CLEARSTAR®

Cutting Edge Solutions that Bridge Business Problems

Annual Report and Accounts 2017

CONTENTS

Directors, Secretary & Advisers

Directors

Bernard "Barney" Quinn
Non-executive Chairman

Robert James Vale Jr.
Chief Executive Officer

David Alexander Pattillo
Chief Financial Officer

Kenneth Wayne Dawson Jr.
Chief Information & Security Officer

Samuel "André" Schnabl
Non-executive Director

Company Secretary

Nicolas Simon Dufour

Registered Office

c/o Maples Corporate Services Ltd
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Principal place of business

5955 Shiloh Road East
Suite 104
Alpharetta
GA 30005
USA

Nominated Adviser & Broker

finnCap Ltd
60 New Broad Street
London
EC2M 1JJ
United Kingdom

Auditors

Aprio, LLP
Five Concourse Parkway
Suite 1000
Atlanta
GA 30328
USA

Legal Advisers – under English Law

Addleshaw Goddard LLP
Milton Gate
60 Chiswell Street
London
EC1Y 4AG
United Kingdom

– under US Law

Eversheds Sutherland (US) LLP
999 Peachtree Street NE
Suite 2300
Atlanta
GA 30309
USA

– under Cayman Islands Law

Maples and Calder
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Registrars

Link Market Services (Guernsey) Ltd
Mont Crevelt House
Bulwer Avenue
St Sampson
Guernsey
GY2 4LH
United Kingdom

Financial PR

Luther Pendragon Ltd
48 Gracechurch Street
London
EC3V 0EJ
United Kingdom

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

Chairman's Statement

Barney Quinn, *Chairman*

30 April 2018

The past year has been one of significant change – and where the changing nature of employment presented us with increased opportunities. For ClearStar, 2017 became the year in which we evolved more fully into a company dealing with human capital management rather than just background checks. We developed our brand, recruited more people experienced in working with Tier 1 clients and made key changes in sales and marketing so that we can approach the coming year in the best possible shape. It is true to say that with almost all of the calls we make today, we now reach someone who has heard of ClearStar.

In 2017, we delivered another year of growth as we received 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.

A key development during the year was that we invested in our future growth. In particular, we significantly increased our sales and marketing efforts, with primary focus on the direct services market. This included creating a new position within the business of VP Sales & Business Development. We continued to develop our global service offering, including being fully up-to-date with GDPR compliance. We also achieved a key milestone with the integration with SAP SuccessFactors® Recruiting, enabling SAP customers to buy solutions directly from ClearStar. This integration enhances ClearStar's offer and also represents another channel-to-market, particularly for direct services.

These measures, which Bob discusses in more detail in his CEO Review, have significantly enhanced our infrastructure and are establishing the foundations for accelerated growth as the drivers of the business continue to strengthen.

As we've said previously, the sustained growth in the transient labour force – or 'gig economy' – is a key driver for our business as it requires an increased number of background screens as well as benefiting from our on-demand mobile solutions for on-the-spot ID validation. This is supported by businesses increasingly embracing mobile technology to facilitate workforce productivity and security. We are also well-placed to benefit from the growth of the borderless economy, where workers and employers can look further afield for opportunities and talent, as one of the few companies with the requisite compliance and technology interface to be able to offer comprehensive searches in over 230 countries. At the same time, when looking at our key home market of the US, the deregulation of recreational drug use in an increasing number of States is driving further demand for our medical information services.

Finally, I would like to thank all of our staff and shareholders for their ongoing support. With the strengthening of ClearStar's foundations, we are well-positioned to benefit as the markets continue to improve and expand. More specifically, with sustained revenue momentum and combined with maintaining tight cost control, the Board remains confident of delivering revenue growth and becoming EBITDA-positive for full year 2018. I look forward to continuing to report our progress.

Chief Executive's Review

Robert J. Vale, *Chief Executive Officer*

30 April 2018

In 2017 we delivered another year of growth with revenue increasing 11% to $17.8 million based on increased sales to direct service and channel partner clients, with particular demand for our medical information services (MIS). We laid the foundations for accelerated future growth through enhancing our sales and marketing efforts and achieving integration with SAP SuccessFactors® Recruiting. Consequently, we believe 2018 is poised to be a pivotal year for ClearStar.

Investing for growth

During the year, we significantly increased our sales and marketing efforts, with primary focus on direct services. This included a number of marketing campaigns to raise brand awareness and creating a position of VP Sales & Business Development with a direct sales team. These measures, which are still being implemented, have already significantly enhanced our infrastructure and are establishing the foundations for accelerated growth.

Through our integration with SAP SuccessFactors® Recruiting, our ScreenMeNow suite of products are available in the SAP® App Center, the digital marketplace for SAP partner offerings. This was enhanced, post period, when we became among the first to achieve "touchless" automated integration with SAP SuccessFactors® Recruiting whereby the background check is auto-initiated when a candidate reaches a particular stage in the hiring process. The point of initiation can be set by the employer, enabling consistency across recruiters and accelerating the overall process. This integration enhances our offer and also represents another channel-to-market, particularly for direct services.

We continued to develop our global service offering, with our dedicated global team – with certified expertise in global privacy requirements – ensuring that we remain up-to-date with evolving regulations, including GDPR compliance. As a result of this, combined with our technology interface, we are now able to provide compliant, rapid access to records in over 230 countries.

We commenced transitioning towards the virtualisation of our servers, for enhanced speed of delivery and reduced expenses, and, post year end, we achieved a key milestone with all of our US-based applications becoming responsive software design compliant for accessing on a mobile device.

Performance by business channel

Direct services sales increased by 24% to $4.7 million (2016: $3.8 million), primarily due to expanding the client base, and the number of people we screened for direct clients increased by 26%.

We continued to upscale our direct client base, winning contracts with large, well-established businesses, and made substantial progress in on-boarding those customers. This was driven by strong demand from the transportation, on-demand labour and education sectors. In transportation, we are now engaged with, among others, two major trucking companies and a major rail company in the US. Our ability to offer customised solutions to meet the precise requirements of the employer is key for this client base.

Sales to channel partners – indirect services – grew by 7% to $13.1 million (2016: $12.2 million), accounting for 74% of total revenue. The growth was primarily due to increased business from some of our largest clients and driven by MIS.

Performance by service offering

MIS continued to be the largest contributor to revenues by product offering, accounting for 37%. Sales grew by 19% to $6.6 million (2016: $5.6 million), with the number of employers using our medical testing and results review services increasing to over 16,200 (2016: 14,500). This was primarily through increased volume with existing channel partner customers based on the purchase of additional services. Channel partners accounted for 85% of MIS revenue.

Global services revenue grew 90% year-on-year to now make a meaningful contribution to total sales. This is primarily from the supply of international records for US-based channel partner clients, but we also increased our business with non-US businesses.

For the direct client base, background screening (with national records) continued to be the primary source of revenue. However, some of our significant direct clients are using our global services and, increasingly, our MIS.

Outlook

ClearStar entered 2018 in a stronger position than the equivalent point of the prior year and with sustained revenue momentum. Revenue for Q1 2018 was 11.4% higher than Q1 2017 at $4.6 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.

As the demand increases, the Board continues to look for opportunities to add scale, either organically or through acquisition. This would widen our geographical reach and enhance our ability to bid for larger global contracts for which we already have the required products. Consequently, we would deliver a step-change in our growth.

CFO's Review

David Pattillo, *Chief Financial Officer*

30 April 2018

In 2017, we delivered against all of our key financial metrics with another year of revenue growth. Total revenues increased by 11% for the year ended 31 December 2017 to $17.8 million (2016: $16.0 million) 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 2.9% to $12.3 million (2016: $11.9 million). 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 we 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 by approximately $215,000, or 12.9%, at $1.9 million (2016: $1.6 million). 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 (2016: $7.5 million), 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.

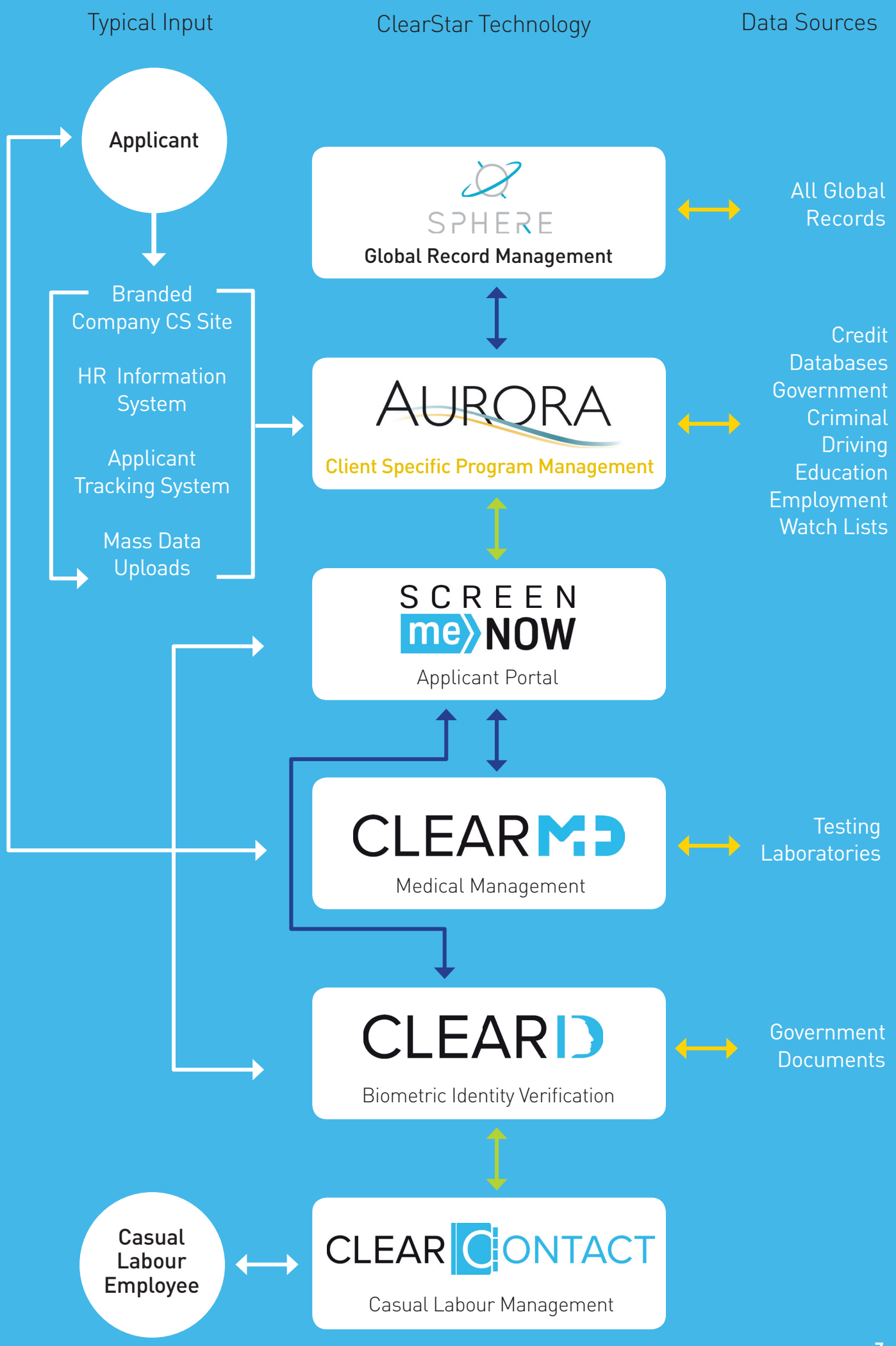
Adjusted EBITDA for 2017 improved by $151,000 to a $391,000 loss, compared with a $542,000 loss for the prior year. Loss before tax was approximately $1.9 million in 2017 compared with a loss before tax of approximately $2.1 million for 2016.

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, we utilised $1.1 million in cash compared with $1.5 million in the prior year, a 24% improvement in cash utilisation.

Our 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%.

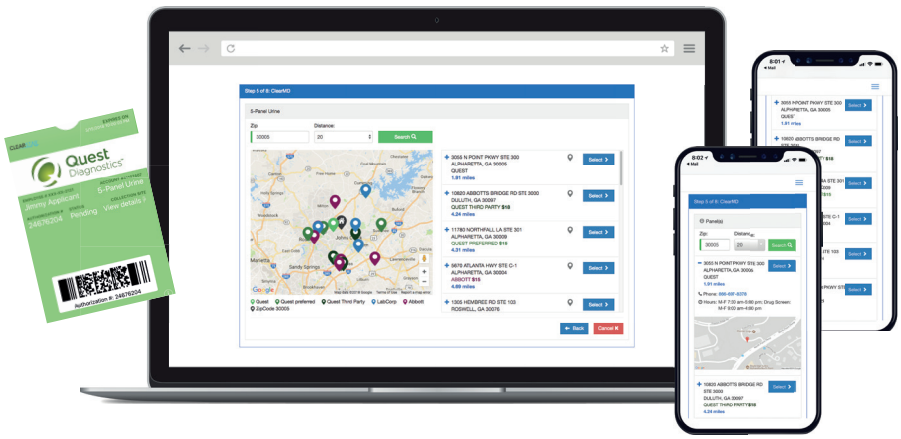
We utilised $184,000 in cash in operating activities compared with $460,000 for the previous year, mainly due to improvement in working capital accounts. We used $754,000 in investment activities compared with $917,000 for 2016. This reduction is primarily the result of lower capitalised software development costs as more products were brought into production during the course of the year. We 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, we 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. We still have the full facility available.


Typical Input
ClearStar Technology
Data Sources
Applicant
Branded Company CS Site
HR Information System
Applicant Tracking System
Mass Data Uploads
SPHERE
Global Record Management
All Global Records
AURORA
Client Specific Program Management
Credit
Databases
Government
Criminal
Driving
Education
Employment
Watch Lists
SCREEN me NOW
Applicant Portal
CLEARMD
Medical Management
Testing Laboratories
CLEARID
Biometric Identity Verification
Government Documents
Casual Labour Employee
CLEARCONTACT
Casual Labour Management

Enhanced Drug and Clinical Screening with

CLEARMD



Full Integration with Major Labs

- Paperless Drug Testing Available at Over 9,000 Abbott, LabCorp and Quest Diagnostics Locations
- Paperless Clinical Testing Available at Over 4,000 LabCorp and Quest Diagnostics Locations

Hundreds of Clinical Tests Available

- Many Clinical Blood Tests Available, Including MMR, Varicella, Hepatitis and QuantiFERON Gold - all Ordered and Reviewed by a Licenced Physician Located in the Candidate's State (US)

Order Via Desktop or Mobile Device

- Orders Can be Placed in the Office or On-The-Go with an App Optimised for Both Desktop and Mobile Devices

iPhone/Android Mobile Wallet Pass

- Mobile Wallet Pass, Available with LabCorp and Quest, Features Built-In Reminders and Auto-Loads on Lock Screen When Near the Collection Site

Real-Time Status Updates

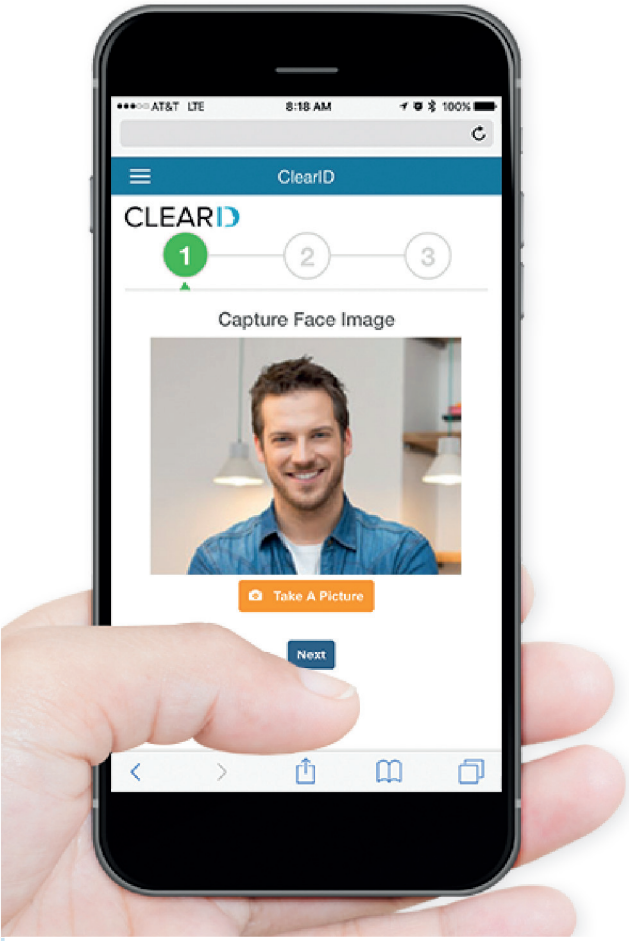
- Real-Time Collection Status Updates and Doctor-Reviewed Results Sent Via Email, Fax, Web or XML

Completely Customisable

- Custom Branding Available, Making it Easy to Harness the Power of ClearMD

Seamless Integration

- Can Easily be Integrated with any Background Check, HR or ATS Software



On-The-Spot Screening

CLEARID

ClearID uses on-the-spot ID validation and face-match technology to expedite the verification of a candidate's identity.

How It Works:

1. Select Screening Package & Enter Basic Applicant Information
2. Capture Consent
3. Take a Photo of the Candidate's Face
4. Take a Photo of the Candidate's Government-Issued Photo ID
5. Click Submit

Benefits for Employers:

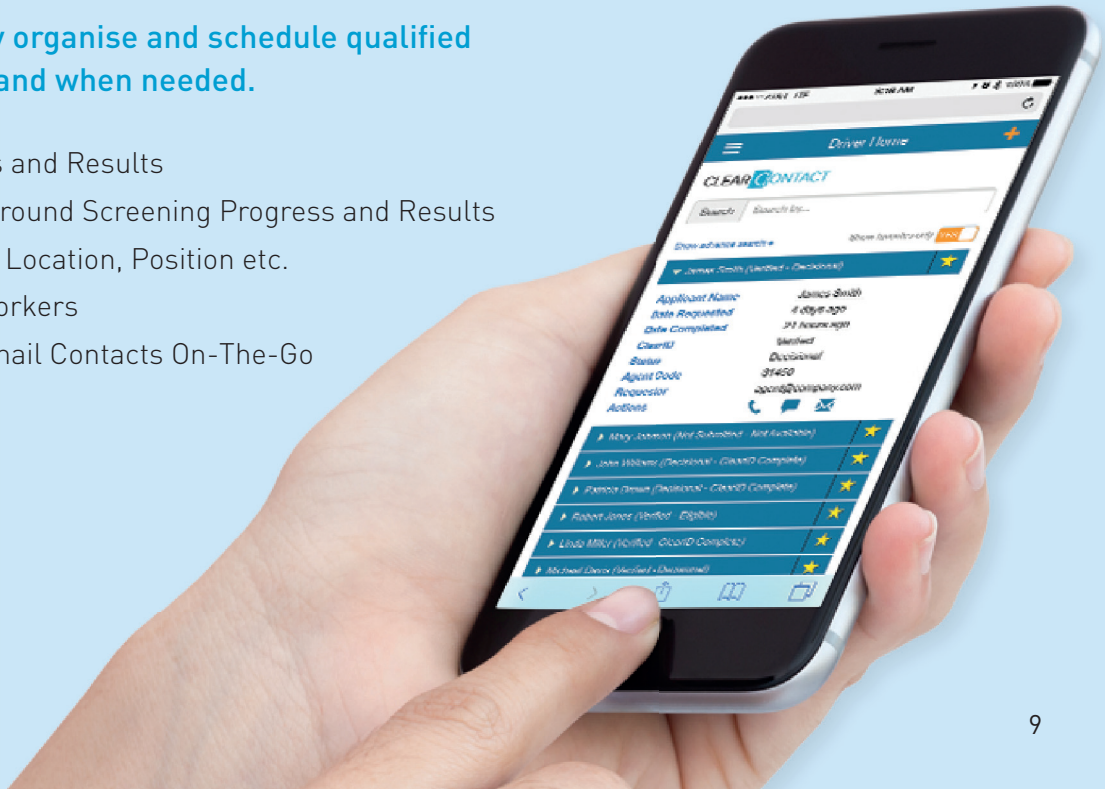
- Five Steps Give Actionable Results In Under Five Minutes
- Reduces Manual Data Entry and Errors
- Electronically Stores Necessary Documentation and Data
- Screening Status Updates are Sent Via Text or Email
- Additional Background Screening Services are Available

On-The-Go Management

CLEARCONTACT

ClearContact can easily organise and schedule qualified contract labour where and when needed.

- Tracks ClearID Progress and Results
- Tracks Additional Background Screening Progress and Results
- Categorises Workers By Location, Position etc.
- "Favourite" Preferred Workers
- Ability to Call, Text or Email Contacts On-The-Go



Directors' Report

For the year ended 31 December 2017

Principal Activities

ClearStar is a technology and service provider to the background check and medical screening industries, supporting background screening companies, employers and employees with their recruitment and employment application decisions and human capital management. ClearStar provides employment intelligence to its clients through a suite of IT applications for day-to-day use in their business. Employment intelligence aims to improve business insight to support better recruitment and other decisions affecting employees generally, by increasing the quality, reliability and visibility of information available to management.

Business Review

The information that fulfils the requirements of the business review, including details of the 2017 results, principal risks and uncertainties and the outlook for future years, are set out in the Chairman's and Chief Executive Officer's Statement and the Business and Financial Review, on pages 3 to 6.

Admission to AIM

ClearStar was admitted to trading on the AIM market of the London Stock Exchange on 11 July 2014, at which time 15,500,000 new Ordinary Shares were placed to raise gross proceeds of approximately US $15 million.

Further information relating to movements on share capital is set out in Note 7 to the consolidated financial statements on page 34.

Dividends

The Company is primarily seeking to achieve capital growth for its shareholders, and it is the Board's intention during the current phase of the Company's development to retain future distributable profits and only recommend dividends when appropriate and practicable. In the long term, the Directors intend to follow a progressive dividend policy in respect of excess equity over and above that required to fund the Group.

Directors

The following Directors held office as indicated below for the year ended 31 December 2017 and up to the date of signing the consolidated financial statements except where otherwise shown.

Barney Quinn – *Non-executive Chairman*

Robert J. Vale, Jr. – *Founding Member, Director and Chief Executive Officer*

Kenneth W. Dawson, Jr. – *Founding Member, Director and Chief Information and Security Officer*

David A. Pattillo – *Director and Chief Financial Officer*

André Schnabl – *Non-executive Director*

Election of Directors

Although not required under the Company's Articles of Association and The Companies Law of the Cayman Islands, the Company is seeking at its annual Stockholders meeting confirmation that the shareholders are satisfied with the current Board and approve for the current Board to continue in office until the next Board election. The 2018 Annual Meeting will be held at 11 a.m. EDT on 22 May 2018 at the offices of Eversheds Sutherland (US) LLP, 999 Peachtree St, NE, Suite 2300, Atlanta, GA 30309, USA.

Directors' Remuneration and Interests

The Directors' Remuneration Report is set out on pages 16 to 17. It includes details of Directors' remuneration, interests in the Ordinary Shares of the Company and share options.

Corporate Governance

The Board's Corporate Governance Statement is set out on pages 14 to 15.

Share Capital and Substantial Shareholdings

Details of the share capital of the Company as of and at 31 December 2017 are set out in Note 7 to the consolidated financial statements. At 16 April 2018, a total of 36,302,900 Ordinary Shares were outstanding; the following Shareholders own 3 per cent. or more of the Ordinary Shares:

Robert J. Vale, Jr. [1]	31.14%
Canaccord Genuity Group, Inc.	14.54%
Kenneth W. Dawson, Jr.	11.81%
William T. White [2]	10.49%
River & Mercantile Group	9.88%
Artemis Investment Management LLP	4.83%
David Pattillo	3.59%
Paul Hill	3.20%

(1) The aggregate number of shares shown for Mr. Vale includes (a) 26.47% held by and controlled by Mr. Vale; and (b) 4.67% held by or on behalf of Mr. Vale's children.

(2) The aggregate number of shares shown for Mr. White includes (a) 6.85% held by and controlled by Mr. White; and (b) 3.64% held by or on behalf of Mr. White's children.

Directors' Responsibilities Statement

For the year ended 31 December 2017

Under the Company's Articles of Association and The Companies Law of the Cayman Islands, all corporate powers are exercised by or under the authority of, and the business and affairs of the corporation managed under the direction of, its Board of Directors, subject to any limitations set forth in the Company's Articles of Association. The Company has prepared financial statements in accordance with Generally Accepted Accounting Principles in the United States ("U.S. GAAP"). The Directors

(1) Discharge their duties as a Director, including duties as member of a committee, in a manner he or she believes in good faith to be in the best interests of the corporation, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

(2) In discharging their duties of Directors, Directors rely on information, opinions, reports or statements, including financial statements and other financial data, if prepared or presented by:

(a) One or more officers or employees of the corporation whom the Directors reasonably believe to be reliable and competent in the matters presented; or

(b) Legal counsel, public accountants or other persons as to matters the Directors reasonably believe are within the person's professional or expert competence; or

(c) A committee of the Board of Directors of which a Director is not a member if the Director reasonably believes the committee merits confidence.

(3) Are not entitled to rely if the Directors have knowledge concerning the matter in question that makes reliance otherwise permitted by subsection (2) above unwarranted.

Independent Auditors

The Audit Committee of the Board of Directors reviews annually the quality and cost effectiveness of the external audit and the independence and objectivity of the external auditors. Aprio, LLP ("Aprio") was engaged to perform the 2017 audit for fees of approximately $78,000, the 2017 corporate income tax compliance returns for fees of approximately $29,000 and various income tax consulting work for fees of approximately $15,000.

Directors' Biographies

For the year ended 31 December 2017

Barney Quinn
Non-executive Chairman

Barney has significant experience in the global application software and cloud markets. He was the CEO of then AIM-listed Workplace Systems International plc and then latterly a non-executive director at the company. For many years Barney was an executive board director of the publicly-quoted Sherwood International plc and has also been a non-executive with two other listed software companies, SSP Holdings plc and Raft International plc. He is also involved in privately-held businesses, including as non-executive chairman of Arkivum Limited and Oxehealth Limited, a non-executive director of Concirrus Limited and a founder of Gotus Limited, which provides an advisory service to a number of technology companies. Previously, he was non-executive chairman of Becrypt, an encryption software specialist, for seven years.

Robert Vale
Chief Executive Officer

Robert is Chief Executive Officer of ClearStar, which he founded in partnership with Ken Dawson and William White in 1995. Prior to forming ClearStar, he was the Manager of Loss Prevention Technical Support for United Parcel Service (UPS). This group was responsible for all loss prevention, risk mitigation and security-related system designs, development, implementation and 24/7 management of systems for UPS worldwide. During his tenure, he worked with the Aerospace Testing Alliance to assist in developing security guidelines for UPS' airline.

A founding member of the National Association of Professional Background Screeners (NAPBS), Robert is often called upon to deliver keynote presentations on the subject of large-scale systems management, technology trends and personal information security. Robert has been a guest instructor at the Federal Law Enforcement Training Centre and has published numerous articles for security trade journals. He has been a member of ASIS International, the pre-eminent organisation for security professionals, since 1987.

Robert holds a Bachelor of Science degree from the State University of New York, Plattsburgh, and served six years in the United States Air Force as Security Police – Security Specialist.

Ken Dawson
Chief Information & Security Officer

Ken is a founding member of ClearStar, who has diversified experience in data management, architecture and security or realtime, analytical technology solutions. Ken currently serves as its Chief Information & Security Officer. In this role, Ken is responsible for evaluating, designing and implementing background check technology solutions that combine information from disparate information sources in varied data formats into cohesive, consistent and richly formatted reports.

Prior to forming ClearStar in 1995, Ken developed enterprise systems for United Parcel Service (UPS) and Kaiser Permanente. Ken began his career in software development and content delivery in 1990 while working as an intern for Conatec, Inc., an aerospace engineering firm.

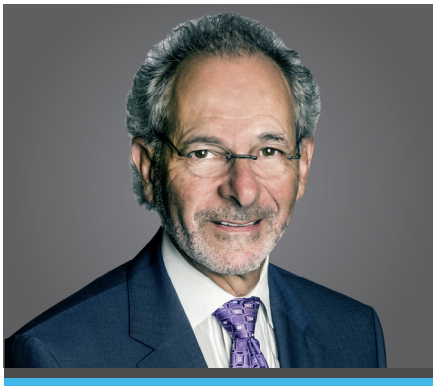
Ken is a certified information systems professional and studied Aerospace Engineering at the University of Maryland.

David Pattillo
Chief Financial Officer

David is Chief Financial Officer of ClearStar. In this role he provides leadership and direction in all areas of finance and accounting, including financial planning and forecasting, and accessing capital to fund growth. Additionally, he is responsible for establishing and maintaining the accounting controls and processes to mitigate financial risk and ensure timely financial reporting.

David has an accomplished career in leading companies through high growth expansion, both domestically and internationally. Prior to ClearStar, David was the CFO of MyCelx Technologies Corporation which he led through an IPO on AIM in 2011. Prior to that, David was CFO of Harry's Farmers Market, a company which he helped guide from start-up through an IPO on NASDAQ. David has public company reporting experience as CFO of both MyCelx Technologies Corporation and Hary's Farmers Market. David is currently a non-executive director of Endava Limited, a UK-based privately-owned IT services company.

David has valuable board experience as he has been an executive board member of both private and public companies. David holds a Bachelor of Science degree from Clemson University and an MBA from the University of Georgia.



André Schnabl
Non-executive Director

André retired in 2012 as Managing Partner of the Atlanta office of Grant Thornton, LLP. Prior to assuming the Managing Partner role, André led the Technology Industry Practice, which focused on serving the needs of software, medical device and telecommunications clients. Throughout his career, André has excelled at linking people, vision, strategies and diligent execution to drive sustainable revenue growth and a highly productive corporate culture. During his tenure as the leader of the Atlanta office, André drove the formulation and execution of a strategy that achieved three-fold revenue growth.

Seeking ways to influence excellence among audit committee chairs and members, in 2012 André launched the "Grant Thornton Peer 2 Peer Audit Committee Forum". In partnership with Kennesaw State University's "Center of Corporate Governance", the Forum is designed specifically to give audit committee members an effective way to stay current on the many regulatory, risk, and business issues affecting their roles as audit committee members and the companies on whose boards they serve.

André has served on numerous corporate and not-for-profit boards.

Corporate Governance Report

For the year ended 31 December 2017

The Company is incorporated and registered in the Cayman Islands (registration number 287331). The Directors recognize the importance of sound corporate governance and, whilst the UK Corporate Governance Code published by the Financial Reporting Council does not apply to AIM companies, the Directors' objectives are (i) to observe the requirements of the UK Corporate Governance Code to the extent they consider appropriate in light of the Group's size, stage of development and resources, and (ii) to follow, so far as practicable, the recommendations set out in the corporate governance code for small and mid-size quoted companies published by the QCA. The Board has established an Audit Committee, a Remuneration Committee, a Nominations Committee and an AIM Compliance and Corporate Governance Committee, with formally delegated duties and responsibilities as described below.

Audit Committee

The Audit Committee is responsible for monitoring the integrity of the Company's consolidated financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Company's internal control and risk management systems and overseeing the relationship with the external auditors (including advising on their appointment, agreeing to the scope of the audit and reviewing the audit findings). The Audit Committee continues to monitor the need for an internal audit department following Admission.

The Audit Committee is comprised of André Schnabl, who acts as Chairman, and Barney Quinn. The Audit Committee met three times during 2017. The Audit Committee also meets regularly with the Company's external auditors.

Remuneration Committee

The Remuneration Committee is responsible for determining and agreeing with the Board regarding the framework for the remuneration of the Chairman, the Board Members and other designated senior executives and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons including, where appropriate, bonuses, incentive payments and share options or other share awards. The remuneration of non-executive Directors is a matter for the Chairman and the executive members of the Board. No Director is involved in any decision as to his or her own remuneration. The Remuneration Committee is also responsible for issuing awards of relevant shares and options to purchase Ordinary Shares of the Company under the Company's 2014 Share Option and Incentive Plan.

The Remuneration Committee is comprised of André Schnabl, who acts as Chairman, and Barney Quinn. The Remuneration Committee met three times during 2017.

Nominations Committee

The Nominations Committee is responsible for identifying and nominating members of the Board, recommending Directors to be appointed to each committee of the Board and the chair of each such committee. The Nominations Committee also arranges for evaluation of the Board.

The Nominations Committee is comprised of Barney Quinn, who acts as Chairman, and André Schnabl. The Nominations Committee met twice during 2017.

AIM Compliance and Corporate Governance Committee

The AIM Compliance and Corporate Governance Committee is responsible for ensuring that the Company is complying with the AIM Rules. It also assesses the Company's corporate governance obligations every year. The AIM Compliance and Corporate Governance Committee is chaired by Robert J. Vale, Jr. and its other members are David A. Pattillo and Kenneth W. Dawson, Jr. It meets as often as is required.

Board of Directors

The Board consists of two Non-executive Directors with relevant experience to complement the three Executive Directors and to provide an independent view to the Executive Directors. The Non-executive Directors are Barney Quinn (Chairman) and André Schnabl. The three Executive Directors are Robert J. Vale, Jr. (Chief Executive Officer), Kenneth W. Dawson, Jr. (Chief Information and Security Officer) and David A. Pattillo (Chief Financial Officer).

The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions.

Relations with Shareholders

Copies of the Annual Report and Consolidated Financial Statements are issued to all shareholders and copies are available on the Company's website (www.clearstar.net/financial-reports/). The Company also uses its website to provide information to shareholders and other interested parties, subject to applicable restrictions of the United States securities laws. The Chief Financial Officer and Secretary also deal with shareholder correspondence as and when it arises. At the Company's Annual Meeting, the Chairman along with the Chief Executive Officer and other Directors are available before and after the meeting for further discussions with shareholders.

Internal Control

The Board is ultimately responsible for the Company's system of internal control and reviewing its effectiveness on an ongoing basis. The system is designed to manage rather than eliminate the risk of failure to achieve the Company's strategic objectives and cannot provide absolute assurance against material misstatement or loss. The key risk management processes and internal control procedures include the following:

- The involvement of the Executive Directors in day-to-day business operations.
- Clearly defined responsibilities and limits of authority.
- A system of financial reporting, forecasting and budgeting. Budgets are prepared annually for the business based upon a multi-year strategic plan narrowed to a current year tactical plan to take advantage of current opportunities and address near term risks. Reviews occur through the management structure culminating in a Company budget which is considered and approved by the Board. Company management accounts are prepared monthly and submitted to the Board for review. Variances from budget and prior year are monitored, and the reasons for significant variances are reviewed.
- An ongoing process for identifying, evaluating and seeking to manage significant risks across the Company.

Corporate Secretary

The Company's corporate secretary is ClearStar's Executive Vice President and General Counsel, Nicolas S. Dufour.

Directors' Remuneration Report

For the year ended 31 December 2017

As an AIM-listed company, ClearStar is not required to comply with Schedule 8 of The Large and Medium- sized Companies and Groups (Accounts and Reports) Regulations 2008. The following disclosures are therefore made on a voluntary basis. The information is unaudited.

Remuneration Policy

The Company's remuneration policy is based on the following broad principles:

- to provide competitive remuneration packages to attract and retain quality individuals;
- to align the interests of management with the interests of shareholders; and
- to set the pay of the Executive and Non-executive Directors with due account taken of (i) pay and conditions throughout the Company and (ii) corporate governance best practice.

Remuneration consists of the following elements:

Base Pay

Executive Directors' base pay is designed to reflect the role and responsibility of the individual within the Company. Salary levels are reviewed annually.

Annual Bonus

All Executive Directors and members of senior management participate in the Company's annual bonus scheme, which is based on the achievement of individual and Company performance targets at the discretion of the Compensation Committee. Annual bonuses are designed to incentivise performance and reward achievement in line with the agreed corporate strategy.

Long-term Incentives

The Compensation Committee considers that equity based long-term incentive schemes are the most effective way to align the interests of participants and shareholders.

Service Contracts

Barney Quinn

Mr. Quinn entered into an agreement with the Company on 30 May 2014 to serve as its Chairman. The service contract provides for, among other things:

(i) annual board fees of $55,000 and participation in the Executive Bonus Plan to be directed by the Compensation Committee;

(ii) grant of $35,000 of stock options based on the IPO price to purchase Ordinary Shares of the Company, vested ratably over a one-year period; and

(iii) a three-year term (automatically renewing for successive one-year periods). The agreement provides for customary non-solicitation, non-compete and nondisclosure restrictions.

Robert J. Vale, Jr.

Mr. Vale entered into an employment agreement with the Company on 7 July 2014 to serve as its Chief Executive Officer and to serve on the Board at the request of the Company. The employment agreement provides for, among other things:

(i) annual salary of $480,000 and participation in the Executive Bonus Plan to be directed by the Compensation Committee;

(ii) a two-year term (automatically renewing for successive one-year periods). The agreement may only be terminated by Mr. Vale upon six-month prior written notice or by the Company upon providing for one-year base salary, payable in 24 semi-monthly instalments in arrears, as severance if he is terminated without cause or resigns for good reason. The agreement provides for customary non-solicitation, non-compete and non-disclosure restrictions.

Kenneth W. Dawson, Jr.

Mr. Dawson entered into an employment agreement with the Company on 7 July 2014 to serve as its Chief Information and Security Officer and to serve on the Board of Directors. The employment agreement provides for, among other things:

(i) annual salary of $250,000 and participation in the Executive Bonus Plan to be directed by the Compensation Committee;

(ii) a two-year term (automatically renewing for successive one-year periods). The agreement may only be terminated by Mr. Dawson upon six-month prior written notice or by the Company upon providing for one-year base salary, payable in 24 semi-monthly instalments in arrears, as severance if he is terminated without cause or resigns for good reason. The agreement provides for customary non-solicitation, non-compete and non-disclosure restrictions.

David A. Pattillo

Mr. Pattillo entered into an employment agreement with the Company on 7 July 2014 to serve as its Chief Financial Officer and to serve on the Board of Directors. The employment agreement provides for, among other things:

(i) annual salary of $250,000 and participation in the Executive Bonus Plan to be directed by the Compensation Committee; and

(ii) a two-year term (automatically renewing for successive one-year periods). The agreement may only be terminated by Mr. Pattillo upon six-month prior written notice or by the Company upon providing for one-year base salary, payable in 24 semi-monthly instalments in arrears, as severance if he is terminated without cause or resigns for good reason. The agreement provides for customary non-solicitation, non-compete and non-disclosure restrictions.

André Schnabl

Mr. Schnabl entered into an agreement with the Company on 30 May 2014 to serve on the Board of Directors. The service contract provides for, among other things:

(i) annual board fees of $45,000 and participation in the Executive Bonus Plan to be directed by the Compensation Committee;

(ii) grant of $35,000 of stock options based on the IPO price to purchase Ordinary Shares of the Company, vested ratably over a one-year period; and

(iii) a three-year term (automatically renewing for successive one-year periods). The agreement provides for customary non-solicitation, non-compete and nondisclosure restrictions.

All Directors are elected by the shareholders at an annual or special meeting, to serve until the next election and until their successors are elected and qualified, or until their earlier death, resignation or removal.

The Director's remuneration for 2017 was as follows (Benefits in kind include medical and life insurance and 401(k) matching contributions):

	Salary and Director's fees US$	Benefits in kind US$	Performance related bonus US$	2017 Total US$
Non-executive Chairman				
Barney Quinn	$55,000	$4,551	–	$59,551
Executive				
Robert J. Vale, Jr.	$480,000	$12,325	–	$492,325
Kenneth W. Dawson, Jr.	$250,000	$25,813	–	$275,813
David A. Pattillo	$250,000	$15,298	–	$265,298
Non-executive				
André Schnabl	$45,000	–	–	$45,000

The interests of the Directors at 31 December 2017 in the shares of the Company, not including interests of investment funds in respect of which the Director may have a managerial interest, and with respect to which such Director disclaims beneficial ownership, were:

	Number of Ordinary Shares	Percentage of issued share capital
Barney Quinn [1]	244,555	0.67%
Robert J. Vale, Jr. [2]	11,306,000	31.14%
Kenneth W. Dawson, Jr.	4,288,000	11.81%
David A. Pattillo	1,303,900	3.59%
André Schnabl	67,000	0.18%

(1) The interests of Mr. Quinn include 25,000 shares held by his wife, Jennifer Quinn

(2) The aggregate number of shares shown for Mr. Vale includes (a) 9,610,000 shares held by and controlled by Mr. Vale; and (b) 1,696,000 shares held by or on behalf of Mr. Vale's children.

Share Options

Options for Ordinary Shares awarded to Directors under the 2014 Share Option and Incentive Plan in place on 31 December 2017 were:

Option holder	Type of award	Earliest exercise date and date of vesting	Exercise price ($US)	Number of shares
Barney Quinn	Non-executive Chairman Stock Option	11 July 2014	$0.97	36,082
David A. Pattillo	Employee Stock Option	11 July 2014*	$0.97	105,000
	Employee Stock Option	4 January 2016*	$0.51	60,000
André Schnabl	Non-executive Director Stock Option	11 July 2014	$0.97	36,082

* Vesting ratably over a three-year period

Consolidated Financial Statements

For the years ended 31 December 2017 and 2016

Independent Auditors' Report

HA+W | Aprio
The new name for HA+W

Advisory Assurance Tax Private Client

To the Stockholders of
ClearStar, Inc. and subsidiaries

We have audited the accompanying consolidated financial statements of ClearStar, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ClearStar, Inc. and subsidiaries as of December 31, 2017 and 2016 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Aprio, LLP

Atlanta, Georgia
April 13, 2018

Aprio, LLP Five Concourse Parkway, Suite 1000, Atlanta, Georgia 30328 404.892.9651 Aprio.com

Consolidated Statements of Operations

(US$, in thousands)

for the years ended 31 December 2017 and 2016

	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.

Consolidated Balance Sheets

(US$, in thousands)

for the years ended 31 December 2017 and 2016

	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

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

Consolidated Balance Sheets *(continued)*

(US$, in thousands)

for the years ended 31 December 2017 and 2016

	As of 31 December 2017 $	As of 31 December 2016 $
LIABILITIES AND STOCKHOLDERS' EQUITY (contd.)		
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.

Consolidated Statements of Changes in Stockholders' Equity

(US$, in thousands, except no. of shares)

for the years ended 31 December 2017 and 2016

	Common Stock		Additonal Paid-in Capital	Accumulated Deficit	Total
	Shares No.	Amount $	$	$	$
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.

Consolidated Statements of Cash Flows

(US$, in thousands)

for the years ended 31 December 2017 and 2016

	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.

Consolidated Statements of Cash Flows *(continued)*

(US$, in thousands)

for the years ended 31 December 2017 and 2016

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.

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

Notes to the Consolidated Financial Statements

for the years ended 31 December 2017 and 2016

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.

Notes to the Consolidated Financial Statements *(continued)*

for the years ended 31 December 2017 and 2016

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.

Notes to the Consolidated Financial Statements *(continued)*

for the years ended 31 December 2017 and 2016

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.

Notes to the Consolidated Financial Statements *(continued)*

for the years ended 31 December 2017 and 2016

n) Income Taxes *(continued)*

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.

Notes to the Consolidated Financial Statements *(continued)*

for the years ended 31 December 2017 and 2016

r) Recent Accounting Pronouncements *(continued)*

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

Notes to the Consolidated Financial Statements *(continued)*

for the years ended 31 December 2017 and 2016

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

Notes to the Consolidated Financial Statements *(continued)*

for the years ended 31 December 2017 and 2016

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

Notes to the Consolidated Financial Statements *(continued)*

for the years ended 31 December 2017 and 2016

4. Commitments and Contingencies *(continued)*

- **Capital Leases *(continued)***

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.

Notes to the Consolidated Financial Statements *(continued)*

for the years ended 31 December 2017 and 2016

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 $000	Year Ended 31 December 2016 $000
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

Notes to the Consolidated Financial Statements *(continued)*

for the years ended 31 December 2017 and 2016

5. Income Taxes *(continued)*

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.

Notes to the Consolidated Financial Statements *(continued)*

for the years ended 31 December 2017 and 2016

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

Notes to the Consolidated Financial Statements *(continued)*

for the years ended 31 December 2017 and 2016

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.

Notes to the Consolidated Financial Statements *(continued)*

for the years ended 31 December 2017 and 2016

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.

ClearStar, Inc.
5955 Shiloh Road E, Suite 104
Alpharetta
Georgia 30005
USA
Tel: +1 770 416 1900
www.clearstar.net