

**POST CONFIRMATION FINANCIAL QUARTERLY REPORT**

**FOR QUARTER ENDED: September 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	\$ 758,802
2. CASH RECEIPTS DURING QUARTER FROM ALL SOURCES	27,925
3. CASH DISBURSEMENTS DURING QUARTER, INCLUDING PLAN PAYMENTS	56,009
4. CASH BALANCE, END OF QUARTER	<u>\$ 730,718</u>

**SUMMARY OF AMOUNTS DISBURSED UNDER PLAN:**

	Paid During Quarter	Total Plan Payments	Total Payments Projected Under Plan
<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>	<u>\$ -</u>	<u>\$ 109,365</u>	<u>\$ 109,365</u>
<b>POST EFFECTIVE DATE ADMINISTRATIVE EXPENSES</b>			
Trustee Compensation	\$ 25,743	\$ 25,743.49	N/A
Accountant Fees	50,332	50,332	N/A
Attorney Fees	35,016	55,313	N/A
Other Professionals	1,869	12,200	N/A
Other Administrative Expenses	3,712	31,939	N/A
	-	-	N/A
	-	-	N/A
<b>TOTAL POST EFFECTIVE DATE ADMINISTRATIVE EXPENSES</b>	<u>\$ 116,673</u>	<u>\$ 175,528</u>	<u>\$ -</u>
<b>2. SECURED CREDITORS</b>	<u>\$ -</u>	<u>\$ -</u>	N/A
<b>3. PRIORITY CREDITORS</b>	<u>\$ -</u>	<u>\$ -</u>	N/A
<b>4. UNSECURED CREDITORS</b>	<u>\$ -</u>	<u>\$ 15,086</u>	15,086
<b>5. EQUITY SECURITY HOLDERS</b>	<u>\$ (60,663)</u>	<u>\$ 939,337</u>	N/A (3)
<b>6. OTHER:</b>	<u>\$ -</u>	<u>\$ 71,167</u>	N/A (4)
<b>TOTAL PLAN PAYMENTS</b>	<u>\$ 56,009</u>	<u>\$ 1,201,119</u>	<u>N/A</u>
<b>QUARTERLY FEE PAID:</b>	<u>Amount</u>	<u>Date</u>	<u>Check No.</u>
	<u>\$ 325.00</u>	<u>08/04/14</u>	<u>300105</u>

**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.)                  | Yes No   |
|   | <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: 10/31/14

By: 

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

**FOR QUARTER ENDED: September 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 July 1, 2014 to September 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**

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**POST CONFIRMATION FINANCIAL QUARTERLY REPORT**

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

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

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

**SUMMARY OF ASSETS & LIABILITIES: (1)**

	<u>Current Quarter</u>	
<b>1. ASSETS</b>		
Cash	\$ 730,718	
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)
Retainer	237	(10)
	-	
<b>TOTAL ASSETS</b>	<b>\$ 2,789,978</b>	
<b>2. LIABILITIES</b>		
Pre Petition Claims		
Allowed Priority Claims	1,800	(8)
Intercompany Notes	42,661	(6)
Post Petition Claims	-	
Post Intercompany Payable	-	(6)
Post Petition Legal & Professional Fees	120,091	(7)
<b>TOTAL LIABILITIES</b>	<b>\$ 164,552</b>	

**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) Documentation was 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 has been made on this 3rd Quarter report.
- (7) Accrued Legal & Professional Fees Detail

Pre-Effective Date

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

Post-Effective Date

	<u>Beginning Balance</u>	<u>Paid in Current Quarter</u>	<u>Accrued in Current Quarter</u>	<u>Ending Balance</u>
Accrued Trustee Fees	\$ 32,250	\$ (25,743)	\$ 9,555	\$ 16,061
Accrued Accountant Fees	\$ 71,233	\$ (50,332)	\$ 13,956	\$ 34,857
Accrued Attorney Fees	\$ 66,270	\$ (35,016)	\$ 37,919	\$ 69,173
<b>Post-Effective Date Total</b>	<b>\$ 169,753</b>	<b>\$ (111,091)</b>	<b>\$ 61,430</b>	<b>\$ 120,091</b>
<b>Total Legal and Professional Fees</b>	<b>\$ 169,753</b>	<b>\$ (111,091)</b>	<b>\$ 61,430</b>	<b>\$ 120,091</b>

- (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.
- (10) The retainer was paid to Craig Peter Cherney, Esq. for legal services to be provided in analysis of real estate assets.

## **Cash Accounts**

POST CONFIRMATION FINANCIAL QUARTERLY REPORT

FOR QUARTER ENDED: September 30, 2014

SUMMARY OF CASH BALANCES, CASH RECEIPTS AND DISBURSEMENTS:

Account Name	G/L Acct		Balance as of 7/1/2014	Receipts	Disbursements	Transfers	Balance as of 9/30/2014
<i>Active Accounts:</i>							
Union Bank	10007 UB	2048	\$ 758,801.97	\$ 27,925.24	\$ (56,009.38)	\$ (721,775.26)	\$ 8,942.57
Wells Fargo	10008 WF	0683	\$ -	\$ -	\$ -	\$ 721,775.26	\$ 721,775.26
			\$ -	\$ -	\$ -	\$ -	\$ -
NET RECEIPTS AND DISBURSEMENTS			\$ 758,801.97	\$ 27,925.24	\$ (56,009.38)	\$ -	\$ 730,717.83

## **Cash Receipts & Disbursements Detail**

DEBTOR: Castle Arch Opportunity Partners II, LLC

CH. 11 CASE NO: 11-35241

**CASH RECEIPTS AND DISBURSEMENTS STATEMENT**

For Period: 7/1/14 to 9/30/14

**CASH RECEIPTS DETAIL**

Account No:

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

Date	Payer	Description	Amount
7/28/2014	FCI Lender Services	Rill Note Receivable	972.62
8/21/2014	FCI Lender Services	Rill Note Receivable	972.62
8/21/2014	Western Showcase	Settlement	5,000.00
9/18/2014	Western Showcase	Settlement	20,000.00
9/22/2014	FCI Lender Services	Rill Note Receivable	980.00
<b>Total Cash Receipts</b>			<b>\$ 27,925.24</b>

**CASH DISBURSEMENTS DETAIL**

Account No:

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

Date	Payee	Description	Amount
7/1/2014	Check # 300005	Stale Dated 1st Interim Distribution Check	(11,489.23)
7/1/2014	Check # 300055	Stale Dated 1st Interim Distribution Check	(11,489.23)
7/1/2014	Check # 300056	Stale Dated 1st Interim Distribution Check	(3,216.99)
7/1/2014	Check # 300064	Stale Dated 1st Interim Distribution Check	(11,489.23)
7/1/2014	Check # 300067	Stale Dated 1st Interim Distribution Check	(26,195.45)
7/10/2014	Strong Connexions	Website Maintenance	41.66
7/10/2014	Durham Jones & Pinegar	Legal Fees	35,015.85
7/21/2014	Berkeley Research Group, LLC	Accountant Fees	50,332.10
7/21/2014	Berkeley Research Group, LLC	Trustee Fees	25,743.49
7/25/2014	Union Bank	Bank Fees	1,184.02
8/4/2014	U.S. Trustee	2Q 2014 Fees	325.00
8/13/2014	Weston L. Harris	Conflict Referee	1,322.25
8/25/2014	Union Bank	Bank Fees	1,145.44
9/4/2014	Craig Peter Cherney, Esq	Legal Retainer	236.53
9/8/2014	Phyllis Rotter	Reissue of 1st Interim Distribution	3,216.99
9/8/2014	Weston L. Harris	Conflict Referee	268.75
9/25/2014	Union Bank	Bank Fees	1,057.43
<b>Total Cash Disbursements</b>			<b>\$ 56,009.38</b>



DEBTOR: Castle Arch Opportunity Partners II, LLC

CH. 11 CASE NO: 11-35241

**CASH RECEIPTS AND DISBURSEMENTS STATEMENT**

For Period: 7/1/14 to 9/30/14

**CASH RECEIPTS DETAIL**

Account No:

**Wells Fargo-\*\*\*0683**

Date	Payer	Description	Amount
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Total Cash Receipts

\$           -

**CASH DISBURSEMENTS DETAIL**

Account No:

**Wells Fargo-\*\*\*0683**

Date	Payee	Description	Amount
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Total Cash Disbursements

\$           -

## **Narrative**

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

**POST CONFIRMATION QUARTERLY REPORT  
3<sup>rd</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 July 1, 2014 through September 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  
3<sup>rd</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. The Trustee entered into tolling agreements with the potential defendants in October 2013 to extend the statutory deadline to April 2014, which was later extended to October 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. No settlements other than the William Warwick settlement. As result, the Trustee filed Complaints against Kirby Cochran, Douglas Childs, Jeff Austin, William Davidson, William Grundy, and Keith Green. A tolling agreement was executed between the Trustee and Robert Geringer extending through February 2015 while parties continue to explore settlement.
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 in the Bankruptcy Court and former management opposed the motion and moved to have the action removed to the District Court. In an effort to minimize fees and costs, the Trustee stipulated to the removal to the District Court.
5. Prepared the 2nd Quarter 2014 Post-Confirmation Financial Reports for all Trusts.
6. Reviewed, analyzed, and prepared for tax requirements for establishing the Trusts.

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

**POST CONFIRMATION QUARTERLY REPORT  
3<sup>rd</sup> QUARTER - 2014**

**NARRATIVE**

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.

**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; however, the buyer rescinded its offer prior to the expiration of the due diligence period. The Trustee is currently negotiating with another party and anticipates that a purchase agreement will be executed in the 4<sup>th</sup> Quarter 2014.
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 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.
6. 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

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

**POST CONFIRMATION QUARTERLY REPORT  
3<sup>rd</sup> QUARTER - 2014**

**NARRATIVE**

**Legacy Trust (Continued)**

intercompany issues and a revision of the settlement pursuant to the Conflict Referee's recommendations. The settlement will be submitted to the Bankruptcy Court for approval during the 4<sup>th</sup> Quarter 2014.

7. The Trustee has resolved the filed claims of Snell & Wilmer and have settled claims against Ryan Herd, Sierra Construction & Excavation, Open Meadows Investment, and Sierra Homes Construction Wyoming.

**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 is pursuing this litigation and is also attempting to resolve and settle the issues and liquidate the investment in an effort to minimize litigation costs. The Trustee has attended settlement meetings and discussions with no resolution as of yet.
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 and a revision of the settlement pursuant to the Conflict Referee's recommendations. The settlement will be submitted to the Bankruptcy Court for approval during the 4<sup>th</sup> Quarter 2014.
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.

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

**POST CONFIRMATION QUARTERLY REPORT  
3<sup>rd</sup> QUARTER - 2014**

**NARRATIVE**

**CAOP II Trust (Continued)**

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.
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.