



To the Unitholders and Shareholders of Terra 2008 Mining & Energy Flow-Through Limited Partnership & Terra Resource Mutual Fund

We are pleased to present the September 30, 2009 quarterly update for the Terra 2008 Mining & Energy Flow-Through Limited Partnership ("Terra Flow-Through LP") and Terra Small Cap Resource Fund ("Terra Mutual Fund").

Performance Overview

As of September 30, 2009, the unaudited net asset value of the Terra Flow-Through LP was \$63.31 per unit and the Terra Mutual Fund was \$6.34 per share (see pages 3 & 4).

Year to date the Terra Flow-Through LP has increased 15% and the Terra Mutual Fund has increased 27%. The net asset value for the Terra Flow-Through LP represents a 38% after-tax return for an investor taxed at a 46.41% marginal tax rate.

Oil and gold remain the largest single investments in our Terra Flow-Through LP at respectively 17% and 11% of the portfolio. Energy (28.6%) and gold (12.5%) also represent the largest investment holdings for the Terra Mutual Fund. The balance of the mutual fund is temporarily invested in cash so we retain flexibility to reinvest at better valuations.

Commentary

Our cash balances remain higher than we would otherwise normally hold, but we believe it allows us to reduce risk in the interim and better position our funds to acquire great firms at better values.

We remain big believers in the potential for the resource sectors as we work through the financial and economic crises. To provide some perspective on why resources will be the place to invest, I highly recommend our investors read Jeremy Grantham's sobering summary of the limitations on our resources (July 2009). I have listed some of his conclusions below:

- ◆ The largest oil discovery in the Gulf of Mexico in the last 20 years will keep our engines running for a mere 41 days. There is nothing we can do to reverse the decline of oil reserves and drilling reserves faster, simply causes us to run out of them sooner.

"Sometime in the next 10 to 40 years, half of all of our resources will have been used."

- ◆ All metals are facing the same depletion problem as hydrocarbons and many are past their peak production.

- ◆ Depleting resources are a dangerous situation with zero population growth, yet population growth has been the fastest in the most recent 100 years. The recent 100-year growth rate has exceeded that of the past 2000 years. This puts population growth on a collision course with scarce resources.

"We are seeing renewed interest in commodities which bodes well for our resource funds"

- ◆ Sometime in the next 10 to 40 years, half of all of our resources will have been used.
- ◆ As we continue to consume irreplaceable hydrocarbon reserves, prices will continue to rise. The price rise will likely be parabolic rising at an increasing rate rather than a steady rate.

We are seeing renewed interest in commodities which bodes well for our resource funds. Gold is up approximately 19 percent this year after having peaked at \$1,062.70 an ounce in early October. Copper has rallied 103 percent; crude oil is up 64 percent and aluminum gained more than 24 percent.

China's thirst for resources also seems to be accelerating as evidenced by its resource investments abroad including a \$8.3-billion takeover of Calgary-based Addax Petroleum by China's largest refiner, Sinopec. This is largely because it is becoming more dependent on imports for its petroleum production and needs to secure more supply overseas. We are also seeing China acquire mining assets for the same reasons.

More commentary from our portfolio manager can be found on page 2.

Yours truly,
John Jacobi
President
Terra Fund Management Ltd.

Portfolio Manager's Comments

Terra 2008 Mining & Energy Flow-Through LP

The Terra 2008 Mining & Energy Flow-Through LP was up 15% for the quarter. The portfolio is currently invested 64.4% in cash. Mining investments account for 17% of the portfolio, of which 11.6% is in precious metals and 5.4% in base metals. Energy investments represent the balance of 18.6% of the portfolio, of which 15.1% is invested in oil and 3.5% in natural gas.

The investment strategy is to manage the fund conservatively given the risky nature of the investments. Market risk and individual security risk is managed to minimize the downside.

The LP's gold holdings continue to include SanGold (SGR-tsx-v) and Rubicon Minerals (RMX-tsx). This quarter we sold our remaining uranium investments in JNR Resources (JNN-tsx-v), Pennant Energy (PRQ-tsx) and Ryland Oil (RYD-tsx-v). During this quarter, we had one holding acquire another holding. Petrobank (PBG-tsx) announced it would acquire Tristar Oil & Gas (TOG-tsx) and create a new publicly listed oil and gas exploration and development company called PetroBakken Energy Ltd (PBN-tsx).

Our preference remains to be invested in resource companies with an operating business or a late stage project, which we can invest in at a discount to its intrinsic value.

Throughout 2009, the original investments have been paired back to an appropriate weight in the partnership. Non-core investments have been sold and we have also reduced the size of our core holdings to 10 investments. These holdings represent a core group of operating businesses, with the exception of Rubicon Minerals.

We have started to reinvest in 2009 flow through issues for additional tax deductions for the 2009 tax year. So far 3.6% on the partnership has been reinvested in Culane Energy (CLN-tsx-v), an oil producer and Fortress Energy (FEI-tsx), a natural gas producer. We expect to acquire additional flow-through issuers for reinvestment purposes.

Terra Small Cap Resource Mutual Fund

The Terra Small Cap Resource Fund rose 9% for the quarter and is up 27% year to date. The portfolio is currently invested 41.2% in cash, which will be reinvested as opportunities present themselves.

Energy investments represent 28.6% of the portfolio, of which 14.9% are Canadian large cap shares and 5% are Canadian small cap shares and 8.5% in small cap 'Class B' shares. Mining investments account for 20.8% of the portfolio, of which 12.5% is invested in gold and 8.3% is invested in base metals.

The balance of 9.4% of the portfolio is invested in related resource businesses which consist of Fort Chicago (FCE.UN-tsx), Keyera Facilities (KEY.UN-tsx), Phoenix Technology (natural gas driller) (PHX.UN-tsx) and Westshore Terminal (WTE.UN-tsx).

We continue to hold core holdings in Encana (ECA-tsx), Imperial Oil (IMO-tsx), Sherritt (S-tsx), Canadian Natural Resources (CNQ-tsx), Goldcorp (G-tsx) and Agnico-Eagle (AEM-tsx).

The global stock market continues to rally given the effects of government stimulus taking hold. The US combined fiscal and monetary stimulus amounts to approximately 20% of GDP. As well, China's public works fund is stated to be \$700 billion and money is being spent.

The other phenomena particular to this crisis is that the developing economies of China, India and Basil have emerged relatively unaffected by the financial chaos of the past year. China might even grow GDP this year by 9% where previous expectations were for 6% GDP growth. The relative strength of those economies continues to drive demand for natural resources.

Broadly speaking we have two groups of commodities; those which are tied to the economic rebound like oil and base metals and those which have their own supply demand balance, like gold and natural gas.

Oil and base metal prices have returned to a level where companies can make a return on capital and new investment can be justified. The industry is healthy but not over heated.

The price of gold is rising due to demand but the pressures here are many and complicated. There is fear of over stimulation, systemic risks still lurk and the US dollar remains under pressure given low interest rates. The bottom line is, gold has broken out and is running. We will maintain our gold positions and go along for the ride.

Natural gas remains under price pressure but we continue to believe that natural gas prices will rebound in 2010. It is important not to call this a bear market. This is in fact a bull market in natural gas discovery and subsequent oversupply. Finally, drilling is being curtailed in the US and we hope rational pricing in the \$6.00 per mcf area will return some time in 2010.

New to the fund are two special situations. We have added Fortuna Silver (FVI-tsx-v) and Argenta Oil & Gas (AZA-tsx-v) which is undergoing a restructuring.

Yours truly,
Bill Harris
Avenue Investment Management Inc.