17 April 2018

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

Final Results

ClearStar (AIM: CLSU), a leading technology and service provider to the background check industry, is pleased to announce its final results for the year ended 31 December 2017.

Financial Highlights

- Revenue increased by 11% to $17.8 million (2016: $16.0 million)
- Adjusted EBITDA improved by $151,000 to a $391,000 loss (2016: $542,000 loss)
- General and Administrative expenses reduced by $226,000 to $7.3 million (2016: $7.5 million)
- Operational cash flow improved to $184,000 outflow (2016: $460,000 outflow)
- As of 31 December 2017, the Company had net cash of $1.3 million (30 June 2017: $1.6 million; 31 December 2016: $2.4 million)
- Secured revolving credit facility with Silicon Valley Bank of up to $5 million, with full facility still available

Operational Highlights

- Growth based on increased sales of direct services by 24% year-on-year and to channel partners (indirect services) by 7% year-on-year
- Significant progress in direct services driven by on-demand labour and transportation sectors, with increasing uptake of ClearID on-the-spot ID validation and facial recognition solution:
  - ClearStar now engaged with two major trucking companies and a major rail company in the US
- Leading position in medical screening with smartphone-enabled process and tests available at over 9,000 sites offering more choice to candidates and streamlined process:
  - Sales of medical information services increased 19% year-on-year and continued to be the largest contributor to revenue by product offering, accounting for 37% of total revenue
- One of the few companies with the requisite compliance and technology interface to be able to offer comprehensive searches in over 230 countries:
  - Global services achieved strong growth of 90% year-on-year, primarily due to the supply of international records to US-based channel partner clients
  - Dedicated global team with certified expertise in global privacy requirements, and ongoing investment to remain up-to-date with evolving regulations, including GDPR
- Laid the foundations for accelerated future growth:
  - Increased ability to expedite the screening process through suite of advanced solutions including mobile apps, paperless drug screening and customised web portals
  - Upscaling of direct client base with customer-centric approach of developing bespoke solutions to meet the employer's requirements
  - Added significant new route-to-market for direct services by integration with SAP SuccessFactors® Recruiting
  - Significantly enhanced sales and marketing infrastructure

Robert Vale, CEO of ClearStar, commented: "In 2017 we delivered another year of growth as we experienced increased demand for our products and solutions from both direct service and channel partner clients. This was driven by an upscaling in the direct client base and strong uptake of our technologically-differentiated medical information services, where our mobile apps, paperless drug

screening and customised web portals are expediting the screening process for the benefit of both the employer and the candidate. During the year we also laid the foundations for accelerated future growth through enhancing our sales and marketing efforts and achieving integration with SAP SuccessFactors® Recruiting – adding a significant new route-to-market for direct services.

“Consequently, we believe 2018 is poised to be a pivotal year for ClearStar. We entered the year with a stronger client base and infrastructure as well as increasing sales momentum. We are receiving sustained demand for our medical information services, which is expected to continue to be the largest contributor to revenue. Additionally, there is an increasing interest in our solutions targeted at the on-demand labour market. The new direct customers won last year are being successfully on-boarded, and we anticipate a ramp up in revenue from them this year. As a result, combined with maintaining tight cost control, the Board remains confident of delivering revenue growth and becoming EBITDA-positive for full year 2018, in line with market expectations.”

Enquiries:

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

Robert Vale, CEO, and David Pattillo, CFO, will be hosting a presentation for analysts at 9.30am BST at the offices of Luther Pendragon, 48 Gracechurch Street, London, EC3V 0EJ

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 year ended 31 December 2017, the Company achieved 11% revenue growth to $17.8 million (2016: $16.5 million). This was based on increased sales across direct and indirect services, and continued strong demand for ClearStar's medical information services. The Company also invested in enhancing its infrastructure and service offering and raising brand awareness to position it for accelerated sales growth as well as increasing operational efficiency.

Investing for growth

In 2017, ClearStar significantly increased its sales and marketing efforts, with primary focus on the direct services market. The Company undertook a number of marketing campaigns to raise brand awareness among potential corporate clients. Towards the end of the year, ClearStar created a new position within the Company of VP Sales & Business Development to strengthen its sales function and place greater focus on targeting the direct market, which included the realignment of some of the existing sales and customer support resource. These measures, which were initiated in 2017 and continue to be implemented during the current year, have significantly enhanced the Company's infrastructure and are establishing the foundations for accelerated growth.

ClearStar added a key integration point during the year when it achieved integration with SAP SuccessFactors® Recruiting, a global provider of cloud-based human capital management ("HCM") software. ClearStar's mobile-friendly ScreenMeNow suite of products were made available through the SAP® App Center, the digital marketplace for SAP partner offerings, enabling SAP SuccessFactors® Recruiting customers to buy solutions directly from ClearStar. This was enhanced, post-period, when ClearStar became among the first to achieve "touchless" automated integration with SAP SuccessFactors® Recruiting to further streamline the recruitment process by auto-initiating the background check when a candidate reaches a particular stage in the hiring process. The point of initiation can be set by the employer, which enables consistency across different recruiters as well as accelerating the overall recruitment process. This integration enhances ClearStar's offer and also represents another channel-to-market, particularly for direct services.

The Company continued to develop it global service offering. ClearStar has a dedicated global team with certified expertise in global privacy requirements, and the Company makes ongoing investment to ensure that it remains up-to-date with evolving regulations, including GDPR compliance. As a result of this, combined with the Company's technology interface, ClearStar is now able to provide compliant, rapid access to records in over 230 countries.

The Company further enhanced its infrastructure during the year when it commenced transitioning towards the virtualisation of its servers. ClearStar moved its UK-based datacentre to Amazon Cloud and intends to do the same with its US-based datacentre this year. As a result, the Company is improving the speed and efficiency of its service offering while reducing expenses.

Post year end, the Company achieved a key milestone with all of its US-based applications becoming responsive software design compliant. As a result, all users of ClearStar's solutions in the US can access the services via mobile device.

Performance by business channel

Sales from direct services increased by 24% to $4.7 million for 2017 (2016: $3.8 million), primarily due to expanding the direct services client base. The number of people screened by ClearStar for direct clients increased by 26% year-on-year.

ClearStar continued to upscale its direct client base, winning contracts with large, well-established businesses, and made substantial progress with the on-boarding of those customers. This was partly as a result of the sustained investment in sales and marketing efforts to raise ClearStar's brand awareness in the direct services market. The Company was also able to win significant corporate clients due to its ability to offer customised solutions to meet the precise requirements of the employer.

The significant progress made in direct services was driven by strong demand from the transportation, on-demand labour and education sectors. This included winning new clients as well as expanding business with existing clients. In the transportation sector, ClearStar is now engaged with, among others, two major trucking companies and a major rail company in the US.

Sales to channel partners – indirect services – grew by 7% to $13.1 million (2016: $12.2 million). This was primarily as a result of increased business from some of the Company's largest clients and driven by medical information services as described below. Indirect services accounted for 74% of total revenue for 2017, compared with 76% for the prior year.

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 37% of total revenues (2016: 35%), and grew strongly year-on-year with an increase in MIS revenue of 19% to $6.6 million (2016: $5.6 million). The Company increased the number of employers that it provides its medical testing and results review services to over 16,200 (2016: 14,500).

Sales to channel partners accounted for 85% of MIS revenue and 15% was direct sales. This reflects growth in MIS sales across both direct and indirect channels. MIS revenue generated by channel partners increased by 16% to $5.6 million (2016: $4.9 million) due to increased volume with existing customers based on the purchase of additional services, including initial sales of clinical testing services.

As anticipated, the growth rate in direct MIS sales exceeded the growth from indirect MIS sales as the large MIS clients won during the year completed the on-boarding phase and began to ramp to full volume. Consequently, MIS revenue generated by direct clients increased by 32% to $983,000 (2016: $745,000). As previously announced, notable contract wins included IntelliCentrics, a leading provider of healthcare vendor credentialing that has over 10,000 distinct installations across the US, Canada and the UK, with progress being achieved in the on-boarding of this customer during the year.

The Company continues to develop technologically-differentiated MIS solutions and expects to receive sustained demand for these new products.

Other Services

Global services achieved strong growth, with revenue increasing 90% year-on-year to now make a meaningful contribution to total sales, primarily due to the supply of international records for US-based channel partner clients. ClearStar also increased its business with non-US businesses, such as being awarded a contract by MultiLatin, a leading provider of international background screening services in Latin America, for multilingual global screening services.

For the direct client base, background screening (with national records) continued to be the primary source of revenue. However, some of the Company's significant direct clients are also using ClearStar's global services and, as noted above, MIS is a growing contributor to direct revenue.

Financial Review

In 2017, ClearStar delivered against all of its key financial metrics with another year of revenue growth. Total revenues increased by 11% for the year ended 31 December 2017 to $17.9 million compared with $16.0 million for the year ended 31 December 2016, based on growth across direct and indirect services, and with strong demand for medical information services.

Gross profit increased by 5% to $10.4 million (2016: $9.8 million) and gross profit margin declined slightly to 58.2% (2016: 61.3%). This decrease was primarily due to having a higher percentage of revenue derived from MIS, which has a lower gross margin than other services, partially offset by achieving greater purchase economies.

Total operating expenses, including depreciation and amortisation, increased by approximately $351,000, or 2.9%, to $12.3 million for 2017 compared with $11.9 million for 2016. This was due to higher selling and marketing expenses, which increased by approximately $321,000, or 24.5%, to $1.6 million (2016: $1.3 million) as the Company invested for growth with marketing efforts to raise brand awareness and establishing the role of VP of Sales.

There was also an increase in research and development expenses, which were higher by approximately $215,000, or 12.9%, at $1.9 million for 2017 compared with $1.6 million for 2016. 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.

These increases were partly offset by cost control over general and administrative expenses, which decreased by approximately $226,000, or 3.0%, to $7.3 million for 2017 compared with $7.5 million for the prior year, primarily due to better operating efficiencies.

Depreciation and amortisation increased by approximately $41,000, or 2.9%, to $1.5 million (2016: $1.4 million), primarily due to more products going into production, and thereby commencing amortising on the capitalised asset.

Adjusted EBITDA for 2017 improved by $151,000 to a $391,000 loss, compared with a $542,000 loss for the prior year. The Company reported a loss before tax of approximately $1.9 million in 2017 compared with a loss before tax of approximately $2.1 million for 2016.

As of 31 December 2017, total assets were $8.0 million with the largest assets being goodwill and other intangible assets of $4.4 million, accounts receivable of $1.7 million and net cash of $1.3 million. For 2017, the Company utilised $1.1 million in cash compared with $1.5 million in the prior year, a 24% improvement in cash utilisation.

The Company's total liabilities as of 31 December 2017 were $1.8 million, and stockholders' equity was $6.2 million, resulting in a debt-to-equity ratio of 29%.

The Company utilised $184,000 in cash in operating activities compared with $460,000 for the previous year, mainly due to improvement in working capital accounts. The Company used $754,000 in investment activities compared with $917,000 for the previous year. This reduction is primarily the result of lower capitalised software development costs as more products were brought into production during the course of the year. The Company paid $179,000 in financing activities related to capital lease obligations and debt issuance costs related to the Silicon Valley Bank facility as described below.

As announced on 25 October 2017, the Company secured a competitively-priced recurring revenue credit facility with Silicon Valley Bank for up to $5 million for working capital purposes to support the growth of the business. The Company still has the full facility available.

Outlook

ClearStar entered 2018 in a stronger position compared with the equivalent point in the prior year and with sustained revenue momentum. In the first quarter of 2018, the Company generated revenue of $4.6 million, reflecting an 11.4% increase over the same period of the prior year (Q1 2017: $4.1 million). As a result, the Board remains confident of delivering revenue growth and becoming EBITDA-positive for full year 2018, in line with market expectations.

Specifically, the Company is poised to deliver accelerated revenue growth in direct services as new customers won last year are on-boarded and expand their use of ClearStar's products and services. With its strengthened foundations, the Company is also confident of sustained growth in its direct client base. Channel partner sales are expected to continue to increase based on demand for MIS. MIS is expected to remain the largest contributor to revenue by product offering, with growth to be driven by the addition of clinical testing and occupational health services. The Company also anticipates a positive impact from the sustained growth in the on-demand labour market where employers seek the on-the-spot verification solution offered by ClearID to expedite the hiring process while maintaining accuracy.

As the demand for ClearStar's solutions increases, the Board continues to look for opportunities to add scale to its business, either organically or through acquisition. Adding scale would enable ClearStar to widen its geographical reach as well as enhance its ability to bid for larger global contracts for which it already has the required products. Consequently, ClearStar would deliver a step-change in the growth of the business.

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

	Year Ended 31 December 2017	Year Ended 31 December 2016
	$	$
Net revenue	17,785	16,032
Cost of revenue	7,436	6,197
Gross profit	10,349	9,835
Operating expenses		
Selling and marketing	1,632	1,311
Research and development	1,886	1,671
Depreciation and amortisation	1,470	1,429
General and administrative	7,293	7,519
Total operating expenses	12,281	11,930
Loss from operations	(1,932)	(2,095)
Other expense		
Interest expense	(17)	(16)
Total other expense	(17)	(16)
Net loss before taxes	(1,949)	(2,111)
Provision for income taxes	9	61
Net loss	(1,958)	(2,172)

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

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

	As of 31 December 2017	As of 31 December 2016
	$	$
ASSETS		
Current assets		
Cash	1,303	2,420
Accounts receivable - trade, net	1,654	1,442
Research and development tax credits	63	138
Prepaid expenses	175	257
Total current assets	3,195	4,257
Property and equipment, at cost		
Computer equipment	577	687
Furniture and fixtures	294	277
Leasehold improvements	60	62
Less accumulated depreciation	(652)	(560)
Total property and equipment, net	279	466
Other assets		
Goodwill and other intangible assets, net	4,447	4,976
Deferred debt issuance costs, net	87	-
Deposits	12	11
Total other assets	4,546	4,987
Total assets	8,020	9,710
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	1,455	1,130
Accrued liabilities	132	119
Deferred revenue	8	54
State income taxes	6	5
Current portion of obligations under capital lease	63	99
Total current liabilities	1,664	1,407
Long-term liabilities		
Accrued liabilities	40	46
Deferred income taxes	100	99
Obligations under capital lease, net of current portion	-	68
Total long-term liabilities	140	213
Commitments and contingencies		
Stockholders' equity		
Common stock, $0.0001 par value; 100,000,000 shares authorised; 36,302,900 shares issued and outstanding	4	4
Additional paid-in capital	13,686	13,602
Accumulated deficit	(7,474)	(5,516)
Total stockholders' equity	6,216	8,090
Total liabilities and stockholders' equity	8,020	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	-	-	124	-	124
Net loss	-	-	-	(2,172)	(2,172)
Balances at 31 December 2016	**36,302,900**	**4**	**13,602**	**(5,516)**	**8,090**
Non-cash stock compensation			64		64
Non-cash debt issuance costs			20		20
Net loss				(1,958)	(1,958)
Balances at 31 December 2017	**36,302,900**	**4**	**13,686**	**(7,474)**	**6,216**

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

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

	Year Ended 31 December 2017	Year Ended 31 December 2016
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(1,958)	(2,172)
Adjustments to reconcile net loss to net cash used for operating activities:		
Change in allowance for doubtful accounts	(1)	13
Depreciation and amortisation	1,470	1,429
Deferred income taxes	1	54
Non-cash stock compensation	64	124
Amortisation of deferred debt issuance costs	8	-
Loss on disposal of property and equipment	-	2
Change in operating assets and liabilities:		
Accounts receivable	(211)	154
Research and development tax credits	75	(56)
Prepaid expenses	82	34
Deposits	(1)	-
Accounts payable	325	(73)
Accrued liabilities	7	33
Deferred revenue	(46)	-
State income taxes	1	(2)
Total adjustments	1,774	1,712
Net cash used for operating activities	(184)	(460)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(42)	(32)
Proceeds from disposition of property and equipment	-	1
Capitalised software development costs	(712)	(886)
Net cash used for investing activities	(754)	(917)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt issuance costs	(75)	-
Principal payments on capital lease obligations	(104)	(96)
Net cash used for financing activities	(179)	(96)
Net cash decrease for year	(1,117)	(1,473)
Cash at beginning of year	2,420	3,893
Cash at end of year	**1,303**	**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

	Year Ended 31 December 2017 $	Year Ended 31 December 2016 $
Cash paid:		
Interest	10	16
Income taxes	5	7
	15	23

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

During the years ended 31 December 2017 and 2016, the Company retired obsolete and fully-depreciated property and equipment of approximately $137,000 and $94,000, respectively.

During the years ended 31 December 2017 and 2016, the Company retired fully-amortised intangible assets of approximately $792,000 and $871,000, respectively.

In conjunction with the executed Revolving Line in October 2017 (see Note 6 and 9), the Company issued a stock warrant to purchase 90,755 shares of Ordinary Shares as consideration to the Lender. At the issuance date, the fair value of the warrant was determined to be approximately $20,000.

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 were two lines of capital stock – restricted under the existing ticker CLST and unrestricted under the ticker CLSU. 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.

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 years ended 31 December 2017 and 2016 was approximately $229,000 and $251,000, respectively.

h) Deferred Debt Issuance Costs

Deferred debt issuance costs were incurred by the Company to obtain debt and are amortised over the life of the respective debt agreement. The costs totalled approximately $95,000 with accumulated amortisation of approximately $8,000 at 31 December 2017. The Company amortised approximately $8,000 of these costs through interest expense for the year ended 31 December 2017. Approximately $47,000 and $40,000 of these costs will be amortised as interest expense during the years ended 31 December 2018 and 2019, respectively.

i) 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.

j) 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.

k) 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 years ended 31 December 2017 and 2016.

l) 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.

m) Advertising

The Company expenses advertising costs as incurred. Advertising expenses for the years ended 31 December 2017 and 2016 were approximately $412,000 and $292,000, respectively.

n) 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.

The Company is not subject to income tax examinations for the years ending prior to 31 December 2014.

o) Research and Development

Expenditures related to the development of new products and processes are expensed as incurred. Research and development expenses were approximately $1,886,000 and $1,671,000, net of approximately $0 and $46,000 of tax credits, for the years ended 31 December 2017 and 2016, respectively.

p) 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 years ended 31 December 2017 and 2016 was approximately $64,000 and $124,000, respectively.

q) 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.

r) 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 recognise 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 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 recognising 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.

s) 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 31 December 2017 $000	As of 31 December 2016 $000
Trade accounts receivable	1,683	1,472
Allowance for doubtful accounts	(29)	(30)
	1,654	1,442

3. Goodwill and Other Intangible Assets

Goodwill and other intangible assets were comprised of the following at 31 December 2017:

		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	712	(792)	2,883	1,465	1,002	(792)	1,675	1,208
Customer Relationships	7	1,673	-	-	1,673	478	239	-	717	956
		6,919	712	(792)	6,839	1,943	1,241	(792)	2,392	4,447

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 31 December:

	Amount $000
2018	973
2019	604
2020	353
2021	234
	2,164

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 years ended 31 December 2017 and 2016 was approximately $214,000 and $286,000, respectively.

At 31 December 2017, future minimum lease payments under non-cancellable operating leases were as follows:

Year Ending 31 December:

	Amount $000
2018	152
2019	111
2020	105
2021	103
2022	17
	488

- 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 31 December 2017 $000	As of 31 December 2016 $000
Cost of equipment and installation	390	390
Less: accumulated depreciation	(337)	(238)
	53	152

At 31 December 2017, future minimum lease payments under capital lease agreements consist of the following:

Year Ending 31 December:

	Amount $000
2018	65
Less: interest	(2)
	63
Less: current portion	(63)
	-

- 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 years ended 31 December 2017 and 2016, director fees were approximately $100,000 and $100,000, respectively. Options granted to the NEDs were approximately 72,000 shares, vested over a one-year term (see Note 8).

- 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 $172,000, payable in equal monthly instalments in advance through January 2018. The contract was terminated early in November 2017.

5. Income Taxes

Tax effects of temporary differences are as follows:

	As of 31 December 2017 $000	As of 31 December 2016 $000
Non-current deferred tax assets (liabilities):		
Allowance for doubtful accounts	7	10
Prepaid expenses	(10)	(14)
Amortisation of software development	(283)	(536)
Amortisation of other intangible assets	108	122
Amortisation of goodwill	(100)	(99)
Accrued liabilities	11	18
Deferred revenue	-	-
Basis differences in property and equipment	(11)	(42)
Net operating losses	1,827	2,305
Stock-based compensation	89	113
Tax credits	203	154
Other adjustments	8	(2)
Total non-current	1,849	2,029
Less: valuation allowance	(1,949)	(2,128)
Net deferred tax assets (liabilities)	(100)	(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:

	Year Ended 31 December 2017	Year Ended 31 December 2016
Current tax expense:		
Federal	-	-
State	8	7
	8	7
Deferred tax expense:		
Federal	1	51
State	-	3
	1	54
Total provision for income taxes	9	61

The effective income tax rate differs from the federal statutory income tax rate due to state income taxes, certain non-deductible expenses and a decrease of approximately $179,000 in the valuation allowance for the period.

On 22 December 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law. Among other provisions, the TCJA reduces the U.S. federal corporate tax rate from 35% to 21% effective in 2018. As of 31 December 2017, the Company has not completed the required accounting for all of the tax effects of enactment of the TCJA. Accordingly, we have elected to apply the guidance in SEC Staff Accounting Bulletin No. 118, which permits recognising provisional amounts when the accounting for the TCJA under FASB ASC 740 is not complete at the time financial statements for the year ended 31 December 2017 are issued. For certain items, the Company has been able to make reasonable estimates of the effects on deferred tax assets and liabilities, however, the full valuation allowance on the deferred taxes as of 31 December 2017 cause the rate change to have no net rate impact on the financial statements. Deferred tax assets and liabilities have been remeasured and adjusted based on the new 21% rate, which is the rate at which they are expected to reverse in subsequent years. We have not completed our analysis in respect of other provisions of the TCJA. Upon completion of that analysis and the required accounting for all effects of the TCJA, additional amounts will be recognised, and it is possible that the provisional amounts that were recorded in 2017 may be revised, increased or decreased.

At 31 December 2017, the Company had approximately $7,971,000 in net operating loss carryforwards ("NOL") available to use against taxable income. The NOLs expire through 2037.

At 31 December 2017, the Company had approximately $203,000 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. Revolving Line Facility

In October 2017, the Company obtained a revolving line facility agreement with a Lender ("Revolving Line") to borrow up to $5,000,000, accruing interest of Prime plus up to 1.75% per annum, payable monthly. The Revolving Line is also subject to an unused revolving line facility fee of 0.375% per annum, payable monthly, on the average unused portion. The Revolving Line is secured by all assets of the Company and matures on 19 October 2019. A stock warrant to purchase 90,755 shares of Ordinary Shares was granted to the Lender as consideration. At 31 December 2017, the outstanding balance on the revolving line was $0.

7. Stockholders' Equity

The Board has authorised 100,000,000 shares of Ordinary Shares, $0.0001 par value. As of 31 December 2017 and 2016, there were 36,302,900 shares issued and outstanding.

8. 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 31 December 2017, approximately 1,224,000 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 years ended 31 December 2017 and 2016:

	Shares	Weighted-Average Exercise Price
Outstanding at 1 January 2016	1,536,165	$0.96
Granted	405,000	$0.51
Forfeited or cancelled	(75,000)	$0.95
Outstanding at 31 December 2016	1,866,165	$0.86
Granted	-	-
Forfeited or cancelled	(90,000)	$0.93
Outstanding at 31 December 2017	1,776,165	$0.86
Exercisable at 31 December 2016	863,165	$0.96
Exercisable at 31 December 2017	1,391,165	$0.92

As of 31 December 2017, there was approximately $40,000 of total unrecognised compensation costs related to unvested stock options, which is expected to be recognised over a weighted-average period of 0.85 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

9. Stock Warrant

In conjunction with the executed Revolving Line in October 2017 (see Note 6), the Company issued a stock warrant as consideration to the Lender to purchase 90,755 shares of Ordinary Shares at $0.59 per share. The warrant expires in October 2027 and is fully vested; if the fair market value of an Ordinary Share is greater than the exercise price on the Expiration Date, the stock warrant will automatically be deemed exercised.

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

	19 Oct 2017
Weighted-average fair value on day of grant	$0.22
Risk-free interest rate	2.69%
Expected dividend yield	0.00%
Expected volatility	37.97%
Weighted-average expected life of warrant	5.00 years

10. 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.

	Year Ended 31 December 2017	Year Ended 31 December 2016
Basic income per share	($0.05)	($0.06)
Diluted income per share	($0.05)	($0.06)
Weighted-average common shares outstanding:		
Basic and diluted	36,302,900	36,302,900

11. 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 years ended 31 December 2017 and 2016, matching contributions were approximately $150,000 and $148,000, respectively.

12. 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 years ended 31 December 2017 and 2016, the Company had purchases from two suppliers totalling approximately $3,929,000 and $3,331,000 which comprised approximately 53 and 54 per cent. of the Company’s purchases, respectively. Accounts payable and accrued liabilities included approximately $715,000 and $539,000 to these vendors at 31 December 2017 and 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 years ended 31 December 2017 and 2016, the Company had sales to one customer totalling approximately $2,020,000 and $1,748,000, respectively, which comprised approximately 11 per cent. of the Company’s revenue. At 31 December 2017 and 2016, the accounts receivable balance included approximately $151,000 and $148,000, respectively, from this customer.

13. Related Party Transactions

The Company contracted with a certain shareholder of the Company to provide consulting services. During the years ended 31 December 2017 and 2016, the Company incurred approximately $36,000 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 year ended 31 December 2016 was approximately $83,000; this lease was terminated in November 2016.

Beginning in July 2017, a company owned by a shareholder provided investor research services of approximately $20,000 for the year ended 31 December 2017.

14. Subsequent Events

The Company evaluated subsequent events through 13 April 2018, when these consolidated financial statements were available to be issued.

In January 2018, the Company granted 100,000 options to purchase Ordinary Shares to an employee. Approximately 6,000 options were forfeited through March 2018.

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.