

"CAOP II"

DEBTOR: Castle Arch Opportunity Partners II, LLC

**MONTHLY OPERATING REPORT  
CHAPTER 11**

CASE NUMBER: 11-35241

**Form 2-A  
COVER SHEET**

For Period Ending \_\_\_\_\_ 12/31/2012

Accounting Method:  Accrual Basis  Cash Basis

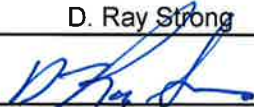
**THIS REPORT IS DUE 14 DAYS AFTER THE END OF THE MONTH**

Mark One Box for Each  
Required Document:

Debtor must attach each of the following reports/documents unless the U. S. Trustee has waived the requirement in writing. File the original with the Clerk of Court. Submit a duplicate, with original signature, to the U. S. Trustee.

Report/Document Attached	Previously Waived	REQUIRED REPORTS/DOCUMENTS
<input checked="" type="checkbox"/>	<input type="checkbox"/>	1. Cash Receipts and Disbursements Statement (Form 2-B)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. Balance Sheet (Form 2-C)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. Profit and Loss Statement (Form 2-D)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. Supporting Schedules (Form 2-E)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. Quarterly Fee Summary (Form 2-F)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. Narrative (Form 2-G)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. Bank Statements for All Bank Accounts IMPORTANT: Redact account numbers and remove check images
<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. Bank Statement Reconciliations for all Bank Accounts

***I declare under penalty of perjury that the following Monthly Operating Report, and any attachments thereto are true, accurate and correct to the best of my knowledge and belief.***

Executed on: 2/7/13      Print Name: D. Ray Strong  
 Signature:   
 Title: Manager

DEBTOR: Castle Arch Opportunity Partners II, LLC CASE NO: 11-35241

**Form 2-B  
CASH RECEIPTS AND DISBURSEMENTS STATEMENT**

For Period: 12/1/12 to 12/31/12

**CASH FLOW SUMMARY**

	Current Month	Accumulated
<b>1. Beginning Cash Balance</b>	\$ <u>1,347,284.52</u> (1)	\$ <u>1,334,322.19</u> (1)
<b>2. Cash Receipts</b>		
Operations	127,754.65	2,282,738.71
Sale of Assets	-	-
Loans/advances	-	-
Other	-	-
<b>Total Cash Receipts</b>	\$ <u>127,754.65</u>	\$ <u>2,282,738.71</u>
<b>3. Cash Disbursements</b>		
Operations	-	2,095,325.71
Debt Service/Secured loan payment	-	2,071.02
Professional fees/U.S. Trustee fees	13,000.00	57,625.00
Other	-	-
<b>Total Cash Disbursements</b>	\$ <u>13,000.00</u>	\$ <u>2,155,021.73</u>
<b>4. Net Cash Flow (Total Cash Receipts less Total Cash Disbursements)</b>	<u>114,754.65</u>	<u>127,716.98</u>
<b>5 Ending Cash Balance (to Form 2-C)</b>	\$ <u>1,462,039.17</u> (2)	\$ <u>1,462,039.17</u> (2)

**CASH BALANCE SUMMARY**

	<u>Financial Institution</u>	<u>Book Balance</u>
Petty Cash		\$ -
DIP Operating Account	<u>Zions Bank - DIP *****4935 (Closed)</u>	-
Manager Account #1	<u>Preferred Bank ***3368 (Closed)</u>	-
Manager Account	<u>Preferred Bank ***4704</u>	1,462,039.13
Other Operating Account	<u>TD Ameritrade</u>	0.04
Other Interest-bearing Account		-
<b>TOTAL (must agree with Ending Cash Balance above)</b>		\$ <u>1,462,039.17</u> (2)

(1) **Accumulated beginning cash balance is the cash available at the commencement of the case. Current month beginning cash balance should equal the previous month's ending balance.**  
(2) **All cash balances should be the same.**

DEBTOR: Castle Arch Opportunity Partners II, LLC CASE NO: 11-35241

**Form 2-B  
CASH RECEIPTS AND DISBURSEMENTS STATEMENT**

For Period: 12/1/12 to 12/31/12

CASH RECEIPTS DETAIL Account No: Preferred Bank-\*\*\*4704

*(attach additional sheets as necessary)*

Date	Payer	Description	Amount
12/11/2012	Conix	Principal and Interest on Oak Capital	68,435.40
12/11/2012	Conix	Principal and Interest on Steel Capital	7,581.18
12/11/2012	Conix	Principal and Interest on Town Capital	2,845.23
12/18/2012	Conix	Principal, Interest and Profits on 1st Maryland	11,414.91
12/20/2012	Conix	Principal and Interest on Oak Capital	37,477.93

**Total Cash Receipts** \$ 127,754.65 (1)

(1) Total for all accounts should agree with total cash receipts listed on Form 2-B, page 1

DEBTOR: Castle Arch Opportunity Partners II, LLC

CASE NO: 11-35241

**Form 2-B**  
**CASH RECEIPTS AND DISBURSEMENTS STATEMENT**

For Period: 12/1/12 to 12/31/12

**CASH DISBURSEMENTS DETAIL**  
*(attach additional sheets as necessary)*

Account No: Preferred Bank-\*\*\*4704

Date	Check No.	Payee	Description (Purpose)	Amount
12/31/12	EFT	CAREIC	Management Fee	13,000.00

**Total Cash Disbursements**      \$ 13,000.00 (1)

(1) Total for all accounts should agree with total cash disbursements listed on Form 2-B, page 1

DEBTOR: Castle Arch Opportunity Partners II, LLC CASE NO: 11-35241

**Form 2-C  
COMPARATIVE BALANCE SHEET**

For Period Ended: 12/31/2012

<b>ASSETS</b>	Current Month (1)	Petition Date (2)
<b>Current Assets:</b>		
Cash (from Form 2-B, line 5)	\$ 1,462,039.17	\$ 1,334,322.19
Accounts Receivable (from Form 2-E)	-	-
Receivable from Officers, Employees, Affiliates	2,103.35	-
Inventory	2,447,455.05	2,339,748.24
Other Current Assets (List):	30,000.00	9,040.00
<u>Properties for Sale</u>	(88,809.34)	-
<u>Pre-paid Legal &amp; Deposits</u>	132,389.79	42,000.00
<u>Discount on Note Receivable</u> Note 3		
<u>Note Receivable</u> Note 3		
<b>Total Current Assets</b>	<b>\$ 3,985,178.02</b>	<b>\$ 3,725,110.43</b>
<b>Fixed Assets:</b>		
Land	\$ -	\$ -
Building	-	-
Equipment, Furniture and Fixtures	-	-
<b>Total Fixed Assets</b>	<b>-</b>	<b>-</b>
Less: Accumulated Depreciation	( - )	( - )
<b>Net Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>
Other Assets (List):	-	-
<b>TOTAL ASSETS</b>	<b>\$ 3,985,178.02</b>	<b>\$ 3,725,110.43</b>
<b>LIABILITIES</b>		
Post-petition Accounts Payable (from Form 2-E)	\$ 75,345.96	\$ -
Post-petition Accrued Professional Fees (from Form 2-E)	77,000.00	-
Post-petition Taxes Payable (from Form 2-E)	-	-
Post-petition Notes Payable	-	-
Other Post-petition Payable(List):	-	-
<u>Preferred Dividend Payable</u>	653,036.33	-
<b>Total Post Petition Liabilities</b>	<b>\$ 805,382.29</b>	<b>\$ -</b>
<b>Pre Petition Liabilities:</b>		
Secured Debt	-	-
Priority Debt	-	-
Unsecured Debt	643,335.82	637,964.06
<b>Total Pre Petition Liabilities</b>	<b>\$ 643,335.82</b>	<b>\$ 637,964.06</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 1,448,718.11</b>	<b>\$ 637,964.06</b>
<b>OWNERS' EQUITY</b>		
Owner's/Stockholder's Equity	\$ 2,748,937.44	\$ 3,401,973.77
Retained Earnings - Prepetition	(314,827.40)	(314,827.40)
Retained Earnings - Post-petition	102,349.87	-
<b>TOTAL OWNERS' EQUITY</b>	<b>\$ 2,536,459.91</b>	<b>\$ 3,087,146.37</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>\$ 3,985,178.02</b>	<b>\$ 3,725,110.43</b>

(1) The Manager has not conducted a detailed analysis of the historical accounting balances contained herein to determine the accuracy of the information presented.

(2) Petition date values are taken from the Debtor's balance sheet as of the petition date or are the values listed on the Debtor's schedules.

(3) Adjustments were made to the Rill Note Loan Receivable in order to properly record accrued interest income on the loan discount. The Loan Receivable account was adjusted to the current principal balance of \$132,389.79. A contra asset loan discount account was recorded at the value of (\$88,981.67). An adjustment to accrued interest income as also recorded in the amount of \$1,388.24. After all adjustments were made the net loan balance was \$43,408.12. The loan discount account will continue to be amortized on a monthly basis to properly reflect the accrued interest income earned from the purchase of the loan at a discount.

DEBTOR: Castle Arch Opportunity Partners II, LLC

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**Form 2-D**  
**PROFIT AND LOSS STATEMENT**  
For Period 12/1/2012 to 12/31/2012

	<u>Current Month (1)</u>	<u>Accumulated Total (2)</u>
Gross Operating Revenue	\$ 31,408.16	\$ 1,340,366.04
Less: Discounts, Returns and Allowances	( - )	( - )
<b>Net Operating Revenue</b>	<b>\$ 31,408.16</b>	<b>\$ 1,340,366.04</b>
Cost of Goods Sold	-	948,757.35
<b>Gross Profit</b>	<b>\$ 31,408.16</b>	<b>\$ 391,608.69</b>
Operating Expenses		
Officer Compensation	\$ -	\$ -
Selling, General and Administrative	13,000.00	183,185.51
Rents and Leases	-	-
Depreciation, Depletion and Amortization	-	-
Other (list): _____	-	19,499.94
	-	-
<b>Total Operating Expenses</b>	<b>\$ 13,000.00</b>	<b>\$ 202,685.45</b>
<b>Operating Income (Loss)</b>	<b>\$ 18,408.16</b>	<b>\$ 188,923.24</b>
Non-Operating Income and Expenses		
Other Non-Operating Expenses	\$ -	\$ (319.77)
Gains (Losses) on Sale of Assets	-	-
Interest Income	7.04	103.06
Interest Expense	-	(21.16)
Other Non-Operating Income	-	-
<b>Net Non-Operating Income or (Expenses)</b>	<b>\$ 7.04</b>	<b>\$ (237.87)</b>
Reorganization Expenses		
Legal and Professional Fees	\$ 8,000.00	\$ 78,210.50
Other Reorganization Expense	-	8,125.00
<b>Total Reorganization Expenses</b>	<b>\$ 8,000.00</b>	<b>\$ 86,335.50</b>
<b>Net Income (Loss) Before Income Taxes</b>	<b>\$ 10,415.20</b>	<b>\$ 102,349.87</b>
Federal and State Income Tax Expense (Benefit)	-	-
<b>NET INCOME (LOSS)</b>	<b>\$ 10,415.20</b>	<b>\$ 102,349.87</b>

(1) The Manager has not conducted a detailed analysis of the historical accounting balances contained herein to determine the accuracy of the information presented.

(2) Accumulated Totals include all revenue and expenses since the petition date.

DEBTOR: Castle Arch Opportunity Partners II, LLC

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**Form 2-E**  
**SUPPORTING SCHEDULES**  
 For Period: 12/1/2012 to 12/31/2012

**POST PETITION TAXES PAYABLE SCHEDULE**

	<u>Beginning Balance (1)</u>	<u>Amount Accrued</u>	<u>Amount Paid</u>	<u>Date Paid</u>	<u>Check Number</u>	<u>Ending Balance</u>
Income Tax Withheld:						
Federal	\$ -	\$ -	\$ -			\$ -
State	-	-	-			-
FICA Tax Withheld	-	-	-			-
Employer's FICA Tax	-	-	-			-
Unemployment Tax						
Federal	-	-	-			-
State	-	-	-			-
Sales, Use & Excise Taxes	-	-	-			-
Property Taxes	-	-	-			-
Accrued Income Tax:						
Federal	-	-	-			-
State	-	-	-			-
Other:	-	-	-			-
<b>TOTALS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>			<b>\$ -</b>

(1) For first report, Beginning Balance will be \$0; thereafter, Beginning Balance will be Ending Balance from prior report.

**INSURANCE SCHEDULE**

	<u>Carrier</u>	<u>Amount of Coverage</u>	<u>Expiration Date</u>	<u>Premium Paid Through</u>
Workers' Compensation	None	\$ -		\$ -
General Liability	Travelers (1)	\$ 2,000,000	10/18/2012	\$ 10/18/2012
Property (Fire, Theft)	Travelers (1)	\$ 25,000	10/27/2012	\$ 10/27/2012
Vehicle	None	\$ -		\$ -
Other (list):				
Primary D&O	Rockhill Insurance	\$ 5,000,000.00	11/20/2010	See Note 2
Excess D&O	RSUI Indemnity	5,000,000.00	11/20/2010	See Note 2
Excess D&O	Zurich America	5,000,000.00	11/20/2010	See Note 2
Excess D&O	Navigator Insurance	5,000,000.00	11/20/2010	See Note 2
D&O	Axis Surplus Insurance	5,000,000.00	12/20/2011	See Note 2
D&O	Axis Surplus Insurance	1,000,000.00	1/20/2013	See Note 2

(1) The Manager was informed in late May that the vacant land policy for the Tooele, Kingman, Star Valley, and Smyrna properties was terminate. The Manager worked with Travelers to get the policy reinstated in June 2012.

(2) The D&O policies are claims made policies and were paid by CAREIC through December 2011. At that time, the Trustee understands the premiums are being paid by the former officers and directors.

**DEBTOR:** Castle Arch Opportunity Partners II, LLC

**CASE NO:** 11-35241

**Form 2-E  
SUPPORTING SCHEDULES**

For Period 12/1/2012 to 12/31/2012

**ACCOUNTS RECEIVABLE AND POST PETITION PAYABLE AGING**

<u>Due</u>	<u>Accounts Receivable</u>	<u>Post Petition Accounts Payable</u>
Under 30 days	\$ 0.00	\$ 0.00
30 to 60 days	0.00	0.00
61 to 90 days	0.00	0.00
91 to 120 days	0.00	0.00
Over 120 days	0.00	75,345.96
<b>Total Post Petition</b>	0.00	
<b>Pre Petition Amounts</b>	0.00	
Total Accounts Receivable	\$ 0.00	
Less: Bad Debt Reserve	0.00	
<b>Net Accounts Receivable (to Form 2-C)</b>	\$ 0.00	
	<b>Total Post Petition Accounts Payable</b>	<b>\$ 75,345.96</b>

\* Attach a detail listing of accounts receivable and post-petition accounts payable

**SCHEDULE OF PAYMENTS TO ATTORNEYS AND OTHER PROFESSIONALS**

	<u>Month-end Retainer Balance</u>	<u>Current Month's Accrual</u>	<u>Paid in Current Month</u>	<u>Date of Court Approval</u>	<u>Month-end Balance Due *</u>
Debtor's Counsel (1)	\$ 30,000	\$ 8,000	\$ -		\$ 77,000
Counsel for Unsecured Creditors' Committee	-	-	-		-
Trustee's Counsel	-	-	-		-
Accountant	-	-	-		-
Other:	-	-	-		-
<b>Total</b>	<b>\$ 30,000</b>	<b>\$ 8,000</b>	<b>\$ -</b>		<b>\$ 77,000</b>

\*Balance due to include fees and expenses incurred but not yet paid.

**SCHEDULE OF PAYMENTS AND TRANSFERS TO PRINCIPALS/EXECUTIVES\*\***

<u>Payee Name</u>	<u>Position</u>	<u>Nature of Payment</u>	<u>Amount</u>
_____	_____	_____	\$ _____
_____	_____	_____	_____
_____	_____	_____	_____

\*\*List payments and transfers of any kind and in any form made to or for the benefit of any proprietor, owner, partner, shareholder, officer or director.



**DEBTOR:** Castle Arch Opportunity Partners II, LLC

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**Form 2-F  
QUARTERLY FEE SUMMARY \***

**For the Month Ended:** 12/31/2012

<u>Month</u>	<u>Year</u>	<u>Cash Disbursements **</u>	<u>Quarterly Fee Due</u>	<u>Check No.</u>	<u>Date Paid</u>
January	<u>2012</u>	\$ 338,769.69			
February	<u>2012</u>	654,941.00			
March	<u>2012</u>	981,235.59			
<b>TOTAL 1st Quarter</b>	<b>\$</b>	<b><u>1,974,946.28</u></b>	<b>\$ <u>6,500.00</u></b>	<b><u>3000</u></b>	<b><u>6/7/2012</u></b>
April	<u>2012</u>	62,512.00			
May	<u>2012</u>	20,930.50			
June	<u>2012</u>	12,900.00			
<b>TOTAL 2nd Quarter</b>	<b>\$</b>	<b><u>96,342.50</u></b>	<b>\$ <u>975.00</u></b>	<b><u>3001</u></b>	<b><u>7/27/2012</u></b>
July	<u>2012</u>	15,538.51			
August	<u>2012</u>	13,000.00			
September	<u>2012</u>	14,697.00			
<b>TOTAL 3rd Quarter</b>	<b>\$</b>	<b><u>43,235.51</u></b>	<b>\$ <u>650.00</u></b>	<b><u>3005</u></b>	<b><u>10/23/2012</u></b>
October	<u>2012</u>	14,157.51			
November	<u>2012</u>	13,000.00			
December	<u>2012</u>	-			
<b>TOTAL 4th Quarter</b>	<b>\$</b>	<b><u>27,157.51</u></b>	<b>\$</b>		

**FEE SCHEDULE (as of JANUARY 1, 2008)**

*Subject to changes that may occur to 28 U.S.C. §1930(a)(6)*

<u>Quarterly Disbursements</u>	<u>Fee</u>	<u>Quarterly Disbursements</u>	<u>Fee</u>
\$0 to \$14,999.....	\$325	\$1,000,000 to \$1,999,999.....	\$6,500
\$15,000 to \$74,999.....	\$650	\$2,000,000 to \$2,999,999.....	\$9,750
\$75,000 to \$149,999.....	\$975	\$3,000,000 to \$4,999,999.....	\$10,400
\$150,000 to \$224,999.....	\$1,625	\$5,000,000 to \$14,999,999.....	\$13,000
\$225,000 to \$299,999.....	\$1,950	\$15,000,000 to \$29,999,999....	\$20,000
\$300,000 to \$999,999.....	\$4,875	\$30,000,000 or more	\$30,000

\* This summary is to reflect the current calendar year's information cumulative to the end of the reporting period

\*\* Should agree with line 3, Form 2-B. Disbursements are net of transfers to other debtor in possession bank accounts

*Failure to pay the quarterly fee is cause for conversion or dismissal of the chapter 11 case. [11 U.S.C. Sec. 1112(b)(10)]*

*In addition, unpaid fees are considered a debt owed to the United States and will be assessed interest under 31 U.S.C. §3717*

**DEBTOR:** Castle Arch Opportunity Partners II, LLC

**CASE NO:** 11-35241

**Form 2-G  
NARRATIVE**

**For Period Ending:** 12/31/12

**Please provide a brief description of any significant business and legal actions taken by the debtor, its creditors, or the court during the reporting period, any unusual or non-recurring accounting transactions that are reported in the financial statements, and any significant changes in the financial condition of the debtor which have occurred subsequent to the report date.**

On May 3, 2012, D. Ray Strong was appointed as Chapter 11 Trustee of Castle Arch Real Estate Investment Company, LLC ("Trustee"). Pursuant the Trustee's appointment and the existing ownership structure of the other related debtors, the Trustee also functions as the Manager of CAOP Managers, LLC ("CAOP Managers"), Castle Arch Opportunity Partners I, LLC ("CAOPI"), Castle Arch Opportunity Partners II, LLC ("CAOPII"), Castle Arch Secured Development Fund, LLC ("CASDF"), Castle Arch Kingman, LLC ("CAK"), and Castle Arch Smyrna, LLC ("CAS") (collectively the "Debtors").

Shortly after his appointment, the Trustee engaged Dorsey & Whitney, LLP as his counsel for CAREIC and Berkeley Research Group, LLC as his accountants. Their employment was approved by the Bankruptcy Court on June 13, 2012. The existing counsel for CAOPII remains engaged until a plan is confirmed to address issues pertaining to the Debtor.

Upon the Trustee's appointment, the Trustee/Manager terminated all existing management except Glen Martinsen who was retained to assist with the day-to-day operations and accounting. The Trustee/Manager utilized a payroll services, Paychex, for the calculation and reporting of payroll. The payroll related expenses are netted and paid to Paychex in a lump-sum for the payroll period. Mr. Martinsen provides services for the Trustee/Manager relating to CAREIC and the other Debtors. As of November 30, 2012, the Trustee/Manager has closed the Castle Arch office located at 8 East Broadway, Salt Lake City, Utah. As a result, Mr. Martinsen's employment with Castle Arch has been terminated. Additionally, certain office equipment and other related personal property was moved to Erkelens & Olson, the Trustee/Manager's approved auctioneer, where the property was sold at public auction on December 15, 2012. The Trustee/Manager has taken steps and precautions to protect any personal information of investors or creditors that was located on computers or included in files at the Castle Arch office.

On June 5, 2012, the Trustee/Manager filed a motion seeking approval of a proposed cash management plan. The cash management plan included, among other things, the assessment of monthly CAREIC management fees for the various Debtors, establishment of a quarterly procedure by the Court to reassess the monthly management fees, and authorization of minimal loans from CAOPI and CAOPII to certain Debtors to pay ongoing expenses. The management fees from July 2012 through September 2012 are: (a) \$2,000 for CAOP Managers; (b) \$13,000 for CAOPI; (c) \$13,000 for CAOPII; (d) \$7,000 for CAK; (e) \$7,000 for CAS; and (f) \$4,000 for CASDF. The amounts requested for the certain Debtors to borrow on an as needed bases are up to: (a) \$5,000 for CAOP Managers; (b) \$20,000 for CAK; (c) \$15,000 for CASDF. The cash management plan motion was granted by the Bankruptcy Court on June 29, 2012. On October 1, 2012, the Court approved a stipulated motion to continue the use of cash and the payment of the existing approved management fees at the current amounts with a reservation of rights as to a reconciliation and true-up of these amounts based on the actual level of efforts to manage the cases. On December 31, 2012, the Court approved another stipulated motion to continue the use of cash and payment of existing approved management fees through April 1, 2013.

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**Form 2-G – Page 2**

**NARRATIVE**

**For Period Ending:** 12/31/12

**Please provide a brief description of any significant business and legal actions taken by the debtor, its creditors, or the court during the reporting period, any unusual or non-recurring accounting transactions that are reported in the financial statements, and any significant changes in the financial condition of the debtor which have occurred subsequent to the report date.**

On June 18, 2012, the Trustee/Manager engaged and subsequently submitted a motion to the Bankruptcy Court to employ Commerce Real Estate Solutions ("Commerce") as its real estate broker to sell certain real property and water rights owned by CAREIC and/or its related entities. The identified real property to be sold included approximately: (a) 348 acres in Tooele, Utah; (b) 534 acres in Kingman, Arizona; (c) 484 acres in Smyrna, Tennessee; and 39 acres in Thayne, Wyoming. Commerce has been reviewing the various parcels, existing entitlements, and related documentation. The real property transactions are complex and convoluted which is taking time to fully understand the properties in order to list the properties. Commerce has listed the Tooele, Kingman, Smyrna, and Star Valley properties which information can be accessed on the Trustee and the commercial real estate LoopNet websites. Commerce visited with city officials in Kingman the first week of September 2012 to gather additional information about entitlements, water rights, and mineral rights. As a result, the Trustee/Manager and Commerce have been working with several interested parties.

On August 8, 2012, the Trustee/Manager filed an objection to the proofs of claim filed by William Davidson, a member of the Board of Directors of CAREIC. Mr. Davidson filed a claim in CAREIC and CAS relating to a purported loan secured by CAREIC and Smyrna related property. In September 2012, the Trustee/Manager filed objections to claims filed by Robert Geringer (approximately \$8.5 million) ("Geringer"), David Demerest ("Demerest"), and an Omnibus objection involving 19 other claims. A scheduling order and subsequent scheduling orders regarding the Geringer claims were established to allow for discovery and a two day trial on February 28, 2012 and March 1, 2012. The Trustee reached a stipulated claim amount on the Demerest claim and a hearing was held on October 30, 2012 regarding the Omnibus objection involving the other 19 other claims. Orders regarding these claims have been entered and are currently included on the Trustee's website. Discovery for the Geringer claims continued in November and December 2012. On December 31, 2012, the Court approved a motion to extend the deadline to file intercompany claims until to April 1, 2013.

The Trustee/Manager and his professionals have spent a significant amount of time reviewing and analyzing the multi-million dollar claims totaling over \$8.2 million filed by Longview Financial Holdings, Inc. and Longview Financial Group, Inc. (collectively "Longview") against CAREIC and the related Debtors in an effort to potentially resolve the claims. The Trustee/Manager and his professionals continue to analyze the claims and related issues. On July 3, 2012, Longview filed an amended motion seeking relief from the automatic stay, which the Trustee/Manager opposed on July 23, 2012. Longview replied to the Trustee's objection on August 2, 2012. A preliminary hearing was scheduled and held on August 8, 2012 which scheduled an evidentiary hearing for August 27, 2012. The August 27, 2012 hearing was held and continued until September 13, 2012 while Longview and the Trustee attempt to settle the matter. In October 2012, the Trustee/Manager, Insurance Carrier, Longview, and other Individual Defendants reached a global settlement to resolve the matter. The parties have finalized a formal settlement agreement which has been submitted to the Bankruptcy Court for approval. The material terms of the settlement include a \$1 million cash payment to Longview from a Private Company Management Liability insurance policy, an allowed unsecured claim in the various Debtors totaling

**DEBTOR:** Castle Arch Opportunity Partners II, LLC

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**Form 2-G – Page 3**

**NARRATIVE**

**For Period Ending:** 12/31/12

**Please provide a brief description of any significant business and legal actions taken by the debtor, its creditors, or the court during the reporting period, any unusual or non-recurring accounting transactions that are reported in the financial statements, and any significant changes in the financial condition of the debtor which have occurred subsequent to the report date.**

\$385,000, Longview's acceptance of the Trustee's proposed plan of liquidation, and dismissal of litigation currently pending in various jurisdictions. The agreed upon allowed unsecured claim of Longview was allocated to the individual bankruptcy estates as follows: \$290,896.49 (CAREIC), \$2,337.87 (CAK), \$6,424.11 (CAS), \$10,095.19 (CASDF), \$60,341.85 (CAOPI), and \$15,086.49 (CAOPII). The hearing to approve the settlement was held on December 10, 2012 and no appeals were filed. On December 10, 2012, an Order was entered by the Court approving the settlement and no appeals were filed.

The Trustee/Manager and his professionals have developed and analyzed a plan concept that was shared with the Bankruptcy Court at the June 29, 2012 hearing regarding the cash management plan. The Trustee/Manager filed his proposed disclosure statement and plan with the Court on September 29, 2012 for Court approval. On November 26, 2012, several objections were filed with the Court regarding the adequacy of the Disclosure Statement by Hunt Law Corporation, Prince Yeates, Robert Geringer, Certain Investors, and the CAREIC Creditors Committee. A hearing on the adequacy of the Disclosure Statement was originally scheduled for December 3, 2012; however, as a result of the objections filed, this hearing was changed to a preliminary hearing with the final hearing on the Disclosure Statement to occur on January 31, 2013. As a result of the responses by several parties, the Trustee/Manager has determined in his business to address the substantive consolidation issues prior to finalizing the amended proposed disclosure statement and seeking confirmation of his proposed plan. A motion for substantive consolidation of CAREIC, CAOP Managers, CAK, CAS, CASDF, and a Castle Arch Star Valley, LLC ("Legacy Debtors") was filed on December 28, 2012 by the Trustee/Manager. The hearing for the substantive consolidation motion was held on January 31, 2013. At the hearing, the Court granted the Trustee's motion for substantive consolidation of the Legacy Debtors. The final hearing for the Proposed Disclosure Statement is currently scheduled for March 21, 2013.

The Trustee/Manager has relied on the currently available records and records prepared by the Debtors to obtain historical activity included on the balance sheet referenced in Form 2C and the profit and loss statement in Form 2D. Work is ongoing to ascertain and determine appropriate balances. Balances may be over or understated and are subject to material modification. The financial statements may change as information becomes available to the Trustee/Manager. The Trustee/Manager may dispute the nature and amount of the assets and liabilities presented in these financial statements. As new information becomes available, these balances may be adjusted and updated to reflect the correct amounts. The fact that liabilities and assets may have been omitted, listed and/or adjusted, does not necessarily reflect the final opinion as to the eventual treatment under a plan of reorganization or otherwise.

Historically, activity between the Debtors was recorded through various intercompany accounts which have been very convoluted and commingled.

The Trustee/Manager has been actively requesting turnover of Debtor related documents from various parties. During September and October the Trustee/Manager has filed various motions to compel several of the parties to turnover or produce the requested information and documentation. Additionally, the Trustee/Manager has filed numerous 2004 examinations/document requests to third parties seeking additional documentation and information.

**DEBTOR:** Castle Arch Opportunity Partners II, LLC

**CASE NO:** 11-35241

**Form 2-G – Page 4**

**NARRATIVE**

**For Period Ending:** 12/31/12

**Please provide a brief description of any significant business and legal actions taken by the debtor, its creditors, or the court during the reporting period, any unusual or non-recurring accounting transactions that are reported in the financial statements, and any significant changes in the financial condition of the debtor which have occurred subsequent to the report date.**

In an effort to provide interested parties with as much information as possible, the Trustee/Manager has created a website located at [www.castlearchtrustee.com](http://www.castlearchtrustee.com). Interested parties should reference the website for more detailed information.

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**Castle Arch Opportunity Partners II LLC**  
**A/P Aging Summary**  
As of December 31, 2012

	<u>Current</u>	<u>1 - 30</u>	<u>31 - 60</u>	<u>61 - 90</u>	<u>91 - 120</u>	<u>&gt; 120</u>	<u>TOTAL</u>
CAREIC	0.00	0.00	0.00	0.00	0.00	75,204.29	75,204.29
Colonial Stock Transfer	0.00	0.00	0.00	0.00	0.00	141.67	141.67
Durham Jones & Pinegar	8,000.00	8,000.00	11,000.00	4,000.00	5,000.00	41,000.00	77,000.00
<b>TOTAL</b>	<b>8,000.00</b>	<b>8,000.00</b>	<b>11,000.00</b>	<b>4,000.00</b>	<b>5,000.00</b>	<b>116,345.96</b>	<b>152,345.96</b>

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Accrual Basis

**Castle Arch Opportunity Partners II LLC**  
**Balance Sheet**  
As of December 31, 2012

	<u>Dec 31, 12</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
<b>Checking/Savings</b>	
10001 · TD Ameritrade - CAOPII	0.04
10005 · Pref Bank [REDACTED]	1,462,039.13
<b>Total Checking/Savings</b>	<u>1,462,039.17</u>
<b>Other Current Assets</b>	
<b>Loan Receivable - Rill Note</b>	
Discount on Note Rec. - Rill	-88,809.34
Loan Receivable - Rill Note - Other	132,389.79
<b>Total Loan Receivable - Rill Note</b>	<u>43,580.45</u>
16000 · Prepaid Expense	30,000.00
17300 · Properties Held for Sale	
17103 · Western Showcase	554,624.38
17895 · CREO114, LLC	
N/R-Conix-1st Carolina	97,876.77
N/R-Conix-Oak Capital	301,093.58
N/R-Conix-Steel Capital	115,856.49
N/R-Conix-Town Capital I	78,917.83
<b>Total 17895 · CREO114, LLC</b>	<u>593,744.67</u>
17905 · Blackstar Financial Inc	1,299,086.00
<b>Total 17300 · Properties Held for Sale</b>	<u>2,447,455.05</u>
22501 · I/C-Post Trustee-CAK	769.12
22503 · I/C-Post Trustee-CASDF	650.95
22504 · I/C-Post Trustee-CAOPM	650.95
22510 · I/C Interest Accrual	32.33
<b>Total Other Current Assets</b>	<u>2,523,138.85</u>
<b>Total Current Assets</b>	<u>3,985,178.02</u>
<b>TOTAL ASSETS</b>	<u><b>3,985,178.02</b></u>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
<b>Accounts Payable</b>	
20000 · Accounts Payable	75,345.96
20010 · Accrued Legal - Debtors Counsel	77,000.00
<b>Total Accounts Payable</b>	<u>152,345.96</u>
<b>Other Current Liabilities</b>	
25050 · Intercompany Notes	
25056 · CAREIC	108,750.17
25200 · Accrued Interest	-558.08
<b>Total 25050 · Intercompany Notes</b>	<u>108,192.09</u>
<b>Total Other Current Liabilities</b>	<u>108,192.09</u>
<b>Total Current Liabilities</b>	260,538.05
<b>Long Term Liabilities</b>	
23600 · Preferred Dividend Payable	1,188,180.06
<b>Total Long Term Liabilities</b>	<u>1,188,180.06</u>
<b>Total Liabilities</b>	1,448,718.11
<b>Equity</b>	
30000 · Preferred Units Round A	
30010 · Preferred Redemptions Round A	-50,000.00
30000 · Preferred Units Round A - Other	4,401,900.00
<b>Total 30000 · Preferred Units Round A</b>	<u>4,351,900.00</u>
39000 · Retained Earnings	-364,413.08

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Accrual Basis

**Castle Arch Opportunity Partners II LLC**  
**Balance Sheet**  
As of December 31, 2012

	<u>Dec 31, 12</u>
<b>39100 · Equity Adjustments</b>	
<b>39101 · Preferred Dividends Accrued</b>	-1,188,180.06
<b>39107 · Cash Commissions</b>	-414,782.50
<b>Total 39100 · Equity Adjustments</b>	-1,602,962.56
<b>Net Income</b>	151,935.55
<b>Total Equity</b>	<u>2,536,459.91</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><u>3,985,178.02</u></u>



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Accrual Basis

**Castle Arch Opportunity Partners II LLC**  
**Profit & Loss**  
**December 2012**

	<u>Dec 12</u>
<b>Ordinary Income/Expense</b>	
<b>Income</b>	
41200 · Sales	
Interest - Notes Receivable	22,708.09
44000 · Deal Profits	<u>8,700.07</u>
<b>Total 41200 · Sales</b>	<u>31,408.16</u>
<b>Total Income</b>	<u>31,408.16</u>
<b>Gross Profit</b>	31,408.16
<b>Expense</b>	
60580 · Legal Fees	8,000.00
68000 · Management Fee	<u>13,000.00</u>
<b>Total Expense</b>	<u>21,000.00</u>
<b>Net Ordinary Income</b>	10,408.16
<b>Other Income/Expense</b>	
<b>Other Income</b>	
43000 · Interest Income	<u>7.04</u>
<b>Total Other Income</b>	<u>7.04</u>
<b>Net Other Income</b>	<u>7.04</u>
<b>Net Income</b>	<u><u>10,415.20</u></u>

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**Castle Arch Opportunity Partners II LLC**  
**Reconciliation Detail**  
10005 · Pref Bank [REDACTED], Period Ending 12/31/2012

Type	Date	Num	Name	Clr	Amount	Balance
<b>Beginning Balance</b>						1,337,046.37
<b>Cleared Transactions</b>						
<b>Checks and Payments - 1 item</b>						
Check	12/13/2012		CAREIC	X	-13,000.00	-13,000.00
Total Checks and Payments					-13,000.00	-13,000.00
<b>Deposits and Credits - 4 items</b>						
Deposit	11/27/2012			X	10,238.11	10,238.11
Deposit	12/11/2012			X	78,861.81	89,099.92
Deposit	12/18/2012			X	11,414.91	100,514.83
Deposit	12/20/2012			X	37,477.93	137,992.76
Total Deposits and Credits					137,992.76	137,992.76
Total Cleared Transactions					124,992.76	124,992.76
Cleared Balance					124,992.76	1,462,039.13
Register Balance as of 12/31/2012					124,992.76	1,462,039.13
<b>Ending Balance</b>					<b>124,992.76</b>	<b>1,462,039.13</b>



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ACCOUNT:

PAGE: 1  
12/31/2012

11-35241 B  
BANKRUPTCY ESTATE OF  
CASTLE ARCH OPPTY PARTNERS II  
D RAY STRONG, MANAGER 29  
201 S MAIN ST SUITE 450 0  
SALT LAKE CITY UT 84111 0

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LOS ANGELES - HEADQUARTERS TELEPHONE: 213-891-1188  
601 S. FIGUEROA ST. 29TH FLOOR  
LOS ANGELES, CA 90017

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eSTATEMENTS ARE HERE - LOG ON PBnet PERSONAL ONLINE BANKING TO ENROLL  
Attention Bankruptcy Trustees:

For account information log into PBnet Business Online Banking at  
www.preferredbank.com or call BK Customer Service at 213-891-1188  
Ronnia Ching @ ext. 1130 or Matt Overin @ ext. 1107

The FDIC Insurance on unlimited non-interest bearing demand deposits may  
expire on December 31, 2012. Unless Congress takes action before the  
expiration date. FDIC insurance on non-interest bearing demand deposit  
account may revert back to \$250,000.00

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BANKRUPTCY CHECKING ACCOUNT [REDACTED]

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			LAST STATEMENT 11/30/12	1,337,046.37
AVG AVAILABLE BALANCE	1,407,290.05		6 CREDITS	137,992.76
AVERAGE BALANCE	1,411,741.43		1 DEBITS	13,000.00
			THIS STATEMENT 12/31/12	1,462,039.13

----- DEPOSITS -----

REF #	DATE	AMOUNT	REF #	DATE	AMOUNT	REF #	DATE	AMOUNT
33	12/03	10,238.11	35	12/11	68,435.40	37	12/18	11,414.91
34	12/11	2,845.23	36	12/11	7,581.18	38	12/20	37,477.93

----- OTHER DEBITS -----

DESCRIPTION	DATE	AMOUNT
Outgoing Wire Transfer CASTLE ARCH REAL ESTATE INVESTMENT 8940	12/13	13,000.00

\* \* \* C O N T I N U E D \* \* \*



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ACCOUNT:

PAGE: 2  
12/31/2012

11-35241

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BANKRUPTCY CHECKING ACCOUNT [REDACTED]

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- - - ITEMIZATION OF OVERDRAFT AND RETURNED ITEM FEES - - -

*****				
*		TOTAL FOR	TOTAL	*
*		THIS PERIOD	YEAR TO DATE	*
-----				
*	TOTAL OVERDRAFT FEES:	\$ .00	\$ .00	*
*	TOTAL RETURNED ITEM FEES:	\$ .00	\$ .00	*
*****				

- - - - - DAILY BALANCE - - - - -

DATE.....	BALANCE	DATE.....	BALANCE	DATE.....	BALANCE
12/03	1,347,284.48	12/13	1,413,146.29	12/20	1,462,039.13
12/11	1,426,146.29	12/18	1,424,561.20		

- END OF STATEMENT -