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Terra Funds
Quarterly Update & Performance Report

We are pleased to present the September 30, 2017 quarterly update for the Terra 2017 Short-Term Flow-Through LP and Terra Mutual Funds.

Performance Overview

As of September 30, 2017, the unaudited net asset value of the Terra Small Cap Growth Fund was $10.23 per share, TerraTundra Dividend Growth Fund was $12.52 per share and TerraTundra Money Market Fund was $10.00 per share. See pages 3 and 4 for the portfolio holdings of the Small Cap Growth Fund and TerraTundra Dividend Growth Fund.

For the quarter, R class shares for the Terra Small Cap Growth Fund decreased 0.47% and R class shares for the TerraTundra Dividend Growth Fund increased 0.51%. The TerraTundra Money Market Fund remained unchanged at $10.00 per share.

Portfolio Manager's Comments

World equity markets were strong in the third quarter of 2017, with positive returns virtually across the board. Emerging Markets as a group were the strongest, gaining 8.0% (all numbers in US$ except Canada in C$). Developed Markets were also strong, led by Europe up 6.5% on a much improved outlook. The S&P 500 in the United States gained 4.5%, continuing to hit new all-time highs, while Japan gained 4.1%, reaching 20-year highs. Foreign market returns got a boost from a weakening U.S. dollar, which declined 2.7% against a basket of major currencies. Canada was the laggard, with the S&P/TSX Composite posting a 3.7% return for the quarter. However on a US$ basis Canada returned 7.8% on the back of a strengthening Canadian dollar.

Taking a closer look at the Canadian equity markets, the S&P/TSX Composite's 3.7% gain was driven largely by the big three sectors, with Energy, Financials and Materials up 6.6%, 4.5% and 3.2% respectively. Financials benefited from a rising interest rate environment while Energy and Materials benefited from a broad commodities rally. WTI oil gained 12.2% to US $51.67/barrel, copper gained 8.9% to US$2.92/lb and gold gained 3.3% to $1,282/oz. Consumer Discretionary, Info Tech, Industrials and Telecom were also in positive territory. Health Care was the biggest loser, down 10.2% as erstwhile index heavyweight Valeant Pharmaceuticals declined 20.7% over the quarter.

Small-caps underperformed large-caps this quarter, with the S&P/TSX SmallCap Index gaining 2.4% versus the S&P/TSX Composite up 3.7%. Underperformance was largely driven by compositional differences between the two indexes. The small-cap Financials sector has few Bank and Insurance companies, which performed very well on the back of rising interest rates, while the small-cap Materials sector has a much heavier weighting in Metals & Mining companies, which underperformed despite improving metals prices.

On the economic front, the Bank of Canada followed through on its hawkish shift in tone, hiking rates by 25bps in July and following up with another 25bps hike in September. Following a surprisingly strong start to the year for the economy, the BoC had called into question the need to maintain the two "emergency" 25bps cuts implemented in 2015 as oil prices were crashing. The Canadian economy has been solid, with unemployment down to 6.2%, while corporate profits are almost back to the level of 2014 pre-oil crash. The BoC joins the Federal Reserve in the United States, which has hiked three times since December 2016 and four times overall, in tightening monetary policy.

Reflecting solid economic growth, rising inflation expectations and the central bank rate hikes, bond yields rose over the past quarter. In the U.S. the 10 Year Treasury rose slightly from 2.30% to 2.33%, while in Canada the 10 Year Government Bond surged from 1.76% to 2.10%. This significant rise in yields saw the Canada 10 Year Bond decline in value by 1.8% over the period, highlighting the risk involved when paying lofty valuations for "risk-free" government bonds.

While we see the recent rate hikes as appropriate, and expect rates to continue to move slowly higher, we do have some concerns over the sustainability of the recent strong Canadian economic growth. Combined with extant concerns surrounding highly indebted Canadian consumers, a stretched housing market, and bank regulators introducing further measures to cool the housing market, we believe the BoC will remain in wait and see mode with no rate hikes necessarily pre-determined for the remainder of the year. Further supporting BoC caution, inflation continues to remain low, a resurgent Canadian dollar is negative for the manufacturing and export base, and the renegotiation of the North American Free Trade Agreement has proven to be challenging even at the early stages.

With global economic momentum continuing to surprise to the upside, a European recovery underway and North America reaching new employment and GDP peaks post the financial crisis, central bank bias has started to shift towards policy normalization. The gradual unwind of the massive worldwide stimulus that supported the recovery looks set to begin, posing a potential headwind to growth. In the United States, the risk remains that much of President Trump's pro-business/reflationary stance (i.e. tax reform, fiscal stimulus, trade protectionism) may never come to fruition. To the extent that U.S. equity market strength has been driven by the proposed agenda, the market could be disappointed. Broad geopolitical risks involving Russia, China, North Korea, Iran, etc. also remain.

In this environment we're taking a moderately cautious view on equity markets, with expectations for more muted returns over the next year or so. Within the context of above average valuations, a tightening Fed and Bank of Canada, and a significantly extended period without a market correction, we wouldn't be surprised to see some downside volatility ahead for markets. However, we

Portfolio Manager's Comments continued…

maintain our preference for equities over bonds. Notably, we believe that stock picking will be increasingly important and provide opportunities as stock correlations have dropped significantly and volatility is expected to increase. In this environment, our overall strategy remains the same, with a focus on good companies with strong competitive positions, that trade at attractive valuations and we expect will perform well over the long-term even if there is short-term market volatility.

Terra 2017 Short-Term Flow-Through LP

The Terra 2017 Short-Term Flow-Through LP has commenced marketing and is now available for purchase. The Flow-Through LP will invest in a portfolio of primarily oil & gas firms as well as mining resource companies which the Portfolio Manager believes offer good value and potential for capital appreciation.

Terra Small Cap Growth Mutual Fund

The Fund generated a -0.47% return for the third quarter, underperforming the S&P/TSX SmallCap Index return of 2.5%. The underperformance was driven primarily by security selection, most notably in Energy, the top performing sector over the period. The Fund has a smaller-cap bias in the sector, and didn't hold some of the higher beta mid-cap stocks that drove performance. Somewhat offsetting this was strong security selection in Information Technology and Financials. Sector allocation was largely neutral overall for the quarter, with the largest positive contributors being underweight positions in Health Care and Materials. However, this was largely offset by an underweight position in the top performing Energy sector.

The Fund had individual companies from a number of sectors that generated strong returns this quarter. The top performer was Traverse Energy, rebounding 53% over the quarter following a weak Q2. The Fund initiated a position in Jamieson Wellness at its IPO in July and it gained 27% over the rest of the quarter. Canadian Western Bank and Diversified Royalty Corp were the other top performers, up 24% and 23% respectively. Marquee Energy was up 21% over the quarter, another Energy name recovering from a poor Q2 performance.

The Terra 2016 Short-Term Flow-Through LP was rolled over into the Terra Small Cap Growth Mutual Fund in June 2017. As a result of the Flow-Through LP's focus on resources, the Fund experienced an increase in its Materials and Energy weightings, to 21% and 16% at Q2-end, respectively. This was reduced over the third quarter with proceeds reallocated to other sectors in order to restore the broader diversification of the portfolio. Quarter-end sector weights were 19% Materials, 14% Industrials, 13% Energy, 12% Real Estate, 9% Consumer Discretionary, 7% Financials, 7% Utilities, 6% Information Technology, 3% Consumer Staples, 0% Health Care, 5% U.S. Equities and 5% Cash.

TerraTundra Dividend Growth Fund

The Fund generated a return of 0.51% in the third quarter, underperforming the S&P/TSX Composite Index which gained 3.7%. Sector allocation and security selection both contributed to underperformance, as the Fund's relatively conservative stance did not position it well to benefit from the broad commodities rally and rising rate environment over the quarter. From a sector allocation perspective, an underweight position in top-performing Energy and overweight position in rate-sensitive Real Estate were main contributors of underperformance. Selection underperformance was largest in Consumer Staples. In that sector, Alimentation Couche-Tard, one of the Fund's top holdings, dropped on news that large shareholder Metro Inc. was in discussions to acquire Jean Coutu Group and would likely sell their position in Couche-Tard to fund the acquisition.

The last notable point of underperformance was the Fund's position in U.S. equities. Although the Fund's U.S. holdings did outperform the Canadian market in US$ terms, the Canadian dollar strengthened over the quarter, resulting in underperformance in C$ terms. The largest contributors to relative performance on the positive side were an underweight position in Health Care, the worst performing sector over the period, and an underweight position in Industrials.

The Fund's list of top performers this quarter included several names from the top-performing Energy sector, including Suncor Energy +16%, Canadian Natural Resources +12% and Vermilion Energy +9%. Many of the Fund's preferred share holdings also performed well, enjoying 5%+ returns. All of the Fund's preferred shares are either rate reset or floating rate issues, which benefit from rising interest rates as we saw post the Bank of Canada's rate hikes in July and September.

The portfolio maintains a relatively defensive bias, overweight Utilities and Real Estate while notably underweight Financials at 20% versus the S&P/TSX Composite at 34%, Materials at 2% versus the Composite at 11% and Energy at 11% versus the Composite at 20%. Quarter-end sector weights were 20% Financials, 11% Energy, 10% Preferred Shares, 7% Consumer Discretionary, 6% Consumer Staples, 6% Real Estate, 4% Utilities, 3% Industrials, 2% Materials, 2% Telecom, 22% U.S./International equities and 5% Cash.

The Fund continues to maintain exposure to U.S. and International equities, representing 18% and 4% of the portfolio respectively at quarter end. The portfolio manager believes these investments provide the benefit of diversification as well as the opportunity to capitalize on potentially stronger equity markets outside of Canada. These US$ denominated holdings may provide a further potential benefit, as they gain in value when the Canadian dollar declines.

TerraTundra Money Market Mutual Fund

The Fund currently holds a mix of interest earning deposits and short duration government bonds. The savings deposits are with Manulife and RBC, and yield 1.0% and 1.0% respectively. These investments provide the Fund with a solid short-term yield in the current low rate environment and a yield pickup relative to Bankers Acceptances. They also provide good liquidity, are offered by high quality firms and are protected by CDIC coverage up to the applicable limits. The government bonds are an Ontario issue, and yield 1.1%.

Yours truly,
Cypress Capital Management Ltd.