

STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF: TERRA ENERGY)
INVESTMENT FUND 1, L.L.C.,)
VESTREON FUNDING, L.L.C.,)
THEIR OFFICERS, DIRECTORS,) File No. 0400358
EMPLOYEES, AFFILIATES, SUCCESSORS,)
AGENTS AND ASSIGNS,)
GREGORY A. DONELSON,)
AND PETER H. KELLEY)

NOTICE OF HEARING

TO THE RESPONDENTS: Gregory A. Donelson
Terra Energy Fund 1, L.L.C.
3030 N. Central Avenue
Suite 808
Phoenix, AZ 85012

Vestreon Funding, L.L.C.
C/O Mary Martin
Attorney for Trustee
2025 North Third Street
Suite 157
Phoenix, AZ 85004-1218

Peter H. Kelley
Vestreon Funding
13131 East Gold Dust Ave.
Scottsdale, AZ 85259

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953, [815 ILCS 5/1 et seq.] (the "Act") and 14 Ill. Adm. Code 130, Subpart K, a public hearing will be held at 300 West Jefferson Street, Suite 300A, Springfield, Illinois 62702, on the 17th day of August, 2005 at the hour of 10:00 a.m., or as soon thereafter as counsel may be heard, before Jon K. Ellis, or such other duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order of Prohibition should be entered against Terra Energy Fund 1, L.L.C., Vestreon Funding, L.L.C., their Officers, Directors, Employees, Agents, Affiliates, Successors and Assigns, including Gregory A. Donelson and Peter H. Kelley (the "Respondents") in the State of Illinois and granting such other relief as may be

Notice of Hearing

-2-

authorized under the Act including but not limited to imposition of a monetary fine in the maximum amount pursuant to Section 11 of the Act, payable within ten (10) days of the entry of the Order.

The grounds for such proposed action are as follows:

Count I (Violation of 12.A and 12.D)

1. That Respondent, Terra Energy Fund 1, L.L.C. (hereinafter "Terra Energy"), is a purported business entity, with a last known address of 3030 N. Central Avenue, Suite 808, Phoenix, AZ 85012;
2. That Respondent, Vestreon Funding, L.L.C. (hereinafter, "Vestreon"), is a purported business entity, with a last known address of 13131 East Gold Dust Ave., Scottsdale, AZ 85259;
3. That at all times relevant, the Respondent, Gregory A. Donelson was an Officer, Director, Agent or Employee of Terra Energy Fund 1, L.L.C.;
4. That at all times relevant, the Respondent, Peter H. Kelley was an Officer, Director, Agent or Employee of both Terra Energy Fund 1, L.L.C. and Vestreon Funding, L.L.C.;
5. That on or about October 23, 2003, Respondent Terra Energy, Vestreon, their Officers, Directors, Employees, Agents, Affiliates, Successors and Assigns, including Gregory A. Donelson and Peter H. Kelley, offered and sold to BT, an Illinois Resident, 20 shares/membership units of Terra Energy at a price of \$1,000 per share/membership unit, for a total investment amount of \$20,000; said shares/membership units were issued to BT on October 30, 2003;
6. That on or about October 30, 2003, and as part of the aforesaid offer and sale of shares/membership units of Terra Energy, Respondent Vestreon, its Officers, Directors, Employees, Agents, Affiliates, Successors and Assigns, including Peter H. Kelley, offered to, and entered into, a Put Option contract with BT by which Respondent Vestreon, its Officers, Directors, Employees, Agents, Affiliates, Successors and Assigns, including Peter H. Kelley, issued 20 put options to BT and thereby agreed to pay BT \$1,000 per

Notice of Hearing

-3-

share on the one year anniversary of the date of the share's issuance;

7. That each of the above referenced shares/membership units and put options is a security as that term is defined pursuant to Section 2.1. of the Illinois Securities Law of 1953 [815 ILCS 5/1 et seq.] (the "Act");
8. That Section 5 of the Act provides, inter alia, that all securities except those exempt under Section 3 of the Act or those offered and sold in transactions exempt under Section 4 of the Act shall be registered with the Secretary of State prior to their offer or sale in the State of Illinois;
9. That Section 12.A of the Act provides, inter alia, that it shall be a violation of the Act for any person to offer or sell securities except in accordance with the provisions of the Act;
10. That Section 12.D of the Act provides, inter alia, that it shall be a violation of the Act for any person to fail to file with the Secretary of State any document or application required to be filed under the provision of the Act;
11. That at all times relevant hereto, Respondents Terra Energy Fund 1, L.L.C., Vestreon Funding, L.L.C., their Officers, Directors, Employees, Agents, Affiliates, Successors and Assigns, including Gregory A. Donelson and Peter H. Kelley failed to file an application for registration of the above-referenced securities with the Secretary of State prior to their offer or sale in the State of Illinois;
12. That by virtue of the foregoing, Respondents Terra Energy Fund 1, L.L.C., Vestreon Funding, L.L.C., their Officers, Directors, Employees, Agents, Affiliates, Successors and Assigns, including Gregory A. Donelson and Peter H. Kelley have violated Sections 12.A and Section 12.D of the Act;
13. That Section 11.E.(3) of the Act provides, inter alia, that if the Secretary of State shall find that any person is engaging or has engaged in the business of selling or offering for sale securities as a dealer or salesperson without prior thereto and at the time thereof having complied with the registration or notice filing requirements of this Act, the Secretary of State may by written order

Notice of Hearing

-4-

prohibit the person from offering or selling any securities in this State;

14. That Section 11.E(4) of the Act provides, inter alia, that if the Secretary of State, after finding that any provision of the Act has been violated, may impose a fine as provided by rule, regulation or order not to exceed \$10,000.00 for each violation of the Act, as well as the costs of investigation and reasonable expenses;
15. That by virtue of the foregoing, the Respondents, Terra Energy Fund 1, L.L.C., Vestreon Funding, L.L.C., their Officers, Directors, Employees, Agents, Affiliates, Successors and Assigns, including Gregory A. Donelson and Peter H. Kelley, are subject to a fine of up to \$ 10,000.00 per violation, costs of investigation, reasonable expenses, an order of censure, and an order which permanently prohibits the Respondents from offering or selling securities in the State of Illinois.

Count II (Violation of 12.G)

- 1-7. Paragraphs 1-7 of Count I are re-alleged and incorporated as paragraphs 1-7 of this Count II;
8. That at the time of the aforesaid offer and sale of securities to BT, Respondents Terra Energy, Vestreon, their Officers, Directors, Employees, Agents, Affiliates, Successors and Assigns, including Gregory A. Donelson and Peter H. Kelley failed to advise BT that Peter Kelley was an Officer, Director, Agent or Employee of both Terra Energy and Vestreon, that the June 15, 2003, private placement memorandum for Terra Energy (hereinafter, "memorandum"), a document upon which BT relied prior to his aforesaid investment, represented that the issuer of the put options, Vestreon, is a privately held buy-out fund, and that while said memorandum stated that Peter Kelley is a Director of Terra Energy, said memorandum failed to mention that Peter Kelly is also President of Vestreon, despite the fact said memorandum included Peter Kelley's other purported past and current business and employment positions, memberships and affiliations;
9. That as of this date, despite submitting his put option request within the time limit set out in the aforementioned put option contract, BT has never received any return of his

Notice of Hearing

-5-

investment, nor has he received the \$1,000 per share as promised by said contract;

10. That Section 12.G of the Act provides, inter alia, that it shall be a violation of the Act for any person to obtain money or property through the sale of securities by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading;
11. That at all times relevant hereto, Respondents Terra Energy, Respondents Vestreon Funding, their Officers, Directors, Employees, Agents, Affiliates, Successors and Assigns, including Gregory A. Donelson and Peter H. Kelley obtained money or property from BT, an Illinois resident, by means of an untrue statement of material fact or an omission to state a material fact by failing to advise BT that Peter Kelley, a named Director of Terra Energy, was also the president of Vestreon, a purported privately held buy-out fund which issued the aforementioned put options, and that the private placement memorandum upon which BT relied prior to investment failed to mention that a named Director of Terra Energy, Peter H. Kelley, was also the president of Vestreon; furthermore, as of this date, BT has not been paid \$1,000 per share of Terra Energy as promised in the aforesaid put option contract;
12. That by virtue of the foregoing, Respondents Terra Energy, Vestreon Funding, their Officers, Directors, Employees, Agents, Affiliates, Successors and Assigns, including Gregory A. Donelson and Peter H. Kelley have violated Sections 12.G of the Act;
13. That Section 11.E(2) of the Act provides, inter alia, that if the Secretary of State shall find that any person has violated subsection G of Section 12 of the Act, the Secretary of State may by written order prohibit the person from offering or selling any securities in this State;
14. That Section 11.E(4) of the Act provides, inter alia, that if the Secretary of State, after finding that any provision of the Act has been violated, may impose a fine as provided by rule, regulation or order not to exceed \$10,000.00 for each violation of the Act, as well as the costs of investigation and reasonable expenses;

Notice of Hearing

-6-

15. That by virtue of the foregoing, the Respondents Terra Energy, Vestreon Funding, their Officers, Directors, Employees, Agents, Affiliates, Successors and Assigns, including Gregory A. Donelson and Peter H. Kelley are subject to a fine of up to \$ 10,000.00 per violation, costs of investigation, reasonable expenses, an order of censure and an order which permanently prohibits the Respondent from offering or selling securities in the State of Illinois.


You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130) (the "Rules"), to file an answer to the allegations outlined above or a Special Appearance pursuant to Section 130.1107 of the Rules, or other responsive pleading within thirty days of the receipt of this notice. Your failure to do so within the prescribed time shall be deemed an admission of the allegations contained in the Notice of Hearing and waives your right to a hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default.

A copy of the Rules, promulgated under the Act and pertaining to Hearings held by the Office of the Secretary of State, Securities Department, is included with this Notice.

Delivery of notice to the designated representative of any Respondent constitutes service upon such Respondents.

Dated this 14th day of June, 2005.



Jesse White
Secretary of State
State of Illinois

Notice of Hearing
-7-

Attorney for the Secretary of State:
Johan Schripsema
Illinois Securities Department
Jefferson Terrace, Suite 300A
300 West Jefferson Street
Springfield, Illinois 62702

Hearing Officer:
Jon K. Ellis
1035 South 2nd Street
Springfield, Illinois 62704
Telephone (217) 528-6835
Fax: (217) 528-6837