Lawrence E. Wilk, # 006510
Jonathan P. Ibsen, # 023284
JABURG & WILK, P.C.
3200 North Central Avenue, Suite 2000
Phoenix, Arizona 85012
(602) 248-1000

Attorneys for James C. Sell, Conservator

SUPERIOR COURT OF ARIZONA

MARICOPA COUNTY

ARIZONA CORPORATION COMMISSION Plaintiff, v. MATHON MANAGEMENT COMPANY, L.L.C., fka an Arizona limited liability company now dba a Delaware limited liability company, SLADE WILLIAMS AND ASSOCIATES, L.L.C., an Arizona limited liability company, MATHON FUND I, L.L.C., an Arizona limited liability company, MATHON FUND, L.L.C., fka an Arizona limited liability company now dba a Delaware limited liability company, INTEGRITY101, L.L.C., an Arizona limited liability company, INTEGRITY 201, L.L.C., an Arizona limited liability company, INTEGRITY 301, L.L.C., and Arizona limited liability company, INTEGRITY401, L.L.C., an Arizona limited liability company, INTEGRITY 501, L.L.C., an Arizona limited liability company, INTEGRITY 601, L.L.C., an Arizona limited liability company, INTEGRITY 701, L.L.C., an Arizona limited liability company, INTEGRITY 801, L.L.C., an Arizona limited liability company, INTEGRITY 901, L.L.C., an Arizona limited liability company, ROUND VALLEY CAPITAL, L.L.C., an Arizona limited liability company, W.S.F. – WORLD SPORTS FANS, L.L.C., an Arizona limited liability company, MILL CREEK, L.L.C., an Arizona limited liability company,	Case No. CV 2005-005484 **NOTICE OF FILING INTERIM CONSERVATOR'S REPORT** (Assigned to the Honorable Barry C. Schneider)

BELLEVUE HOLDINGS, L.L.C., an Arizona limited liability company, OAK HARBOR FINANCIAL, L.L.C., an Arizona limited liability company, SW STRATEGIC, WEALTH ADVISORS, L.L.C., an Arizona limited liability company, EVERETT CAPTIAL, L.L.C., an Arizona limited liability company, CRE CAPITAL, L.L.C., an Arizona limited liability company, MEZZANINE MANAGEMENT, L.L.C., an Arizona limited liability company, MEZZANINE FUND I, L.L.C., an Arizona limited liability company, JONAS FUND I, L.L.C., an Arizona limited liability company, TEMPLAR FUND L.L.C., fka an Arizona limited liability company now dba a Delaware limited liability company, MERCER ISLAND, L.L.C., an Arizona limited liability company, CONNECTICUT PROPERTIES, L.L.C., an Arizona limited liability company, FIRST ATLANTA INVESTMENTS, L.L.C., a Georgia limited liability company, MM COLONIAL FUND, L.L.C., a Delaware limited liability company, SLADE CONSTRUCTION, L.L.C., an Arizona limited liability company, DUANE SLADE and JENNIFER SLADE, husband and wife, GUY ANDREW WILLIAMS and LISA WILLIAMS, husband and wife,

Defendants.

JABURG & WILK, P.C.
ATTORNEYS AT LAW
3200 NORTH CENTRAL AVENUE
SUITE 2000
PHOENIX, ARIZONA 85012

The Conservator, James C. Sell, hereby files his interim report attached hereto as Exhibit "A".

DATED this 30th day of September, 2005.

JABURG & WILK, P.C.

Lawrence E. Wilk
Jonathan P. Ibsen
Attorneys for James C. Sell, Conservator

ORIGINAL filed and **COPY** of the foregoing hand-delivered this 30th day of September, 2005 to:

11719-1/LEW/JKF/497312_v1

The Honorable Barry C. Schneider
MARICOPA COUNTY SUPERIOR COURT
125 West Washington, OCH 103
Phoenix, Arizona 85003

COPIES of the foregoing mailed and emailed this _30th day of September, 2005 to:

Wendy L. Coy, Esq. ARIZONA CORPORATION COMMISSION SECURITIES DIVISION 1300 West Washington, 3rd Floor Phoenix, Arizona 85007 *Attorney for Plaintiff* WCoy@azcc.gov	Keith Beauchamp, Esq. LEWIS & ROCA, LLP 40 N. Central Avenue Phoenix, Arizona 85004-4429 *Attorney for Duane Slade and Guy Williams* kbeauchamp@lrlaw.com
J. Grant Woods GRANT WOODS P.C. 1726 N. Seventh Street Phoenix, Arizona 85006-2200 *Attorney for Duane and Jennifer Slade And Guy and Lisa Williams* gw@grantwoodspc.net	Robert A. Shull, Esq. MARISCAL, WEEKS, MCINTYRE & FRIEDLANDER, P.A. 2901 N. Central Avenue, Suite 200 Phoenix, AZ 85012-2705 *Attorney for Scott Johnson & Ross Farnsworth, Jr.* rob.shull@mwmf.com
Gerald L. Shelley, Esq. QUARLES & BRADY STREICH LANE Two N. Central Avenue Phoenix, Arizona 85004-2391 *Attorney for Creditors Committee* gls@quarles.com	Steven C. Mahaffy, Esq. BEUS GILBERT PLLC 4800 N. Scottsdale Road, Suite 6000 Scottsdale, Arizona 85251-7630 *Attorney for Wealth Partners* smahaffy@beusgilbert.com
Merwin D. Grant, Esq. GRANT & VAUGHN, PC 6225 N. 24th Street, Suite 125 Phoenix, Arizona 85016 *Attorney for Dr. Glauser, Larry Pew & Rich Stewart* grant@phxlaw.com	Keith A. Call SNOW, CHRISTENSEN & MARTINEAU, P.C. 10 Exchange Place, 11th Floor P.O. Box 45000 Salt Lake City, Utah 84145 *Attorney for Dr. Robert Berry* kcall@scmlaw.com
James C. Sell 2222 E. Camelback Road, Suite 110 Phoenix, Arizona 85016 *Court Appointed Conservator* jsellsprint@earthlink.net	

JABURG & WILK, P.C.
ATTORNEYS AT LAW
3200 NORTH CENTRAL AVENUE
SUITE 2000
PHOENIX, ARIZONA 85012

11719-1/LEW/JKF/497312_v1

EXHIBIT "A"

James C. Sell, Conservator
Mathon Management Company, LLC et al
2222 E. Camelback Road, Suite 110
Phoenix, Arizona 85016-3426
(602) 265-3519
FAX (602) 265-3622
Web Site: www.mathonconservatorship.com
eMail: jsellsprint@earthlink.net

CONSERVATOR'S INTERIM REPORT

RE: No. CV 2005 005484

Summary

- Between January 10, 2002 and March 5, 2005, Duane Slade gambled on 208 separate days at the Bellagio Casino in Las Vegas betting $2,200,000.

Round One (Paul)

- 21 investor loans in Mathon Fund I for Leisure Resorts were repaid with new investor's monies (Round Two Investors)

Round Two (Peter)

- $4,439,500 of the $5,421,500 Mathon Fund new money raised was used to pay "Round One Investors" above.

Round Three (Mary)

- Mathon Fund I raised $5,262,465 of new investor monies and Mathon Fund raised $1,210,000 of new investor money for a combined total of $6,472,465.

- $4,059,848 was used to pay off "Round Two Investors" above and $915,633 went to pay Slade Williams payroll, bonus and operating expenses, $150,000 for the purchase of Aspen Grove Points, $263,000 to investors for unrelated loans, $300,000 to Bodell Construction for penalty interest, $100,000 to WSF, $170,000 loan to Discover Wholesale Travel and a $450,000 payment to Scott McDonald, a Discover World Travel investor.

Round One

- Between September 2, 2003 and September 23, 2003 Mathon Fund I raised $13,684,400 from investors for the TMC loan.

Round Two

- Between December 10, 2003 and February 16, 2005, $8,359,700 was raised from new investors to pay principal and interest to "Round One Investors".

III. Up the Creek Without A Paddle

Round One

- Prior to 2002, a group of investors were sold "Equity Points" in Aspen Grove Management Company.

Round Two

- Commencing in November, 2002, Mathon Fund I raised \$5,739,000 from its investors for a loan to Mill Creek (owned by Guy Williams and Duane Slade).

- Mill Creek used the proceeds of the Mathon Fund I loan to buy the Aspen Grove "Equity Points" from the "Round One" investors noted above.

Round Three

- From December, 2002 through June, 2003, Mathon Find I raised \$7,235,000 from new investors to pay Round Two Investors associated with the Mill Creek Loan.

Round Four

- From April, 2003 through November, 2003, \$8,643,976 of Round Three Investors was paid off primarily through the sale of "Equity Points" in Mathon Management, LLC.

- This should have been a taxable gain to Guy and Duane, owners of Mathon Management, LLC.

- Guy & Duane used the sale of a portion of their equity interest in Mathon Management, LLC to pay down the Mill Creek loan.

- Approximately \$2,472,000 principal and accrued interest related to the Mill Creek loan was written off by Mathon Fund I in 2003.

- Forgiveness of the Mill Creek Loan debt was not in the best interest of Mathon Fund I investors and may give rise to additional taxable income for Guy Williams and Duane Slade.

- On April 2, 2004, Russell Sewell, the managing member of Aspen Grove, estimated that the Aspen Grove Equity Points owned by Mill Creek to be worth \$2,649,400. Mill Creek's loan could be in excess of \$5,000,000.

- In addition to the $864,976 attributable to the sale of Mathon Management "Equity Points" and the write off of $2,472,000 owed by Mill Creek to Mathon Fund I, Guy Williams and Duane Slade received $1,300,000 in cash disbursements directly from Mathon Fund I that was recorded on its books as a loan to Texen Oil. The distribution of the $1,300,000 to Guy and Duane should have been reported to them as income. **It appears that Guy and Duane may be liable for taxes, potential penalties and interest on approximately $12,500,000 of unreported income for 2003. The existence of a multi-million dollar tax liability could substantially impair their ability to personally make any substantial restitution payment to their investors.**

IV Black Gold Page 8

Texen Oil Stock

Money Raised:

- Between January 31, 2003 and July 24, 2003, $7,360,000 was raised from Mathon Fund I investors for a loan to Texen Oil/Mike Sims.
- Between June 16, 2003 and July 23, 2003, $2,009,000 was raised from Mathon Investors for the sale of Texen Oil Stock.
- $825,000 was raised from Mathon Fund I investors for the sale of Texen Stock by Integrity 501, LLC (Guy and Duane's company)

Money Used:

- The $2,009,000 was used as follows:

Rio Rico	$500,000
Guy & Duane	$520,000
Payoff Global Leisure & Mill Creek Loans	$220,000
Mathon Fund I purposes	$769,000

- The $825,000 was used as follows:

Mathon Management	$200,000
Round Valley Capital	$200,000
Payoff Mill Creek Investors	$425,000

Money Raised and Distributed:

- $10,194,000 was raised in several related Texen transactions and distributed as follows:

Borrower	$3,220,000
Mathon Management and Round Valley Capital	$4,889,000
Payoff earlier Texen Oil investors	$1,660,000
Payoff Mathon investors	$ 425,000

G. Borrowers' Desperation and Investors' Greed Page 9

- Transactions such as LVRD, TMC, Parsons 4e and New Stansbury loans were used to create fictitious profits.

- Guy Williams and Duane Slade used Mill Creek to acquire non-performing assets such as Aspen Grove Points and to create fictitious profits for investors.

- Mill Creek borrowed from Mathon Fund I.

- Guy and Duane sold Aspen Grove Points to investors for $25,000, and entered into an agreement to repurchase the points from the investors for $73,108.

H. Unpaid Management Fees Page 9

- Guy Williams and Duane Slade have represented that they are owed a substantial sum of money from both Mathon Fund I and Mathon Fund. The books and records do not substantiate such a claim.

- In reality, it is the other way around. Mathon Management owes the Mathon Funds $12,686,873. The amount owed the Mathon Fund could exceed $25,000,000 when the Mill Creek loan and related write-offs; $1,300,000 cash improperly assigned to the Texen loans; and the Aspen Grove and Texen stock charade are considered.

A. Overview

Based on my discussions with investors, there is an apparent lack of knowledge on the investors' part as to the actual structure of their Mathon investments.

In Mathon Fund I, investors made loans to Mathon Fund I. Mathon Fund I made loans to borrowers. Mathon Fund I loans to borrowers were secured by their borrowers assets. The Mathon Fund I investor loans to Mathon Fund I were unsecured. However, most investors believed that their loans were directly secured by the Mathon Fund I borrowers' assets.

Mathon Fund I investors were told by Mathon representatives that their loans were secured by specific assets of the ultimate borrowers. To reinforce the belief that the investor loans were secured by the underlying borrowers' assets, the investors were provided with "Pipe" numbers. The "Pipe" numbers were a Mathon Fund I weekly cash requirement tracking mechanism and did not directly relate to a specific borrower loan transaction. "Pipe" numbers were a sales tool. **Despite representations to the contrary, at no time did a Mathon Fund I investor have a recorded interest in any asset of any Mathon Fund I borrower.**

Mathon Fund I lenders/investors monies were commingled in Mathon Fund I's operating account. Guy Williams directed the allocation of investor funds. Mathon Management's accounting staff attempted to match investors with the ultimate borrowers, but the matching process, due to the commingling of funds, represented their best estimate of the intended cash flow.

Mathon Fund investors were equity investors. Most of their investment was used to pay off Mathon Fund I investor loans and interest, pay management fees, and pay operating expenses for various management company affiliates.

From inception through April 5, 2005, Mathon Fund made new loans of only \$7,265,227, paid off Mathon Fund I investors \$20,161,836, paid management fees of \$4,876,791 and loaned Mathon Management and its affiliates \$7,018,778. Since Mathon Fund investors were investing in an equity position, none of them ever had a secured position in any of the borrowers' assets.

There are two basic types of Ponzi schemes: a Ponzi scheme from the beginning and a "good deal gone bad". In my initial report, I stated that "Mathon my not have started out as a Ponzi scheme but appears to be a good deal gone bad. Based upon further review of the loan transactions such as TMC, LVRD and Mill Creek and the equity stakes transactions for Aspen Grove Points and Texen Stock; I have concluded that Mathon was a Ponzi scheme from the beginning in 2002.

It's roots go back to a failed subdivision know as Cedar Crest. Some of the investors in Cedar Crest were repaid from Mathon Fund I investors' monies. The return paid to Aspen Grove members did not come from that venture, but instead came from new investors in an unrelated business venture, Mathon Fund I. Some of the Cedar Crest investors remain unpaid until this day.

B. Twelve Common Attributes Of A Ponzi Scheme

1. Little or no economic substance to the purported business enterprise.
2. Promises of high returns with little risk
3. Claims of special competitive advantage, exotic product, secret process and /or performance guarantees.
4. Claims of an unblemished track record of high investor returns and return of principal.
5. Representation of government or industry guardian approval.
6. Endorsement by industry professionals.
7. Investor testimonials either real or manufactured. If real, the early investors received the return at the expense of later investors. The true nature of the return is not disclosed to the recipient investors or to prospective investors.
8. The aura of professional attestations. The use of favorable legal and/or accounting opinions.
9. Use of new investor funds or diverted funds to pay promised returns to previous investors. The return to investors is not generated from the purported business enterprise.
10. Use of "Creative Accounting" or other artificial devises to disguise the lack of economic substance and/or to defer recognition of economic losses.
11. Constantly accelerating need for funds.
12. Accumulation of unresolved adverse economic events.

Mathon encompassed most of the common above attributes of a Ponzi scheme.

C. Theory Versus Reality-Charles Ponzi's Scheme

Most Ponzi schemes rely on a theoretical business model to produce the touted profitability and superior return to its investors. Even Charles Ponzi's scheme worked in theory. Postal Reply Coupons did exist. It was possible to take advantage of disparities in international exchange rates and realize huge profits on each transaction. Postal Reply Coupons could be bought in Italy for pennies and converted to postage stamps in the

United States worth several times their purchase price. Stamps worth dollars that were purchased for pennies could be sold at a discount to businesses. The net result of the transaction was a huge profit that Ponzi was willing to share with his eager investors. **Ponzi's scheme was a viable business plan in theory.** Ponzi's business plan was simplistic and critically flawed. While his business model and its profitability could be demonstrated in small isolated transactions. It was not scaleable. The market was too thin and/or the costs were too great for the venture to work on a large scale. The real economic engine in Ponzi's business plan was an ever expanding investor base. Investors lent him money and he repaid them their principal and interest from new investors' money. Ponzi was not the originator of this type of scheme, but he may have been the most notorious and flamboyant. Prior to these types of schemes being dubbed "Ponzi schemes" they were referred to as "Peter to Paul schemes". The obvious reference being to the saying: "robbing Peter to pay Paul".

D. Borrowers' Desperation and Investors' Greed

Mathon relied on a similar business model. In theory, lending money at extremely high rates could generate huge profits. Guy Williams' and Duane Slade's business plan was based on the existence of a large pool of desperate borrowers that did not have access to traditional lenders or capital markets. The desperate borrowers, standing at the precipice of financial ruin, would eagerly grasp a short term loan even at outrageous annual interest rates. Cost of money was not an issue for them, financial ruin was. If bankruptcy was the alternate solution for the borrower, would the additional liability for an expensive loan make any difference if the borrowers venture subsequently failed? The loans typically represented the borrower's last desperate chance to avoid financial ruin.

The real economic engine for any Ponzi scheme is its investors. The catalyst for attracting investors to a Ponzi scheme is greed. Greed is an attractive corrosive agent. It is capable of overriding common sense, trumping rational business judgment and subverting an individual's moral compass. Success for early investors, real or imagined, feeds the greed of existing investors and appeals to the greed of prospective investors. The resulting "feeding frenzy" permits the Ponzi scheme to expand and forestall its ultimate collapse.

Throughout its life cycle a Ponzi scheme is constantly subjected to extreme financial stress. Failure of the flawed business model begets operating losses. There are only so many accounting gimmicks available to hide the mounting losses. No matter how creative the accounting gimmicks are they do not provide the cash needed to pay investors the promised returns. Failure to provide the promised returns to investors destroys the ventures ability to attract new investors. As a consequence, greater and greater infusions of new investor money is needed to satisfy existing cash needs and to forestall the scheme's inevitable collapse. Typically, Ponzi scheme promoters end up standing on the precipice of financial disaster. Desperation drives them to enter into lager and more risky transactions in an attempt to recoup the mounting losses.

E. A Business Model Founded On Risk

Perhaps in recognition of the impending financial crisis Mathon faced, Duane Slade took the ultimate gamble. According to records provided by the Bellagio Casino in Las Vegas, Nevada, Duane was a frequent visitor at its gaming tables. Between January 10, 2002 and March 5, 2005, Duane had placed bets in excess of $2,200,000. It appears that the $2,200,000 was cash buy ins. Duane consistently refused to provide the social security number on Federal Form Number 103-N. (Formerly Form 8852 for a currency transaction that the Casino was required to file with the U.S. Treasury Department) In 2004 they show him at the tables on 83 separate days. For the first 64 days of 2005 he was at the tables on 45 separate days. His average bet escalated from $2,489 in 2004 to $3,342 in the first 64 days of 2005. Duane never did hit it big at the Bellagio. After deducting the value of the lavish "high roller comps" Duane and his guests received, the Bellagio was still the net winner. Between January 11, 2002 and March 9, 2005, Round Valley Capital paid $44,918 for expenses incurred at the Bellagio that were not comped. The Bellagio records show $167,704 of comps for that time period.

The Bellagio was not Duane's only gambling site during the subject time frame.

F. Mathon Transaction that Demonstrate the Ponzi Scheme

"Mathon" was a series of sub-Ponzi schemes. The following analysis illustrates the use of "Peter's money to pay Paul" and in some instances, "Mary's money to pay Peter". Mathon Fund I, LLC. was formed on February 5, 2002.

I. Leisure Resorts/LVRD Loan

Round One (Paul)

Between March 13, 2003 and July 16, 2003, $5,714,000 was raised from investors by Mathon Fund I. Mathon Fund I, in turn, loaned the $5,714,000 to Leisure Resorts in nine traunches. The investors' loans to Mathon Fund I were for two, three or four months and yielded effective annual interest rates of between 46% and 109%. For example:

1. Tom Farnsworth loaned Mathon Fund I $300,000 on March 13, 2003 and was repaid $375,000 on June 5, 2003. His actual yield was 25% (effective annual yield of approximately 109%).

2. Tom Fairbanks loaned Mathon Fund I $225,000 on April 25, 2003 and was repaid $270,000 on August 28, 2003. His actual yield was 20% (effective annual yield of approximately 58%).

3. Scott Johnson loaned Mathon Fund I $400,000 on April 23, 2003 and was repaid $480,000 on August 27, 2003. His actual yield was 20% (effective annual yield of approximately 76%).

4. Robert Berry loaned Mathon Fund I $500,000 on May 30, 2003 and was repaid $580,000 on September 5, 2003. His actual yield was 16% (effective annual yield of approximately 60%)

In traditional Ponzi scheme fashion, the lavish returns realized on 21 investor loans to Mathon Fund I for Leisure Resorts was not a result of Leisure Resort repaying its loan. The source of the funds used to pay the "Round One Investors" came from new investors (Round Two Investors). In addition, several of the original investors rolled over $2,008,500 of their principal and accrued interest balances into new Mathon Fund I loans.

Round Two (Peter)

Between July 17, 2003 and September 25, 2003, Mathon Fund I raised $5,421,500 of new investor cash. $4,789,500 of the $5,421,500 was used to pay off "Round One Investors". The remaining cash was used to pay commissions, fund unrelated loans and purchase Aspen Grove Points. In addition, $610,000 of unrelated investor loans was assigned to the Leisure Resort's loan.

The terms of new investors loans ranged from as short as three months to as long as fourteen months. Effective yields ranged from 10% and 193%.

In traditional Ponzi scheme fashion, the lavish returns realized by investors on 24 investor loans to Mathon Fund I for Leisure Resorts was not a result of Leisure Resort repaying its loan. The source of the funds used to pay the "Round Two Investors" came from new investors (Round Three Investors). In addition, several of the "Round Two Investors" rolled over their principal and accrued interest balances into new Mathon Fund I loans.

Round Three (Mary)

Between September 25, 2003 and February 20, 2004 Mathon Fund I raised $5,262,465 of new investor cash and Mathon Fund raised $1,210,000 of new investor money for a combined total of $6,472,465. $4,059,848 was used to pay off "Round Two Investors". The remaining cash was paid to the following: $915,633 to Slade Williams for payroll, bonuses and operating expenses, $150,000 for the purchase of Aspen Grove Points, $263,000 to investors for unrelated loans, $300,000 to Bodell Construction for penalty interest, $100,000 to World Sports Fans, $170,000 loan to Discover Wholesale Travel and a $450,000 payment to Scott McDonald, a Discover Wholesale Travel investor.

In addition to the $6,472,465 of new investor cash, $751,785 of unrelated investor loans was assigned to the Leisure Resort's loan. The terms of new investors loans ranged from as short as four months to as long as one year. Effective yields ranged from 0% to 75%. Mathon Fund investments were equity investments with no stated rate of return.

In traditional Ponzi scheme fashion, the lavish returns realized by investors on 24 investor loans to Mathon Fund I for Leisure Resorts was not a result of Leisure Resort repaying its loan. The source of the funds used to pay the "Round Two Investors" came from new investors (Round Three Investors). In addition, several of the "Round Two Investors" rolled over their principal and accrued interest balances into new Mathon Fund I loans.

Orphans

On December 31, 2004, there remained $1,468,992 of LVRD related investor loans to Mathon Fund I. Unfortunate for those investors, the LVRD loan and stock had been transferred to Mathon Fund, but liability or promissory note was not transferred. Mathon Fund I had been stripped of its assets, but not of its related liabilities. Mathon's accounting department coined the term "Orphan Lenders" to identify the asset-less investor lenders.

II. TMC Partners (Connecticut) Loan

Round One

Between September 2, 2003 and September 23, 2003, Mathon Fund I raised $13,684,400 from investors for the TMC loan. In addition, $605,600 of unrelated loan investors were assigned to the TMC loan; no cash was transferred ($285,000 which was transferred from the Mill Creek investor loans).

Round Two

Between December 10, 2003 and February 16, 2005, $8,359,700 was raised from new investors to pay principal and interest to "Round One Investors". $4,338,500 of TMC "Round One" investors were transferred out of Mathon Fund I and converted to equity interests in Mathon Fund, rolled to new promissory notes or converted to Mathon Management "Points". The original investor loans were for periods of three to six months. Investors received annualized returns of from 4% to 90%. The new investor money came primarily from new investor equity investments in Mathon Fund and from new investor loans to Mathon Fund I. The new Mathon Fund I lenders believed their loans were going to be used to fund loans other than TMC.

In traditional Ponzi scheme fashion, the returns realized by the Round One Investors on their loans to Mathon Fund I for TMC was not a result of TMC repaying its loan. The source of the funds used to pay the "Round One Investors" came from new investors (Round Two Investors)

By January 31, 2004 the TMC loan had been transferred to the Mathon Fund.

Orphans

$882,681 of Mathon Fund I investor loans were "Orphaned" (liability with no related asset) when Mathon Fund I transferred the TMC loan to Mathon Fund on December 31, 2004.

III. Up The Creek Without A Paddle-Mill Creek

Round One

Sometime prior to November 2002, a group of investors were sold "Equity Points" in Aspen Grove Management Company. I do not have access to the Aspen Grove books and records and as a consequence do not know who the investors were, how much they invested, who sold them the investment, or where the money went.

Round Two

Commencing in November 2002, Mathon Fund I raised $5,739,000 from its investors for a loan to Mill Creek (an entity wholly owned by Guy Williams and Duane Slade). The loans from the investors were for periods of 90 to 120 days and were to yield 70% to 80%. Mill Creek used the proceeds of the Mathon Fund I loan to buy the Aspen Grove "Equity Points" from the earlier investors noted above. Due to a lack of records, I do not know if the Aspen Grove "Equity Point" holders made a profit on their investment. If they did, it came from new investors' money.

Round Three

Commencing on December 27, 2002 and continuing through June 30, 2003, Mathon Fund I raised $7,235,000 from new investors to pay the Round Two Investors (associated with the Mill Creek loan) their principal and interest.

In traditional Ponzi scheme fashion, the lavish profit the Round Two Investors received did not come from the Aspen Grove "Equity Points" or from the Mill Creek loan. The profit the Round Two Investors received were fictitious and came solely from new investor funds.

Round Four

Commencing in April 2003 and continuing through November 2003, $8,643,976 of Round Three Investors was paid off primarily through the sale of "Equity Points" in Mathon Management, LLC. Since Guy Williams and Duane Slade were the owners of Mathon Management, LLC the sale of the "Equity Points" to investors should have resulted in a taxable gain for Guy and Duane. Guy and Duane used the sale of a portion of their equity interest in Mathon Management to pay down the Mill Creek loan. Furthermore, approximately $2,472,000 principal and accrued interest related to the Mill Creek loan was written off by Mathon Fund I in 2003. The forgiveness of indebtedness for the interest was not in the best interest of the Mathon Fund I investors and may give rise to additional taxable income for Guy Williams and Duane Slade. **In traditional Ponzi scheme fashion, the lavish profit the Round Three Investors received did not come from the Aspen Grove "Equity Points" or from the Mill Creek loan. The profit the Round Three Investors received were fictitious and came solely from new investor funds**.

On April 2, 2004, Russell Sewell, the managing member of Aspen Grove, estimated the present value of the 80 Aspen Grove "Equity Points" owned by Mill Creek to be worth $33,117.51 per point for a total of $2,649,400. The current outstanding balance for the Mill Creek loan could be in excess of $5,000,000. A more precise estimate is not possible due to lack of documentation on the Mathon Fund I loan to Mill Creek. The loan documentation either never existed or was removed from the Mathon offices prior to the Receivership.

In addition to the $8,643,976 attributable to the sale of Mathon Management "Equity Points" and the write off of $2,472,000 owed by Mill Creek to Mathon Fund I, Guy Williams and Duane Slade received $1,300,000 in cash disbursements directly from Mathon Fund I that was recorded on its books as a loan to Texen Oil. The distribution of the $1,300,000 to Guy and Duane should have been reported to them as income. It appears that Guy and Duane may be liable for taxes, potential penalties and interest on approximately $12, 500,000 of unreported income for 2003. The existence of a multi-million dollar tax liability could substantially impair their ability to personally make any substantial restitution payment to their investors.

IV. Black Gold

Texen Oil Stock

Between January 31, 2003 and July 24, 2003, $7,360,000 was raised from Mathon Fund I investors for a loan to Texen Oil/Mike Sims. Between June 16, 2003 and July 23, 2003, $2,009,000 was raised for the sale of Texen Oil Stock from Mathon Fund I investors. Of the $2,009,000, Rio Rico received $500,000, Guy and Duane received $520,000, Global Leisure and Mill Creek loan related investors were paid $220,000 and $769,000 was used for other Mathon Fund I purposes. In addition, $825,000 was raised from Mathon Fund I investors through the sale of Texen Stock by Integrity 501, LLC (wholly owned by Guy Williams and Duane Slade). $400,000 ($200,000 each) was paid to Mathon Management and Round Valley Capital. The remaining $425,000 was used to payoff Mill Creek related investors.

A total of $10,194,000 was raised in several related Texen transactions. The borrower received $3,220,000 (approximately 32% of the investors' funds). Mathon Management and Round Valley Capital received a combined total of $4,889,000 (approximately 48% of the investors' funds). $1,660,000 was used to payoff earlier Texen Oil investors (approximately 16% of the investors' funds). The remaining $425,000 was used to pay off Mathon investors in other loans (approximately 4% of the investors' funds).

Some of the original Texen related Mathon Fund I lenders exchanged their Mathon Fund I loans for Texen stock. The exchange value of the Texen stock was set at $.50 per share. Mike Sims agreed to buy back the stock for $.60 per share in 45 days. Texen Oil's stock was being publicly trade for less $.50 per share at the time of redemption. Mike Sims did not buy back the stock at $.60 per share. Mathon Fund I raised new investor money and used it to buy back the Texen stock for the above-market value of $.60 per share.

The profit received by the early investors in Texen stock came from new Mathon Fund I investors not from the market value of the Texen stock.

G. Creative Accounting

Mark to Market Accounting

Mathon used some of the same accounting gimmicks that Enron used to "cook its books" (Related Party Transactions, Mark to Model Asset & Revenue write-ups and off book entities to dump questionable transactions). The accounting gimmicks were used to hide non-performing assets, to inflate asset values, and to improperly inflate current earnings, all at the expense of unsuspecting investors.

Transactions such as LVRD, TMC, Parsons 4e and New Stansbury loans were used to create fictitious profits. Guy Williams and Duane Slade used Mill Creek, an off book entity, to acquire non-performing assets such as Aspen Grove Points and create fictitious profits for investors. Mill Creek borrowed from Mathon Fund I. Guy Williams and Duane Slade sold Aspen Grove Points to its investors for $25,000 per point and entered into an agreement to repurchase the points from the investors for an average of $73,108 per point.

H. Unpaid Management Fees

Who Owes?

At various times since the beginning of the Receivership on April 5, 2005, Guy Williams and Duane Slade have represented that they were still owed a substantial sum of money from Mathon Fund I and Mathon Fund for management fees. The books and records of the Mathon family of entities do not substantiate such a claim. To the contrary, substantial sums of money are **owed** to the Mathon Funds. At March 31, 2005, Mathon Management and its affiliates owed the Mathon Fund I $13,618,323. Authorized but unpaid fees due to Mathon Management are $931,450 at March 31, 2005. Consequently, Mathon Management and its affiliates owe the Mathon Funds, after consideration of the unpaid fees, $12,686,873. If the Mill Creek loan, and the related write offs, and the $1,300,000 cash improperly assigned to the Texen loan and the Aspen Grove and Texen stock charade were considered, the amount due the Mathon Funds could exceed $25,000,000.

Correction Of Conservator's May 20, 2005 Initial Report

On page 2, paragraph 3. of the May 20, 2005 Conservator's Initial Report, the 2003 Mill Creek bad debt write-off was stated to be $1,926,875. Based upon additional review of the transaction, the bad debt write-off was approximately $2,472,000.

On Page 6 of my initial report states that Guy Williams and Duane Slade each received in excess of $4,000,000 in 2004. The year should have been reported as 2003 not 2004.

Sincerely,

James C. Sell, Conservator

JAMES C. SELL, Conservator

JCS:ja