



To the Unitholders and Shareholders of

Terra 2008 & 2009 Mining & Energy Flow-Through Limited Partnerships & Terra Resource Mutual Fund

We are pleased to present the December 31, 2009 quarterly update for the Terra 2008 Mining & Energy Flow-Through Limited Partnership ("Terra 2008 LP"), Terra 2009 Mining & Energy Flow-Through Limited Partnership ("Terra 2009 LP") and Terra Small Cap Resource Fund ("Terra Mutual Fund").

Performance Overview

As of December 31, 2009, the unaudited net asset value of the Terra 2008 LP was \$69.67 per unit, the Terra 2009 LP was \$83.67 per unit and the Terra Mutual Fund was \$6.57 per share (see pages 3,4 & 5).

Year-to-date the Terra 2008 LP has increased 27% and the Terra Mutual Fund has increased 30%. The net asset values for the Terra 2008 LP & Terra 2009 LP represent respectively a 52% and 89% after-tax return for an investor taxed at a 46.41% marginal tax rate.

President's Commentary

2010 is shaping up to be a big year for Terra as we have a number of exciting developments to share with you.

1. Portfolio Manager Change

I am very pleased to announce that Marquest Asset Management Inc. ("Marquest") will shortly assume all portfolio management duties for our funds (see attached News Release) with the exception of the Terra 2008 LP and Terra 2009 LP which will continue to be managed by Avenue until their respective rollovers in March and April of this year.

Founded in 1985 and based in Toronto, Marquest is an independent investment manager, managing over \$100 million for individual and institutional clients. The portfolio managers have a particularly strong capability in the small and medium capitalization areas where Terra is focused and where the majority of the best flow-through offerings occur.

The managers also bring with them established relationships in the industry, which will assist the funds in sourcing quality small and intermediate resource firms and in acquiring flow-through offerings at lower premiums.

"Marquest have a particularly strong capability in the small & medium markets where Terra is active."

More about veterans Andrew Cook and Gerry Brockelsby of Marquest follows below.

- **Andrew Cook, BA, CA, CFA** is Vice President of Marquest Asset Management Inc. and has over 15 years investment experience after earning his designation as a chartered accountant. Mr. Cook was a portfolio manager for Strategic Value/StrategicNova managing funds with assets of approximately \$500 million and since 2002 he has been a portfolio manager with Marquest.

- **Gerry Brockelsby, BA, CFA** is President of Marquest Asset Management Inc. and has over 35 years investment industry experience. After earning his Bachelor of Arts he entered the industry as a private fund manager for Canada Permanent Trust. Prior to founding Marquest in 1985, Mr. Brockelsby was Chief Investment Officer for INCO Limited pension fund.

- The managers co-manage the **5-star rated** Marquest Resource Fund, which returned 69.5% for the year ended December 31, 2009 (see attached overview).

2. New 2010 Flow-Through Offering

Terra's 2010 Mining and Energy Flow-Through Limited Partnership ("Terra 2010 LP") provides investors tax deductions of up to 100% for the 2010 taxation year and up to 115% in tax deductions and 15% in tax credits over the life of the Partnership.

The Terra 2010 LP now offers a dual class structure, which is unique to Terra and offers both A Class and F Class Units. Redemptions may also begin September 30, 2011 after rollover to Terra's corporate class mutual fund.

In closing I would like to thank Avenue for managing Terra's funds for the past 5 years and I wish them well for the future. Bill Harris' final commentary for the Small Cap Resource Fund 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 10% for the quarter. The portfolio is currently invested 40.8% in cash which is down significantly from last quarter due largely to reinvestments in additional flow-through shares. Mining investments account for 29.5% of the portfolio, of which 12.3% is in precious metals, 4.2% is in diamonds and 13% is in base metals. Energy investments represent the balance of 29.7% of the portfolio, of which 18.8% is invested in oil and 10.9% in natural gas.

For the most recent quarter the fund secured additional tax deductions for the 2009 tax year by reinvesting approximately \$2.6 million in new flow-through shares. Of this amount 62% was invested in energy flow-through shares and 38% was invested in mining flow-through shares.

The fund also retained its 10 core investment holdings. These investments have been held so the fund continues to participate in the commodity market recovery.

Terra 2009 Mining & Energy Flow-Through LP

The portfolio ended 2009 fully invested. Based on book value at the time of investment, the portfolio was invested 70.4% in mining flow-through shares and 29.6% in energy flow-through shares. By the end of the year the portfolio's weighting was 73.4% in mining shares and 26.4% in energy shares. The mining component is invested 56.3% in precious metals, 14.5% in base metals and 2.6% in diamonds. The energy component is invested 17.1% in natural gas, 6.3% in oil and 3.0% in uranium.

Terra's investment approach seeks to find a diversified group of quality hard assets at reasonably low premiums whenever possible. These goals were met as 35 investments were made and the average premium paid by the fund was quite low at 9.7%. Terra was also particularly successful in acquiring all its targeted mid-sized energy companies in September and October taking advantage of the general lift in the energy market after the end of the summer.

We were fortunate to acquire these energy deals as very few energy deals were done for the balance of the year. The major reason for fewer deals is that low energy prices mean less exploration occurs and therefore there is less need to raise money by way of flow-through shares.

Junior mining is once again a hot sector. Metal prices are high and the marginal cost of exploring is minimal. Our goal was to invest in companies who not only had mineable resources but whose market valuations had been greatly reduced during the financial collapse. We had lots of choice and were successful in finding high quality investments including a number engaged in the junior gold sector. The gold opportunity is large in Canada and with gold above \$1,000 per ounce there is lots of activity to drive these investment opportunities higher.

Terra Small Cap Resource Mutual Fund

The Terra Small Cap Resource Fund rose 4% for the quarter and is up 30% year to date. The portfolio is currently invested 34.5% in cash, which is down 6% from the previous quarter.

Energy investments now represent 34.5% of the portfolio, of which 16.9% are Canadian large cap shares, 8.8% are Canadian small cap shares and 8.7% are small cap 'Class B' shares. Mining investments account for 18.5% of the portfolio, of which 9.6% is invested in gold and 8.9% is invested in base metals.

Due to government fiscal and monetary stimulus, the financial collapse of 2008 did not turn into an economic one. Although the economies of the developed world may take time to recover, the emerging economies for the developing world did not skip a beat. For commodities like oil and base metals the majority of consumption and more importantly, the incremental demand, now come from emerging economies like China and India. Chinese GDP growth for 2009 is projected at 8.2% and estimates for 2010 are in the neighborhood of 8.6%. India's economy grew by 5.5% last year and this year growth is expected to be in the neighborhood of 6.3%.

We expect to see oil and base metals continue to trade together in relationship to this new world order. We have maintained our exposure to high quality oil names like Imperial Oil (IMO-tsx), Cenovus Energy (CVE-tsx) and Canadian Natural Resources (CNQ-tsx). In the Canadian large cap base metal mining sector our core holding remains Sherritt International (S-tsx).

The North American natural gas market has been driven very much by the unlocking of vast new supplies of shale gas. The price of natural gas remains low because of this excess supply. While the price for this commodity is low, we still see lots of opportunity in picking up quality assets at good prices. The price of natural gas will rise again but in the interim we need to make sure we own companies that can survive and produce at lower cost. Our investments in low cost producers with low debt level are Encana (ECA-tsx) and EnerPlus Resources Fund (ERF.UN-tsx).

The other tact we are taking with the rise in natural gas supply is to be invested in businesses that support this industry. Growing gas supplies is particularly good for support businesses like Keyera Facilities Fund (KEY.UN-tsx) and Phoenix Technology Income Fund (PHX.UN-tsx) both of whom we are invested in.

Gold is always the most difficult commodity to assess because it is considered both a financial asset and a consumable item that supports the jewelry industry. Currently, our valuations show that gold stocks trade at a fair value given the current price of gold. We continue to hold a neutral weighting in quality gold firms Goldcorp (G-tsx) and Agnico-Eagle Mines (AEM-tsx).

Yours truly,
Bill Harris
Avenue Investment Management Inc.