

TRUSTEE'S REPORT ON PRELIMINARY ADMINISTRATION

IN THE MATTER OF THE BANKRUPTCY OF

SELLARS FINANCIAL INC.

BKY 25-1535453

HUDSON & COMPANY INSOLVENCY TRUSTEES INC.

Sellars Financial Inc. (the "Company") made a voluntary assignment into bankruptcy, which was accepted by the Office of the Superintendent of Bankruptcy on the 1st day of September 2011 and Hudson & Company Insolvency Trustees Inc. was appointed as Trustee, subject to the affirmation of that appointment at the first meeting of creditors.

The Company raised funds from investors, and issued Term Notes to the investors, which were to pay a high rate of interest to investors. The Company then used the funds it had received to make investments, and it appears that some of the funds received from investors may have been used to pay interest on some of the term notes. The Company ceased to pay interest on the term notes, and most of the investments have not been successful. Some of the investors have sued the Company and/or Robert Sellars personally and have obtained judgement against one or both, and other investors have not taken action on the debts they are owed.

SECTION A - The Trustee's duties under Section 16(3) of the Bankruptcy Act

Class I - Stocks:

Some of the investments the Company made were transferred into the name of Robert Sellars and/or Penny Sellars, his daughter and former employee. Approximately 9 million shares of Teras Resources Inc. ("Teras") that were in the name of Penny Sellars were seized by creditors of the Company and placed in Court prior to the assignment of the Company into bankruptcy. The current market value of the shares is approximately \$4,500,000.

The Company has an investment in Teal Energy, which was in the name of Robert Sellars. The Company receives a monthly royalty payment from Teal, which has varied in 2011 from \$700.00 to \$2,500.00 per month. Robert Sellars has given the royalty cheques to the Trustee. And endorsed them for the benefit of the bankruptcy estate of the Company.

Mr. Sellars informed the Trustee that he invested \$238,000.00 with Glen Good. The Trustee is uncertain of the amount that will be recovered from Mr. Good in a bankruptcy.

The Company has a stock account that has shares of Pan Pacific Aggregates valued at approximately \$3,200.

Legal counsel for one group of creditors has suggested that the investments in the Company were held in trust for investors. The Trustee intends to review this matter and determine whether an application to the Court needs to be made to have this issue decided by the Court.

Class II - Buildings and Real Estate:

The company did not own buildings or real estate.

Class III - Books and Records:

It is the understanding of the Trustee that the originals of the records of the Company are in the possession of the RCMP, who is conducting an investigation into the conduct of Robert Sellars and the Company. The Trustee has received copies of some of the Term Notes, along with a listing from the corporate records of who had received Term Notes and the amount of their investment in the Company.

Class IV - Other Assets:

Property of bankrupt not divisible among the creditors by virtue of Section 67(b) of the Bankruptcy Act:

None that the Trustee is aware of.

Property placed under the guardianship of the debtor:

None.

SECTION B - Conservatory and Protective Measures:

The Trustee has contacted the Court and confirmed that the shares of Teras are held by the Court.

SECTION C - Legal Proceedings:

There have been several lawsuits against the Company by investors, some of which have resulted in judgments against the Company, and one action which is in the Court and was stayed as a result of the bankruptcy being filed. The Trustee is still in the process of determining if other judgments might have been obtained against the Company but not registered at the Personal Property Registry of Alberta, like a possible judgment in the HSM lawsuit.

The Trustee is unsure at this time what legal proceedings will need to be commenced or defended by the bankruptcy estate.

SECTION D - Provable Claims:

The amounts owing to creditors as shown on the Statement of Affairs were prepared from a listing and review of copies of the Term Notes, and a review of those amounts with Robert Sellars. The amounts shown as owing to the unsecured creditors on the Statement of Affairs did not include interest, except for those creditors who had obtained a judgement from the Court that included interest as agreed to in the Term Notes. Therefore, we expect that the amount of the claims of unsecured creditors will increase significantly when unpaid interest is included in each claim.

The Trustee has been made aware of a few people who claim to have invested in the Company but were not listed on the Statement of Affairs. The Trustee has sent information about the bankruptcy to those individuals, and will review the claims once they are received.

A lawyer for some of the unsecured creditors has suggested that the claims of unsecured creditors who received Term Notes from the Company and did not pursue legal action against the Company may be statute-barred, as they may not have pursued an action against the Company within the time provided in the Statute of Limitations Act of Alberta. The Trustee has not had an opportunity to review this matter in detail with legal counsel.

SECTION E - Secured Creditor:

The Bank of Nova Scotia may have a claim as a secured creditor against assets of the Company, and against the cash surrender value of one or more insurance policies with Empire Life. Approximately \$211,000 was paid into Court by Empire Life. The Trustee understands that some creditors alleged that the Bank of Nova Scotia should not be entitled to be a secured creditor for various reasons. The Trustee was informed on September 20th, 2011 that the Court in Edmonton issued a judgment on September 13th, 2011 that the Bank of Nova Scotia is a secured creditor and is entitled to be paid the funds in Court. The Trustee has reviewed the decision and does not intend to appeal the decision.

SECTION F - Anticipated Realization and Projected Distribution:

The distribution to creditors will depend upon the ultimate recovery of assets by the Trustee, the costs of the administration of the bankruptcy estate, and the final amount of proven claims. The Trustee is presently unable to estimate with any degree of accuracy the potential distribution to creditors.

SECTION G - Reviewable Transactions and Preference Payments:

The Trustee is aware that legal counsel for a contingent creditor has raised the issue that some interest payments made by the Company to some creditors may have been a preference. The Trustee has not yet reviewed this matter.

SECTION H - Other Matters:

Robert Sellars was convicted in October 2010 of various offences and sentenced to 2 years in jail. The RCMP are presently conducting a further investigation into the conduct of Robert Sellars and Penny Sellars, and expect to present their findings to the Crown Prosecutor in the fall. The Crown Prosecutor will determine whether any additional charges will be laid

against Robert Sellars, or any charges laid against Penny Sellars.

The Trustee has received a third party deposit in the amount of \$20,000.00, which funds would be used to pay the fees of the Trustee in the event that there are insufficient funds in the bankruptcy estate to pay the fees. The Trustee expects that its fees will be significantly higher than the amount of the third party deposit.

Security has been set by the Office of the Superintendent of Bankruptcy ("OSB") at \$1,000,000 and the Trustee has posted a bond with the OSB in that amount. The cost of the bond will be paid by the bankruptcy estate.

DATED at Calgary, Alberta, this 21st day of September 2011.

HUDSON & COMPANY INSOLVENCY TRUSTEES INC.

Per: _____


Bruce G. Hudson, Trustee