



PORTFOLIO IMPAIRMENTS H1/2022

Business Finance Opportunities Fund Limited Partnership (BFO or Fund) was established weeks after the initial impact of the global financial crisis. That world changing event created a huge opportunity for non-bank lending platforms to capture areas of specialist lending where banks no longer operated. Since then, an increasing number of investors have recognised the benefits of BFO along with its dedicated, specialist Finance Arranger which has been involved in financing more than USD 6 billion to thousands of small USA based companies for more than 30 years. NOTE: As at 12/2021.

The combined Prestige Funds team and dedicated, specialist Finance Arranger – Capstone currently have the largest number of professionals in their operating history and have a strong track record in loan recovery / workout.

BFO has produced positive, consistent, uncorrelated returns adding value to a generation of investors' portfolios. NOTE: Past performance is no guide to future results. However, the effects of the global pandemic have created supply chain bottlenecks and operating strains, from personnel issues causing companies to experience significant price rises, as well as customer delays, defaults and sometimes bankruptcies. Despite Capstone's long-standing history and deep experience in small business financing, it is not immune to some of these wider macro environmental effects of the pandemic.

The US economy and specifically the economy in the wider New York area was shut down by the politicians. These actions by the politicians created massive damage to many lenders' portfolios. During this period of time, their decisions literally wiped-out large portions of the small business communities and now the US as a whole is facing economic headwinds that will likely cause further distress. Capstone is not unique, nor has it been spared.

BFO currently holds two non-performing loan assets which remain illiquid, difficult to value and have a low likelihood of recovery in full and will require further investment into significant litigation, money and time as explained further below.

BFO, the Investment Manager (General Partner) and Finance Arranger has carried out an internal assessment of the individual portfolio debt facility performance and has concluded that an impairment of several legacy loan assets needs to be reflected in the 31 May 2022 NAV cycle and this is expected to represent approximately 22.26% of BFO NAV.

These impairments are limited to two specific legacy customer exposures and these transactions were originated in a previous era of management / control and whose origination process did not involve Prestige Fund Management Limited as part of a secondary review and approval filter.

NOTE: Business Finance Opportunities Fund began trading in 02/2021. The Fund was originally called the Capstone Cayman Current Liquidity Fund and commenced trading in 01/2009

Business Finance Opportunities Fund L.P.

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Cayman Island Monetary Authority (CIMA) Registration Number:

16212

Company Registration Number:

DM-31183

SUMMARY: T-Environmental

T-Environmental was a US based environmental consulting firm specialising in petroleum investigation and remediation services, with the ability to provide both technical expertise and field capabilities to move spill cases through the remedial process, whilst also offering generator services.

Due to the global pandemic, the metropolitan area of New York City's economy was put into lockdown and all commerce for small businesses were placed in abeyance for what was to be a two-week period. Unfortunately, the global pandemic continued on for an additional two years.

T-Environmental received a significant contract to install emergency generators through the New York State Energy Research and Development Agency (NYSERDA). The contract required the installation of emergency generators at strategic locations in the metropolitan area to support first responders during a terrorist attack, natural disaster etc. There was a requirement to install the generators beyond the 500-year flood plain at convenience stores and petroleum stations throughout the metropolitan area.

The NYSERDA contract began in 2018 with site assessments, cost estimates and grant proposals issued to NYSERDA. During the latter part of 2018, the various grant proposals were approved by NYSERDA and T-Environmental began the marshalling of supplies, equipment and subcontractors to complete the installations of the generators.

Throughout 2019 into early 2020, the generators were installed and inspected by the New York City building department, fire inspectors, health departments, etc. Cash flow for those locations where there were no other building or zoning violations were not affected and the program continued.

In March of 2020, the related New York City and New York State government agencies shut down and public workers were ordered to work from home until further notice. Once this occurred, the cash flow dried up even though NYSERDA had financial obligations owed to T-Environmental. Adding to the collection issues was the fact that the majority of the convenience stores and gas stations had building code violations unrelated to T-Environmental's installation of the generators. Correcting these unrelated violations is an expensive process for the convenience store owners and this affected T-Environmental's ability to get repaid by NYSERDA. As a result, it ceased operating in 2021.

Following the State of the Union address in March of 2022, New York City and State agency workers were required to return to their offices and get back to work. Capstone continues to attempt to collect the amounts due from NYSERDA, although it has been difficult due to the time that has elapsed.

As a result, Capstone are assuming the worst and are writing off the whole loan balance relating to T-Environmental Purchase Order (PO) Financing Advance and Factoring transactions of USD 36 million. Therefore, BFO will be writing down USD 9 million which represents approximately 25% of the total Capstone exposure to this asset.

NOTE: SEE APPENDIX: 1 & 3 FOR FURTHER DETAILS

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SUMMARY: DCK Worldwide

DCK Worldwide (DCK) was a global commercial construction company dedicated to developing, managing, and building projects around the world. For almost a century, major corporations, developers, and governments had trusted DCK's creative building solutions to bring their blueprints to life.

DCK led projects in 125 countries across the globe. Headquartered in Pittsburgh, Pennsylvania, it had regional offices in Honolulu, Hawaii; Phoenix, Arizona; Coral Gables, Florida; Manila, Philippines, and project offices around the world.

DCK was a market leader in providing a full range of building solutions to complex construction projects, with over USD 38 billion in total project value, and has built over 11,000 multi-family units and constructed or renovated over 38,500 hotel rooms over its nearly 90-year operating history.

As one of the most experienced general contractors in the industry, DCK has constructed some of the premier resorts in the Caribbean, including the Four Seasons Nevis, the Ritz-Carlton St. Thomas, the Belmond Cap Juluca, the Mall of San Juan, the Ritz-Carlton Reserve – Bermuda, the Four Seasons Napa Valley, the Westin St. John Resort, the Hilton Los Cabos, the Viceroy Anguilla and The Grand Waikikian in Honolulu, Hawaii.

Due to the global pandemic, international travel came to a halt as did construction, including in the Caribbean. Existing projects were suspended, and potential future projects dried up, causing DCK's cash flow to suffer and, ultimately to default on its credit facilities to Capstone an External Co-Funder Group.

To that end, Capstone, External Co-Funder and the DCK Defendants had been negotiating various repayment scenarios. However, in December 2020, External Co-Funder cut off all funding (leaving Capstone as the sole funding lender). External Co-Funder commenced an action against most of the DCK Defendants and moved, and obtained, the appointment of a receiver from the Court. This action caused the key officers of the DCK Defendants, including the Chief Marketing Officer and the Chief Operating Officer to resign.

At this point, Capstone filed a civil suit to protect its rights in a rapidly deteriorating financial situation involving its borrowers and guarantors, the DCK Defendants, which had been made dramatically worse by its co-lender and joint venturer, External Co-Funders. As of 30 June 2021, Capstone was owed over USD 72 million in loans it had made to the DCK Defendants with External Co-Funder, all of which are in default. In addition, Capstone is the sole lender on over USD 13,925,683 in loans to DCK Antigua and DCK Jamaica, which loans are also in default.

Capstone's motions before the court were denied by the Judge, as it would have vacated all of the decisions that the Judge made from the appointment of the Receiver providing External Co-Funder with the authorisation to foreclose on certain assets of DCK and take over certain projects such as DCK Barbuda which Capstone had funded independently of External Co-Funders.

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Capstone is now appealing the Judge's decision against its claims and the case will be heard around September 2022. A decision regarding the appeal could be rendered anywhere between 60 days and six months following the court hearing.

As a result, Capstone have agreed to write off all the balances related to the DCK Purchase Order (PO) Financing Advance and Factoring transactions that have been outstanding for over 150 days and will continue to access the situation closely in the coming months to see whether further write offs need to be considered.

Any recovery will now be far longer, far more expensive and any likelihood of success far less and are now deemed not to be recoverable. This process has been delayed by the global pandemic and the ability to expedite the recovery options.

Capstone are of the opinion that all DCK related transactions were properly structured and that collateral covered the facilities. Unfortunately, the state Judge on this particular case has so far misinterpreted the documents underpinning these transactions. To this effect, Capstone have requested that their legal counsel review the section of the Purchase Order Finance documents that led the state Judge to her conclusion and rework them so it is clear if Capstone are ever in a co-lending situation in the future one of the co-lenders cannot act without the consent of the other.

NOTE: SEE APPENDIX: 2 & 3 FOR FURTHER DETAILS

Prestige and the Finance Arranger

These legacy situations are somewhat unique and unprecedented given BFO's long and successful operating history. However, since the inception of BFO both the Investment Manager (General Partner) and Finance Arranger have continued to prioritise the interests of investors. BFO operates without leverage and performance fees. BFO's Finance Arranger has supported the Fund by paying interest on some non-performing assets in the expectation that these will ultimately become performing assets through its workout process and catch up on outstanding accrued interest. Longer term, the Finance Arranger expects some recovery from these loan assets, but this is likely to take a considerable length of time and the amount is unknown and depends on various external factors, but ultimately this may benefit remaining BFO investors.

Future Outlook

It should be recognised that there are fundamental differences between how BFO and its Finance Arranger operated 3, 5 or 10 years ago, compared to how they operate today. Over the past 3 years all lending criteria has improved and expanded criteria in light of the global pandemic. New lending approvals are now overseen by both the Finance Arranger and BFO Investment Manager (General Partner).

The Finance Arranger has a far greater level of transparency and reporting oversight of underlying borrowers mitigating risk and enabling a faster recovery time on non-performing issues. This approach has enabled BFO to gain confidence

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that legacy issues are not repeated, to be agile with solutions when challenges are faced by the Finance Arranger and minimise risk and exposure to future losses.

The continued investment in both Prestige and the Finance Arranger's operations has resulted in specialist support teams of 40 individuals within the Prestige entities and approximately 20 within the Finance Arrangers entities.

Prestige has continued to enhance its oversight over the performance of the Finance Arrangers loan book. BFO and the Investment Manager (General Partner) does not have or exercise direct control over the Finance Arranger, however a number of processes have been implemented to enable and improve both communication and cooperation between both entities. As stated before, allowing investors to gain more confidence in performance of the "core" loan portfolios and give visibility to prepare for the future and any changes or adjustments.

APPENDIX: 1

T-Environmental

Background:

T-Environmental was an environmental consulting firm specialising in petroleum investigation and remediation that provided both the technical expertise and field capabilities to move spill cases through the remedial process from Maine to Virginia, and had developed a nationally positioned Construction Management Division, which for clients with assets throughout the United States, managed their underground and above ground tank installations and removals.

T-Environmental was run by top industry experts who delivered the technical expertise and field capabilities to develop precautionary solutions and execute compliant remediation of petroleum spills for its clients.

Their Construction Management Division used 50+ years of industry construction management experience to their clients underground and above ground tanks construction requirements to ensure compliance with ever increasing regulatory requirements.

They prided themselves on the ability to minimise the exposure of its customers and assist in liability management. This was accomplished using decades of expertise in storage tank construction, management, installation, and removal.

T-Environmental served the retail petroleum, municipalities, airports, real estate developers, insurance companies, and prospective real estate purchasers. They understood the unique needs of each industry in order to provide unmatched services with a customer-centric approach.

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Services

T-Environmental provided unparalleled technical expertise and field capabilities to move spill cases through the remedial process, and Construction Management throughout the US.

They performed subsurface investigations and subsequent remedial actions at petroleum impacted sites throughout the northeast and mid-Atlantic, minimising the financial exposure of its customers and assist in their liability management.

Investigation & Remediation Services

T-Environmental combined technical environmental consulting with practical construction management to provide professional environmental services for comprehensive remedial investigations. They used a “boots on the ground approach” to service the needs of their clients.

Work performed under the Remedial Investigation was documented and reported, along with a summary of environmental findings such as elevation of the property, the depth to groundwater and groundwater flow.

APPENDIX: 1

T-Environmental was a single-source destination for environmental assessment, engineering, and remedial construction/operation needs.

Previous Clients:

Avis Car Rental Agency, Budget Car Rental Agency, Thrifty Car Rental Agency, Hertz Car Rental Agency, Alamo Car Rental Agency, Enterprise Car Rental Agency, Dollar Rent A Car, National Car Rental, Payless Car Rental, Getty Realty Corp., NYSEERDA, Charter Spectrum Communications, OK Petroleum, Assorted Retail Petroleum Retailers (Exxon, Mobil, Hess, BP), Municipalities, Airports (La Guardia, JFK, Newark), Real Estate Developers, Insurance Companies (AIG, Liberty Mutual), Prospective Real Estate Purchasers (RXR, SL Green)

Capstone's Funding

Beginning in 2015, Capstone established a PO Financing and Factoring Facility for T-Environmental. Between 2015 and 2020 Capstone financed and collected USD 55,730,900 worth of transactions (excluding 50% of NYSEERDA).

The NYSEERDA Program

Following Hurricane Sandy, the NYC metropolitan area was without power for over 10 days and in some places over 15 days. First responders were unable to respond to emergencies because gasoline and diesel were in short supply due to electricity outages. Following the recovery from the hurricane, New York State determined that there had to be a better emergency management system in place to provide first responders with the petroleum resources they needed to provide law and order services and emergency response.

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They developed a plan through the New York State Research and Development Agency (NYSERDA) to install generators to power certain service stations throughout the metropolitan area that were either powered by natural gas, diesel tanks or liquid natural gas. To qualify for a generator, the service station had to be located in one of the five NYC Burroughs, Rockland, Nassau or Suffolk County, and the service station had to have a convenience store, a minimum number of pumps and be outside of the 500-year floodplain.

NYSERDA were to issue grants to qualifying service stations based on the estimates made by T-Environmental for the installation of the generators. T-Environmental would procure the generators and ancillary equipment based on the design of the generator installation within the budget agreed to by NYSERDA.

Following the installation and inspection of the generator installation, the grant would be monetized and T-Environmental would receive a two-party check made payment to them and the service station that had the generator installed on their physical plant.

Depending on the municipality several inspections by various governmental agencies were to be completed before T-Environmental could receive payment from the preauthorised grant. In many cases, a generator required a building inspection, fire department inspection, county safety inspection, environmental quality inspection, utility inspection and health department inspection.

In half the cases the various inspections went well, and the grants were monetised. In the remaining cases building code violations and other agencies violation precluded the issuance of a certificate of occupancy which delayed payment of the grant. T-Environmental's management worked diligently with the various agencies to clear as many of the generators as they could. In the late winter of 2020, Covid hit which shut down the metropolitan area for just under two years. T-Environmental did not survive Covid and ceased operating. Many of the employees of the various agencies did not report to work during the Covid lockdowns and were working from home.

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APPENDIX: 2

DCK Worldwide

1. Capstone has brought a civil suit to protect its rights in a rapidly deteriorating financial situation involving its borrowers and guarantors, the DCK Defendants, which has been made dramatically worse by its co-lender and joint venturer, External Co-Funder Investors group. As of 30 June 2021, Capstone is owed over USD 72 million in loans it made to the DCK Defendants with its co-lender, and joint venturer, External Co-Funder, all of which loans are in default. In addition, Capstone is the sole lender on over USD 13,925,683 in loans to DCK Antigua and DCK Jamaica, which loans are also in default.
2. Capstone and External Co-Funder have been joint lenders to various entities set up by DCK Worldwide (“DCK”) to operate construction projects in the Caribbean, since the latter part of 2016. Upon information and belief, all of External Co-Funder’s actions including the formation and operation of its wholly owned instrumentality, Purlin 2 have been dominated, directed and controlled by some or all of Zwirn, Feng, DeVito and Hoopes (the “Individual Defendants”).
3. Due to the global pandemic, international travel ground to a halt as did construction, including in the Caribbean. Existing projects were suspended, and potential future projects dried up, causing DCK’s cash flow to suffer and, ultimately to default on its credit facilities to Capstone and External Co-Funder.
4. In order to keep its pipeline of projects full, DCK relied on the relationships built by its key management personnel over decades of doing business in the region. Thus, Capstone has long recognised that the only path it has to getting any portion of the massive indebtedness repaid is to work collaboratively with External Co-Funder and the DCK Defendants to keep the business going with current key employees remaining in place.
5. To that end, Capstone, External Co-Funder and the DCK Defendants had been negotiating various repayment scenarios when, in December of 2020, External Co-Funder cut off all funding (leaving Capstone as the sole funding lender). Then, External Co-Funder commenced an action against most of the DCK Defendants and moved and obtained the appointment of a receiver from this Court, causing the key officers of the DCK Defendants, including the Chief Marketing Officer and the Chief Operating Officer to resign.
6. The appointment of the receiver did result in the resignation of those employees. Capstone subsequently learned that the day after the receiver was appointed, External Co-Funder, at the direction of the Individual Defendants, unilaterally sent a threatening letter intending to interfere with a potential third-party partner of the DCK Defendants, who would have infused capital into the new joint venture, kept the key employees in place, and enabled the business to generate revenue to allow both External Co-Funder and Capstone to receive repayment.
7. External Co-Funder and the Individual Defendants have also, through their domination and control of its instrumentality, Purlin 2, purchased a security interest in the assets of DCK International (including DCK International’s ownership interest in DCK Antigua) from an unaffiliated third party.

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DCK Worldwide

8. The security interest purchased by Purlin 2 in DCK International's ownership interest in DCK Antigua which had been perfected by a Uniform Commercial Code ("UCC") filing is subordinate to the security interest of Capstone, perfected by possession of the certificated equity interest. In blatant disregard for the prior perfected rights of Capstone, External Co-Funder's instrumentality Purlin 2 held a UCC Article 9 foreclosure sale and has purported to use that sale to claim and demand control of the equity interest and the assets of DCK Antigua, which equity interests and assets are subject to Capstone's first perfected security interest.
9. Further, External Co-Funder is using the "DCK" trademark notwithstanding that it had no security interest in the assets and thereby no ability to foreclose on the assets of the entity that owns the trademark, DCK Holdings. Use of the "DCK" tradename by External Co-Funder is further evidence of External Co-Funder's blatant and wanton disregard for the rights of other creditors, including Capstone, which in fact does have a perfected security interest in the trademark owned by DCK Holdings.
10. Capstone is seeking judgment against the DCK Defendants for their default under all applicable loan documents and against External Co-Funder and the Individual Defendants for taking arbitrary, unilateral and irrational actions that have or are about to: (i) impair the collateral that remains and (ii) eliminate any chance that Capstone may have had to obtain repayment of the amounts owed.
11. Capstone is also bringing this action to: (i) obtain a judgment of foreclosure and sale against defendants in connection with its Uniform Commercial Code priority security interests set forth in greater detail herein, which remedy of judgment of foreclosure and sale may be sought simultaneously with the exercise of parallel remedies under UCC Article 9, (ii) protect its collateral from being dissipated by competing creditors who have already and continue to take actions in derogation of Capstone's superior rights; and/or (iii) obtain a judgment against External Co-Funder and the Individual Defendants for damages resulting from External Co-Funder's breach of the implied covenant of good faith and fair dealing in its joint venture agreement with Capstone and/or for External Co-Funder's breach of its fiduciary duty to its co-venturer, Capstone, and against the Individual Defendants, jointly and severally for aiding and abetting External Co-Funder's breach of fiduciary duty.
12. As set forth above, Capstone and External Co-Funder are joint venturers, who have been co-lenders to various entities set up by DCK to operate construction projects in the Caribbean, since the latter part of 2016.
13. Capstone managed the front end of these transactions. When DCK was hired for a project, it applied for financing to Capstone. Capstone would run a credit review of the owner of the project and would also prepare, negotiate, and enter into financing documents.

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APPENDIX: 2

DCK Worldwide

These documents typically involved, among others, a purchase order financing agreement, a security agreement, and a guarantee by the DCK entity that owned the single purpose entity created by DCK to operate and manage the project. This was necessary to protect and preserve the lenders' security interest in the collateral.

14. If a proper credit check was obtained, External Co-Funder agreed to join and fund the project in writing using a Schedule B and they would be included in the transaction documents. If its agreement to fund came after the original transaction documents were finalised and signed, then such documents would be amended and External Co-Funder included, if necessary.
15. Besides funding, External Co-Funder provided financial analysis in connection with the transaction and project. A copy of representative financial analysis documents is annexed hereto as Exhibit C.
16. In certain instances, once work began on the project, DCK would receive payments from the owner ("Mobilisation Payments"). In its front-end administrative function for the lenders, the parties agreed that Capstone would collect and allocate these Mobilisation Payments based on requests made by DCK for the use of those funds. External Co-Funder was given notice of all such requests by DCK and the allocation of such Mobilisation Payments on all of the projects with DCK regardless of whether they had agreed to participate. Copies of communications between the parties regarding the allocation of Mobilisation Payments is annexed hereto as Exhibit D.
17. Capstone, External Co-Funder and DCK jointly participated in numerous of these transactions as set forth above. The point of this venture was that Capstone and External Co-Funder would provide funding to DCK, DCK would use the advanced funds to maintain and run its business, and Capstone and External Co-Funder would make profits from the interest that they would collect from DCK on such transactions in proportion to the amount of funds advanced from each. And of course, each jointly shared the risk that DCK would default on some or all of the various transactions in that same proportion of funds advanced.
18. Each parties actions evinced their intent to be joint venturers. Each contributed property, financing, skill, knowledge or effort, had a degree of control over the venture and there was agreement as to how profits (and losses) would be allocated between the parties.
19. As set forth above, Capstone is owed, at minimum a total of USD 71,658,041 by the DCK Borrowers, the DCK Guarantors, DCK Jamaica and DCK Antigua.
20. External Co-Funder has claimed that it is owed, at minimum USD 44,965,691 from the DCK Borrowers (excluding DCK Jamaica) and the DCK Guarantors.
21. External Co-Funder has not lent any money to DCK Antigua, nor is it a party to any of the Financing Documents between Capstone and DCK Antigua.

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APPENDIX: 2

DCK Worldwide

22. External Co-Funder has not lent any money to DCK Jamaica and is not entitled to any participation in DCK Jamaica's obligations under its loan.
23. The business of the DCK Defendants was interrupted due to the worldwide pandemic that caused a shutdown in this country and elsewhere in the first quarter of 2020, impacting every aspect of the world's economy. Especially hard hit were businesses in the travel and resort industries.
24. The DCK Defendants to, among other things, built resort properties in the Caribbean islands.
25. When the pandemic took hold, travel came to a standstill, and interest in resort properties fell off a cliff.
26. The only current active project in the DCK Defendants' portfolio is the project in Barbuda, being run by DCK Antigua and which has been funded solely by Capstone.
27. The DCK Defendants' business is relationship-based and is therefore dependent on certain key employees for future projects.
28. Capstone, on behalf of itself and/or on behalf of External Co-Funder, had been, and remained in constant communication with the DCK Defendants regarding the various financing agreements and broader operational issues.
29. In early 2020, DCK, Capstone and External Co-Funder negotiated the terms of an agreement to resolve DCK's indebtedness to Capstone and External Co-Funder in which both lenders would (i) obtain DCK's operating assets through foreclosure, (ii) contribute such operating assets to a newly constituted construction company owned by Lender JV, (iii) inject additional capital to sustain operations and finance projects, and (iv) capture DCK's business opportunities with its long-time management and experienced workforce.
30. On 8 April 2020, DCK, Capstone and External Co-Funder executed a Term Sheet memorialising the terms that had been negotiated between the parties.
31. Although the parties continued to try to turn the Term Sheet into final agreements in 2020, in December 2020 External Co-Funder, at the direction of the Individual Defendants, stopped providing DCK with additional funding. Capstone continued to provide funding to DCK to preserve what little collateral remained in the hope that a deal could be reached in order to obtain repayment.
32. The DCK Defendants also presented Capstone and External Co-Funder with another proposal involving a third party, Consigli Construction ("Consigli"). In broad terms, Consigli were to be brought in as a joint venture partner to infuse money into the new venture, keep the business going and thereby provide the DCK Defendants with cash flow to repay Capstone and External Co-Funder without further risk to Capstone and External Co-Funder.

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APPENDIX: 2

DCK Worldwide

33. On or about 10 March 2021, External Co-Funder, at the direction of the Individual Defendants, commenced an action (the “Action”) pursuant to CPLR 3213 for judgment against Defendants DCK Holdings, DCK Worldwide, DCK North America, DCK International, DCK California, DCK SKN and DCK Todman in the amount of USD 35,511,110 together with prejudgment interest.
34. Contemporaneously with the commencement of the Action, External Co-Funder also moved for an order appointing Sue Klawans (the “Receiver”) as a temporary receiver (the “Receiver Motion”), “to take possession of DCK’s books and records, manage its contracts, and preserve its assets.”
35. Shortly before commencing the Action and moving for the Receiver, External Co-Funder, by the Individual Defendants advised Capstone of its intentions. Capstone objected to External Co-Funder’s decision to seek the appointment of the Receiver because it knew that such appointment would irreparably impact the DCK Defendants’ ongoing ability to conduct business. Moreover, Capstone interviewed the Receiver prior to External Co-Funder’s making the Receiver Motion and it advised External Co-Funder that she did not have the expertise or background to operate a global construction business such as the DCK Defendants.
36. After External Co-Funder commenced the Action and made the Receiver Motion, Capstone and External Co-Funder were both advised by the DCK Defendants that should the Receiver Motion be granted, the DCK Defendants’ key employees, including the Chief Marketing Officer and the Chief Operating Officer, would all resign immediately.
37. On 22 April 2021, this Court granted the Receiver Motion and appointed Ms. Klawans as Receiver (the “Receiver Order”). By the Receiver Order, this Court authorised and directed the Receiver to, among other things, “take such steps and to give such instructions on behalf of the DCK Borrowers as she may in her absolute discretion think necessary in order to protect and preserve the assets of the DCK Borrowers, including all Collateral pledged by the DCK Borrowers [DCK International, DCK California, DCK SKN and DCK Todman] as defined in and pursuant to the terms of the Security Agreements.”
38. Within days after the entry of the Receiver Order, Capstone was informed that Chris Barbe, the DCK Defendants’ Chief Marketing Officer and Brian Contino, the DCK Defendants’ Chief Operating Officer tendered their resignations.
39. To make matters worse, Capstone learned that on 23 April 2021, the day after the Receiver Order was entered, External Co-Funder, at the direction of the Individual Defendants, and having no authority whatsoever and in reckless disregard of the interests of Capstone and the DCK Defendants, sent a cease-and-desist letter, with the actual knowledge of the Receiver, to Consigli.

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APPENDIX: 2

DCK Worldwide

40. External Co-Funder and the Individual Defendants sent the cease-and-desist letter to drive Consigli away from the DCK Defendants to harm Capstone and to the sole betterment of External Co-Funders.
41. In addition, after forming its wholly owned instrumentality, Purlin 2, External Co-Funders and the Individual Defendants: (a) claimed that Purlin 2 is the owner of the Antigua Collateral and Antigua Equity Interests; (b) sent an email to DCK employees on 28 May 2021, stating that External Co-Funder “is the majority shareholder of DCK Worldwide, LLC (‘DCK’) and certain of its subsidiaries” which was and is not accurate as it did not acquire any of DCK Worldwide’s stock; (c) issued a press release on 28 May 2021, stating that External Co-Funder had “recapitalised” DCK Worldwide, had installed defendant Hoopes as its Chairman and certain affiliated entities which was and is not accurate; (d) recently held a “town hall” meeting with DCK employees informing them that External Co-Funder was the new “owner” of DCK; (e) promised DCK’s employees that their health insurance would not lapse or be subject to any gaps and the employees would be moved to a new External Co-Funder entity and sharing of confidential information from DCK employees including requested adjustments and control of all bank accounts and associated signers including accounts related to the Barbuda Project; (f) caused its instrumentality, Purlin 2, to send a letter to DCK Worldwide’s insurance broker, Allianz Global Corporate & Specialty, terminating DCK Worldwide’s brokerage relationship and appointing Lockton Companies as DCK Worldwide’s exclusive insurance broker, even though as set forth above, neither External Co-Funder nor Purlin 2 have acquired any equity interests in DCK Worldwide; (g) restricted and/or prohibited access of certain DCK employees as well as DCK’s legal counsel; (h) utilising certain DCK trademarks that are the property of DCK Holdings; (i) sent a memorandum on 4 June 2021 to DCK employees that contained numerous inaccuracies including advising these employees that Stephen D’Angelo, DCK’s Chief Executive Officer, was no longer affiliated with the company; and (j) on 11 June 2021, sent another memorandum to DCK employees containing multiple falsehoods and inconsistencies including an insinuation that External Co-Funder had paid the employees’ health insurance premiums to prevent a retroactive and potentially catastrophic coverage lapse when, in fact, Capstone caused the premiums to be paid. A copy of the affidavit of Raymond Crothers, sworn to on 13 June 2021 (the “Crothers Affidavit”) and exhibits is annexed hereto as Exhibit F.

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APPENDIX: 2

DCK Worldwide

42. Capstone wanted only to work collaboratively with External Co-Funder and the DCK Defendants to come up with an efficient solution that would maximise the recovery of the indebtedness owed to both External Co-Funder and Capstone, but External Co-Funder's aggressive and irrational actions have destroyed any hope that the DCK Defendants can continue to be a going concern in the future and causing Capstone significant damage.
43. Capstone's motions before the court were denied by the State judge as it would have vacated all of the decision that she made from the appointment of the Receiver and providing External Co-Funder with the authorisation to foreclose on certain assets of DCK and take over certain projects such as DCK Barbuda which Capstone had funded independently of External Co-Funder.
44. Capstone is appealing the State judge's decision against its claims and the case will be heard on or about September of 2022. A decision regarding the appeal could be rendered anywhere between 60 days and six months following the court hearing.
45. As a result, Capstone have no choice but to write off or reserve for the funds related the DCK PO Financing Advance and Factoring transactions.

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APPENDIX: 3

Why would a loan stop performing?

- **Customer underlying business deteriorates**

Loses a large customer / contract / mandate

Production / delivery / performance issues

Rising costs

Product obsolescence

Poor management / change of management

Personnel issues

Legal issues

- **Customer loan / financing overruns**

Over time

Over budget

- **Macro business environment deteriorates**

Pandemic

Inflation

War

Three ways to deal with non-performing loan assets:

- **Put customer / assets into court approved bankruptcy protection**

Acquire assets out of bankruptcy

Own and operate the asset/s

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- **Restructure the loan**

Often requires a reduction in interest rate

Often agree a reduction on the outstanding debt

Sometimes negotiate a debt of equity swap

- **Impair the loan**

A partial or entire write off of outstanding loan capital and accrued interest

NOTE: Examples are for illustrative purposes only and are not exhaustive

APPENDIX: 3

Why choose different routes for different non-performing loans?

- **Put loan customer / assets into bankruptcy**

Loss of confidence in current management team

An asset / sector that the Capstone team knows, understands and believes they can create value over time with different management, operators, contractors

- **Restructure the loan**

Confidence remains in current management team

Revised business plan can generate enough revenue to pay interest (and sometimes outstanding loan balance)

An equity stake may be worth something more in the future

- **Impair the loan**

Underlying customer has become insolvent

Not a sector that Capstone team has experience or wishes to operate / manage

Not financially viable to continue funding

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What has changed to the loan 'origination' process and wider operating environment since these transactions were done?

- **Lending / Origination**

No 'large' loans approved

- **Control & Transparency**

Finance Arranger operates with a dedicated team of approximately 20

Increased use of technology through origination process

- **Value**

Higher likelihood of operational success with more financing performing / higher funding yield / collateral

- **Macro Environment**

Demand continues to rise with a rising population and a growing economy

Global pandemic and Ukraine war accelerated changes to supply chains and re-shoring

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INTERNATIONAL FUND REFERENCE CODES:

Participating Shares

CURRENCY	ISIN Code	SEDOL Code	BLOOMBERG Code	VALOR Code	MORNING STAR Code	CUSIP Code	MEXID Code
USD	KYG1809H1222	BM9GPN0	BUBFOAD KY	CH58799895	F000016AVD	G1809H122	OGAAEQ
EUR	KYG1809H1636	BM9GPP2	BUBFOAA KY	CH58799899	F000016AVE	G1809H163	OGAAEP
GBP	KYG1809H2055	BM9GPQ3	BUBFOAC KY	CH58799949	F000016AVF	G1809H205	OGAAEO

Participating I Shares

CURRENCY	ISIN Code	SEDOL Code	BLOOMBERG Code	VALOR Code	MORNING STAR Code	CUSIP Code	MEXID Code
USD	KYG1809H1065	BM9GPV8	BUBFOIC KY	CH58799950	F000016AVG	G1809H106	OGAAEN
EUR	KYG1809H1487	BM9GPW9	BUBFOIU KY	CH58799679	F000016AVH	G1809H148	OGAAEM
GBP	KYG1809H1891	BM9GPX0	BUBFOGA KY	CH58799679	F000016AVI	G1809H189	OGAAEL

Participating ID Shares

CURRENCY	ISIN Code	SEDOL Code	BLOOMBERG Code	VALOR Code	MORNING STAR Code	CUSIP Code	MEXID Code
USD	KYG1809H1149	BM9GPR4	BUBFUID KY	CH58799682	F000016AVJ	G1809H114	OGAAEK
EUR	KYG1809H1552	BM9GPS5	BUBFOID KY	CH58799891	F000016AVK	G1809H155	OGAAEJ
GBP	KYG1809H1974	BM9GPT6	BUBFOIG KY	CH58799883	F000016AVL	G1809H197	OGAAEI

Participating AD Shares

CURRENCY	ISIN Code	SEDOL Code	BLOOMBERG Code	VALOR Code	MORNING STAR Code	CUSIP Code	MEXID Code
USD	KYG1809H1305	BM9GPY1	BUBFOAU KY	CH58799886	F000016AVM	G1809H130	OGAAEH
EUR	KYG1809H1719	BM9GPZ2	BUBFOAE KY	CH58799890	F000016AVN	G1809H171	OGAAEG
GBP	KYG1809H2139	BM9GQ04	BUBFOAG KY	CH58799896	F000016AVO	G1809H213	OGAAEF

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