6 May 2020

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

Final Results

ClearStar (AIM: CLSU), a provider of Human Capital Integrity℠ technology-based services specialising in background and medical screening, announces its final results for the year ended 31 December 2019.

Financial Summary

- Revenue increased by 14% to $23.0m (2018: $20.1m)
- Gross profit grew by 9% to $12.4m (2018: $11.3m)
- Adj.* EBITDA doubled to $0.4m (2018: $0.2m)
- Loss before tax flat at $1.4m (2018: $1.4m)
- As at 31 December 2019, the Company had increased cash of $1.8m (30 June 2019: $1.1m)

* Adjusted to exclude certain non-recurring expenses (see Financial Review)

Operational Summary

- Strong revenue growth in direct sales and Medical Information Services (“MIS”), which, in aggregate, accounted for 72% of total revenue (2018: 65%):
  - Direct sales increased by 32% due to expansion of higher-volume, tier 1 client base
  - MIS sales increased by 23% primarily due to greater volume with channel partner customers through purchase of additional services
- Expanded direct tier 1 client base in key industries as well as into new segments:
  - Won a contract with a major shipyard specialising in vessels for the U.S. Navy
  - Awarded multiple contract expansions for financial institution screening
  - Won first direct customer in the petrochemical industry and, post period, in facilities management
- Enhanced sales & marketing resulting in greater brand recognition, significant increase in interest and upscaling:
  - Expansion of sales pipeline, including transition up-channel to higher-value prospects
  - Average spend per direct customer increased 32% over 2018
  - Value of lead generation through strategic integrations with Veritas Prime and SAP SuccessFactors increased by more than 200% over 2018
- Enhanced offering with the introduction of new MIS services for ordering breath alcohol screening and, post period, the launch of Criminal Monitoring

COVID-19 Update

- ClearStar continues to be able to service its clients with no degradation in quality standards and it has not lost any customers, but volumes have been significantly reduced
- The Company responded rapidly to implement mitigation measures to reduce operating costs, including Non-Executive Directors forgoing their fees and voluntary salary reductions for all employees, which are expected to generate up to approximately $2.3m of savings in the current financial year
- At 5 May 2020, the Company had net debt of $1.0m, which included a $1.1m loan received under the Paycheck Protection Program (“PPP”)
- It remains too early to assess the full financial impact and to be in a position to provide guidance for the

current financial year

- The Board continues to monitor the situation closely and will update the market as necessary

Robert Vale, CEO of ClearStar, commented: "In 2019, we continued to execute on our strategy to expand and increasingly upscale our direct client base as well as grow our market-leading medical screening solutions. Our success is reflected in our revenue growth for the year and our contract wins, which included some high-calibre organisations. We also entered 2020 with our highest ever order book.

"Our business model has meant that we could adapt rapidly in response to the COVID-19 outbreak – with the procedures and technology in place to enable remote working and with the same strict level of security. There has been no degradation in our quality standards and we have not lost any customers, however, volumes have been significantly reduced. We have acted decisively to cut our costs to support our liquidity during this period and I am proud of the response of our employees to this crisis, but it remains too early to predict the full financial impact on the Company in the current year. The Board continues to monitor the situation closely and we will update the market as necessary."

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

About ClearStar

ClearStar, Inc. is a leading provider of Human Capital Integrity^{SM} technology-based services specialising in background and medical screening. It provides employment intelligence direct to employers and via channel partners/consumer reporting agencies ("CRAs") to support better recruitment and other decisions affecting employees by increasing the quality, reliability, and visibility of information.

A seven-time Inc. 5000 honoree and founding member of the Professional Background Screening Association (formerly, 'NAPBS'), 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

ClearStar continued to execute on its strategy and deliver strong growth in 2019, with revenue increasing by 14% to $23.0m (2018: $20.1m). This was driven by sales of the Company's industry-leading Medical Information Services and ramp-up of new direct customers that were won in 2018, primarily for background screening. ClearStar also continued to upscale its direct client base with the average spend per direct customer increasing by 32% over the previous year.

The Company's investment in strengthening its direct sales team enabled an expansion in the pipeline and upscaling of the client base, including some major client wins during the year and post period. ClearStar also continued to enhance its offer, including the introduction of breath alcohol screening as part of its medical screening services and, post period, the launch of its Criminal Monitoring service.

Performance by business channel

Direct services

Sales from direct services increased by 32% to $7.9m for 2019 (2018: $6.0m), accounting for 34% of total revenue (2018: 30%). In addition, in 2019, a direct customer became one of the Company's ten largest customers by revenue generation, reflecting the increasing significance of this business channel. The growth was driven primarily by the financial services and transportation industries as well as a significant contribution from an organisation that provides student exchange programmes. Home healthcare remained the largest overall contributor to direct sales.

ClearStar has had a clear and stated intention of not just growing its client base but expanding into new verticals and upscaling to larger, higher-volume businesses. During 2019, the Company made significant progress in this endeavour. Average spend per direct customer increased by 32% in 2019 over 2018, reflecting the higher volume of larger businesses. The value of leads generated through the ClearStar's strategic integrations with Veritas Prime and SAP SuccessFactors increased by more than 200% over 2018. ClearStar continued to expand in its core verticals as well as successfully winning new business in two new verticals.

<u>Healthcare:</u> In home healthcare, the Company's wins during 2019 were in expanding its business with existing customers, primarily by servicing additional locations for those customers. In addition, the Company was appointed by a medical humanitarian organisation to provide global background screening of its employees and volunteers. ClearStar was also awarded a contract by a leading animal healthcare and mineral nutrition company, with over 1,400 employees, to provide background and medical screening – specifically, drug testing and occupational health.

<u>Financial Services:</u> ClearStar's significant financial institution screening client, which is a professional services company that provides outsourcing and staffing primarily for the financial services industry, granted the Company two extensions during 2019. As noted previously, revenue in the fourth quarter was lower than anticipated due to the impact on the financial services industry of political uncertainty in the US and abroad and market realignments. However, post period, ClearStar was pleased to be appointed to provide financial institution screening for three further institutions under its contract with this customer (albeit with relatively modest initial volumes), as well as continuing to provide its services to the original major financial institution.

<u>Transportation and Logistics:</u> ClearStar continued to make progress in expanding its customer base in its target growth market of transportation and logistics. This includes being appointed to provide background screening by a major shipyard specialising in the design, building and support of vessels for the U.S. Navy. The contract includes minimum annual volumes over a three-year period, which adds to revenue visibility. The Company also increased

its client base in the aerospace industry, which included some notable wins that were achieved through ClearStar's integration with SAP SuccessFactors.

Environmental Services: ClearStar was awarded a contract by Milestone Environmental Services, a leading provider of oilfield waste disposal services, to provide a combination of drug and background screening services – representing the Company's first direct client in the petrochemical industry.

Facilities Management: Post period, ClearStar was appointed by a leading facilities management company to provide background screening of all service providers entering the customer's healthcare facilities. This is the Company's first direct customer in facilities management and ClearStar believes the sector offers good growth potential due to the large number of external service providers entering a facility. It also offers the opportunity to cross-sell further solutions to these service providers who will already be on-boarded to ClearStar's platform.

Channel partners

In 2019, sales to channel partners – indirect services – increased by 7% to $15.0m (2018: $14.1m) as a result of MIS growth. Indirect services accounted for 66% of total revenue (2018: 70%).

Performance by service offering

Medical Information Services

MIS continued to be the largest single contributor to revenue by product, accounting for 44% of total revenue (2018: 41%) and grew strongly year-on-year with an increase in MIS revenue of 23% to $10.1m (2018: $8.3m). This growth was primarily based on increased volume with existing channel partner customers for drug testing services.

Strong regulatory drivers in the area of drug screening have continued to increase the time-sensitive requirement on ClearStar's channel partner customers to bring a solution to market. ClearStar's ability to deliver a white label solution that can be quickly configured and integrated has made the Company's medical technology the solution of choice for customers to rapidly resolve any regulatory requirement gaps.

Sales to channel partners accounted for 85% of MIS revenue (2018: 85%) and sales to direct customers accounted for 15% (2018: 15%). The slight growth in direct MIS revenue was primarily based on increased volume with existing direct customers.

Other services

Excluding MIS, revenue from ClearStar's other services – which primarily comprise background screening as well as the wholesale provision of data and global services – increased to $12.8m (2018: $11.9m). This was driven by an increase in sales in background screening to direct clients, which grew by 32% year-on-year, and more than mitigated the reduction in revenue from channel partner background screening.

Investing for growth

At the beginning of 2019, the Company further enhanced its sales team, establishing a team with combined experience of over 70 years in background screening sales. This investment contributed to the significant upscaling of the client base, reflected in the increase in average spend per direct customer, as well as the expanded pipeline – some of which has now converted to sales.

ClearStar enhanced its MIS offering with the introduction of new services for ordering breath alcohol screening to meet both Department of Transportation ("DOT") and non-DOT requirements. This includes a combined drug and breath alcohol screening offer, which facilitates the screening process for the employee and employer by allowing tests to be conducted at the same location and providing consolidated results reporting. This marks an important step towards ClearStar's goal of offering complete medical review services.

Post period, ClearStar further expanded its offering with the launch of its Criminal Monitoring solution. This new service, which is already being used by several clients, provides ongoing monitoring for records of employee criminality, for which clients pay a monthly fee. The initial uptake has been primarily from the Company's clients in the child education sector and industries where a worker enters the home.

During 2019, the Company gained ISO/IEC 27001:2013 accreditation, which certifies that ClearStar's information security, cybersecurity and privacy protection systems and policies comply with international standards of best practice. This also followed ClearStar having invested during the year to enhance its security measures, such as for automated threat monitoring.

In addition, during 2019 the Company commenced transitioning its IT infrastructure from third-party data centres to an AWS cloud-based environment. This provides greater scalability, security and resilience as well as enabling faster deployment of software updates.

Financial Review

ClearStar achieved solid revenue growth with total revenues increasing 14% for the year ended 31 December 2019 to $23.0m compared with $20.1m for 2018. This was based on growth across both direct and indirect services, with particularly strong demand for MIS.

Gross profit increased 9% to $12.4m (2018: $11.3m) and gross profit margin was 54.1% (2018: 56.4%). The decrease in margin was primarily due to having a higher percentage of revenue derived from MIS, which has a lower gross margin than other services.

Total operating expenses, including depreciation and amortisation, were $13.6m (2018: $12.7m). The increase was due to higher general and administrative expenses at $9.0m (2018: $8.1m) primarily resulting from two non-recurring items totalling $522k: a severance payment to a former executive and exit costs associated with an early lease termination relating to the Company's office relocation. Research and development expenses were $1.3m (2018: $1.7m) and depreciation and amortisation expenses were slightly lower at $1.1m (2018: $1.2m). Selling and marketing expenses were higher at $2.2m (2018: $1.7m) as the Company invested for growth with the expansion of the direct sales team at the beginning of the year.

The Company doubled adjusted EBITDA for 2019 to $0.4m compared with $0.2m for 2018 as a result of generating higher revenue. Loss from operations was reduced to $1.2m (2018: $1.3m) and loss before tax was flat at $1.4m (2018: $1.4m) due to greater interest expenses in 2019 due to utilisation of the credit facility. In 2018, the Company received a $0.07m benefit from income taxes as a result of the reduction of the corporate tax rate from 35.0% to 21.0% under the US Tax Cuts and Jobs Act. The Company recognised a provision for income taxes of $0.2m in 2019, resulting in net loss being $1.4m compared with $1.3m in 2018.

The Company's total liabilities at 31 December 2019 were $5.2m (30 June 2019: $5.7m; 31 December 2018: $2.7m). The decrease compared with 30 June 2019 was due to seasonality, with the Company typically experiencing lower sales volume at year-end and, accordingly, lower cost of sales liabilities. The increase compared with the same point in the prior year was primarily due to the growth in sales and a credit facility utilisation of $2.1m to finance periodic technology infrastructure investment and support growth in the business.

At 31 December 2019, total assets were $9.0m (30 June 2019: $9.9m; 31 December 2018: $7.8m) with the largest assets being goodwill and other intangible assets of $3.7m (30 June 2019: $3.3m; 31 December 2018: $4.0m), accounts receivable of $2.0m (30 June 2019: $3.3m; 31 December 2018: $2.2m) and cash of $1.8m (30 June 2019: $1.1m; 31 December 2018: $0.9m).

The Company generated $160k in net cash from operating activities for 2019 (2018: $380k). The decrease was primarily due to higher software subscription costs in 2019 as a result of the Company paying an annual upfront fee part-way through the year to receive pricing advantages (rather than continuing to pay monthly).

The Company used $1.4m in investment activities in 2019 (2018: $0.7m), due to increased technology-related expenditures associated primarily with the purchase of new hardware and software to support and enhance the Company's technology platform.

The Company used $2.1m in financing activities (which primarily relates to the credit facility utilisation for working capital) and general corporate purposes (which included the purchase of new hardware and software).

As noted, at 31 December 2019, the Company had cash of $1.8m. ClearStar has a recurring revenue credit facility with Silicon Valley Bank for up to $5.0m (dependent on monthly recurring revenue) of which $2.9m remained available at 31 December 2019. Post period, the Company has made further draw downs on the facility in response to the COVID-19 crisis as described below.

Current trading and COVID-19 Update

To protect the health and safety of its workforce, all of the Company's employees were transitioned to remote working during March 2020. ClearStar has continued to be able to service its clients, with no degradation in quality or security, as the Company's business model does not require employees to be in a particular physical location to perform their roles. This capability was also strengthened by the investments the Company made during 2019 in its IT infrastructure to enhance its security measures and cloud data management.

ClearStar entered 2020 with its highest ever order book and a healthy pipeline. However, the COVID-19 outbreak has resulted in a significant reduction in volume and a delay to some expected activity due to the widespread hiring freezes and economic downturn. Consequently, revenue for the year-to-date is 16% lower than for the same period in 2019, with the current run rate approximately 50% below the same point last year. Given the evolving nature of the crisis and the uncertainty over its length and severity, it is too early to assess the financial impact that the disruption will have on the full year ending 31 December 2020.

The Company responded rapidly to the crisis to implement a number of mitigation measures to support the liquidity of the business and its financial position during this period of reduced trading. The Non-Executive Directors have chosen to forego their director fees, the Executive Directors are taking a voluntary salary reduction of 25% and all other employees have agreed to a reduction of 10%-25%. Other actions taken include the implementation of some organisational restructuring; curtailing all travel and non-essential spend; and securing a short-term rent concession on the Company's leased properties. The remuneration reductions are effective from 1 April 2020 and will be reinstated at management's discretion based on the length of the disruption and financial impact on the Company. These measures, combined, are expected to significantly reduce monthly running costs and generate in-year savings of up to approximately $2.3m.

As at 5 May 2020, the Company had net debt of $1.0m and gross cash of $3.8m. The gross cash comprised $1.1m derived from the PPP loan that the Company received pursuant to the Coronavirus Aid, Relief, and Economic Security Act; $1.5m from the Company's recurring revenue credit facility with Silicon Valley Bank; and $1.2m from current operations. As noted above, the borrowing capacity under the credit facility is determined by Company's monthly recurring revenue. Accordingly, based on the current level of reduced trading due to the COVID-19 outbreak, the Company is unable to drawdown further funds from the facility and it expects to be required to make debt repayments in the coming months based on its existing covenants. The Company was not in compliance with certain covenants as at 31 March 2020, and the bank agreed to waive the breach through 30 June 2020. The Company is engaged in active negotiations with Silicon Valley Bank to secure new covenant terms. If the existing covenants continue, and based on the current level of trading, the Board believes that the Company has sufficient liquidity to remain viable until year end.

Nonetheless, the Board is encouraged that, while volumes have been significantly reduced, the Company has not lost any customers during this period and it has continued to win new business. This strengthens the Board's confidence that ClearStar is well-positioned to benefit from the expected ramp up in US recruitment when normal business resumes. The Company will continue to monitor the situation closely and update the market as appropriate.

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

	Year Ended 31 December 2019 $000	Year Ended 31 December 2018 $000
Net revenue	22,953	20,113
Cost of revenue	10,543	8,773
Gross profit	12,410	11,340
Operating expenses		
Selling and marketing	2,221	1,655
Research and development	1,329	1,652
Depreciation and amortisation	1,055	1,226
General and administrative	9,012	8,141
Total operating expenses	13,617	12,674
Loss from operations	(1,207)	(1,334)
Other income (expense)		
Interest expense, net	(171)	(68)
Total other expense	(171)	(68)
Net loss before taxes	(1,378)	(1,402)
Provision (benefit) for income taxes	18	(65)
Net loss	(1,396)	(1,337)

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

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

	At 31 December 2019 $000	At 31 December 2018 $000
ASSETS		
Current assets		
Cash	1,754	923
Accounts receivable - trade, net	1,981	2,197
Research and development tax credits	-	90
Prepaid expenses	630	358
Total current assets	4,365	3,568
Property and equipment, at cost		
Computer equipment	661	70
Furniture and fixtures	226	283
Leasehold improvements	76	57
Less accumulated depreciation	(198)	(241)
Total property and equipment, net	765	169
Other assets		
Goodwill and other intangible assets, net	3,747	4,028
Deferred debt issuance costs, net	36	40
Deposits	43	13
Total other assets	3,826	4,081
Total assets	8,956	7,818
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Loan facility	2,100	-
Accounts payable	2,494	2,348
Accrued liabilities	249	179
Deferred revenue	9	81
State income taxes	9	7
Total current liabilities	4,861	2,615
Long-term liabilities		
Accrued liabilities	272	32
Deferred income taxes	34	27
Total long-term liabilities	306	59
Stockholders' equity		
Common stock, $0.0001 par value; 100,000,000 shares authorised; issued and outstanding 36,362,900 shares in 2019 and 36,302,900 shares in 2018	4	4
Additional paid-in capital	13,992	13,951
Accumulated deficit	(10,207)	(8,811)
Stockholders' equity	3,789	5,144
Total liabilities and stockholders' equity	8,956	7,818

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 No.	Amount $000	Capital $000	Deficit $000	Total $000
Balances at 1 January 2018	**36,302,900**	4	13,686	(7,474)	6,216
Non-cash stock compensation	-	-	265	-	265
Net loss	-	-	-	(1,337)	(1,337)
Balances at 31 December 2018	**36,302,900**	4	13,951	(8,811)	5,144
Non-cash stock compensation	-	-	11	-	11
Issuance of common stock	60,000	-	30	-	30
Net loss	-	-	-	(1,396)	(1,396)
Balances at 31 December 2019	**36,362,900**	4	13,992	(10,207)	3,789

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 2019 $000	Year Ended 31 December 2018 $000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(1,396)	(1,337)
Adjustments to reconcile net loss to net cash used for operating activities:		
Change in allowance for doubtful accounts	-	(22)
Depreciation and amortisation	1,055	1,226
Deferred income taxes	7	(73)
Non-cash stock compensation	11	265
Non-cash debt issuance costs	41	48
Loss on disposal of property and equipment	57	1
Loss on lease exit (*see Commitments and Contingencies note*)	173	-
Change in operating assets and liabilities:		
Accounts receivable	215	(521)
Research and development tax credits	90	(27)
Prepaid expenses	(272)	(183)
Deposits	(30)	(1)
Accounts payable	146	893
Accrued liabilities	133	38
Deferred revenue	(72)	72
State income taxes	2	1
Total adjustments	1,556	1,717
Net cash provided by operating activities	160	380
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(743)	(32)
Capitalised software development costs	(679)	(665)
Net cash used for investing activities	(1,422)	(697)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from loan facility	2,100	-
Debt issuance costs	(37)	-
Proceeds from sales of common stock	30	-
Principal payments on capital lease obligations	-	(63)
Net cash provided by (used for) financing activities	2,093	(63)
Net cash increase (decrease) for year	831	(380)
Cash at beginning of year	923	1,303
Cash at end of year	1,754	923

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

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Year Ended 31 December 2019 $000	Year Ended 31 December 2018 $000
Cash paid:		
Interest	131	19
Income taxes	9	8
	140	27

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

During the years ended 31 December 2019 and 2018, the Company retired obsolete and fully-depreciated property and equipment of approximately $141,000 and $552,000, respectively.

During the years ended 31 December 2019 and 2018, the Company retired fully-amortised intangible assets of approximately $861,000 and $1,376,000, respectively.

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

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. ClearStar UK has been dissolved effective 25 June 2019.

ClearStar together with its subsidiaries (collectively the “Company”) is a provider of Human Capital Integrity[SM] technology-based services specialising in background and medical screening, 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 information technology 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.

b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and those entities required to be consolidated under generally accepted in the United States of America (‘‘U.S. GAAP’’). All significant intercompany transactions and balances have been eliminated in consolidation.

c) Basis of Accounting

The accompanying financial statements have been prepared in accordance with U.S. GAAP. These principles are established by the Financial Accounting Standards Board (“FASB”).

d) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions affecting reported amounts in the consolidated financial statements and accompanying notes. Management considers available facts and knowledge of existing circumstances when establishing these estimates. The most significant items that involve a greater degree of accounting estimates subject to change in the future are the allowance for doubtful accounts, depreciable lives of property and equipment, amortisation of other intangible assets, certain accrued liabilities, stock-based compensation and income taxes. Estimates for these and other items are subject to change and are reassessed by management in accordance with U.S. GAAP. 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. The majority of year-end receivables are collected within the following fiscal quarter. The Company has not historically had significant write-offs for these receivables.

g) Property and Equipment

Property and equipment, including assets acquired under capital leases, is depreciated using the straight-line method over estimated useful lives or lease terms if shorter. Expenditures for maintenance and repairs are expensed as incurred, 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 2019 and 2018 was approximately $95,000 and $141,000, 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 $41,000 and $95,000 at 31 December 2019 and 2018, respectively, with an accumulated amortisation of approximately $5,200 and $55,000 at 31 December 2019 and 2018, respectively. The Company amortised approximately $41,000 and $48,000 of these costs through interest expense for the years ended 2019 and 2018, respectively. The remaining amortisation expense is expected to be approximately $20,600 and $15,500 in 2020 and 2021, 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 was deemed to have an indefinite useful life, but it is subject to an annual impairment test. 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 its evaluation of goodwill impairment, the Company performs 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, the Company proceeds 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 the Company's 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, the Company performs its 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. No impairment had occurred in the years ended 31 December 2019 and 2018 as a result of the annual goodwill impairment tests performed, and there have been no subsequent events requiring further analysis.

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 intangible assets, including customer relationships and trade name, are amortised using the straight-line method over their estimated useful life of 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 U.S. 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 in the years ended 31 December 2019 and 2018.

l) Revenue Recognition

Revenue from fixed monthly fees are derived primarily from customers' use of the Company's 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. 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. Deferred revenue includes one-time setup fees and annual certification fees. One-time setup fees are 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. Annual certification fees are billed annually and are recognised rateably over the contract period.

See note 12 (Revenue from Contracts with Customers) for details related to the Company's revenue recognition policies.

m) Advertising

The Company expenses advertising costs as incurred. Advertising expenses for the years ended 31 December 2019 and 2018 were approximately $411,000 and $470,000, 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 in the United States. 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 2016.

o) Research and Development

Expenditures related to the development of new products and processes are expensed as incurred. Research and development expenses were approximately $1,329,000 and $1,652,000, net of $0 of tax credits, for the years ended 31 December 2019 and 2018, 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, adjusted for actual forfeitures, over the requisite service period, using the straight-line method. Stock-based compensation expense for the years ended 31 December 2019 and 2018 was approximately $11,000 and $265,000, respectively.

q) Fair Value of Financial Instruments

Fair value is the exit price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view on the market assumption in the absence of observable market information.

Valuation inputs are classified in the following three level 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.

Due to the short-term nature of cash, accounts receivable, prepaid expenses, accounts payable, and accrued liabilities, their fair value approximates carrying value.

r) New Accounting Principles

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 ("ASC 606"), Revenue from Contracts with Customers (Topic 606). Under ASC 606, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the providing entity expects to be entitled in exchange for those goods or services. ASC 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue that is recognised. The Company adopted the amendments in ASC 606 on 1 January 2019 using the modified retrospective method. The adoption of ASC 606 did not result in any changes in the timing or measurement of revenue recognition for the Company's revenue.

s) Future Application of Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02 ("ASU 2016-02"), *Leases* (ASC 842), which requires that lease arrangements longer than 12 months result in an entity recognising an asset and liability on the balance sheet. The pronouncement is effective for the Company beginning in fiscal year 2021, with early adoption permitted. The Company expects the primary impact from the adoption of ASU 2016-02 will be the recognition of its operating lease obligations and corresponding right-of-use assets on the balance sheet, which mainly consist of the Company's home office operations and other real estate leases of office space. The Company anticipates that the impact of adopting ASU 2016-02 will result in an increase to assets and liabilities that is generally consistent with the Company's remaining lease obligations as listed in note 4 "Commitments and Contingencies" plus any new operating lease commitments agreed to before the effective date.

In January 2018, the FASB issued ASU No. 2017-04 ("ASU 2017-04") *Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment*. The amendments in ASU 2017-04 simplified the measurement of goodwill by eliminating step 2 from the goodwill impairment test. Instead, under ASU 2017-04, an entity should perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognise an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The amendments in ASU 2018-04 are effective for the Company beginning in fiscal year 2021, with early adoption permitted. The Company is in the process of evaluating the impact of this standard on its consolidated financial statements.

Recent accounting guidance not discussed above is not applicable, is immaterial to the Company's consolidated financial statements, or did not or is not expected to have a material impact on the Company's business.

2. Accounts Receivable

Accounts receivable consisted of the following:

	At 31 December 2019 $000	At 31 December 2018 $000
Trade accounts receivable	1,988	2,204
Allowance for doubtful accounts	(7)	(7)
	1,981	2,197

3. Goodwill and Other Intangible Assets

Goodwill and other intangible assets were comprised of the following at 31 December 2019:

		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	2,172	679	(861)	1,990	1,145	722	(861)	1,006	984
Customer Relationships	7	1,673	–	–	1673	955	238	–	1193	480
		6,128	679	(861)	5,946	2,100	960	(861)	2,199	3,747

Goodwill and other intangible assets were comprised of the following at 31 December 2018:

		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	2,883	665	(1,376)	2,172	1,675	846	(1,376)	1,145	1,027
Customer Relationships	7	1,673	–	–	1,673	717	238	–	955	718
		6,839	665	(1,376)	6,128	2,392	1,084	(1,376)	2,100	4,028

Approximate aggregate future amortisation expense is as follows:

Year Ending 31 December:

	Amount $000
2020	801
2021	575
2022	88
	1,464

4. Commitments and Contingencies

- Operating Leases

The Company leases office space and equipment. The lease agreements expire on various dates through October 2026.

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 or payment terms subject to escalation. Total rent expense for the years ended 31 December 2019 and 2018 was approximately $317,000, and $186,000, respectively.

The Company terminated its lease of office space in April 2019. Pursuant to the terms and condition of the termination agreement, the Company was required to pay approximately $173,000 in fees associated with its early lease termination. Concurrent with the execution of the termination agreement, the Company entered into a new lease contract with a separate third party. Under the new lease agreement, the Company was reimbursed an amount equal to the total amount due under the termination agreement.

At 31 December 2019, future minimum lease payments under non-cancellable operating leases were as follows:

Year Ending 31 December:

	Amount in $000
2020	355
2021	395
2022	400
2023	410
2024	421
Thereafter	800
Total minimum rental commitments for operating leases	2,781

- 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. Director fees were approximately $100,000 each for the years ended 31 December 2019 and 2018.

- Long-Term Vendor Commitment

In June 2019, the Company executed a thirty-month contract with a cloud-based software company to provide customer-relationship management services. The agreement requires an annual fee of approximately $274,000, payable quarterly through November 2021.

In January 2019, the Company executed a three-year vendor contract for an application security service, requiring an annual fee of approximately $70,000, payable annually through January 2022.

5. Income Taxes

- Tax effects of temporary differences are as follows:

	At 31 December 2019 $000	At 31 December 2018 $000
Allowance for doubtful accounts	2	2
Prepaid expenses	(21)	(12)
Amortisation of software development	(230)	(241)
Amortisation of intangibles	27	29
Amortisation of goodwill	(34)	(27)
Accrued liabilities	70	9
Basis difference in property and equipment	(23)	7
Net operating losses	2,310	2,043
Stock-based compensation	111	95
Tax credits	248	211
Other adjustments	12	11
Total noncurrent	2,472	2,127
Less: valuation allowance	(2,506)	(2,154)
Net deferred tax liabilities	(34)	(27)

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 2019 $000	Year Ended 31 December 2018 $000
Current tax expense:		
Federal	-	-
State	11	8
Total current tax expense:	11	8
Deferred:		
Federal	6	(77)
State	1	4
Total deferred tax expense	7	(73)
Total provision (benefit) for income taxes	18	(65)

The effective income tax rate differs from the federal statutory income tax rate due to state income taxes, certain non-deductible expenses and an increase of approximately $352,000 in the valuation allowance for the period.

On 22 December 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted in the United States, which includes a broad range of tax reforms affecting businesses, most notably changes to the U.S. federal income tax laws, including reduction of the corporate tax rate from 35.0% to 21.0%, income tax deductions, and international tax provisions. Under Accounting Standards Codification Topic 740 ("ASC 740"), the impact of changes in tax laws must be recorded in the financial statements in the reporting period that includes the date of enactment. However, the Securities and Exchange Commissions ("SEC") and the FASB both recognise that the magnitude of this law change will require companies to perform extensive analysis and calculations to conform to the new provisions. The SEC issued Staff Accounting Bulletin ("SAB") 118, which allowed companies to recognise provisional amounts for the tax effects resulting from the enactment of the Tax Act for which the accounting under ASC 740 is incomplete, but a reasonable estimate can be determined. Adjustments to these provisional amounts, if any, are to be completed within a measurement period not to exceed one year. The Company completed its accounting for the estimated tax effects of the Tax Act and identified the following areas:

- One-time Repatriation Tax on Foreign Earnings: The Tax act imposed a mandatory one-time tax charge on accumulated, undistributed foreign earnings, traditionally not subject to U.S. federal income tax until distributed as a dividend to U.S. shareholders. As ClearStar UK is dormant and does not have any accumulated or undistributed foreign earnings, the Company concluded that is not subject to the repatriation tax associated with accumulated, undistributed foreign earnings.

- Global intangible low-taxed income ("GILTI"): Under U.S. GAAP, companies can make a policy election as to either recognise Global intangible low-taxed income as incurred or recognised it as deferred. An entity selection of an accounting policy related to the GILTI tax provisions depends, in part, on analysing its global income to determine whether the entity expects to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. As ClearStar UK is dormant, the Company concluded that GILTI is not expected to apply to 2018 or future periods. Further, the Company has made a policy decision to record such taxes, if any, as incurred.

- Foreign-derived intangible income (“FDII”): While the Company has foreign sales in 2018, the Company has an overall taxable loss, and accordingly no FDII deduction should be allowable. If the Company were in an income position the amount of the FDII deduction would also be immaterial based on the Company's level of foreign sales.

At 31 December 2019, the Company had approximately $10,193,000 in net operating loss carry-forwards (“NOL”) available to use against taxable income. The NOLs will begin to expire starting in 2023 and through 2038.

At 31 December 2019, the Company had approximately $248,000 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 (“Revolving Line”) with Silicon Valley Bank (the “Lender”) to borrow up to $5,000,000, accruing interest of Prime plus a floating rate equal to 1% or 1.75% per annum, with such rate determined based on the Company’s performance pricing period, and payable monthly. The Revolving Line is governed by borrowing bases that limit the Company’s borrowing capacity to (a) recurring revenue for the most recent month, multiplied by (b) an advance rate determined by the Lender. Under the Revolving Line agreement, the total outstanding borrowings will not exceed the lesser of the Revolving Line limit or the borrowing bases. 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 was to mature on 19 October 2019. A stock warrant to purchase 90,755 shares of Ordinary Shares was granted to the Lender as consideration.

In September 2019, the Company amended its Revolving Line, including extending the maturity to October 2021 and compliance with a minimum liquidity of $2,000,000 as defined. At 31 December 2019 and 2018, amounts outstanding on the Revolving Line was $2.1m and $0, respectively, and the Company was in compliance with its covenants. For additional information concerning the Company’s covenants at 31 March 2020, see note 17 (Subsequent Events).

7. Stockholders’ Equity

The Board has authorised 100,000,000 shares of Ordinary Shares, $0.0001 par value. There were 36,362,900 and 36,302,900 shares issued and outstanding at 31 December 2019 and 2018, respectively.

8. Stock-Based Compensation

In June 2014, the Board adopted the 2014 Share Option and Incentive Plan (“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. At 31 December 2019, 1,096,400 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 2019 and 2018:

	Shares	Weighted- Average Exercise Price	
Outstanding at 1 January 2018	1,776,165	$	0.86
Granted [1]	1,937,600		0.84
Forfeited or cancelled [2]	(1,630,165)		0.92
Outstanding at 31 December 2018	2,083,600		0.79
Granted	90,000		0.66
Exercised	(60,000)		0.51
Forfeited or cancelled	(270,000)		0.92
Outstanding at 31 December 2019	1,843,600		0.79
Exercisable at 31 December 2018	1,859,600		0.80
Exercisable at 31 December 2019	1,686,933	$	0.79

(1) Consists of 286,000 granted shares and 1,651,600 replacement awards associated with shares that the Board elected to cancel.

(2) Consists of 442,165 forfeited shares and 1,188,000 of fully-vested awards that the Company elected to replace.

At 31 December 2019, there was approximately $25,000 of total unrecognised compensation costs related to unvested stock options, which is expected to be recognised over a weighted-average period of 1.9 years.

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

	3 June 2019	2 July 2018
Weighted-average fair value on day of grant	$0.180	$0.230
Risk-free interest rate	1.83%	1.95%
Expected dividend yield	0.00%	0.00%
Expected volatility	32.29%	30.76%
Weighted-average expected life of option	4.00 years	4.00 years

9. Stock Warrant

In conjunction with the executed Revolving Line in October 2017 as described in note 6 (Revolving Line Facility), 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.

10. Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted EPS 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 2019	Year Ended 31 December 2018
Basic income per share	(\$0.04)	(\$0.04)
Diluted income per share	(\$0.04)	(\$0.04)
Weighted-average common shares outstanding: Basic and diluted	36,362,900	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. See note 17 (Subsequent Events) for more information on the employer safe harbour matching contributions.

For the years ended 31 December 2019 and 2018, matching contributions were approximately \$151,000 and \$153,000, respectively.

12. Revenue from Contracts with Customers:

The Company’s revenue is derived from providing background screening and medical information services to direct and indirect customers on a transactional basis, in which distinct services are delivered over time as the customer simultaneously receives and consumes the benefits of the services provided. Under ASC 606, revenue is recognised when a performance obligation is satisfied by transferring control of a promised product or service to the customer. Revenue is measured based on the amount of consideration that the Company expects to receive in exchange for those goods or services. In accordance with ASC 606, revenue is recognised when all of the following criteria are met: (1) the Company has entered into a binding agreement, (2) the performance obligations have been identified, (3) the transaction price to the customer has been determined, (4) the transaction price has been allocated to the performance obligations in the contract, and (5) the performance obligations have been satisfied.

The Company’s revenues from contracts with customers primarily include:

- Indirect services - Channel partners: The Company provides employment intelligence via channel partners or consumer reporting agencies. Indirect services consist of background screening as well as the wholesale provision of data and global services. Pricing is on an ongoing monthly minimum order commitment and is updated annually or amended as needed. Sales from indirect services were approximately \$6.5m and \$7.1m for the years ended 31 December 2019 and 2018, respectively.

- Direct sales: The Company transacts directly with businesses in various industries, including transport and logistics, financial institutions, as well as home healthcare. Fees vary by product type/service. Sales from direct services were approximately $6.4m and $4.8m for the years ended 31 December 2019 and 2018, respectively.
- Medical Information Services ("MIS"): Fee earned for drug and clinical testing services as well as occupational health screenings from indirect and direct customers. The Company earns revenue per drug and clinical test. Sales from MIS services were approximately $10.1m and $8.3m for the years ended 31 December 2019 and 2018, respectively.

The Company recognises revenue when it has an agreement with the customer that creates an enforceable right, the performance obligations are distinct, and the transaction price is determined. Revenue is recognised at the point in time the Company's performance obligation to the customer is satisfied, which is the transfer date. Payment from the customer is due and subject to normal terms. Typical payment terms range from 30 to 45 days, depending on the type of customer and relationship. The Company has no material obligations to refund fees on contracts with customers subsequent to completion of its performance obligation. Discounts provided to customers at the time of sale are recognised as a reduction in sales as the products or services are provided.

The Company does not enter into commitments to provide goods or services that have terms greater than one year. Therefore, the Company expenses direct costs of obtaining a contract when incurred because the amortisation period would have been one year or less.

13. 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 2019 and 2018, the Company had purchases from two suppliers totalling approximately $5,701,000 and $4,741,000, respectively, which comprised approximately 54 per cent. of the Company's purchases for both years. Accounts payable and accrued liabilities included approximately $1,404,000 and $1,440,000 to these vendors at 31 December 2019 and 2018, 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 2019 and 2018, the Company had sales to one customer totalling approximately $2,450,000 and $2,254,000, respectively, which comprised approximately 11 per cent. of the Company's revenues for both years. At 31 December 2019 and 2018, the accounts receivable balance included approximately $202,000 and $156,000, respectively, from this customer.

14. Related Party Transactions

The Company contracted with a certain shareholder of the Company to provide consulting services. During the years ended 31 December 2019 and 2018, the Company incurred approximately $46,000 and $38,000, respectively, in consulting fees to this related party.

15. Impact of Covid-19

The Company's ongoing profitability may experience instability and estimates included in the financial statements may change due to current political and economic conditions as a result of public health concerns related to the novel coronavirus, or COVID-19. The duration and intensity of these impacts and resulting disruption to which these events effect the Company's business will depend on future developments, which are highly uncertain and cannot be predicted at this time.

16. Liquidity

Management anticipates that its 2020 results of operations will be impacted by the COVID-19 outbreak. Additionally, the Company's ability to comply with its debt covenants at 31 March 2020 has been negatively impacted by the economic downturn and the prolonged lockdown orders due to the current pandemic. As such, the Lender issued a forbearance letter through 30 June 2020 to waive the Company's existing covenant breach. Management believes that it will continue to operate the business and mitigate the risks associated with COVID-19. Management's plan is to further strengthen the Company's financial position by increasing revenue from its services contracts, reducing operating expenses, cutting capital expenditures, and participating in the US Government's Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. Management believes additional sources of capital will be available should cash flows from operations be insufficient to fund the working capital deficit. Although management continues to pursue this plan, there is no assurance that the Company will be successful in obtaining sufficient revenues from its services, financing or equity investments on terms acceptable to the Company. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

17. Subsequent Events

The Company evaluated subsequent events through 4 May 2020, when these consolidated financial statements were available to be issued.

In January 2020, the Company amended its 401k Plan to stop the safe harbour matching contributions on future employee elective contributions.

On 25 April 2020, the Company entered into a loan with Silicon Valley Bank in an aggregate principal amount of $1,143,789 (the "Loan") pursuant to the PPP under the CARES Act. The Loan is evidenced by a promissory note dated 25 April 2020 and matures on 25 April 2022. The Loan bears interest at a rate of 1.00% per annum, with a deferral of payments for the first six months. Principal and interest are payable monthly commencing on 25 November 2020 and may be prepaid by the Company at any time prior to maturity with no prepayment penalties. Funds from the Loan may only be used for payroll costs, including benefits, rent, and utilities. Under the terms of the Loan, the Loan may be forgiven if it is used for qualifying expenses as described in the CARES Act. The Company intends to use the proceeds for purposes consistent with the PPP.

The Company was not in compliance of certain covenants at 31 March 2020, and the Lender issued a forbearance letter to waive the Company's existing covenant breach through 30 June 2020.

Except as disclosed above, 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.