

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)

ORDER OF PROHIBITION

TO THE RESPONDENTS.

Gregory A. Donelson
Terra Energy Investment Fund 1, L L.C.
C/O Andrew B. David
Sugar, Friedberg and Felsenthal L.L.P
30 N. LaSalle Street
Suite 3000
Chicago, Illinois 60602

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
C/O Theodore W. Grippo
Grippo & Elden
111 South Wacker Drive
Chicago, Illinois 60606

WHEREAS, the record of the above captioned matter has been reviewed by the Secretary of State or his duly authorized representative,

WHEREAS, the rulings of the Hearing Officer on the admission of evidence and all motions are deemed to be proper and are hereby concurred with by the Secretary of State;

WHEREAS, the proposed Findings of Facts and Conclusions of Law and Recommendation of the Hearing officer, Jon K. Ellis, in the above-captioned matter have been read and examined;

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WHEREAS, the following proposed Findings of Fact are correct and are adopted by the Secretary of State as follows:

1. The evidence, Exhibits, Stipulations to Enter Consent Orders and Consent Orders have been offered and received from the Department, and a proper record of all proceedings has been made and preserved as required by law.
2. The Hearing Officer has ruled on all motions and objections timely made and submitted.
3. The Hearing Officer and the Secretary of State Securities Department have jurisdiction over the parties herein and subject matter dealt with herein, due and proper notice having been previously given as required by statute in this Matter.
4. The Respondent Terra Energy Investment Fund 1, L.L.C. is a purported business entity, with a last known address of 3030 North Central Avenue, Suite 808, Phoenix, Arizona 85012.
5. The Respondent Vestreon Funding, L.L.C. is a purported business entity, with a last known address of 13131 East Gold Dust Avenue, Scottsdale, Arizona 85259.
6. At all times relevant, the Respondent Gregory A. Donelson was an officer, director, agent or employee of Terra Energy Investment Fund 1, L.L.C.
7. At all times relevant, the Respondent Peter H. Kelley was an officer, director, agent or employee of both Terra Energy Investment Fund 1, L.L.C. and Vestreon Funding, L.L.C.
8. On or about October 23, 2003, the Respondents offered and sold to BT, an Illinois resident, 20 shares/membership units of Terra Energy Investment Fund 1, L.L.C. at a price of \$1,000.00 per share/membership unit, for a total investment amount of \$20,000.00 and said shares/membership units were issued to BT on October 30, 2003.
9. On or about October 30, 2003, and as part of the aforesaid offer and sale of the shares/membership units

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of Terra Energy Investment Fund 1, L.L.C., the Respondent Vestreon Funding, L.L.C., 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 the Respondent Vestreon Funding, L.L.C., 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 \$1,000.00 per share on the one year anniversary of the date of the share's issuance.

10. At the time of the aforesaid offer and sale of securities to BT, the Respondents failed to advise BT that Peter H. Kelley was an officer, director, agent or employee of both Terra Energy Investment Fund 1, L.L.C. and Vestreon Funding, L.L.C., that the June 15, 2003, private placement memorandum for Terra Energy Investment Fund 1, L.L.C. a document upon which BT relied prior to his aforesaid investment, represented that the issuer of the put options, Vestreon Funding, L.L.C., was a privately held buy-out fund, and that while said memorandum stated that Peter H. Kelley was a director of Terra Energy Investment Fund 1, L.L.C., said memorandum failed to mention that Peter H. Kelley was also President of Vestreon Funding, L.L.C., despite the fact said memorandum included Peter H. Kelley's other purported past and current business and employment positions, memberships and affiliations.
11. As of this date, despite his put option request within the time limit set out in the aforementioned put option contract, BT has never received any return of his investment, nor has he received the \$1,000.00 per share as promised by said contract.
12. That Section 2.1 of the Act defines the term "Security" as any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit sharing agreement, collateral trust certificate, pre-organization certificate or subscription, transferable share, investment contract, investment fund share, face-amount certificate, voting trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas or other mineral lease, right or royalty, any put, call, straddle, option or privilege on any security, certificate of deposit, or group of index of securities (including any

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interest therein or based on the value thereof), or any put, call, straddle, option or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a "Security", or any certificate of interest or participation in, temporary or interim certificate for, receipt of, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing. "Security" does not mean a mineral investment contract or mineral deferred delivery contract; provided, however, the Department shall have the authority to regulate these contracts as hereinafter provided

13. Section 2.5 of the Act defines the term "Sale or Sell" to include the full meaning of that term as applied by or accepted in the courts of this State, and shall include every contract of sale or disposition of a security or interest in a security for value.
14. Section 2.5a of the Act defines the term "Offer" to include every offer to sell or otherwise dispose of, or solicitation of an offer to purchase, a security or interest in a security for value; provided that the term "Offer" shall not include preliminary negotiations or agreements between an issuer and any underwriter or among underwriters who are or are to be in privity of contract with an issuer, or the circulation or publication of an identifying statement or circular or preliminary prospectus, as defined by rules or regulations of the Secretary of State.
15. Each of the above-reverenced shares/membership units and put options is a security as that term is defined pursuant to Section 2.1 of the Act.
16. 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.
17. 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 any securities except in accordance with the provisions of the Act.

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18. 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 any provision of the Act.
19. 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.
20. At all times relevant hereto, the Respondents 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.
21. At all times relevant hereto, the Respondents obtained money 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 H. Kelley, a named Director of Terra Energy Investment Fund 1, L.L.C., was also the President of Vestreon Funding, L.L.C., 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 Investment Fund 1, L.L.C., Peter H. Kelley, was also the President of Vestreon Funding, L.L.C.; furthermore, as of this date, BT has not been paid the \$1,000.00 per share of Terra Energy Investment Fund 1, L.L.C. as promised in the aforesaid put option contract.
22. The Respondents induced an Illinois resident to purchase said securities as detailed and documented in the Department's pleadings, Exhibits and testimony without first having registered the securities with the Illinois Secretary of State as is required by the Act. The foregoing actions, representations, and/or omissions permitted the Respondents to obtain money through the sale of securities by means of an untrue statement of a material fact or an 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. By virtue of the foregoing, the

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Respondents have violated Sections 12.A, 12 D and 12 G of the Act.

23. Section 11.E(2) of the Act provides, inter alia, that if the Secretary of State shall find that any person has violated subsection D or subsection G of Section 12 of the Act, the Secretary of State may by written order temporarily or permanently prohibit or suspend the person from offering or selling any securities in this State, provided that any person who is a subject of an order of permanent prohibition may petition the Secretary of State for a hearing to present evidence of rehabilitation or change of circumstances justifying the amendment or termination of the order of permanent prohibition.
24. 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 prohibit the person from offering or selling any securities in this State.
25. Section 11.E(4) of the Act provides, inter alia, that in addition to any other sanction or remedy contained in subsection E, the Secretary of State may, after finding that any provision of the Act has been violated, 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, and may issue an order of public censure against the violator.
26. By virtue of the foregoing, the Respondents Terra Energy Investment 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
- 27 The entry of a final written Order of Permanent Prohibition, a fine, and a public censure, is proper in

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this Matter, given the conduct of the Respondents as described in the pleadings, Secretary of State Exhibits No. 1-18, and the testimony

WHEREAS, the following proposed Conclusions of Law are correct and are adopted by the Secretary of State as follows:

1. After proper notification, the Department may proceed with a hearing in the Respondent's absence. (735 ILCS 5/1-105 and 5/2-1301; Ryan v. Bening, 1978, 22 IL.Dec.873, 66 Ill App 3d 127, 383 N.E.2d 681; In Re the Marriage of Garde, 1983, 73 Ill.Dec 816, 118 Ill.App.3d. 303, 454 N.E.2d 1065). Significantly, the Notice of Hearing outlines that a default judgment may be entered against a Respondent that fails to appear or answer the charges,
2. The actions, representations, and/or omissions of the Respondents made in connection with the failure to offer or sell any security in accordance with the provisions of the Act are violations of Section 12.A of the Act. The actions, representations, and/or omissions of the Respondent made in connection with the failure to file required documents with the Secretary of State are violations of Section 12.D of the Act. The actions, representations, and/or omissions of the Respondent which were untrue or misleading of material facts and were made to obtain money from Illinois purchasers are violations of Section 12.G of the Act.
3. By virtue of the foregoing, the Respondents are subject to an Order of Permanent Prohibition, a fine, and a public censure in the State of Illinois and/or granting such other relief as may be authorized under the Act.
4. Because of the Findings of Fact, the pleadings, the Exhibits admitted as Secretary of State Exhibits Nos. 1-18, and the testimony, the Respondents are subject to the entry of a final written Order that permanently prohibits the Respondents pursuant to Sections 11.E(2) and 11.E(3) of the Act from offering or selling securities in the State of Illinois, imposes a fine pursuant to Section 11.E(4) of the Act not to exceed \$10,000.00 for each violation of the Act, publicly censures the Respondents in this Matter, and grants such other relief as may be authorized under the Act.

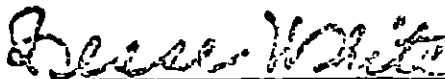
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NOW THEREFORE, IT IS HEREBY ORDERED THAT:

1. The Respondents, Terra Energy Investment Fund 1, L.L.C., Vestreon Funding, L.L.C., Gregory A. Donelson, and Peter H. Kelley, shall be permanently prohibited from offering and selling securities in the State of Illinois;
2. Each of the Respondents, Terra Energy Investment Fund 1, L.L.C., Vestreon Funding, L.L.C., Gregory A. Donelson, and Peter H. Kelley, shall pay a fine in the amount of \$10,000 for violations of the Act, and that each Respondents shall deliver a certified check or money order in the aforesaid amount within Thirty (30) days of the entry of the Order to the Illinois Department of Securities, 300 West Jefferson Street, Suite 300A, Springfield, Illinois 62702. The check(s) shall be payable to the Secretary of State, Securities Audit and Enforcement Fund
3. The Respondents, Terra Energy Investment Fund 1, L.L.C., Vestreon Funding, L.L.C., Gregory A. Donelson, and Peter H. Kelley, shall be publicly censured.

ENTERED. This 24th day of March, 2006



Jesse White
Secretary of State
State of Illinois

NOTICE: Failure to comply with the terms of this Order shall be a violation of the Section 12.D of the Act. Any person or entity who fails to comply with the terms of this Order of the Secretary of State, having knowledge of the existence of the Order, shall be guilty of a Class 4 felony.

This is a final order subject to administrative review pursuant to the Administrative Review Law, [735 ILCS 5/3-101 et seq.] and the Rules and Regulations of the Illinois Securities Act, [14 Ill. Admin. Code Ch. I, Section 130.1123]. Any action for

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Judicial Review must be commenced within thirty-five (35) days from the date a copy of this Order is served upon the party seeking review.

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