27 September 2016

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

Interim Results for Six Months Ended 30 June 2016

ClearStar (AIM: CLST and CLSU), a leading technology and service provider to the background check industry, announces its unaudited results for the six months ended 30 June 2016.

Financial Highlights

- Revenues increased by 6% to $8.0 million (H1 2015: $7.5 million)
- Gross profit increased by 10% to $5.0 million (H1 2015: $4.5 million)
- Gross margin increased by 190 basis points to 62.4% (H1 2015: 60.5%)
- Operating expenses reduced by $400,000 to $6.0 million (H1 2015: $6.4 million)
- EBITDA improved by $1.0 million to a $300,000 loss (H1 2015: $1.3 million loss)
- As of 30 June 2016, the Company had net cash of $3.1 million (31 December 2015: $3.9 million; 30 June 2015: $4.2 million)

Operational Highlights

- Processed approximately 4.0 million screening services (H1 2015: 3.6 million) on over 1.2 million people (H1 2015: 1.1 million) that were provided to over 25,000 end-users (H1 2015: 23,000)
- Direct Services Division revenues were $1.9 million (H1 2015: $1.8 million) with significant improvement in gross margin due to increasing proportion of revenue contributed by new large, higher-volume clients. Excluding clients from the SingleSource acquisition, division revenues grew by 100% to $878,000 (H1 2015: $439,000)
- Three-year contract with leading global relocation and specialised logistics solutions provider started on-boarding
- Channel Partner and Consumer Reporting Agency revenues increased by 8% to $3.7 million (H1 2015: $3.5 million)
- Medical Information Services Division sales grew by 3% year-on-year
- Global Division continued to make progress in enhancing its new technology platform, expanding geographical reach and commencing trials with several potential clients
- Cost control initiatives introduced in the second half of 2015 resulted in $400,000 in reduced operating expenses in H1 2016 compared with the same period of the previous year
- Launched mobile-centric ClearID biometric recognition software solution and ClearContact electronic addressbook

Robert Vale, CEO of ClearStar, commented: "We achieved another period of growth as we added new clients and cross-sold services to existing clients. Our Channel Partner and Consumer Reporting Agency clients continue to account for the majority of sales – whether this is for a background check or a drug screen delivered in the US or abroad. However, we are greatly encouraged by the increasing revenues generated by Direct Services clients, which is our key growth engine. This is a reflection of our enhanced brand recognition as we rapidly transition from a purely indirect service offering to direct; the investment in strengthening our direct sales team; and our technological innovation to develop market-leading solutions.

"Looking ahead, the momentum achieved in the first half of the year has been sustained into the second half of 2016. We are receiving significant interest in our recently-launched ClearID and ClearContact solutions, which are designed to cater for the increasingly casual and transitory nature of the labour market, and we expect Direct Services Division revenues to grow in the second half over the first half. The addition of clinical testing to our WebCCF technology is expected to drive sales in this area and is further testament to our ability to innovate and introduce market-leading solutions. As a result, we continue to believe that the fundamentals of the business are sound and the strength of our offer is increasing. With the growing demand for our services across all of our divisions, the Board remains confident of achieving sustained growth and of delivering value to shareholders."

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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.

Operational Review

During the six months ended 30 June 2016, the Company achieved 6% revenue growth to $8.0 million (H1 2015: $7.5 million). This was due to increased business across all divisions – from both new clients and the cross-selling of services to existing clients.

In recognition of the evolving nature of the business, during H2 2015, 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 developed through the acquisition of SingleSource, such as the migration of all clients to a single platform. The Company successfully executed on, and expedited, the implementation of these measures, which resulted in the reduction in operating expenses of approximately $400,000 during H1 2016 compared with the same period of the previous year.

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

The division continued to be the largest contributor to overall revenues. Sales for H1 2016 increased by 8% to $3.7 million (H1 2015: $3.5 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

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 revenues, excluding clients from the SingleSource acquisition, increased by 100% to $878,000 (H1 2015: $439,000). The Company experienced attrition among its SingleSource client-base as a result of a large proportion of the smaller clients gained through the acquisition choosing not to invest in upgrading their compliance standards to meet ClearStar's requirements. Consequently, total Direct Services Division revenues increased by 6% to $1.9 million (H1 2015: $1.8 million), with a strong improvement in gross margin as a result of the increasing proportion of division revenue generated by large, higher-volume clients.

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 addressbook solution. The Company is receiving increasing interest in these mobile-centric solutions, launched during the period as ClearID and ClearContact, 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.

Medical Information Services ("MIS") Division

MIS sales for the first six months of 2016 increased by 3% to $2.33 million (H1 2015: $2.27 million). Drug testing remains the largest contributor to division revenues, accounting for approximately 85%. Other contributors to revenues are clinical testing and occupational testing. The Company now provides its medical testing and results review services to over 13,500 companies and its network of collection sites has grown to over 14,500.

During the period, the Company 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 on-boarding of new hires and efficiently manages the ongoing compliance testing of the workforce. Following integrations with Quest and LabCorp laboratories, end-users are now able to order and register for clinical tests at over 14,500 collection sites via the WebCCF widget. 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.

Global Division

The Global Division is the Company's newest unit, having been established following ClearStar's IPO in July 2014 when the Company commenced the development of its new global platform to satisfy interface, compliance, and architectural demands outside the US. Prior to this, ClearStar had a limited presence outside the US. Today, ClearStar can supply background checks globally. During the period, the Company received increasing interest in its global solutions both from organisations based outside of the US as well as from existing US-based clients that have global operations and commenced trials with several potential clients.

Post period, 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 recently-launched 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.

Financial Review

The Company continued to achieve revenue growth with total revenues increasing by 6% for the six months ended 30 June 2016 to $8.0 million compared with $7.5 million for the six months ended 30 June 2015. All four business units experienced growth.

Gross profit increased by 10% for the six months ended 30 June 2016 to $5.0 million, compared with $4.5 million for the six months ended 30 June 2015. Gross profit margin improved by 190 basis points to 62.4% from 60.5% for the same period of the previous year. This increase was primarily due to achieving greater purchase economies. Management believes gross margin will continue to improve due to on-going economies of scale being achieved.

Total operating expenses, including depreciation and amortisation, were $6.0 million for the six months ended 30 June 2016 compared with $6.4 million for the six months ended 30 June 2015. This $400,000 decrease was attributable to cost control initiatives introduced in the second half of 2015 being realised in H1 2016.

Selling and marketing expenses were reduced by approximately $600,000 from $1.3 million to $700,000, primarily due to the implementation of operational and technological efficiencies from the integration of the SingleSource acquisition.

Research and development was approximately $700,000 for the six months ended 30 June 2016 compared with $800,000 for the same period of the previous year. This decrease is primarily attributable to lower staff costs in software development. General and administrative expenses increased by approximately $100,000 to $3.9 million from $3.8 million, primarily due to the costs associated with the strategic review process which was outlined in the announcement dated 24 May 2016, along with greater compliance and internet security costs.

As a result of the increase in revenues and the reduction in operating expenses, EBITDA for H1 2016 improved by $1.0 million to $300,000 loss, compared with $1.3 million loss for the same period of the prior year. The Company reported a loss before tax of approximately $1.0 million in H1 2016 compared with a loss before tax of approximately $1.8 million for the same period of the prior year.

As of 30 June 2016, total assets were $11.3 million on 30 June 2016 with the largest assets being goodwill and other net intangible assets of $5.3 million, net cash of $3.1 million, and accounts receivable of $1.9 million.

The Company's total liabilities as of 30 June 2016 were $2.1 million, and stockholders' equity was $9.2 million, resulting in a debt-to-equity ratio of 23%.

The Company utilised $110,000 in cash in operating activities compared with $1.7 million for the same period of the previous year, mainly due to the aforementioned operational and technological efficiencies as a result of the integration of SingleSource. The Company used $600,000 in investment activities, mostly consisting of $580,000 in capitalised software costs. The Company paid $47,000 in financing activities related to capital lease obligations.

Strategic Review

Further to the Company's announcement of 24 May 2016, during the period the Board initiated a strategic review process to evaluate options that would enable ClearStar to accelerate the development and sales of its market-leading technology and solutions while ensuring value for shareholders. As a result of this process, the Board has received significant endorsement of its core technology and has concluded that, at this point, it is in the best interest of stockholders to continue to grow the business as an independent company. Management remains committed to pursuing its growth strategy to maximise stockholder value.

Outlook

The momentum achieved in the first half of the year has been sustained into the second half of 2016, and the Company continues to receive growing demand for its services across each of its divisions. The Company is increasingly cross-selling its services to existing clients as well as winning new clients.

The investment in strengthening and expanding the Company's direct sales team is expected to drive growth along with the new solutions, ClearID and ClearContact, which are designed to cater for the increasingly casual and transitory nature of the labour market – and are already receiving significant interest. The client trials that were commenced during the first half with the ClearID and ClearContact solutions are progressing well, and the Company anticipates these transitioning to contract orders in due course. The Company's indirect sales will remain the largest contributor to overall revenues, and ClearStar continues to strengthen its relationships with its Channel Partner and CRA clients through technology enhancements and the provision of additional services. As a result, the Company expects to report another period of growth for full-year with an increase in annual revenues in 2016.

The Board continues to believe that the underlying fundamentals of the business are sound, and the strength of the Company's offer is increasing. With the growing global demand for its services, particularly its newly-developed software, the Board remains confident of achieving sustained growth and of delivering value to stockholders.

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

	Six Months Ended 30 June 2016 (Unaudited) $	Six Months Ended 30 June 2015 (Unaudited) $	Year Ended 31 December 2015 $
Net revenue	7,971	7,491	15,516
Cost of revenue	2,994	2,960	6,023
Gross profit	4,977	4,531	9,493
Operating expenses			
Selling and marketing	698	1,312	1,474
Research and development	663	759	808
Depreciation and amortisation	719	534	1,287
General and administrative	3,899	3,750	8,167
Total operating expenses	5,979	6,355	11,736
Loss from operations	(1,002)	(1,824)	(2,243)
Other expense			
Interest expense	(9)	(12)	(22)
Total other expense	(9)	(12)	(22)
Net loss before taxes	(1,011)	(1,836)	(2,265)
Provision for income taxes	-	5	53
Net loss	(1,011)	(1,841)	(2,318)

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

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

	As of 30 June 2016 (Unaudited) $	As of 30 June 2015 (Unaudited) $	As of 31 December 2015 $
ASSETS			
Current assets			
Cash	3,133	4,201	3,893
Accounts receivable - trade, net	1,860	1,759	1,609
Research and development tax credits	82	27	82
Prepaid expenses	352	465	291
Total current assets	5,427	6,452	5,875
Property and equipment, at cost			
Computer equipment	771	741	749
Furniture and fixtures	279	279	279
Leasehold improvements	72	72	72
Less accumulated depreciation	(536)	(273)	(412)
Total property and equipment, net	586	819	688
Other assets			
Goodwill and other intangible assets, net	5,253	4,906	5,268
Deposits	11	11	11
Total other assets	5,264	4,917	5,279
Total assets	11,277	12,188	11,842
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	1,458	835	1,203
Accrued liabilities	255	347	82
Deferred revenue	51	91	54
State income taxes	0	4	7
Current portion of obligations under capital lease	95	89	92
Total current liabilities	1,859	1,366	1,438
Commitments and contingencies			
Long-term liabilities			
Accrued liabilities	49	52	50
Deferred income taxes	45	-	45
Obligations under capital lease, net of current portion	120	220	171
Total long-term liabilities	214	272	266
Stockholders' equity			
Common stock, $0.0001 par value; 100,000,000 shares authorised; 36,302,900 shares issued and outstanding	4	4	4
Additional paid-in capital	13,555	13,413	13,478
Retained earnings	(4,355)	(2,867)	(3,344)
Stockholders' equity	9,204	10,550	10,138
Total liabilities and stockholders' equity	11,277	12,188	11,842

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 Capital	Accumulated Deficit	Total
	Shares	Amount			
	No.	$	$	$	$
Balances at 1 January 2015	**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**
Non-cash stock compensation	-	-	66	-	65
Net loss	-	-	-	**(477)**	(477)
Balances at 31 December 2015	**36,302,900**	**4**	**13,478**	**(3,344)**	**10,138**
Non-cash stock compensation	-	-	77	-	77
Net loss	-	-	-	(1,011)	(1,011)
Balances at 30 June 2016 (unaudited)	**36,302,900**	**4**	**13,555**	**(4,355)**	**9,204**

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 2016 (Unaudited)	Six Months Ended 30 June 2015 (Unaudited)	Year Ended 31 December 2015
	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(1,011)	(1,841)	(2,318)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Change in allowance for doubtful accounts	57	38	5
Depreciation and amortisation	719	534	1,287
Deferred income taxes	-	-	45
Non-cash stock compensation	76	66	132
Change in operating assets and liabilities:			
Accounts receivable	(307)	(701)	(518)
Research and development tax credits	-	-	(55)
Prepaid expenses	(62)	(250)	(79)
Deposits	-	2	2
Accounts payable	255	261	629
Accrued liabilities	171	180	(87)
Deferred revenue	(3)	(12)	(48)
State income taxes	(5)	-	3
Total adjustments	901	118	1,316
Net cash used for operating activities	(110)	(1,723)	(1,002)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	(23)	(89)	(96)
Capitalised software development costs	(580)	(420)	(1,396)
Net cash used for investing activities	(603)	(509)	(1,492)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on capital lease obligations	(47)	(44)	(90)
Net cash used for financing activities	(47)	(44)	(90)
Net cash decrease for period	(760)	(2,276)	(2,584)
Cash at beginning of period	3,893	6,477	6,477
Cash at end of period	**3,133**	**4,201**	**3,893**

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

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

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Six Months Ended 30 June 2016 (Unaudited)	Six Months Ended 30 June 2015 (Unaudited)	Year Ended 31 December 2015
	$	$	$
Cash paid:			
Interest	9	12	22
Income taxes	-	2	4
	9	17	26

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

During the six months ended 30 June 2016, the Company retired fully-amortised intangible assets of approximately $447,000.

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

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.

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.

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, stock-based compensation 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 that at times may exceed federally insured limits. 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 in a broad range of industries located throughout the United States and abroad 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 2016 and 2015, and the year ended 31 December 2015 was approximately $124,000, $119,000 and $258,000, respectively.

h) Goodwill

Goodwill recorded in the consolidated financial statements represents the excess of the purchase price of an acquisition over the fair value of acquired net assets on the date of acquisition. 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 has not recorded any goodwill impairment charges.

In our evaluation of goodwill impairment, we perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive, we proceed to a two-step process to test goodwill for impairment including comparing the fair value of the reporting unit to its carrying value (including attributable goodwill). Fair value for our reporting unit is determined using an income or market approach, incorporating market participant considerations and management's assumptions on revenue growth rates, operating margins, discount rates and expected capital expenditures. Fair value determinations may include both internal and third-party valuations. Unless circumstances otherwise dictate, we perform our annual impairment testing in the fourth quarter. 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 in an acquisition 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. Management determined that there were no impairments during the six months ended 30 June 2016 and 2015, and the year ended 31 December 2015.

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 per-transaction search results and/or search result review services 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.

l) Advertising

The Company expenses advertising costs as incurred. Advertising expenses for the six months ended 30 June 2016 and 2015, and the year ended 31 December 2015 were approximately $156,000, 228,000 and $473,000, 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.

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred income taxes. Deferred income taxes are recognised for differences between the basis of assets and liabilities for financial statement and income tax purposes. Deferred income 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 income 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 income 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 abroad. 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 2016 and 2015, and the year ended 31 December 2015, the Company does not have any unrecognised tax benefits.

The Company is not subject to income tax examinations for the years ending prior to 31 December 2012.

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, less an estimate for forfeitures, over the requisite service period, using the straight-line method. Stock-based compensation expense for the six months ended 30 June 2016 and 2015, and the year ended 31 December 2015 was approximately $76,000, $66,000 and $132,000, 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) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 ("ASU 2014-09") "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)", and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. As currently issued and amended, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, though early adoption is permitted for annual reporting periods beginning after December 15, 2016. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements, implementing accounting system changes related to the adoption, and considering additional disclosure requirements.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02 ("ASU 2015-02") "Consolidation (Topic 810): Amendments to the Consolidation Analysis." ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. We adopted this standard in the first quarter of 2016 on a retrospective basis. The adoption of this standard did not have a material impact on our consolidated statements of operations or consolidated balance sheets.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 ("ASU 2015-17") "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes." ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheets. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted. We have early adopted this standard in the fourth quarter of 2015 on a retrospective basis. Prior periods have been retrospectively adjusted.

As a result of the adoption of ASU 2015-17, the Company made no adjustments to the consolidated balance sheet as of 30 June 2015.

q) Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statement presentation to correspond to the current year's format. These reclassifications have no effect on previously reported net income.

2. Accounts Receivable

Accounts receivable consisted of the following:

	Six Months Ended 30 June 2016 (Unaudited) $000	Six Months Ended 30 June 2015 (Unaudited) $000	Year Ended 31 December 2015 $000
Trade accounts receivable	1,933	1,809	1,626
Allowance for doubtful accounts	(73)	(50)	(17)
	1,860	1,759	1,609

3. Goodwill and Other Intangible Assets

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

		Gross Cost			Accumulated Amortisation			
	Life (years)	Beginning $000	Additions $000	Ending $000	Beginning $000	Additions $000	Ending $000	Net $000
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

Goodwill and other intangible assets were comprised of the following at 31 December 2015:

		Gross Cost			Accumulated Amortisation			
	Life (years)	Beginning $000	Additions $000	Ending $000	Beginning $000	Additions $000	Ending $000	Net $000
Goodwill	Indefinite	2,283	-	2,283	-	-	-	2,283
Software Development	3	1,523	1,396	2,919	607	761	1,368	1,551
Customer Relationships	7	1,673	-	1,673	-	239	239	1,434
Trade name	1	29	-	29	-	29	29	-
		5,508	1,396	6,904	607	1,029	1,636	5,268

Goodwill and other intangible assets were comprised of the following at 30 June 2016 (unaudited):

		Gross Cost				Accumulated Amortisation				
	Life (years)	Beginning $000	Additions $000	Disposal $000	Ending $000	Beginning $000	Additions $000	Disposal $000	Ending $000	Net $000
Goodwill	Indefinite	2,283	-	-	2,283	-	-	-	-	2,283
Software Development	3	2,919	580	(418)	3,081	1,368	476	(418)	1,426	1,655
Customer Relationships	7	1,673	-		1,673	239	119		358	1,315
Trade name	1	29	-	(29)	-	29	-	(29)	-	-
		6,904	580	(447)	7,037	1,636	595	(447)	1,784	5,253

Approximate aggregate future amortisation expense is as follows:

Year Ending 30 June:

	Amount (unaudited) $000
2017	1,112
2018	845
2019	418
2020	239
2021 and beyond	356
	2,970

4. 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 for payment terms subject to escalation. Aggregate rent, common area maintenance charges and property tax expense for the six months ended 30 June 2016 and 2015, and the year ended 31 December 2015 was approximately $156,000, $210,000 and $290,000, respectively.

At 30 June 2016, future minimum lease payments under non-cancellable operating leases were as follows:

Year Ending 30 June:

	Amount (unaudited) $000
2017	258
2018	174
2019	128
2020	131
2021	134
2022	92
	917

- Capital Leases

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 2016 (unaudited) $000	As of 30 June 2015 (unaudited) $000	As of 31 December 2015 $000
Cost of equipment and installation	390	390	390
Less: accumulated depreciation	(188)	(91)	(141)
	202	299	249

At 30 June 2016, future minimum lease payments under capital lease agreements consist of the following:

Year Ending 30 June:

	Amount (unaudited) $000
2017	107
2018	107
2019	19
	233
Less: interest	(18)
	215
Less: current portion	(95)
	120

- Board of Directors ("Board") 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 2016 and 2015, and the year ended 31 December 2015, director fees were approximately $50,000, $53,000 and $100,000, respectively. Options granted to the NEDs were approximately 72,000 shares, vesting over a one-year term (Note 7).

- 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 $189,000, payable in equal monthly instalments in advance through January 2018.

5. Income Taxes

- Tax effects of temporary differences are as follows:

	As of 30 June 2016 (unaudited) $000	As of 30 June 2015 (unaudited) $000	As of 31 December 2015 $000
Non-current deferred tax assets (liabilities):			
Allowance for doubtful accounts	26	18	6
Prepaid expenses	(56)	(66)	(29)
Amortisation of software development	(591)	(359)	(556)
Amortisation of other intangible assets	51	27	79
Amortisation of goodwill	(23)	-	(45)
Accrued liabilities	18	71	18
Deferred revenue	(1)	21	10
Basis differences in property and equipment	(46)	(31)	(28)
Net operating losses	1,937	1,241	1,623
Stock-based compensation	49	45	69
Tax credits	175	26	101
Other adjustments	(9)	3	(16)
Total non-current	1,530	1,134	1,232
Less: valuation allowance	(1,575)	(996)	(1,277)
Net deferred tax assets (liabilities)	(45)	-	(45)

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 2016 (unaudited) $000	As of 30 June 2015 (unaudited) $000	As of 31 December 2015 $000
Current tax expense:			
Federal	-	-	-
State	-	5	8
	-	5	8
Deferred tax expense:			
Federal	-	-	43
State	-	-	2
		-	45

Total provision for income taxes	-	5	53

The effective income tax rate differs from the federal statutory income tax rate due to state income taxes, certain non-deductible expenses and an increase of approximately $298,000 in the valuation allowance for the period.

At 30 June 2016, the Company had approximately $1,897,000 in net operating loss carryforwards ("NOL") available to use against taxable income. The NOL's expire through 2035.

At 30 June 2016, the Company had approximately $101,000 in federal research and development ("R&D") credits available to use against taxable income. The R&D credits will begin to expire starting in 2034.

6. Stockholders' Equity

The Board has authorised 100,000,000 shares of Ordinary Shares, $0.0001 par value. As of 30 June 2016 and 2015, and 31 December 2015, there were 36,302,900 shares issued and outstanding.

7. Stock-Based Compensation

In June 2014, the 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 2016, approximately 1,089,000 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 six months ended 30 June 2016 and 2015, and the year ended 31 December 2015:

	Shares	Weighted-Average Exercise Price
Outstanding at 1 January 2015	1,290,165	$0.97
Granted	285,000	$0.91
Forfeited or cancelled	(147,000)	$0.97
Outstanding at 30 June 2015 (unaudited)	1,428,165	$0.97
Granted	240,000	$0.97
Forfeited or cancelled	(132,000)	$0.97
Outstanding at 31 December 2015	1,536,165	$0.96
Granted	405,000	$0.51
Forfeited or cancelled	(30,000)	$0.91
Outstanding at 30 June 2016 (unaudited)	1,911,165	$0.86
Exercisable at 30 June 2015 (unaudited)	36,082	$0.97
Exercisable at 31 December 2015	415,165	$0.97
Exercisable at 30 June 2016 (unaudited)	490,165	$0.96

As of 30 June 2016, there was approximately $197,000 of total unrecognised compensation costs related to unvested stock options, which is expected to be recognised over a weighted-average period of 1.47 years. To the extent the actual forfeiture rate is different from what we have estimated, stock-based compensation expense related to these awards will be different from our expectations.

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

	4 Jan 2016 (unaudited)	1 July 2015	2 Jan 2015	11 July 2014
Weighted-average fair value on day of grant	$0.14	$0.26	$0.25	$0.27
Risk-free interest rate	1.00%	1.00%	1.00%	1.00%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	32.90%	32.90%	33.18%	33.42%
Weighted-average expected life of option	4.00 years	4.00 years	4.00 years	3.94 years

8. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Dilutive common stock equivalents represent shares issuable upon assumed exercise of stock options.

	Six Months Ended 30 June 2016 (Unaudited)	Six Months Ended 30 June 2015 (Unaudited)	Year Ended 31 December 2015
Basic income per share	($0.03)	($0.05)	($0.06)
Diluted income per share	($0.03)	($0.05)	($0.06)
Weighted-average common shares outstanding:			
Basic and diluted	36,302,900	36,302,900	36,302,900

9. 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 2016 and 2015, and the year ended 31 December 2015, matching contributions were approximately $76,000, $72,000 and $143,000, respectively.

10. 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 2016 and 2015, and the year ended 31 December 2015, the Company had purchases from two and three suppliers totalling approximately $1,577,000, 1,768,000 and $3,168,000 which comprised approximately 53, 60 and 53 per cent. of the Company's purchases, respectively. The accounts payable balance included approximately $620,000, $307,000 and $510,000 to these vendors at 30 June 2016 and 2015, and 31 December 2015, respectively.

- Significant Customer

A significant customer is defined as one from whom at least 10 per cent. of annual revenue is derived. There were no significant customers for the six months ended 30 June 2016 and 2015, and the year ended 31 December 2015.

11. Related Party Transactions

The Company contracted with a certain shareholder of the Company to provide consulting services. During the six months ended 30 June 2016 and 2015, and the year ended 31 December 2015, the Company incurred approximately $17,000, $12,000 and $26,000, respectively, in consulting fees to this related party.

The Company leases one of its office spaces from Flying Diamond, LLC, a company owned by two shareholders (see Note 4). Rental expense paid to the related party for the six months ended 30 June 2016 and 2015, and the year ended 31 December 2015 was approximately 48,000, $42,000 and $87,000, respectively.

12. Subsequent Events

The Company evaluated subsequent events through 27 September 2016, when these consolidated financial statements were available to be issued. 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.