

POST CONFIRMATION FINANCIAL QUARTERLY REPORT

FOR QUARTER ENDED: June 30, 2014 (1)

Debtor : Castle Arch Real Estate Investment Company, LLC et. al.

CH. 11 CASE NO: 11-35082

SUMMARY OF DISBURSEMENTS MADE DURING QUARTER: (2)

1. CASH BALANCE, BEGINNING OF QUARTER	\$ 579,809
2. CASH RECEIPTS DURING QUARTER FROM ALL SOURCES	-
3. CASH DISBURSEMENTS DURING QUARTER, INCLUDING PLAN PAYMENTS	(73,600)
4. CASH BALANCE, END OF QUARTER	<u>\$ 506,209</u>
5. RESERVE FUND BALANCE	\$ 37,980
6. TRUST FUND BALANCE	\$ 466,229

SUMMARY OF AMOUNTS DISBURSED UNDER PLAN:


	Paid During Quarter	Total Plan Payments	Total Payments Projected Under Plan
1. PRE-EFFECTIVE DATE ADMINISTRATIVE EXPENSES			
Trustee Compensation	\$ -	\$ -	\$ 278,316
Accountant Fees	28,029 (4)	28,029	292,654
Attorney Fees	16,314 (4)	274,721	1,428,820
Other Professionals	-	-	-
Other Administrative Expenses	-	-	-
TOTAL PRE-EFFECTIVE DATE ADMINISTRATIVE EXPENSES	<u>\$ 44,343</u>	<u>\$ 302,750</u>	<u>\$ 1,999,790</u>
1. ADMINISTRATIVE EXPENSES			
Trustee Compensation	\$ -	\$ -	N/A
Accountant Fees	-	-	N/A
Attorney Fees	-	-	N/A
Other Professionals	4,409	9,972	N/A
Other Administrative Expenses	4,348	16,548	N/A
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 8,757</u>	<u>\$ 26,521</u>	<u>\$ -</u>
2. SECURED CREDITORS	\$ -	\$ -	N/A (3)
3. PRIORITY CREDITORS	\$ -	\$ 11,460	45,840
4. UNSECURED CREDITORS	\$ -	\$ -	N/A (3)
5. EQUITY SECURITY HOLDERS	\$ -	\$ -	N/A (3)
6. OTHER:	\$ 20,500	\$ 20,500	N/A (3)
TOTAL PLAN PAYMENTS	<u>\$ 73,600</u>	<u>\$ 361,230</u>	<u>N/A</u>
QUARTERLY FEE PAID:	<u>Amount</u> \$ 1,950	<u>Date</u> 4/29/2014	<u>Check No.</u> 300006

PLAN STATUS:

- | | |
|---|--|
| 1. Have all payments been made as set forth in the confirmed plan? (If no, attach explanation.) | Yes No
<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: 8/14/14

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

POST CONFIRMATION FINANCIAL QUARTERLY REPORT

FOR QUARTER ENDED: June 30, 2014

Debtor : Castle Arch Real Estate Investment Company, LLC et. al.

CH. 11 CASE NO: 11-35082

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 Legacy 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 legal & professional fees accrued for the period prior to the effective date of the Confirmed Plan July 22, 2013.

Schedule of Assets & Liabilities

POST CONFIRMATION FINANCIAL QUARTERLY REPORT

FOR QUARTER ENDED: June 30, 2014

Debtor : Castle Arch Real Estate Investment Company, LLC et. al.

CH. 11 CASE NO: 11-35082

SUMMARY OF ASSETS & LIABILITIES: (1)

	Current Quarter	
1. ASSETS		
Cash	\$ 506,209	
Current Assets		
Intercompany Receivables	273,825	(2)
Note Receivable - Valley Gardens	-	(3)
Prepaid Expense	25,000	(4)
Tooele, UT Property	-	(5)
Star Valley, WY Property	350,000	(6)
Smyrna, TN Property	2,000,000	(6)
Kingman, AZ Property	1,000,000	(6)
CA FTB Refund	85,000	(10)
Litigation Recoveries	-	(11)
TOTAL ASSETS	\$ 4,240,034	
2. LIABILITIES		
Pre Petition Claims		
Allowed and Pending Secured Claims	\$ 593,334	(7)
Allowed Priority Claims	37,980	(8)
Allowed and Pending Unsecured Claims	3,544,436	(7)
Intercompany Claims	100,000	(2)
Post Petition Claims		
Post Petition Intercompany Notes	5,282	(2)
Post Petition Legal & Professional Fees	2,945,339	(9)
TOTAL LIABILITIES	\$ 7,226,382	

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) Intercompany transactions are still in the process of being resolved. Documentation has been presented to the Conflicts Referee to resolve the CAOPI and CAOPII intercompany claims. The CAOPI claims are still in process and the CAOPII claims were resolved and approved in the 3rd Quarter 2014.
- (3) The Trustee and his professionals have determined, after consideration of associated costs to pursue and unpaid expenses related to the property (including unpaid property taxes), this asset is estimated to have no value after further analysis.
- (4) The Trustee is in the process of negotiations and recovery of this asset.
- (5) Ownership of the Tooele, UT property is disputed between the Legacy Trust and CAOP I Trust. As a result, the value of the Tooele property is currently included on the CAOP I report as it was original reported on its bankruptcy schedules. Upon resolution, ownership of the asset and assumption of the related liabilities will be reported by the appropriate party. The estimated value included is presented based on existing marketing conditions at the creation of Trust on 07/22/13. As the assets and liabilities are further analyzed, additional adjustments may be required in future reports.
- (6) Real property of the Legacy Trust is currently being marketed in order to be liquidated. The values on this Schedule are presented based on existing market conditions at the Trust creation date of 7/22/2013.
- (7) The secured and unsecured claims presented on this schedule are consistent with the allowed, filed and scheduled claims. As the claims are analyzed and resolved adjustments may be made to the values presented on future reports. Amounts include disputed insider claims.
- (8) A stipulation effective 9/3/2013 was agreed to by the Tennessee Department of Revenue allowing the priority tax claim to be paid over a period of 4 years. Additional priority tax claims of \$3,600 have been allowed for the California Franchise Tax Board.
- (9) Accrued Legal & Professional Fees Detail

Pre-Effective Date	Beginning Balance	Paid in Current Quarter	Accrued in Current Quarter	Ending Balance
Accrued Trustee Fees	\$ 278,316	\$ -	\$ -	\$ 278,316
Accrued Accountant Fees	\$ 320,683	\$ (28,029)	\$ -	\$ 292,654
Accrued Attorney Fees	\$ 1,428,820	\$ (18,314)	\$ -	\$ 1,410,506
Pre- Effective Date Total	\$ 2,027,819	\$ (46,343)	\$ -	\$ 1,981,476
Post-Effective Date				
	Beginning Balance	Paid in Current Quarter	Accrued in Current Quarter	Ending Balance
Accrued Trustee Fees	\$ 62,022	\$ -	\$ 17,853	\$ 79,875
Accrued Accountant Fees	\$ 176,327	\$ -	\$ 42,015	\$ 218,342
Accrued Attorney Fees	\$ 541,666	\$ -	\$ 121,979	\$ 663,645
Post-Effective Date Total	\$ 780,014	\$ -	\$ 181,847	\$ 961,861
Total Legal and Professional Fees	\$ 2,807,834	\$ (46,343)	\$ 181,847	\$ 2,943,338

- (10) For the tax years of 2005, 2007 and 2009, the Consolidated Legacy Estate (specifically CAREIC) paid penalties to the state of California. The Trustee and his professionals determined that no penalties should have been assessed nor paid and therefore requested a refund from the California Franchise Tax Board. The Trustee is attempting to settle and recover this amount.
- (11) The Legacy Trust is pursuing various litigation recoveries. At this time no 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 - Reserve Funds	10005 UB	1628	\$ 366,432.10	\$ -	\$ (22,115.78)	\$ -	\$ 344,316.32
Union Bank - Trust Fund	10006 UB	2063	\$ 213,376.45	\$ -	\$ (51,483.81)	\$ -	\$ 161,892.64
			\$ -	\$ -	\$ -	\$ -	\$ -
NET RECEIPTS AND DISBURSEMENTS			\$ 579,808.55	\$ -	\$ (73,599.59)	\$ -	\$ 506,208.96

Cash Receipts & Disbursements Detail

Debtor : Castle Arch Real Estate Investment Company, LLC et. al.

CH. 11 CASE NO: 11-35082

CASH RECEIPTS AND DISBURSEMENTS STATEMENT

For Period: 4/1/14 to 6/30/14

CASH RECEIPTS DETAIL

Account No:

Union Bank-*1628**

Date	Payer	Description	Amount
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Total Cash Receipts \$ -

CASH DISBURSEMENTS DETAIL

Account No:

Union Bank-*1628**

Date	Payee	Description	Amount
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4/25/2014	Union Bank	Bank Fees	545.19
5/27/2014	Union Bank	Bank Fees	526.90
6/19/2014	Glen Martinsen	Settlement	20,500.00
6/25/2014	Union Bank	Bank Fees	543.69

Total Cash Disbursements \$ 22,115.78

Debtor : Castle Arch Real Estate Investment Company, LLC et. al.

CH. 11 CASE NO: 11-35082

CASH RECEIPTS AND DISBURSEMENTS STATEMENT

For Period: 4/1/14 to 6/30/14

CASH RECEIPTS DETAIL

Account No:

Union Bank-*2063**

Date	Payer	Description	Amount
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Total Cash Receipts \$

CASH DISBURSEMENTS DETAIL

Account No:

Union Bank-*2063**

Date	Payee	Description	Amount
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4/3/2014	Prince Yeates & Geldzahler	Pre-effective Date Legal Fees	16,313.50
4/4/2014	Berkeley Research Group	Pre-effective Date Legal Fees	28,029.00
4/25/2014	Strong Connexions	Website Maintenance	66.66
4/25/2014	Union Bank	Bank Fees	287.44
4/29/2014	U.S. Trustee	1Q Fees	1,950.00
5/27/2014	Union Bank	Bank Fees	248.44
5/28/2014	Moye White LLP	Insider Mediation	4,341.85
6/25/2014	Union Bank	Bank Fees	246.92

Total Cash Disbursements \$ 51,483.81

Narrative

**CASTLE ARCH REAL ESTATE INVESTMENT COMPANY, LLC et. al.
(CASE NO: 11-35082)**

**POST CONFIRMATION QUARTERLY REPORT
2nd 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 REAL ESTATE INVESTMENT COMPANY, LLC et. al.
(CASE NO: 11-35082)**

**POST CONFIRMATION QUARTERLY REPORT
2nd 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 REAL ESTATE INVESTMENT COMPANY, LLC et. al.
(CASE NO: 11-35082)**

**POST CONFIRMATION QUARTERLY REPORT
2nd 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 REAL ESTATE INVESTMENT COMPANY, LLC et. al.
(CASE NO: 11-35082)**

**POST CONFIRMATION QUARTERLY REPORT
2nd 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 REAL ESTATE INVESTMENT COMPANY, LLC et. al.
(CASE NO: 11-35082)**

**POST CONFIRMATION QUARTERLY REPORT
2nd QUARTER - 2014**

NARRATIVE

CAOP II Trust (Continued)

4. The Legacy Trust and CAOPII 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.