

**POST CONFIRMATION FINANCIAL QUARTERLY REPORT  
FOR QUARTER ENDED: June 30, 2014 (1)**

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

**CH. 11 CASE NO: 11-35241**

**SUMMARY OF DISBURSEMENTS MADE DURING QUARTER: (2)**

1. BEGINNING OF QUARTER CASH BALANCE	\$ 763,647
2. CASH RECEIPTS DURING QUARTER FROM ALL SOURCES	3,869
3. CASH DISBURSEMENTS DURING QUARTER, INCLUDING PLAN PAYMENTS	8,713
4. CASH BALANCE, END OF QUARTER	<u>\$ 758,802</u>

**SUMMARY OF AMOUNTS DISBURSED UNDER PLAN:**


	<u>Paid During Quarter</u>	<u>Total Plan Payments</u>	<u>Total Payments Projected Under Plan</u>
<b>1. PRE-EFFECTIVE DATE ADMINISTRATIVE EXPENSES</b>			
Trustee Compensation	\$ -	\$ -	\$ -
Accountant Fees	-	-	-
Attorney Fees	-	109,024	109,024
Other Professionals	-	-	-
Other Administrative Expenses	-	342	342
	-	-	-
	-	-	-
<b>TOTAL PRE-EFFECTIVE DATE ADMINISTRATIVE EXPENSES</b>	<b>\$ -</b>	<b>\$ 109,365</b>	<b>\$ 109,365</b>
<b>POST EFFECTIVE DATE ADMINISTRATIVE EXPENSES</b>			
Trustee Compensation	\$ -	\$ -	N/A
Accountant Fees	-	-	N/A
Attorney Fees	-	20,297	N/A
Other Professionals	4,409	10,331	N/A
Other Administrative Expenses	4,305	28,227	N/A
	-	-	N/A
	-	-	N/A
<b>TOTAL POST EFFECTIVE DATE ADMINISTRATIVE EXPENSES</b>	<b>\$ 8,713</b>	<b>\$ 58,856</b>	<b>\$ -</b>
<b>2. SECURED CREDITORS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>N/A</b>
<b>3. PRIORITY CREDITORS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>N/A</b>
<b>4. UNSECURED CREDITORS</b>	<b>\$ -</b>	<b>\$ 15,086</b>	<b>15,086</b>
<b>5. EQUITY SECURITY HOLDERS</b>	<b>\$ -</b>	<b>\$ 1,000,000</b>	<b>N/A (3)</b>
<b>6. OTHER:</b>	<b>\$ -</b>	<b>\$ 71,167</b>	<b>N/A (4)</b>
<b>TOTAL PLAN PAYMENTS</b>	<b>\$ 8,713</b>	<b>\$ 1,145,109</b>	<b>N/A</b>
<b>QUARTERLY FEE PAID:</b>	<u>Amount</u>	<u>Date</u>	<u>Check No.</u>
	\$ 650.00	4/29/2014	300094

**PLAN STATUS:**

- |   |  |
|---|--|
| 1. Have all payments been made as set forth in the confirmed plan? (If no, attach explanation.) | Yes No<br><input checked="" type="checkbox"/> <input type="checkbox"/> |
| 2. Are all post-confirmation obligations current? (If no, attach explanation.)                  | <input checked="" type="checkbox"/> <input type="checkbox"/>           |
| 3. Projected date of application for final decree: <u>Unknown</u>                               |  |

**I DECLARE UNDER PENALTY OF PERJURY THAT THE FOREGOING POST CONFIRMATION QUARTERLY REPORT IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF.**

EXECUTED ON: 8/18/14

By:   
D. Ray Strong  
Estate Representative and Liquidating  
Trustee of the CAOP II Trust

**POST CONFIRMATION FINANCIAL QUARTERLY REPORT**

**FOR QUARTER ENDED: June 30, 2014**

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

**CH. 11 CASE NO: 11-35241**

**NOTES**

- (1) The Debtors filed its Chapter 11 Financial Report for the month of July 2013. On July 22, 2013 the Confirmed Plan became effective. This report includes activity from April 1, 2014 to June 30, 2014.
- (2) An Audit of the financial statements in accordance with Generally Accepted Auditing Standards ("GAAS") has not been performed, nor has a review or a compilation of the financial statements been performed in accordance with the standards promulgated by the American Institute of Certified Public Accountants.
- (3) Assets of the CAOP II Trust are still in the process of being analyzed and liquidated. At this time a reasonable estimate of distribution amounts cannot be made. Further updates will be made on future reports as more information is determined.
- (4) Payment of outstanding management fees per settlement. Order entered October 23, 2013.

## **Schedule of Assets & Liabilities**

POST CONFIRMATION FINANCIAL QUARTERLY REPORT

FOR QUARTER ENDED: June 30, 2014

DEBTOR: Castle Arch Opportunity Partners II, LLC

CH. 11 CASE NO: 11-35241

SUMMARY OF ASSETS & LIABILITIES: (1)

	Current Quarter	
1. ASSETS		
Cash	\$ 758,802	
Current Assets		
Post Petition Intercompany Receivables	2,646	
Loan Receivable	131,018	(2)
Western Showcase	300,000	(3)
Conix Assets	201,880	(4)
Blackcastle, LLC	1,423,479	(5)
Litigation Recoveries	-	(9)
TOTAL ASSETS	<u>\$ 2,817,826</u>	
2. LIABILITIES		
Pre Petition Claims		
Allowed Priority Claims	1,800	(8)
Intercompany Notes	103,378	(6)
Post Petition Claims	-	
Post Intercompany Payable	-	(6)
Post Petition Legal & Professional Fees	169,753	(7)
TOTAL LIABILITIES	<u>\$ 274,931</u>	

NOTES

- (1) An Audit of the financial statements in accordance with Generally Accepted Auditing Standards ("GAAS") has not been performed, nor has a review or a compilation of the financial statements been performed in accordance with the standards promulgated by the American Institute of Certified Public Accountants.
- (2) The CAOP II Trustee is currently working with the borrower in an effort to liquidate the note. Due to the creation of the Trust the amortized discount on the note has been removed. The value presented on this schedule represents the current principal value of the note.
- (3) The CAOP II Trustee has filed litigation against Western Showcase in an effort to recover the investment of the CAOP II Trust. A settlement agreement was reached and approved by the Bankruptcy Court for \$300,000. Payment has not been received.
- (4) CAOP II received distributions historically related to the Conix assets. The amounts reported on this schedule are consistent with cost basis adjusted for the historical distributions and payments received.
- (5) The Trustee has filed litigation against Blackcastle, LLC to liquidate and recover the investment. The amount reported on this schedule represents the historical cost basis of the investment.
- (6) Intercompany transactions are still in the process of being resolved. Documentation has been presented to the Conflicts Referee to resolve the CAOP II intercompany claims. A settlement was reached during the 3rd Quarter resolving the remaining claims between the Legacy Trust and CAOP II. An adjustment will be made in 3rd Quarter report.
- (7) Accrued Legal & Professional Fees Detail

Pre-Effective Date

	Beginning Balance	Paid in Current Quarter	Accrued in Current Quarter	Ending Balance
Accrued Trustee Fees	\$ -	\$ -	\$ -	\$ -
Accrued Accountant Fees	\$ -	\$ -	\$ -	\$ -
Accrued Attorney Fees	\$ -	\$ -	\$ -	\$ -
Pre- Effective Date Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Post-Effective Date

	Beginning Balance	Paid in Current Quarter	Accrued in Current Quarter	Ending Balance
Accrued Trustee Fees	\$ 25,743	\$ -	\$ 6,506	\$ 32,250
Accrued Accountant Fees	\$ 50,332	\$ -	\$ 20,901	\$ 71,233
Accrued Attorney Fees	\$ 35,016	\$ -	\$ 31,254	\$ 66,270
Post-Effective Date Total	<u>\$ 111,091</u>	<u>\$ -</u>	<u>\$ 58,661</u>	<u>\$ 169,753</u>
<b>Total Legal and Professional Fees</b>	<u>\$ 111,091</u>	<u>\$ -</u>	<u>\$ 58,661</u>	<u>\$ 169,753</u>

(8) Additional priority tax claims of \$1,800 have been allowed for the California Franchise Tax Board

(9) The CAOP II Trust is pursuing various litigation recoveries. At this time no current value can be estimated or reported as litigation pursuits are ongoing.

## **Cash Accounts**

POST CONFIRMATION FINANCIAL QUARTERLY REPORT

FOR QUARTER ENDED: June 30, 2014

SUMMARY OF CASH BALANCES, CASH RECEIPTS AND DISBURSEMENTS:

Account Name	G/L Acct		Balance as of 4/1/2014	Receipts	Disbursements	Transfers	Balance as of 6/30/2014
<i>Active Accounts:</i>							
Union Bank	10007 UB	2048	\$ 763,646.51	\$ 3,868.61	\$ (8,713.15)	\$ -	\$ 758,801.97
			\$ -	\$ -	\$ -	\$ -	\$ -
NET RECEIPTS AND DISBURSEMENTS			\$ 763,646.51	\$ 3,868.61	\$ (8,713.15)	\$ -	\$ 758,801.97

## **Cash Receipts & Disbursements Detail**

DEBTOR: Castle Arch Opportunity Partners II, LLC

CH. 11 CASE NO: 11-35241

**CASH RECEIPTS AND DISBURSEMENTS STATEMENT**For Period: 4/1/14 to 6/30/14**CASH RECEIPTS DETAIL**

Account No:

**Union Bank-\*\*\*2048**

Date	Payer	Description	Amount
4/10/2014	FCI Lender Services	Rill Note Receivable	947.81
4/11/2014	Conix	Steel Capital Investment	975.56
5/13/2014	FCI Lender Services	Rill Note Receivable	972.62
6/16/2014	FCI Lender Services	Rill Note Receivable	972.62
<b>Total Cash Receipts</b>			<b>\$ 3,868.61</b>

**CASH DISBURSEMENTS DETAIL**

Account No:

**Union Bank-\*\*\*2048**

Date	Payer	Description	Amount
4/25/2014	Strong Connexions	Website Maintenance	66.67
4/25/2014	Union Bank	Bank Fees	1,233.21
4/29/2014	U.S. Trustee	1Q 2014 Fees	650.00
5/27/2014	Union Bank	Bank Fees	1,191.73
5/28/2014	Moye White LLP	Insider Mediation	4,341.86
6/27/2014	Union Bank	Bank Fees	1,229.68
<b>Total Cash Disbursements</b>			<b>\$ 8,713.15</b>



## **Narrative**

**CASTLE ARCH OPPORTUNITY PARTNERS II, LLC  
(CASE NO: 11-35241)**

**POST CONFIRMATION QUARTERLY REPORT  
2<sup>nd</sup> QUARTER - 2014**

**NARRATIVE**

**A. Background**

On October 17, 2011, Castle Arch Real Estate Investment Company ("CAREIC") filed a Chapter 11 bankruptcy case in the United States Bankruptcy Court for the District of Utah (the "Bankruptcy Court"). On October 20, 2011, six entities affiliated with CAREIC filed Chapter 11 bankruptcy cases in the Bankruptcy Court, including: CAOP Mangers, LLC ("CAOP Managers"), Castle Arch Kingman, LLC ("CAK"), Castle Arch Secured Development Fund, LLC ("CASDF"), Castle Arch Smyrna, LLC ("CAS"), Castle Arch Opportunity Partners I, LLC ("CAOP I") and Castle Arch Opportunity Partners II ("CAOP II") (collectively, the "CAREIC Affiliates"). The respective Chapter 11-cases were jointly administered under Case No. 11-35082.

From the respective petition dates through April 30, 2012, CAREIC and the CAREIC Affiliates were operated as debtors-in-possession in the jointly administered Chapter 11 cases. On April 30, 2012, the Bankruptcy Court ordered the appointment of a Chapter 11 trustee for CAREIC, and on May 3, 2012, the Bankruptcy Court entered an Order appointing D. Ray Strong as the Chapter 11 trustee for CAREIC (the "Trustee"). As a result of his appointment, the Trustee also became the manager of the respective Castle Arch affiliates.

Pursuant to an Order of the Bankruptcy Court, the CAREIC Affiliates of CAOP Managers, CAK, CASDF and CAS, as well as a non-debtor entity, Castle Arch Star Valley, LLC, were held to be CAREIC's alter egos and substantively consolidated with CAREIC as of CAREIC's petition date. CAREIC and these consolidated entities are referred to in the bankruptcy case as the "Consolidated Legacy Debtors."

The Bankruptcy Court entered an Order on June 7, 2013 confirming the Trustee's First Amended Plan of Liquidation Dated February 25, 2013, as modified (the "Confirmation Order") for the Consolidated Legacy Debtors, CAOP I and CAOP II (the "Plan"). As part of the confirmation of the Plan, the Bankruptcy Court approved the Liquidation Trust Agreements for each of the Trusts (collectively, the "Liquidation Trust Agreements"), appointed the Trustee for each of the Trusts, and appointed Weston L. Harris as the Conflicts Referee under each of the Liquidating Trust Agreements (the "Conflicts Referee") to address various intercompany claims issues between the Trusts. The Effective Date of the Plan and each of the Liquidating Trust Agreements was July 22, 2013.

**B. Activities During Reporting Period**

The description of the Trustee's, and his professional's, activities that occurred from April 1, 2014 through June 30, 2014 (the "Reporting Period") are included below under the Combined Trust Activities and Specific Trust Activities sections. Many of these activities involved some or all of the Trusts. As result, these activities are described under Combined Trust Activities section. If the activity was specific to a particular Trust, that activity has been described in the Specific Trust Activities section.

**CASTLE ARCH OPPORTUNITY PARTNERS II, LLC  
(CASE NO: 11-35241)**

**POST CONFIRMATION QUARTERLY REPORT  
2<sup>nd</sup> QUARTER - 2014**

**NARRATIVE**

**Combined Trust Activities**

During the Reporting Period, the Trustee and his professionals have addressed the following issues:

1. Continued with the on-going claims analysis and settled and resolved claims when possible.
2. Responded to defendants and addressed various issues relating to avoidance actions filed. Trustee and counsel have met with several defendants and have been able to resolve certain cases.
3. Continued to review and analyze claims against insiders and other former management in anticipation of filing litigation. The Trustee and his professionals have been gathering internal documents, interviewing persons involved and investors, and drafting a complaint. It is anticipated the suit will allege mismanagement, breach of fiduciary duty, avoidance, and securities fraud. The Trustee entered into tolling agreements with the potential defendants in October 2013 to extend the statutory deadline to April 2014, which has been now later extended to September 2014, in an effort to pursue settlement without prolonged and costly litigation. The parties agreed to pursue mediation in an attempt to resolve the matters with some or all of the defendants. The parties filed mediation briefs and participated in the mediation process that began in February 2014. After the mediation, the Trustee continued to work with various parties to settle claims. If the claims can't be settled, the Trustee will file the complaint and commence litigation.
4. Negotiated a settlement with William Warwick, and former director of Castle Arch, for \$400,000. The settlement includes (a) \$200,000 cash payment from personal funds of Mr. Warwick, (b) payment of the remaining \$200,000 will be sought from the Axis Insurance Policy, and (c) an assignment of all rights Mr. Warwick has under the Axis Insurance Policy, including any right to pursue a bad faith claim. The Trustee filed a motion for approval of the settlement on May 30, 2014. The Bankruptcy Court has not yet approved the settlement.
5. Prepared the 1st Quarter 2014 Post-Confirmation Financial Reports for all Trusts.
6. Reviewed, analyzed, and prepared for tax requirements for establishing the Trusts.
7. Prepared income tax returns and tax filings to complete the IRS tax requirements for the establishment of the Trusts.
8. Responded to various investor and creditor inquiries.

**CASTLE ARCH OPPORTUNITY PARTNERS II, LLC  
(CASE NO: 11-35241)**

**POST CONFIRMATION QUARTERLY REPORT  
2<sup>nd</sup> QUARTER - 2014**

**NARRATIVE**

**Specific Trust Activities**

During the Reporting Period, the Trustee and his professionals have addressed the following issues:

**Legacy Trust**

1. Continued to aggressively market and investigate the various real estate holdings held by the Legacy Trust. Some price adjustments have been made to the properties in an effort to increase interest from potential buyers. There has been some limited interest in the properties; however, many of the offers received were very low or the potential buyer was not able to close a transaction.
2. The Trustee successfully negotiated a sale of the Smyrna property with Walton Tennessee, LLC. A purchase agreement was executed on February 26, 2014 for \$2,229,428. The Trustee filed a motion with the Court to sell the property on March 19, 2014. The Court entered an order approving the sale, subject to higher and better offers, on April 8, 2014. Currently the buyer is conducting its required due diligence. The buyer had 60 days to conduct its due diligence and the right to obtain an addition 30 day extension, prior to closing the transaction. Prior to end of the due diligence period, the Buyer informed the Trustee it was not willing to continue and close the sale.
3. The Trustee issued, and the Court granted, 2004 document productions from various parties.
4. Analyzed and evaluated insurance related issues.
5. The Legacy Trust and CAOP II Trust have settled all remaining disputed prepetition intercompany claims pursuant to the Conflict Referee procedures outlined in the approved Plan and Liquidation Trust Agreements. A settlement agreement was executed between the parties and a motion was submitted to the Bankruptcy Court for approval on July 11, 2014. The settlement terms included: (a) Legacy Trust shall have an allowed general unsecured claim against the CAOP II Trust in the total amount of \$42,661, and (b) the parties have provided each other mutual releases. The Bankruptcy Court approved the settlement on August 1, 2014.

**CASTLE ARCH OPPORTUNITY PARTNERS II, LLC  
(CASE NO: 11-35241)**

**POST CONFIRMATION QUARTERLY REPORT  
2<sup>nd</sup> QUARTER - 2014**

**NARRATIVE**

**CAOP I Trust**

1. Reviewed and analyzed accounting and investment activity and related financial reporting for the Black Castle investment. The Trustee and his professionals have requested additional documentation and information to analyze, resolve and liquidate the investment. The principals of Black Castle have not sufficiently responded to these document requests, which resulted in the Trustee serving a Subpoena Duces Tecum for Rule 2004 Examination in October 2013. On February 13, 2014, the Trustee filed litigation against Black Castle, Blackstar Financial, Inc., and its principals. The Trustee pursuing this litigation and is also attempting to resolve and settle the issues and liquidate the investment in an effort to minimize litigation costs.
2. The Trustee and his professionals continued to analyze the intercompany claims including cash transferred to the Legacy Debtors, Tooele property transferred to the Legacy Debtors, and the various complex and commingled intercompany transactions. The parties have reached a proposed settlement and has prepared and provided documentation to the Conflict Referee pursuant to the procedures established by the Plan to resolve the intercompany claims. The Conflict Referee and the parties are currently working through the complex intercompany issues in an effort to submit his recommendation to the Bankruptcy Court.
3. Continued to analyze the Conix related investments and activity.

**CAOP II Trust**

1. Reviewed and analyzed an investment in a mortgage loan involving a property in Granite City, Illinois. The loan is currently in default and the Trustee and his professionals have been working to determine liquidation options for this investment which may include a foreclosure sale or loan modification. The current borrower is in the process of refinancing the loan.
2. Investigated, analyzed, and prepared a complaint against Western Showcase regarding mobile home investments made by CAOP II. The Trustee negotiated and reached a settlement with Western Showcase for \$300,000. A motion was filed with the Bankruptcy Court on May 8, 2014 and Order was executed on June 6, 2014 approving the settlement. The Trustee is still waiting payment of the funds from Western Showcase.
3. Reviewed and analyzed accounting and investment activity and related financial reporting for the Black Castle investment. The Trustee and his professionals have requested additional documentation and information to analyze, resolve and liquidate the investment. The principals of Black Castle have not sufficiently responded to these document requests, which resulted in the Trustee serving a Subpoena Duces Tecum for Rule 2004 Examination in October 2013. On February 13, 2014, the Trustee filed litigation against Black Castle, Blackstar Financial, Inc., and its principals. The Trustee pursuing this litigation and is also attempting to resolve and settle the issues and liquidate the investment in an effort to minimize litigation costs.

**CASTLE ARCH OPPORTUNITY PARTNERS II, LLC  
(CASE NO: 11-35241)**

**POST CONFIRMATION QUARTERLY REPORT  
2<sup>nd</sup> QUARTER - 2014**

**NARRATIVE**

**CAOP II Trust (Continued)**

4. The Legacy Trust and CAOP II Trust have settled all remaining disputed prepetition intercompany claims pursuant to the Conflict Referee procedures outlined in the approved Plan and Liquidation Trust Agreements. A settlement agreement was executed between the parties and a motion was submitted to the Bankruptcy Court for approval on July 11, 2014. The settlement terms included: (a) Legacy Trust shall have an allowed general unsecured claim against the CAOP II Trust in the total amount of \$42,661, and (b) the parties have provided each other mutual releases. The Bankruptcy Court approved the settlement on August 1, 2014.
5. Continued to analyze the Conix related investments and activity.