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Crystal Amber Fund Limited
28 January 2022

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CRYSTAL AMBER FUND LIMITED
("Crystal Amber Fund" or the "Fund")

Monthly Net Asset Value

Crystal Amber Fund announces that its unaudited net asset value ("NAV") per share at 31 December 2021 was 143.2 pence (30 November 2021: 142.7 pence per share). On 22 December 2021, the Directors of the Fund announced that they did not believe that it would be in the Fund's best interests to publish a breakdown of the Fund's largest holdings in subsequent monthly net asset value announcements. Accordingly, such information is not included in this announcement. The Investment Adviser's commentary on the Fund's largest holdings is set out below.

Investment Adviser's commentary on the portfolio

Over the quarter, NAV per share declined by 6.3 per cent. Over the 2021 calendar year, NAV increased by 11.0 per cent or by 14.9 per cent reflecting dividend payments of 5 pence per share declared during the year.

De La Rue plc ("De la Rue")

During the quarter, De La Rue published its unaudited interim results for the six months to 30 September 2021. Adjusted operating profits rose by 166 per cent. to £17 million. Positive operating cash flow was £25.8 million and the outlook for the full year was described as being in line with the board's expectations. Nevertheless, earlier this week, De La Rue released a trading update stating that as a result of headwinds relating to the Covid-19 pandemic, including employee absences at global manufacturing facilities and supply chain shortages, operating profits are now expected to be flat on the previous year at between £36 million and £40 million, as against previous market expectations of between £45 million and £47 million.

Prior to the trading update, the Fund had been in dialogue with De La Rue's Chief Executive and Chairman regarding gross margins. The Fund conveyed its view to De La Rue that its pricing has been wrongly focused on capacity utilisation rather than on gross profit and contribution to fixed overhead maximisation. Prior to the trading update, operating margins at De La Rue's Currency division were forecast at 8.4 per cent. Following the trading update, the operating margin is forecast at 6.2 per cent. In 2010, De La Rue achieved operating margins of 23.2 per cent. Currency demand from central banks has been buoyant and the Fund believes that De La Rue could have secured higher gross margins.

De La Rue is the global leader in currency with a market share of 30 per cent. Whilst De La Rue's supply chain headwinds are outside of its control, the Fund believes that much of the £36 million per annum of cost savings have effectively been utilised to subsidise customers. Had gross margins on its Currency division's revenues of close to £300 million, been three per cent higher, operating profits would have been £9 million higher.

In July 2020, De La Rue completed a £100 million fundraise which was priced at 110p a share. Over the last eighteen months, the business has been transformed, yet following the profit warning in this week's trading update, the share price has returned to 110p. Furthermore, businesses with similar pension profiles are now benefiting from rising interest rates expectations. The Fund believes that in the coming year, at De La Rue, this should result in a material reduction in future pension contributions and accordingly increase free cash flows.

Shares in De La Rue now trade on 9.7 times revised earnings per share to March 2022 and on 8 times to March 2023. The Fund believes that following the Covid-19 pandemic, the industry requires consolidation. Given its current rating, the Fund believes it is highly likely that in the coming months, De La Rue will be the subject of a takeover bid from one or more of its overseas competitors. The Fund believes that this will be the inevitable outcome of management prioritising 100 per cent capacity utilisation rather than cash gross margin maximisation.

During 2021, the Fund reduced its shareholding in De La Rue from 15.1 per cent to 10.0 per cent.

Hurricane Energy ("Hurricane")

Hurricane is an oil exploration and production company targeting naturally fractured basement reservoirs in the West of Shetland, Scotland. The Fund's previous annual reports include background information on this investment. The Fund has been an investor in Hurricane since 2013 and has to date realised profits of GBP43 million.

In June 2021 at the High Court, Mr Justice Zacaroli refused to sanction the Hurricane board's attempt to force through a highly dilutive debt for equity swap. At the time, Executives of Hurricane claimed that without a debt for equity swap, bondholders would be able to recover no more than 56 per cent of their investment. The board had proposed that $50 million of the $230 million repayable to bondholders in July 2022 be converted into 95 per cent. of Hurricane's equity, with the remaining $180 million debt earning cash interest of 9.4 per cent per annum plus payment in kind interest of 5 per cent per annum.

Earlier this month, the board of Hurricane announced that as at 31 December 2021, net debt had reduced to $28.5 million and that net free cash, after repaying all outstanding bonds, of between $8 million and $38 million is expected by the end of July 2022. This is a remarkable transformation in just seven months. The Fund's actions not only averted a wholly unnecessary 95 per cent dilution but has positioned the Fund to benefit from Hurricane's exciting prospects.

Specifically, based on production from the existing P6 well alone, the Fund calculates that by February 2024, provided that production continues on the anticipated trajectory, Hurricane should be able to generate revenues of approximately $550 million and operating free cash flow of $278 million. This is based on a per barrel price of Brent of $85.4 and the forward curve. At the time of the High Court hearing, Hurricane published estimated production through to February 2024. For January 2022, production was forecast at 9,100 barrels per day, whereas actual production is averaging 9,650 barrels per day. The Fund believes that production could be extended through to at least January 2025 and, if so, based on the rate of production decline published by Hurricane in May 2021, this could generate revenues of approximately $750 million and operating free cash flow of approximately $375 million, equivalent to 14p per share.

During the quarter under review, the Fund engaged with management regarding the utilisation of tax losses. At 31 December 2020, Hurricane had ring-fenced trading losses of $468.7 million and supplementary charge losses and investment allowances of $707.8 million. In addition, capital allowance pools of $383.5 million were available to be used against ring-fenced trading profits. In the event of a corporate transaction, the Fund believes that the benefit arising to Hurricane's shareholders could be very substantial.

In October 2021, the Fund reported that it had written to the Hurricane Board under Article 94 of the company's articles of association to request that a committee (comprising the non-executive directors) be established with a mandate to investigate what happened and to engage external advisers (should that be needed) for the investigation. The Fund believes that it, along with all Hurricane shareholders, suffered considerable financial loss. In December 2021, Hurricane reported that it had completed a review of events leading up to the restructuring and that no further action was considered to be necessary. Based on the Fund's first-hand experience of those events and having subsequently taken legal advice, the Fund does not agree and reserves its rights in this regard. The Fund finds it significant that despite being a victim of those events, the investigation did not seek to interview the Fund nor request any information from the Fund. The Fund subsequently requested a copy of the investigation report but Hurricane has refused to supply a copy.

Whilst the Fund is excited by prospects at Hurricane, it considers it essential that Hurricane fully capitalises on its future potential and makes important commercial decisions in a timely manner. As a result, the Fund has written to Hurricane to request that Juan Morera, an Investment Adviser to the Fund, be appointed to the board of Hurricane with immediate effect.

Equals Group ("Equals")

During the quarter, Equals continued to demonstrate the payback from substantial investments in product and marketing capabilities undertaken in 2019 and 2020. These have developed multi-currency capabilities for a range of user cases, including larger businesses and other financial intermediaries. Sales efficiency has also improved with the deployment of new tools. Since May 2021, growth in revenues across products has been aided by the launch of Equals Solution. This is a new multicurrency product with full "own name IBAN capability" targeted at larger corporates.

In the fourth quarter of 2020, the Fund took advantage of share price weakness and increased its holding in Equals to 25.7 per cent and was its largest shareholder. The share price went into 2021 at 28.25p. Following several positive trading updates during 2021, after the period end, in its January 2022 pre-close announcement, Equals reported unaudited revenues of £44.1 million for 2021 (2020: £29 million, 2019: £30.9 million). Revenues from its retail travel money product, which were most impacted by the pandemic, now represent approximately 6 per cent. of total revenues and should benefit from a normalisation of leisure travel. Net cash increased to £13 million.

The trading update resulted in strong institutional demand and the Fund reduced its shareholding from just over 20 per cent to 13 per cent, achieving a sale price of 77p per share. Having engaged intensively with management over the last 18 months, it is pleasing to have converted our work into substantial realised profits.

The Fund expects Equals to continue to deliver strong top line growth and to benefit from industry consolidation.

GI Dynamics Inc

GI Dynamics is the developer of the EndoBarrier, a minimally invasive therapy for the treatment of Type 2 diabetes and obesity. EndoBarrier is a temporary bypass sleeve that is endoscopically delivered to the duodenal intestine. It offers similar effects to the surgical gastric bypass, without the risks of a major surgical procedure.

After delays due to the COVID-19 surge in India, the I-STEP application for a randomised clinical trial (to be conducted in conjunction with Apollo Sugar Clinics) was reviewed by regulators in India in June 2021. The Fund is pleased to report that in December 2021, regulators approved the commencement of this trial.

The COVID-19 pandemic has reaffirmed the importance of gaining control of the significant risk factors associated with Type 2 diabetes and obesity. More than ever, medical professionals and patients alike are seeking minimally invasive and effective therapies to help control and resolve these chronic conditions. GI Dynamics is preparing to meet this large unmet clinical need.

The Fund believes that because of its intensive activism, the investment in GI Dynamics now has considerable strategic value. This was recently evidenced by two approaches from US trade parties that have expressed an interest in making a significant investment in GI Dynamics. The Fund looks forward to continuing to work with the company to achieve its operational milestones and to further develop the pathway to maximise shareholder value.

Transactions in Own Shares

Over the quarter to 31 December 2021, the Fund bought back 372,000 of its own ordinary shares at an average price of 113.55p per share as part of its buyback programme.

The buyback contributed 0.1% to NAV per share growth.

Interim dividend

On 22 December 2021, the Fund announced the declaration of an interim dividend of 10 pence per share in respect of the financial year ending 30 June 2022. This dividend is payable to shareholders on the register on 14 January 2022, on or around 9 February 2022.

New strategy

On 22 December 2021, the Board announced that it intended to write to shareholders in January 2022 to convene an extraordinary general meeting at which shareholders will be asked to approve the strategy set out in that announcement and a revised remuneration and incentivisation agreement with the Investment Manager. Discussions with the Investment Manager are continuing, and the Board now expects to write to shareholders in the early part of February 2022.

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