16 September 2020

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

Interim Results

ClearStar (AIM: CLSU), a provider of Human Capital Integrity℠ technology-based services specialising in background and medical screening, announces its interim results for the six months ended 30 June 2020.

Financial Summary

- Revenue of $8.9m (H1 2019: $11.6m)
- Gross profit of $4.7m (H1 2019: $6.3m)
- Adj. EBITDA of $541k loss (H1 2019: $191k)*
- Loss before tax of $1.2m (H1 2019: $0.9m loss)
- At 30 June 2020, the Company had gross cash of $2.2m (31 Dec 2019: $1.8m)
- Net debt as at 30 June was $1.4m (31 December 2019: $0.3m)

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

Operational Summary

- Responded rapidly and effectively to the COVID-19 outbreak and continued to be able to service clients with no degradation in quality standards
- Volumes were significantly reduced in March and April due to the widespread job losses and freeze on recruitment as a result of the pandemic, but substantial recovery from the end of May driven by the business outsourcing, financial institutions and home healthcare sectors
- Strong progress in on-boarding previously-won customers and continued to generate new business
- Sustained strategic execution throughout the period:
  - Expanded the direct tier 1 client base, including being awarded a contract by a provider of technology testing and industrial automation that has a market value on NASDAQ of over $10bn
  - Entered into a new segment with the appointment by a leading facilities management company, a sector that offers good growth potential
  - Established an integration with a technology solutions provider for home healthcare agencies and community organisations and, post period, achieved Prime Connector status with iCIMS Talent Platform
- Enhanced offering with the launch of Criminal Monitoring and a COVID-19 testing service for employers

Current Trading & Outlook

- Sales for August 2020 reached the same level as for August 2019 following a sustained and significant uptick in run rate from the end of May 2020
- As at 15 September 2020, the Company had reduced net debt to $0.3m with gross cash of $3.3m
- Revenue recovery has been primarily based on new activity with customers with increased requirements because of the pandemic, such as business staffing companies and hospital systems
- The Board is encouraged by the significant revenue recovery and strengthening financial position, however, with the continued uncertainty around the length of the pandemic and its economic impacts, it remains cautious about the near-term outlook

Recommended Offer

It has also been announced today that Hanover Bidco 1 Limited is making an offer for the entire issued and to be issued share capital of the Company at a price of 40 pence per share, valuing the Company at £14.7m ($19m).

Robert Vale, CEO of ClearStar, commented: "With the outbreak of COVID-19 and consequent widespread freeze on recruitment, our volumes were substantially reduced in March and April. However, from the end of May we have achieved a significant uptick in revenues – increasing month-on-month – and in August returned to our run rate of last year. We have continued to be able to service our customers throughout the period as well as win new business and launch new services. This reflects our resilience and ClearStar's strong fundamentals with the necessity of employers taking action to protect the safety of their workforce and customers never being more apparent. However, with ongoing concerns created by the pandemic and its economic impact, there remains continued uncertainty as to the potential impact on short-term revenues for the Company and the Board is therefore cautious about the Company's near-term outlook."

Enquiries:

ClearStar, Inc.	+1 877 796 2559
Robert Vale, Chief Executive Officer Jennifer Balleza, Chief Financial Officer	
finnCap Ltd.	+44 20 7220 0500
Jonny Franklin-Adams, Marc Milmo, Simon Hicks – Corporate Finance Andrew Burdis, Tim Harper – ECM	
Luther Pendragon Ltd.	+44 20 7618 9100
Harry Chathli, Claire Norbury, Joe Quinlan	

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 entered 2020 with its highest ever order book and was delivering against a healthy pipeline ahead of the COVID-19 outbreak. With the widespread recruitment freezes and job losses as a result of the pandemic, screening volumes were significantly reduced in March and April 2020 across all of the Company's channels and services. From the end of May, ClearStar has experienced a strong and sustained uptick in activity from the lows of March and April 2020. As a result, revenue for the first six months of 2020 was $8.9m (H1 2019: $11.6m).

Notwithstanding the impact on volume as a result of the pandemic, ClearStar's operational performance was robust during the period. ClearStar continued to win new bluechip customers, including expanding into new sectors; onboard previously-won customers; and enhance its offer through establishing further integrations and launching new services. Consequently, the Company made progress with the development of its business during the period.

The Company responded rapidly and effectively to the COVID-19 outbreak. To protect the health and safety of its workforce, all of the Company's employees were transitioned to remote working during March 2020 while continuing to be able to service its clients, with no degradation in quality or security. This capability was strengthened by the investments the Company made during 2019 in its IT infrastructure to enhance its security measures and cloud data management. The Company also acted decisively to implement a number of mitigation measures to support the liquidity of the business and its financial position during the period of reduced trading, which significantly reduced monthly running costs.

Performance by business channel

Sales from direct services were $3.0m for the first half of 2020 (H1 2019: $4.2m), accounting for 34% of total revenue (H1 2019: 36%) as a result of lower screening volumes due to COVID-19. The largest contributors to revenue for the period were the home healthcare and transportation and logistics industries, while the financial services sector and business staffing companies helped drive the improved revenue from the end of May.

During the first half of 2020, ClearStar made good operational progress with the onboarding of previously-won customers and winning new business. This includes expanding into new verticals and continuing to upscale its client base to larger, higher-volume businesses.

Key new customer wins during the first half include:

- A leading facilities management company – the Company's first direct customer in this sector – which appointed ClearStar to provide background screening of all service providers entering the customer's healthcare facilities. The Company commenced generating revenue from this customer post period
- A provider of technology testing and industrial automation, which has a market value on NASDAQ of over $10bn, with onboarding completing and revenue generation commencing post period
- One of the largest US providers of hand-prepared, home-delivered meals, which often works alongside healthcare or social services to ensure vulnerable populations receive healthy food at home. ClearStar commenced generating revenue from this customer during the period
- A real estate rental company that appointed ClearStar to provide tenant screening, which is expected to commence generating revenue this autumn

Significant progress during the period under previously-won contracts includes being appointed to provide financial institution screening for three further institutions by ClearStar's customer that offers outsourcing

and staffing primarily for the financial services industry. The improvement in the Company's revenue from the end of May following the COVID-19 challenges of March and April was driven, in particular, by the ramp up in volume of one of these three new financial institutions, which is a sizeable, household name investment bank. Another key development was the ramp in volume for an HR business outsourcing customer, which operates from 70 offices throughout the US and typically fills more than 4,000 recruitment positions per year. The customer appointed ClearStar in H2 2019 and increased in volume throughout H1 2020 and into the second half, which the Company expects to continue as businesses transition to more flexible working.

Channel partners

In the first half of 2020, sales to channel partners – indirect services – were $5.9m (H1 2019: $7.4m) and accounted for 66% of total revenue (H1 2019: 64%).

Performance by service offering

Medical Information Services

Medical Information Services ("MIS") continued to be the largest single contributor to revenue by product, accounting for 44% of total revenue (H1 2019: 43%), and was $4.0m (H1 2019: $5.0m). Sales to channel partner customers accounted for 89% of MIS revenue (H1 2019: 83%), which was primarily for drug testing services. However, ClearStar experienced improved sales from its occupational health screening and clinical testing, albeit still an immaterial contribution to revenue, as the Company increasingly rolls out these solutions.

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 – was $4.9m (H1 2019: $6.6m).

Enhanced offer

During the first half of 2020, ClearStar enhanced its offer through the launch of new services, securing a further strategic integration and receiving a new comprehensive security standard.

Launch of new services

ClearStar launched a testing service aimed at supporting employers with their COVID-19 return-to-work planning and keeping their workforce safe. The new COVID-19 testing programme is provided by the Company's MIS business through Clinical Reference Laboratory, Inc. ("CRL"), one of the largest privately held clinical testing laboratories in the US. The service was launched in May 2020 and, post period, the CRL Rapid Response kit received U.S. Food and Drug Administration Emergency Use Authorization enabling shipments of this test to commence.

Customers are able to order the service using the same process as for their existing ClearStar drug and clinical screening programmes. The CRL Rapid Response™ kit, which is a saliva-based molecular diagnostic test, is shipped either in bulk to the employer or direct to the employees (or job applicants). Samples are self-collected by employees and sent back to the CRL lab for testing. Employees also complete a questionnaire and register the test collection kit online. The results of the tests are reported via the ClearStar platform within 24-48 hours, on average, of the samples being received by the lab and are provided in the same format, based on employer preference, as the customer receives their other drug or background screening reports

from the Company. Any employee testing positive will automatically be contacted by a licenced doctor to discuss the results and next steps, and also receives instructions on self-isolation.

In addition, during the period ClearStar expanded its offering with the launch of a Criminal Monitoring solution. This new service 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.

Integrations

At the end of the first half of 2020, ClearStar signed an agreement for an integration with a provider of end-to-end technology solutions for home healthcare agencies and community organisations. This integration, once live later this year, will enable users of the platform in the US and Canada to seamlessly, through a single platform, utilise ClearStar's background screening services alongside their other operational activities for workforce and business management. This represents the addition of another route-to-market in a key industry for ClearStar.

ClearStar also, post period, achieved a Prime Connector integration with iCIMS Talent Platform, one of the leading applicant tracking systems in the US with over 4,000 clients, including approximately 20% of the Fortune 100. ClearStar has had a Standard integration with iCIMS since 2018. With Prime Connector status, the Company's services will now be fully integrated, enabling customers to create orders (including for global screening), track progress and view the results from within the iCIMS platform. This will enhance the efficiency and convenience of the screening process for customers as well as expand the availability of ClearStar's services, with the Company also being listed as a Prime supplier on the iCIMS marketplace.

Security

The Company achieved, post period, System and Organization Controls ("SOC") 2 certification, which is a comprehensive reporting framework of the American Institute of Certified Public Accountants. It requires companies to establish and follow strict information security policies and procedures, encompassing the security, availability, processing, integrity, confidentiality and privacy of customer data. This enhances the Company's offer to customers by attesting to ClearStar's consistent dedication to information security and compliance.

Financial Review

Revenue for the six months ended 30 June 2020 was $8.9m compared with $11.6m for the first half of 2019. This reflects a reduction in volumes across the business as a result of widespread recruitment freezes and job losses due to the COVID-19 outbreak.

Gross profit was $4.7m (H1 2019: $6.3m) due to the lower revenue and a reduction in gross profit margin to 53.1% (H1 2019: 54.5%). 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 reduced to $5.9m (H1 2019: $7.1m) as management responded rapidly to the COVID-19 outbreak to introduce mitigation measures to offset the reduced trading. This includes general and administrative expenses, which decreased to $4.0m (H1 2019: $4.7m). Selling and marketing expenses were lower at $798k (H1 2019: $1.2m). Research and development expenses decreased to $461k (H1 2019: $724k), and depreciation and amortisation expenses were $569k (H1 2019: $560k). The mitigation measures that were introduced to reduce operating costs, including Non-

Executive Directors forgoing their fees and voluntary salary reductions for all employees, are expected to generate up to approximately $2.3m of savings in the current financial year.

Loss before tax was $1.2m for the first half of 2020 compared with $914k for the same period of the prior year due to the lower revenue. Loss after tax was $1.2m (H1 2019: $930k loss). Adjusted EBITDA for the first half of 2020 was $546k loss (H1 2019: $191k earnings). However, due to the decisive mitigation measures implemented at the start of the outbreak and ongoing cost control combined with the recovery in revenue, ClearStar was able to generate positive adjusted EBITDA for the months of May and June 2020.

At 30 June 2020, total assets were $9.3m (31 December 2019: $9.0m), with the largest assets being goodwill and other intangible assets of $3.5m (31 December 2019: $3.7m), accounts receivable of $2.3m (31 December 2019: $2.0m) and available funds of $2.2m (31 December 2019: $1.8m).

The Company's total liabilities at 30 June 2020 were $6.7m (31 December 2019: $5.2m), with the increase primarily due to a $1.1m loan received under the Paycheck Protection Program ("PPP") pursuant to the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and a credit facility utilisation of $0.3m for working capital as a result of the current level of reduced trading due to the COVID-19 outbreak

The Company utilised $888k of net cash in operating activities during the period (H1 2019: $790k) mainly due to an increase in the net loss and working capital accounts.

The Company used $250k in investment activities in the first half of 2020 (H1 2019: $1.2m). The reduction was due to technology-related capital expenses in the first half of 2019 associated primarily with the purchase of new hardware and software to support and enhance the Company's technology platform.

The Company used $1.5m in financing activities, which primarily relates to the $1.1m in PPP loan and the credit facility utilisation.

At 30 June 2020, the Company had net debt of $1.4m (31 December 2019: $0.3m). As at 15 September 2020, the Company had further reduced net debt to $0.3m and had gross cash of $3.3m.

As noted above, the Company had increased available funds of $2.2m at 30 June 2020 (31 December 2019: $1.8m). The available funds comprised $1.7m net cash from current operations; $0.3m from the Company's recurring revenue credit facility; and $0.2m from the PPP loan. As previously stated, the Company was not in compliance with certain covenants during the period, and the Company's credit facility provider agreed to waive the breach and extend the forbearance letter to 13 October 2020. As at 15 September 2020, the Company has access to $2.6m of available funds from its recurring revenue credit facility. The borrowing capacity under the credit facility is determined by 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 make debt repayments in the coming months based on existing covenants. The Company is engaged in active negotiations with the bank to secure new covenant terms.

Current Trading & Outlook

ClearStar experienced an excellent improvement in run rate from the end of May following the significant impact on revenue in March and April caused by COVID-19, and it is encouraging that this trend has continued into the second half.

The recovery in revenue has been primarily based on new activity with customers that have increased requirements because of the pandemic, such as business staffing companies and hospital systems. However,

the Company has not yet seen a return in much of its traditional business and it believes that the ongoing challenges created by the pandemic means that there remains significant near-term uncertainty. In addition, the final quarter of the financial year is historically a slower quarter for the industry, which could be accentuated by the 2020 presidential elections in the United States in November. As noted above, the Company is also constrained by the fact that it is currently unable to drawdown further funds from its loan facility. As a result, while the Board is still confident in the long-term opportunities for the Company, there remains continued uncertainty as to the potential impact on revenues and the Board is therefore cautious about the Company's near-term outlook.

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

	Six Months Ended 30 June 2020 (Unaudited) $	Six Months Ended 30 June 2019 (Unaudited) $	Year Ended 31 December 2019 $
Net revenue	8,931	11,559	22,953
Cost of revenue	4,192	5,254	10,543
Gross profit	4,739	6,305	12,410
Operating expenses			
Selling and marketing	798	1,164	2,221
Research and development	461	724	1,329
Depreciation and amortisation	569	558	1,055
General and administrative	4,026	4,694	9,012
Total operating expenses	5,854	7,140	13,617
Loss from operations	(1,115)	(835)	(1,207)
Other income (expense)			
Interest expense, net	(85)	(79)	(171)
Total other expense	(85)	(79)	(171)
Net loss before taxes	(1,200)	(914)	(1,378)
Provision for income taxes	17	16	18
Net loss	(1,217)	(930)	(1,396)

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

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

	At 30 June 2020 (Unaudited) $	At 30 June 2019 (Unaudited) $	At 31 December 2019 $
ASSETS			
Current assets			
Cash	2,153	1,088	1,754
Accounts receivable - trade, net	2,316	3,264	1,981
Research and development tax credits	19	29	-
Prepaid expenses	533	702	630
Total current assets	5,021	5,083	4,365
Property and equipment, at cost			
Computer equipment	672	743	661
Furniture and fixtures	229	225	226
Leasehold improvements	76	76	76
Less accumulated depreciation	(308)	(158)	(198)
Total property and equipment, net	669	886	765
Other assets			
Goodwill and other intangible assets, net	3,525	3,908	3,747
Deferred debt issuance costs, net	26	16	36
Deposits	48	43	43
Total other assets	3,599	3,967	3,826
Total assets	9,289	9,936	8,956
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Loan facility	2,422	2,100	2,100
Payroll protection program loan	507	-	-
Accounts payable	2,334	2,950	2,494
Accrued liabilities	258	360	249
Deferred revenue	67	45	9
State income taxes	18	-	9
Total current liabilities	5,606	5,455	4,861
Long-term liabilities			
Payroll Protection Program Loan	636	-	-
Accrued liabilities	355	191	272
Deferred employer social security taxes	71	-	-
Deferred income taxes	42	41	34
Total long-term liabilities	1,104	232	306
Stockholders' equity			
Common stock, $0.0001 par value; 100,000,000 shares authorised; 36,362,900 shares issued and outstanding in 2020 and 2019	4	4	4
Additional paid-in capital	13,999	13,986	13,992
Accumulated deficit	(11,424)	(9,741)	(10,207)
Stockholders' equity	2,579	4,249	3,789
Total liabilities and stockholders' equity	9,289	9,936	8,956

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

CLEARSTAR, INC.
Consolidated Statements of Changes in Stockholders' Equity
(USD, in thousands, except no. of shares)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares No.	Amount $	$	$	$
Balances at 1 January 2019	**36,302,900**	**4**	**13,951**	**(8,811)**	**5,144**
Non-cash stock compensation	-	-	4	-	4
Issuance of common stock	60,000	-	31	-	31
Net loss	-	-	-	(930)	(930)
Balances at 30 June 2019 (unaudited)	**36,362,900**	**4**	**13,986**	**(9,741)**	**4,249**
Non-cash stock compensation	-	-	6	-	6
Net loss	-	-	-	(466)	(466)
Balances at 31 December 2019	**36,362,900**	**4**	**13,992**	**(10,207)**	**3,789**
Non-cash stock compensation	-	-	7	-	7
Net loss	-	-	-	(1,217)	(1,217)
Balances at 30 June 2020 (unaudited)	**36,362,900**	**4**	**13,999**	**(11,424)**	**2,579**

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

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

	Six Months Ended 30 June 2020 (Unaudited)	Six Months Ended 30 June 2019 (Unaudited)	Year Ended 31 December 2019
	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(1,217)	(930)	(1,396)
Adjustments to reconcile net loss to net cash provided (used for) operating activities:			
Change in allowance for doubtful accounts	11	3	-
Depreciation and amortisation	569	558	1,055
Deferred income taxes	8	14	7
Non-cash stock compensation	7	4	11
Non-cash debt issuance costs	10	24	41
Loss on disposal of property and equipment	-	26	57
Loss on early lease exit (*see Commitments and Contingencies note*)	-	173	173
Change in operating assets and liabilities:			
Accounts receivable	(346)	(1,070)	215
Research and development tax credits	(19)	62	90
Prepaid expenses	97	(344)	(272)
Deposits	(5)	(30)	(30)
Accounts payable	(162)	599	146
Accrued liabilities	92	164	133
Deferred revenue	58	(36)	(72)
State income taxes	9	(7)	2
Total adjustments	329	140	1,556
Net cash provided by (used for) operating activities	(888)	(790)	160
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	(14)	(802)	(743)
Capitalised website development costs	(40)	-	-
Capitalised software development costs	(196)	(374)	(679)
Net cash used for investing activities	(250)	(1,176)	(1,422)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from loan facility	322	2,100	2,100
Debt issuance costs	-	-	(37)
Proceeds from sales of common stock	-	31	30
Proceeds from payroll protection program loan	1,144	-	-
Deferred employer social security taxes	71	-	-
Net cash provided by financing activities	1,537	2,131	2,093
Net cash increase for period	399	165	831
Cash at beginning of period	1,754	923	923
Cash at end of period	**2,153**	**1,088**	**1,754**

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

Consolidated Statements of Cash Flows *(continued)*
(USD, in thousands)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Six Months Ended 30 June 2020 (Unaudited) $	Six Months Ended 30 June 2019 (Unaudited) $	Year Ended 31 December 2019 $
Cash paid:			
Interest	72	55	131
Income taxes	-	2	9
	72	57	140

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

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

During the year ended 31 December 2019, the Company retired fully-amortised intangible assets of approximately $861,000.

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) Reclassification

Certain reclassifications have been made to the 30 June 2019 consolidated financial statement presentation to correspond to the current period's format. These reclassifications have no effect on previously reported net income.

e) 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.

f) 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.

g) 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 period-end receivables are collected within the following fiscal quarter. The Company has not historically had significant write-offs for these receivables.

h) 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 six months ended 30 June 2020 and 2019, and the year ended 31 December 2019 was approximately $110,000, $64,000 and $95,000, respectively.

i) Deferred Debt Issuance Costs

Deferred debt issuance costs were incurred by the Company to obtain its revolving line facility and are amortised over the life of the respective debt agreement. Deferred debt issuance costs totalled approximately $41,000 and $95,000 at 31 December 2019 and 2018, respectively, with an accumulated amortisation of approximately $15,000, $79,000 and $5,200 at 30 June 2020 and 2019, and 31 December 2019, respectively. The Company amortised approximately $10,300, $24,000 and $41,000 of these costs through interest expense for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019, respectively. The remaining amortisation expense at 30 June 2020 is expected to be approximately $10,300, $20,600, and $5,100 in the second half of 2020, 2021 and 2022, respectively.

j) 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 year ended 31 December 2019 as a result of the annual goodwill impairment test performed, and there have been no subsequent events requiring further analysis.

k) Intangible Assets

Intangible assets, other than capitalised software and website 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.

l) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, and purchased intangible assets subject to amortisation, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognised to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Management determined that there were no impairments during the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019.

m) 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 13 (Revenue from Contracts with Customers) for details related to the Company's revenue recognition policies.

n) Advertising

The Company expenses advertising costs as incurred. Advertising expenses for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019 were approximately $115,000, $202,000 and $411,000, respectively.

o) 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.

p) Research and Development

Expenditures related to the development of new products and processes are expensed as incurred. Research and development expenses were approximately $461,000, $724,000 and $1,329,000, net of approximately $0 of tax credits, for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019, respectively.

q) 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 six months ended 30 June 2020 and 2019, and the year ended 31 December 2019 was approximately $7,000, $4,000 and $11,000, respectively.

r) 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.

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 December 2019, the FASB issued Accounting Standards Update No. 2019-12*, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (“ASU 2019-12”), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and clarifies and amends existing guidance to improve consistent application. The guidance in ASU 2019-12 is effective for the Company beginning January 1, 2022. The Company does not expect the implementation of ASU 2019-12 to have a material effect on the 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 30 June 2020 (Unaudited) $000	At 30 June 2019 (Unaudited) $000	At 31 December 2019 $000
Trade accounts receivable	2,330	3,274	1,988
Allowance for doubtful accounts	(14)	(10)	(7)
	2,316	3,264	1,981

3. Goodwill and Other Intangible Assets

Goodwill and other intangible assets were comprised of the following at 30 June 2020 (unaudited):

		Gross Cost				Accumulated Amortisation				
	Life (years)	Beginning $000	Additions $000	Disposal $000	Ending $000	Beginning $000	Additions $000	Disposal $000	Ending $000	Net $000
Goodwill	Indefinite	2,283	-	-	2,283	-	-	-	-	2,283
Software Development	3	1,990	196	-	2,186	1,006	338	-	1,344	842
Website Development	3	-	40	-	40	-	-	-	-	40
Customer Relationships	7	1,673	-	-	1,673	1,193	120	-	1,313	360
		5,946	236	-	6,182	2,199	458	-	2,657	3,525

Goodwill and other intangible assets were comprised of the following at 30 June 2019 (unaudited):

		Gross Cost				Accumulated Amortisation				
	Life (years)	Beginning $000	Additions $000	Disposal $000	Ending $000	Beginning $000	Additions $000	Disposal $000	Ending $000	Net $000
Goodwill	Indefinite	2,283	-	-	2,283	-	-	-	-	2,283
Software Development	3	2,172	374	-	2,546	1,145	374	-	1,519	1,027
Customer Relationships	7	1,673	-	-	1,673	955	120	-	1,075	598
		6,128	374	-	6,502	2,100	494	-	2,594	3,908

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	-	-	1,673	955	238	-	1,193	480
		6,128	679	(861)	5,946	2,100	960	(861)	2,199	3,747

Approximate aggregate future amortisation expense is as follows:

Period Ending 30 June:

	Amount $000
2021	730
2022	502
2023	10
	1,242

4. Commitments and Contingencies

- Operating Leases

The Company leases office space and equipment. The lease agreements expire on various dates through May 2027.

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 six months ended 30 June 2020 and 2019 and the year ended 31 December 2019 was approximately $199,000, $117,000, and $317,000, 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 30 June 2020, future minimum lease payments under non-cancellable operating leases were as follows:

Period Ending 30 June:

	Amount $000
2021	327
2022	396
2023	405
2024	416
2025	426
Thereafter	844
Total minimum rental commitments for operating leases	2,814

- 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 for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019 were approximately $25,000, $50,000 and $100,000, respectively.

- 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 30 June 2020 (Unaudited) $000	At 30 June 2019 (Unaudited) $000	At 31 December 2019 $000
Allowance for doubtful accounts	3	2	2
Prepaid expenses	-	(12)	(21)
Amortisation of software development	(207)	(251)	(230)
Amortisation of intangibles	15	(203)	27
Amortisation of goodwill	(32)	(152)	(34)
Accrued liabilities	84	62	70
Basis difference in property and equipment	(22)	6	(23)
Net operating losses	2,310	2,195	2,310
Stock-based compensation	111	99	111
Tax credits	247	161	248
Other adjustments	12	12	12
Total noncurrent	2,521	1,919	2,472
Less: valuation allowance	(2,553)	(1,960)	(2,506)
Net deferred tax liabilities	(32)	(41)	(34)

Deferred tax assets and liabilities are recognised for the expected tax consequences of temporary differences between the book and tax bases of the Company's assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realised. Management does not expect deferred tax assets to be fully realised in future years. Therefore, a valuation allowance has been recorded.

- The components of the provision for income taxes are as follows:

	Six Months Ended 30 June 2020 (Unaudited) $000	Six Months Ended 30 June 2019 (Unaudited) $000	Year Ended 31 December 2019 $000
Current tax expense:			
Federal	-	-	-
State	9	2	11
Total current tax expense (benefit)	9	2	11
Deferred tax expense:			
Federal	7	14	6
State	1	-	1
Total deferred tax expense (benefit)	8	14	7
Total provision (benefit) for income taxes	17	16	18

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 $47,000 in the valuation allowance for the period from the year ended 31 December 2019.

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 Commission ("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. Amounts

recognised by the Company at 31 December 2017 represented reasonable estimates based on obtaining, preparing, and analysing the information necessary at that time to account for the tax effects of the Tax Act under ASC 740. At 31 December 2018, we finalized our analysis of the incomplete areas and made the necessary adjustments, if any, to the provisional amounts recognised at 31 December 2017.

At of 30 June 2020, the Company had approximately $10,193,000 in net operating loss carryforwards ("NOL") available to use against taxable income. NOLs will begin to expire starting in 2033.

At 30 June 2020, 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 a bank 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 bank. 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 bank 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. Amounts outstanding on the Revolving Line at 30 June 2020, 2019 and at 31 December 2019 was $2.4m, $2.1m and $2.1m, respectively. The Company was not in compliance of certain covenants at 30 June 2020, and the bank agreed to waive the breach and extend the forbearance letter to 13 October 2020.

7. Paycheck Protection Program Loan

On 25 April 2020, the Company entered into a loan with a bank in an aggregate principal amount of $1,143,789 (the "Loan") pursuant to the U.S. Government's Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The Loan matures on 25 April 2022 and 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. At 30 June 2020, the amount of the Loan outstanding was $1,143,789, which is equal to the principal amount of the Loan.

At 30 June 2020, the Company utilised approximately $0.9m of the proceeds for purposes consistent with the PPP and intends to use the remaining $0.2m to fund qualifying expenses as described in the CARES Act. Accordingly, the Company believes the Loan will be forgiven and plans to file a PPP application for forgiveness once the bank begins accepting loan forgiveness applications. No accounting adjustments have been made in conjunction with this loan forgiveness. The Company continues to accrue interest on the Loan on a monthly basis and intends to recognise the debt until the Loan is formally forgiven.

8. Stockholders' Equity

The Board has authorised 100,000,000 shares of Ordinary Shares, $0.0001 par value. There were 36,362,900 of shares issued and outstanding at 30 June 2020 and 2019, and at 31 December 2019, respectively.

9. 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 30 June 2020, 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 six months ended 30 June 2020 and 2019, and the year ended 31 December 2019:

	Shares	Weighted- Average Exercise Price
Outstanding at 1 January 2019	2,083,600	$0.79
Granted	90,000	$0.66
Exercised	(60,000)	$0.51
Forfeited or cancelled	(252,000)	$0.85
Outstanding at 30 June 2019 (unaudited)	1,861,600	$0.78
Granted	-	-
Forfeited or cancelled	(18,000)	$0.92
Outstanding at 31 December 2019	1,843,600	$0.79
Granted	-	-
Exercised	-	-
Forfeited or cancelled	-	-
Outstanding at 30 June 2020 (unaudited)	1,843,600	$0.79
Exercisable at 30 June 2020 (unaudited)	1,716,933	$0.78
Exercisable at 31 December 2019	1,686,933	$0.79
Exercisable at 30 June 2019 (unaudited)	1,671,600	$0.79

At 30 June 2020, there was approximately $18,000 of total unrecognised compensation costs related to unvested stock options, which is expected to be recognised over a weighted-average period of 1.43 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

10. 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 Bank 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.

11. 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.

	Six Months Ended 30 June 2020 (Unaudited)	Six Months Ended 30 June 2019 (Unaudited)	Year Ended 31 December 2019
Basic income per share	($0.03)	($0.03)	($0.04)
Diluted income per share	($0.03)	($0.03)	($0.04)
Weighted-average common shares outstanding:			
Basic and diluted	36,362,900	36,362,900	36,362,900

12. 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.

In January 2020, the Company amended its 401k Plan to stop the safe harbour matching contributions on future employee elective contributions. For the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019, matching contributions were approximately $0, $72,000 and $151,000, respectively.

13. 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 $2.4m, $3.3m and $6.5m for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019, 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 $2.6m, $3.3m, and $6.4m for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019, 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 were approximately $4.0m, $5.0m, and $10.1m for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019, 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 after 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.

14. Concentrations

- Significant Vendor

A significant vendor is defined as one from which the Company receives at least 10 per cent. of its total purchases. For the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019, the Company had purchases from two suppliers totalling approximately $2,164,000, $2,678,000 and $5,701,000, respectively, which comprised approximately 52, 51 and 54 per cent. of the Company's purchases, respectively. Accounts payable and accrued liabilities included approximately $1,340,000, $1,623,000 and $1,404,000 to these vendors at 30 June 2020 and 2019, and 31 December 2019, respectively.

- Significant Customer

A significant customer is defined as one from whom at least 10 per cent. of reported revenue is derived. For the six months ended 30 June 2020 and the year ended 31 December 2019, the Company had sales to one customer totalling approximately $1,090,000 and $2,450,000, which comprised approximately 12 and 11 per cent. of the Company's revenue, respectively. At 30 June 2020 and 31 December 2019, the accounts receivable balance from this customer included approximately $280,000 and $202,000, respectively. For the six months ended 30 June 2019, there is no significant customer whose revenue individually represented 10 per cent or more of the Company's total revenue.

15. Related Party Transactions

The Company contracted with a certain shareholder of the Company to provide consulting services. During the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019, the Company incurred approximately $9,000, $28,000 and $46,000, respectively, in consulting fees to this related party.

16. 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.

17. Liquidity

Management anticipates that its second half of 2020 results of operations will continue to be impacted by the COVID-19 outbreak. Additionally, the upcoming presidential election could have, in a short period, a direct effect on the U.S. economy through a decline in business demand and consumer confidence. As a result, the Company's ability to comply with its debt covenants at 30 June 2020 has been negatively impacted by the

prolonged economic downturn due to the current pandemic. As such, the bank agreed to waive the breach and extend the forbearance letter to 13 October 2020.

Since March 2020, the Company has taken several actions to bolster its financial condition and 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, and cutting capital expenditures. Subsequent to 30 June 2020, the board of directors received an offer from a private equity firm to acquire the entire issued and to be issued share capital of the Company, which would provide additional liquidity to fund working capital deficit. Management believes additional sources of capital will be available through equity offering should the acquisition fall through.

Although management continues to pursue its plan, there is no assurance that the Company will be successful in obtaining sufficient revenues from its services, financing, equity investments on terms acceptable to the Company or the acquisition of the Company. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

18. Subsequent Events

The Company evaluated subsequent events through 16 September 2020, when these consolidated financial statements were available to be issued.

The Company was not in compliance of certain financial covenants at 30 June 2020, and the bank agreed to waive the breach and extend the forbearance letter to 13 October 2020.

It has also been announced today that Hanover Bidco 1 Limited is making an offer for the entire issued and to be issued share capital of the Company at a price of 40 pence per share, valuing the Company at £14.7 million ($19 million).

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.