19 September 2017

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

Interim Results for Six Months Ended 30 June 2017

ClearStar (AIM: CLSU), a leading technology and service provider to the background check industry, announces its unaudited results for the six months ended 30 June 2017.

Financial Highlights

- Revenues increased by 12% to $8.9 million (H1 2016: $8.0 million)
- Direct services revenue increased by 20% year-on-year
- Gross profit increased by 7% to $5.3 million (H1 2016: $5.0 million)
- General and administrative expenses reduced by $132,000 to $3.8 million (H1 2016: $3.9 million)
- Adjusted EBITDA improved to a $165,000 loss (H1 2016: $208,000 loss)
- As of 30 June 2017, the Company had net cash of $1.6 million (31 December 2016: $2.4 million)

Operational Highlights

- Year-on-year and sequential growth resulting from an acceleration in direct services based on strong demand from the transportation industry as well as home healthcare
- Growth in channel partner – indirect services – driven by demand for medical information services (“MIS”)
- MIS sales (direct and indirect) remained the largest single contributor accounting for 35% of total revenue
- Sustained momentum in upscaling of client base, such as a direct contract award by IntelliCentrics
- On-boarding process completed for largest direct sales customer, a leading global relocation and specialised logistics solutions provider, including maiden deployment of ClearID and ClearContact
- Global sales continued to gain traction, primarily with the supply of international records for channel partner clients, but also direct, such as a contract with MultiLatin, a leading provider of international background screening services in Latin America, for multilingual global screening services

Robert Vale, CEO of ClearStar, commented: “During the first half of 2017 we generated our highest ever revenue for a six-month reporting period, driven by increasing direct sales and demand for our medical information services. We were successful in upscaling our direct client base, winning contracts with large, well-established businesses such as IntelliCentrics – and we made substantial progress with the on-boarding of those customers.

“We now have a stronger client base and are positioned to increase revenue generation under our recently-won larger contracts. We continue to receive increasing demand for our technologically-differentiated solutions, particularly for medical information services and directly from large corporates as a result of sustained investment in sales & marketing efforts to raise ClearStar’s brand awareness. Consequently, the Board remains confident of delivering good revenue growth for full year 2017 in line with market expectations.”

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About ClearStar

ClearStar, Inc. is a leading and trusted background check technology, medical screening, 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.

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

Operational Review

During the six months ended 30 June 2017, ClearStar achieved an increase in revenue of 12% year-on-year (H1 2016: $8.0 million) and 10% sequentially (H2 2016: $8.1 million) to $8.9 million – the highest level of revenue that the Company has generated in a six-month reporting period.

Performance by business channel

Sales from direct services increased by 20% to $2.3 million in the first half of 2017 (H1 2016: $1.9 million) and the momentum gained by ClearStar in 2016 in upscaling the direct client base to larger, higher-volume businesses was maintained. Notable contract wins include IntelliCentrics, a leading provider of healthcare vendor credentialing that has over 10,000 distinct installations across the US, Canada and the UK.

The significant progress made in direct services was driven by strong demand from the transportation industry as well as home healthcare. This was partly as a result of the sustained investment in sales & marketing efforts to raise ClearStar's brand awareness in the direct services market.

In addition, the Company is no longer being impacted by the attrition previously experienced among the smaller, lower margin direct clients gained through the acquisition of SingleSource that chose not to invest in upgrading their compliance standards to meet ClearStar's requirements.

Sales to channel partners – indirect services – grew by 9% to $6.7 million (H1 2016: $6.1 million), and accounted for 75% of total revenue. The Company expects direct services to account for an increasing proportion of total revenue.

Performance by service offering

Medical Information Services

Medical information services ("MIS") continued to be the largest single contributor to revenues by product offering, accounting for 35% of total revenues at $3.1 million – of which 87% were channel partner sales and 13% were direct sales. As such, MIS accounted for 41% of total indirect revenues and 18% of direct revenues.

During the first half of 2017, revenues from MIS increased by 15% to $3.1 million (H1 2016: $2.7 million*). The greatest growth in MIS was among channel partner customers, with an increase of 16% compared with the same period of the prior year. This growth was due to increased volume with existing channel partner customers based on the purchase of additional services. The Company continues to develop technologically-differentiated MIS solutions and expects to receive sustained demand for these new products.

ClearStar also grew direct MIS sales by 9%, which was primarily based on the aforementioned upscaling of the direct client base to larger, higher volume clients that continue to ramp up adoption among affiliates. Going forward, the Company expects the growth rate in direct MIS sales to exceed the growth from indirect MIS sales as the recently-won large MIS clients complete the on-boarding phase and ramp to full volume. In H1 2017, IntelliCentrics awarded a contract to ClearStar for the integration of the Company's titer and drug screening solution into IntelliCentrics' SEC^{3}URE Program for hospitals and healthcare organisations. During the period, the Company completed the development of, and launched, a desktop solution and commenced the development of a mobile version, which was completed post period and on schedule. It is now awaiting approval for deployment, which is expected in the near future. The solution is based on ClearStar's ClearMD (formerly 'WebCCF') mobile, paperless chain of custody technology for automated order placement, registration and transmission.

Other Services

Key developments during the period with the Company's other services include the award of a contract by MultiLatin, as announced on 4 May 2017, a leading provider of international background screening services in Latin America, for multilingual global screening services. ClearStar completed the platform deployment during the period, and on-boarding is under way.

Sales of wholesale international records continued to gain traction during the period with increasing demand from the Company's existing channel partner customers.

The on-boarding process was completed for the Company's largest direct sales customer (based on current run rate) which is a leading global relocation and specialised logistics solutions provider. This included the maiden deployment of the Company's ClearID and ClearContact biometric recognition and electronic address book products. The Company is receiving increasing interest in these solutions and commenced several trials with potential clients, which have led to new contract wins.

* In the H1 2016 results announcement, the Company presented its results by division whereby MIS sales were $2.33m. On a service offering basis (as presented here), MIS sales were $2.7m in H1 2016.

Financial Review

The Company experienced an acceleration in revenue growth with total revenues increasing by 12% for the six months ended 30 June 2017 to $8.9 million compared with $8.0 million for the six months ended 30 June 2016. On a sequential basis, revenue increased by 10% (H2 2016: $8.1 million).

Gross profit increased by 7% to $5.3 million (H1 2016: $5.0 million).

Total operating expenses, including depreciation and amortisation, increased by approximately $305,000, or 5%, to $6.3 million for H1 2017 compared with $6.0 million for H1 2016.

General and administrative expenses decreased by approximately $132,000, or 3%, to $3.8 million for H1 2017 compared with $3.9 million for the same period of the prior year, primarily due to better operating efficiencies.

Selling and marketing expenses increased by approximately $140,000, or 20%, to $838,000 (H1 2016: $698,000), primarily due to increased investment in raising brand awareness focused on direct sales.

Research and development increased by approximately $277,000, or 42%, to $940,000 (H1 2016: $663,000). This was primarily due to more products going into production, which changes the accounting treatment of much of the software development costs from being capitalised to being expensed.

Depreciation and amortisation increased by approximately $20,000, or 3%, to $739,000 (H1 2016: $719,000), primarily due to more products going into production, and thereby commencing amortising on the capitalised asset.

Adjusted EBITDA for H1 2017 improved by $43,000 to a $165,000 loss, compared with $208,000 loss for the prior year. Loss before tax was reduced by $31,000 to $980,000 in H1 2017 compared with a $1.0 million loss for H1 2016.

As of 30 June 2017, total assets were $9.4 million (31 December 2016: $9.7 million) with the largest assets being goodwill and other intangible assets of $4.7 million (31 December 2016: $5.0 million), accounts receivable of $2.3 million (31 December 2016: $1.4 million) and net cash of $1.6 million (31 December 2016: $2.4 million).

The Company's total liabilities as of 30 June 2017 were $2.2 million (31 December 2016: $1.6 million) with the largest liability being accounts payable of $1.6 million (31 December 2016: $1.1 million). Stockholders' equity was $7.2 million (31 December 2016: $8.1 million), resulting in a debt-to-equity ratio of 31%.

The Company utilised $323,000 in cash in operating activities, mainly due to an increase in accounts receivable of $842,000 partially offset by an increase in accounts payable of $491,000. The Company used $398,000 in investment activities with the largest component being $383,000 in capitalised software development costs. The Company paid $51,000 in financing activities related to capital lease obligations.

Subsequent Event

On 25 August 2017, Hurricane Harvey made landfall near Corpus Christi, Texas and on 10 September 2017, Hurricane Irma made initial landfall near the Florida Keys, Florida – both as major hurricanes followed by substantial rainfall and flooding in Texas, Florida and, to a lesser degree, in the neighbouring states, including Georgia where the Company is headquartered. ClearStar had undertaken substantial preparatory work to minimise any business disruption, particularly at the Company's office in Melbourne, Florida which is the primary base for MIS. As a result, the Company's processing of records has not been affected and ClearStar does not anticipate there to be any material impact on its business. However, the Company continues to monitor the impact on the business operations of clients and potential clients, and will update the market in due course if required.

Outlook

The momentum of the first half of the year has continued into the second half of 2017. The Company has a stronger client base and is now poised to deliver meaningful revenue from the significant contracts won over the last six months following substantial progress in the on-boarding process. ClearStar is experiencing growing demand for its technologically-differentiated solutions, particularly for medical information services. Additionally, in the direct services market, the Company is receiving increased business from large corporates due to greater brand awareness resulting from investment in its sales & marketing efforts. Consequently, the Board remains confident of delivering good revenue growth for full year 2017, in line with market expectations.

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

	Six Months Ended 30 June 2017 (Unaudited)	Six Months Ended 30 June 2016 (Unaudited)	Year Ended 31 December 2016
	$	$	$
Net revenue	8,919	7,971	16,032
Cost of revenue	3,609	2,994	6,197
Gross profit	5,310	4,977	9,835
Operating expenses			
Selling and marketing	838	698	1,299
Research and development	940	663	1,671
Depreciation and amortisation	739	719	1,429
General and administrative	3,767	3,899	7,531
Total operating expenses	6,284	5,979	11,930
Loss from operations	(974)	(1,002)	(2,095)
Other expense			
Interest expense	(6)	(9)	(16)
Total other expense	(6)	(9)	(16)
Net loss before taxes	(980)	(1,011)	(2,111)
Provision for income taxes	51	-	61
Net loss	(1,031)	(1,011)	(2,172)

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

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

	As of 30 June 2017 (Unaudited)	As of 30 June 2016 (Unaudited)	As of 31 December 2016
	$	$	$
ASSETS			
Current assets			
Cash	1,648	3,133	2,420
Accounts receivable - trade, net	2,273	1,860	1,442
Research and development tax credits	78	82	138
Prepaid expenses	254	352	257
Total current assets	4,253	5,427	4,257
Property and equipment, at cost			
Computer equipment	665	771	687
Furniture and fixtures	291	279	277
Leasehold improvements	58	72	62
Less accumulated depreciation	(652)	(536)	(560)
Total property and equipment, net	362	586	466
Other assets			
Goodwill and other intangible assets	4,741	5,253	4,976
Deposits	12	11	11
Total other assets	4,753	5,264	4,987
Total assets	9,368	11,277	9,710
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	1,621	1,458	1,130
Accrued liabilities	282	255	119
Deferred revenue	35	51	54
State income taxes	-	-	5
Current portion of obligations under capital lease	97	95	99
Total current liabilities	2,035	1,859	1,407
Long-term liabilities			
Accrued liabilities	44	49	46
Deferred income taxes	142	45	99
Obligations under capital lease, net of current portion	18	120	68
Total long-term liabilities	204	214	213
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	13,672	13,555	13,602
Accumulated deficit	(6,547)	(4,355)	(5,516)
Stockholders' equity	7,129	9,204	8,090
Total liabilities and stockholders' equity	9,368	11,277	9,710

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	Accumulated	
	Shares	Amount	Capital	Deficit	Total
	No.	$	$	$	$
Balances at 1 January 2016	**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**
Non-cash stock compensation	-	-	47	-	47
Net loss	-	-	-	(1,161)	(1,161)
Balances at 31 December 2016	**36,302,900**	**4**	**13,602**	**(5,516)**	**8,090**
Non-cash stock compensation	-	-	70	-	70
Net loss	-	-	-	(1,031)	(1,031)
Balances at 30 June 2017 (unaudited)	**36,302,900**	**4**	**13,672**	**(6,547)**	**7,129**

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 2017 (Unaudited)	Six Months Ended 30 June 2016 (Unaudited)	Year Ended 31 December 2016
	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(1,031)	(1,011)	(2,172)
Adjustments to reconcile net loss to net cash used for operating activities:			
Change in allowance for doubtful accounts	11	57	13
Depreciation and amortisation	739	719	1,429
Deferred income taxes	43	-	54
Non-cash stock compensation	70	76	124
Loss on disposal of property and equipment	-	-	2
Change in operating assets and liabilities:			
Accounts receivable	(842)	(307)	154
Research and development tax credits	60	-	(56)
Prepaid expenses	2	(62)	34
Deposits	(1)	-	-
Accounts payable	491	255	(73)
Accrued liabilities	160	171	33
Deferred revenue	(20)	(3)	-
State income taxes	(5)	(5)	(2)
Total adjustments	708	901	1,712
Net cash used for operating activities	(323)	(110)	(460)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	(15)	(23)	(32)
Proceeds from disposition of property and equipment	-	-	1
Capitalised software development costs	(383)	(580)	(886)
Net cash used for investing activities	(398)	(603)	(917)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on capital lease obligations	(51)	(47)	(96)
Net cash used for financing activities	(51)	(47)	(96)
Net cash decrease for period	(772)	(760)	(1,473)
Cash at beginning of period	2,420	3,893	3,893
Cash at end of period	**1,648**	**3,133**	**2,420**

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 2017 (Unaudited)	Six Months Ended 30 June 2016 (Unaudited)	Year Ended 31 December 2016
	$	$	$
Cash paid:			
Interest	6	9	16
Income taxes	12	-	7
	18	9	23

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

During the six months ended 30 June 2017, the Company retired obsolete and fully-depreciated property and equipment of approximately $28,000.

During the year ended 31 December 2016, the Company retired obsolete and fully-depreciated property and equipment of approximately $94,000.

During the six months ended 30 June 2017 and 2016, the Company retired fully-amortised intangible assets of approximately $329,000 and $447,000, respectively.

During the year ended 31 December 2016, the Company retired fully-amortised intangible assets of approximately $871,000.

Notes to 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. 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 ticker CLSU (Note 12).

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").

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 2017 and 2016, and the year ended 31 December 2016 was approximately $120,000, $124,000 and $251,000, 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 2017 and 2016, and the year ended 31 December 2016.

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 rateably 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 rateably 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 2017 and 2016, and the year ended 31 December 2016 were approximately $218,000, $156,000 and $292,000, 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 2017 and 2016, and 31 December 2016, 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 2013.

n) Research and Development

Expenditures related to the development of new products and processes are expensed as incurred. Research and development expenses were approximately $952,000, $663,000 and $1,671,000, net of approximately $0, $0 and $46,000 of tax credits, for the six months ended 30 June 2017 and 2016, and the year ended 31 December 2016, respectively.

o) 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 2017 and 2016, and the year ended 31 December 2016 was approximately$70,000, $77,000 and $124,000, respectively.

p) 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.

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.

q) 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 15 December 2017, including interim periods within that reporting period, though early adoption is permitted for annual reporting periods beginning after 15 December 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 financial statements.

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 15 December 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 2017 and 2016, and 31 December 2016.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases", which requires that lease arrangements longer than 12 months' result in an entity recognizing an asset and liability. The pronouncement is effective for periods beginning after 15 December 2018, with early adoption permitted. The Company is currently evaluating the impact this guidance is expected to have on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Improvements to Employee Share Based Payment Accounting" which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards, forfeitures and classification on the statement of cash flows. The provisions of this ASU are effective for fiscal years beginning after 15 December 2016, and interim periods within those fiscal years. The Company adopted the new standard in the first quarter of 2017, and the adoption of this standard did not have a material effect on our consolidated financial statements. The Company has elected to account for forfeitures as they occur, rather than estimate expected forfeitures.

In August 2016, the FASB issued Accounting Standards Update 2016-15 ("ASU 2016-15") "Statement of Cash Flows (Topic 230): Clarification of Certain Cash Receipts and Cash Payments" which would eliminate the diversity in practice related to the classification of certain receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. ASU 2016-15 is effective for annual and interim reporting periods beginning after 15 December 2017 for public entities with early adoption permitted. The amendments in this update should be applied retrospectively to all periods presented, unless deemed impracticable, in which case, prospective application is permitted. The Company does not expect the implementation of this standard to have a material effect on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04 ("ASU 2017-04") "Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment." ASU 2017-04 removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for annual periods and interim periods within those annual periods beginning after 15 December 2019, and early adoption is permitted. The Company is in the process of evaluating the impact of this standard on its consolidated financial statements.

r) Reclassifications

Certain reclassifications have been made to the 2016 consolidated financial statement presentation to correspond to the current period's format. These reclassifications have no effect on previously reported net income.

2. Accounts Receivable

Accounts receivable consisted of the following:

	As of 30 June 2017 (Unaudited) $000	As of 30 June 2016 (Unaudited) $000	As of 31 December 2016 $000
Trade accounts receivable	2,313	1,933	1,472
Allowance for doubtful accounts	(40)	(73)	(30)
	2,273	1,860	1,442

3. Goodwill and Other Intangible Assets

Goodwill and other intangible assets were comprised of the following at 30 June 2017 (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	2,963	383	(329)	3,017	1,465	499	(329)	1,635	1,382
Customer Relationships	7	1,673	-	-	1,673	478	119	-	597	1,076
		6,919	383	(329)	6,973	1,943	618	(329)	2,232	4,741

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

Goodwill and other intangible assets were comprised of the following at 31 December 2016:

		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	886	(842)	2,963	1,368	939	(842)	1,465	1,498
Customer Relationships	7	1,673	-	-	1,673	239	239	-	478	1,195
Trade name	1	29	-	(29)	-	29	-	(29)	-	-
		6,904	886	(871)	6,919	1,636	1,178	(871)	1,943	4,976

Approximate aggregate future amortisation expense is as follows:

Year Ending 30 June:

	Amount (Unaudited) $000
2018	1,075
2019	661
2020	367
2021	239
2022	116
	2,458

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 2017 and 2016, and the year ended 31 December 2016 was approximately $101,000, $156,000 and $286,000, respectively.

At 30 June 2017, future minimum lease payments under non-cancellable operating leases were as follows:

Year Ending 30 June:

	Amount (Unaudited) $000
2018	150
2019	126
2020	99
2021	102
2022	70
	547

- 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 2017 (Unaudited) $000	As of 30 June 2016 (Unaudited) $000	As of 31 December 2016 $000
Cost of equipment and installation	390	390	390
Less: accumulated depreciation	(287)	(188)	(238)
	103	202	152

At 30 June 2017, future minimum lease payments under capital lease agreements consist of the following:

Year Ending 30 June:

	Amount (Unaudited) $000
2018	103
2019	18
	121
Less: interest	(6)
	115
Less: current portion	(97)
	18

- Board of Directors 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 2017 and 2016, and the year ended 31 December 2016, director fees were approximately $50,000, $50,000 and $100,000, respectively. Options granted to the NEDs were approximately 72,000 shares, vested 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 $166,000, 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 2017 (Unaudited) $000	As of 30 June 2016 (Unaudited) $000	As of 31 December 2016 $000
Non-current deferred tax assets (liabilities):			
Allowance for doubtful accounts	10	26	10
Prepaid expenses	(14)	(56)	(14)
Amortisation of software development	(536)	(591)	(536)
Amortisation of other intangible assets	122	51	122
Amortisation of goodwill	(142)	(23)	(99)
Accrued liabilities	18	18	18
Deferred revenue	-	(1)	-
Basis differences in property and equipment	(42)	(46)	(42)
Net operating losses	2,305	1,937	2,305
Stock-based compensation	113	49	113
Tax credits	154	175	154
Other adjustments	(2)	(9)	(2)
Total non-current	1,986	1,530	2,029
Less: valuation allowance	(2,128)	(1,575)	(2,128)
Net deferred tax assets (liabilities)	(142)	(45)	(99)

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:

	Six Months Ended 30 June 2017 (Unaudited)	Six Months Ended 30 June 2016 (Unaudited)	Year Ended 31 December 2016
Current tax expense:			
Federal	-	-	-
State	8	-	7
	8	-	7
Deferred tax expense:			
Federal	43	-	51
State	-	-	3
	43	-	54
Total provision for income taxes	51	-	61

The effective income tax rate differs from the federal statutory income tax rate due to state income taxes, certain non-deductible expenses and the valuation allowance for the period.

At 30 June 2017, the Company had approximately $6,481,000 in net operating loss carryforwards ("NOL") available to use against taxable income. The NOL's expire through 2036.

At 30 June 2017, the Company had approximately $154,000 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 2017 and 2016, and 31 December 2016, 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 rateably 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 2017, approximately 1,152,000 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 2017 and 2016, and the year ended 31 December 2016:

	Shares	Weighted-Average Exercise Price
Outstanding at 1 January 2016	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
Granted	-	-
Forfeited or cancelled	(45,000)	$0.97
Outstanding at 31 December 2016	1,866,165	$0.86
Granted	-	-
Forfeited or cancelled	(18,000)	$0.97
Outstanding at 30 June 2016 (unaudited)	1,848,165	$0.86
Exercisable at 30 June 2016 (unaudited)	490,165	$0.96
Exercisable at 31 December 2016	863,165	$0.96
Exercisable at 30 June 2017 (unaudited)	1,061,165	$0.77

As of 30 June 2017, there was approximately $53,000 of total unrecognised compensation costs related to unvested stock options, which is expected to be recognised over a weighted-average period of 0.49 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
Weighted-average fair value on day of grant	$0.14
Risk-free interest rate	1.00%
Expected dividend yield	0.00%
Expected volatility	32.90%
Weighted-average expected life of option	4.00 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 2017 (Unaudited)	Six Months Ended 30 June 2016 (Unaudited)	Year Ended 31 December 2016
Basic income per share	($0.03)	($0.03)	($0.06)
Diluted income per share	($0.03)	($0.03)	($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. Employer profit sharing contributions vest over six years. Participant contributions and employer safe harbour matching contributions are 100 per cent. vested.

For the six months ended 30 June 2017 and 2016, and the year ended 31 December 2016, matching contributions were approximately $77,000, $76,000 and $148,000, 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 2017 and 2016, and the year ended 31 December 2016, the Company had purchases from two suppliers totalling approximately $1,814,000, $1,577,000 and $3,331,000 which comprised approximately 51, 53 and 54 per cent. of the Company's purchases, respectively. Accounts payable and accrued liabilities included approximately $756,000, $620,000 and $539,000 to these vendors at 30 June 2017 and 2016, and 31 December 2016, respectively.

- Significant Customer

A significant customer is defined as one from whom at least 10 per cent. of reported revenue is derived. For the six months ended 30 June 2017 and the year ended 31 December 2016, the Company had sales to one customer totalling approximately $962,000 and $1,748,000, respectively, which comprised approximately 11 per cent. of the Company's revenue. At 30 June 2017 and 31 December 2016, the accounts receivable balance included approximately $216,000 and $148,000, respectively, from this customer. There were no significant customers for the six months ended 30 June 2016.

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 2017 and 2016, and the year ended 31 December 2016, the Company incurred approximately $18,000, $17,000 and $41,000, respectively, in consulting fees to this related party.

The Company leased 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 the year ended 31 December 2016 was approximately $48,000 and $83,000, respectively. This lease was terminated in November 2016.

12. Subsequent Events

The Company evaluated subsequent events through 19 September 2017, when these consolidated financial statements were available to be issued.

Effective as of 8.00 a.m. BST on 8 September 2017, the restricted line of stock having the ticker CLST ceased and all ordinary shares formally traded on the restricted line having the ticker CLST are now traded on the unrestricted line of stock having the ticker CLSU. Consequently, the Depository Interest programme with respect to CLST has been terminated.

On 25 August 2017, Hurricane Harvey made landfall near Corpus Christi, Texas and on 10 September 2017, Hurricane Irma made initial landfall near the Florida Keys, Florida – both as major hurricanes followed by substantial rainfall and flooding in Texas, Florida and, to a lesser degree, in the neighbouring states, including Georgia where the Company is headquartered. ClearStar had undertaken substantial preparatory work to minimise any business disruption, particularly at the Company's office in Melbourne, Florida which is the primary base for the Company's medical information services. As a result, the Company's operations have not been affected. There is uncertainty to the impact on the business operations of impacted clients.

Management is not aware of any other 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.