7,531</u>   | <u>8,167</u>                            |
| <b>Total operating expenses</b> | <u>11,930</u>  | <u>11,736</u>                           |
| Loss from operations            | <u>(2,095)</u>   | <u>(2,243)</u>                          |
| <b>Other expense</b>            |  |   |
| Interest expense                | <u>(16)</u>  | <u>(22)</u>                             |
| <b>Total other expense</b>      | <u>(16)</u>  | <u>(22)</u>                             |
| Net loss before taxes           | (2,111)  | (2,265)                                 |
| Provision for income taxes      | <u>61</u>  | <u>53</u>                               |
| <b>Net loss</b>                 | <u>(2,172)</u>   | <u>(2,318)</u>                          |

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

|   | As of<br>31 December<br>2016<br>(Unaudited)<br>\$ | As of<br>31 December<br>2015<br>\$ |
|---|---|------------------------------------|
| <b>ASSETS</b>   |   |                                    |
| <b>Current assets</b>   |   |                                    |
| Cash  | 2,420   | 3,893                              |
| Accounts receivable - trade, net  | 1,442   | 1,609                              |
| Research and development tax credits  | 138   | 82                                 |
| Prepaid expenses  | 257   | 291                                |
| <b>Total current assets</b>   | <b>4,257</b>                                      | <b>5,875</b>                       |
| <b>Property and equipment, at cost</b>  |   |                                    |
| Computer equipment  | 687   | 749                                |
| Furniture and fixtures  | 277   | 279                                |
| Leasehold improvements  | 62  | 72                                 |
| Less accumulated depreciation   | (560)   | (412)                              |
| <b>Total property and equipment, net</b>  | <b>466</b>  | <b>688</b>                         |
| <b>Other assets</b>   |   |                                    |
| Goodwill and other intangible assets  | 4,976   | 5,268                              |
| Deposits  | 11  | 11                                 |
| <b>Total other assets</b>   | <b>4,987</b>                                      | <b>5,279</b>                       |
| <b>Total assets</b>   | <b>9,710</b>                                      | <b>11,842</b>                      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |   |                                    |
| <b>Current liabilities</b>  |   |                                    |
| Accounts payable  | 1,130   | 1,203                              |
| Accrued liabilities   | 119   | 82                                 |
| Deferred revenue  | 54  | 54                                 |
| State income taxes  | 5   | 7                                  |
| Current portion of obligations under capital lease  | 99  | 92                                 |
| <b>Total current liabilities</b>  | <b>1,407</b>                                      | <b>1,438</b>                       |
| <b>Long-term liabilities</b>  |   |                                    |
| Accrued liabilities   | 46  | 50                                 |
| Deferred income taxes   | 99  | 45                                 |
| Obligations under capital lease, net of current portion   | 68  | 171                                |
| <b>Total long-term liabilities</b>  | <b>213</b>  | <b>266</b>                         |
| <b>Stockholders' equity</b>   |   |                                    |
| Common stock, \$0.0001 par value; 100,000,000 shares authorised; 36,302,900 shares issued and outstanding | 4   | 4                                  |
| Additional paid-in capital  | 13,602  | 13,478                             |
| Accumulated deficit   | (5,516)   | (3,344)                            |
| <b>Stockholders' equity</b>   | <b>8,090</b>                                      | <b>10,138</b>                      |
| <b>Total liabilities and stockholders' equity</b>   | <b>9,710</b>                                      | <b>11,842</b>                      |



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

|   | Common Stock      |          | Additional    | Accumulated    | Total         |
|---|-------------------|----------|---------------|----------------|---------------|
|   | Shares            | Amount   | Paid-in       | Deficit        |               |
|   | No.               | \$       | Capital       |                | \$            |
|   |                   |          | \$            | \$             |               |
| <b>Balances at 1 January 2015</b>               | <b>36,302,900</b> | <b>4</b> | <b>13,346</b> | <b>(1,026)</b> | <b>12,324</b> |
| Non-cash stock compensation                     | -                 | -        | 132           | -              | 132           |
| Net loss  | -                 | -        | -             | (2,318)        | (2,318)       |
| <b>Balances at 31 December 2015</b>             | <b>36,302,900</b> | <b>4</b> | <b>13,478</b> | <b>(3,344)</b> | <b>10,138</b> |
| Non-cash stock compensation                     | -                 | -        | 124           | -              | 124           |
| Net loss  | -                 | -        | -             | (2,172)        | (2,172)       |
| <b>Balances at 31 December 2016 (unaudited)</b> | <b>36,302,900</b> | <b>4</b> | <b>13,602</b> | <b>(5,516)</b> | <b>8,090</b>  |

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

|   | Year Ended<br>31 December<br>2016<br>(Unaudited)<br>\$ | Year Ended<br>31 December<br>2015<br>\$ |
|---|--|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                     |  |   |
| Net loss  | (2,172)  | (2,318)                                 |
| Adjustments to reconcile net loss<br>to net cash used for operating activities: |  |   |
| Change in allowance for doubtful accounts                                       | 13   | 5                                       |
| Depreciation and amortisation   | 1,429  | 1,287                                   |
| Deferred income taxes   | 54   | 45                                      |
| Non-cash stock compensation   | 124  | 132                                     |
| Loss on disposal of property and equipment                                      | 2  | -                                       |
| Change in operating assets and liabilities:                                     |  |   |
| Accounts receivable   | 154  | (518)                                   |
| Research and development tax credits  | (56)   | (55)                                    |
| Prepaid expenses  | 34   | (79)                                    |
| Deposits  | 0  | 2                                       |
| Accounts payable  | (73)   | 629                                     |
| Accrued liabilities   | 33   | (87)                                    |
| Deferred revenue  | -  | (48)                                    |
| State income taxes  | (2)  | 3                                       |
|   | <hr/>  | <hr/>                                   |
| Total adjustments   | 1,712  | 1,316                                   |
|   | <hr/>  | <hr/>                                   |
| <b>Net cash used for operating activities</b>                                   | (460)  | (1,002)                                 |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                     |  |   |
| Acquisition of property and equipment   | (32)   | (96)                                    |
| Proceeds from disposition of property and equipment                             | 1  | -                                       |
| Capitalised software development costs  | (886)  | (1,396)                                 |
|   | <hr/>  | <hr/>                                   |
| <b>Net cash used for investing activities</b>                                   | (917)  | (1,492)                                 |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                     |  |   |
| Principal payments on capital lease obligations                                 | (96)   | (90)                                    |
|   | <hr/>  | <hr/>                                   |
| <b>Net cash provided used for financing activities</b>                          | (96)   | (90)                                    |
|   | <hr/>  | <hr/>                                   |
| <b>Net cash decrease for year</b>   | (1,473)  | (2,584)                                 |
| <b>Cash at beginning of year</b>  | 3,893  | 6,477                                   |
|   | <hr/>  | <hr/>                                   |
| <b>Cash at end of year</b>  | <b>2,420</b>   | <b>3,893</b>                            |
|   | <hr/> <hr/>  | <hr/> <hr/>                             |