TERRA TAX-SMART INVESTMENTS

TERRA SHORT-TERM FLOW-THROUGH LIMITED PARTNERSHIPS

About flow-through limited partnerships

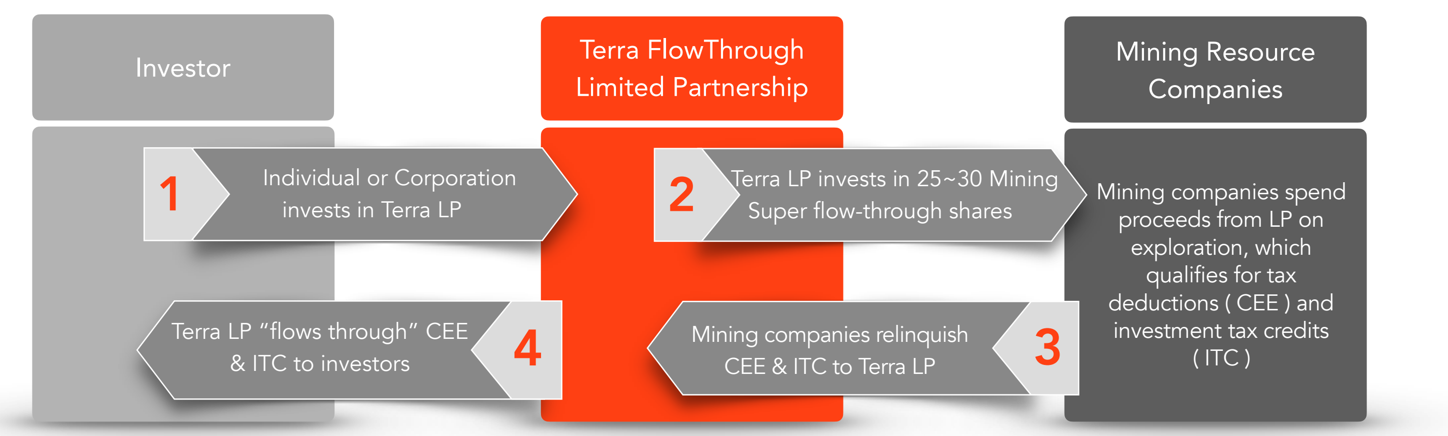
Flow-through limited partnerships (LPs) are tax-advantaged funds that provide investors attractive tax deductions and additional investment returns through investment in a portfolio of flow-through shares.

Flow-through shares are common shares issued by resource companies to fund resource exploration in Canada. The basic principle behind flow-through shares is that the resource firm is willing to forego the tax benefit of exploration expenses it incurs (ie. Canadian Exploration Expense or "CEE") and "renounce" these expenditures to the LP buying its flow-through shares. The CEE relinquished by the resource companies to a Terra LP is subsequently "flowed through" to investors who then claim these expenditures as tax deductions against any source of Canadian income. For mining resource firms, an additional 15% federal Investment Tax Credit (ITC) may also be claimed by individuals in the year the qualified investment is made. Additional provincial tax credits may also apply for mining investments made in certain provinces (BC, SK, MB, ON). Quebec allows investors to deduct up to 120% of the cost of qualifying exploration expenses.

Flow-through shares were first introduced to the Canadian tax system in 1954 to assist in the financing of exploration projects in Canada between companies. To further encourage resource exploration the April 1983 federal budget allowed individuals to deduct exploration expenses against any source of income. In October 2000, the federal government introduced the 15% investment tax credit (ITC) to promote mining exploration and is currently available to investors until April 2024. This credit is only available to individuals and not trusts, partnerships or corporations. Along with RRSP's and TFSA's, flow-through investments continue to be supported by the federal government because they help achieve a specific policy objective, which is financing the exploration and development of Canada's natural resources.

LPs provide an effective method for investing in flow-through shares because they allow investors to "pool" their money and rely on the professional manager retained by the partnership to review and invest in a diversified portfolio of 25 to 30 resource companies. A limited partner's exposure to the liabilities of a limited partnership is also generally limited to their initial investment. LPs also handle all the administrative duties, including the issuance of tax receipts which detail the tax deductions, tax credits and other expenses or losses that can be claimed by individuals to reduce their taxes.

The diagram below shows how flow-through limited partnerships work.



Hold period & liquidity

Most flow-through limited partnerships have a life span of two years. Terra LPs have the additional advantage of a shorter 1-year life span. At the end of the hold period, a Terra LP automatically exchanges an investor's partnership investment for shares in a Terra mutual fund. This exchange is done without triggering any immediate tax and provides investors the option to redeem or continue to hold their mutual fund shares in a regular or non-taxable RRSP account. Proceeds from the sale of shares may also be reinvested in another Terra LP.

Capital gains tax typically occur with the redemption of shares. Because the partnership provides investors with tax deductions equal to their initial investment, flow-through shares are deemed to have an "adjusted cost base" (ACB) of zero. Should an investor decide to redeem all or a portion of their mutual fund shares they would realize a capital gain at that time equal to the proceeds received on sale less the ACB of the shares.

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Tax Savings & Break-even

Investors generally receive a substantial portion of their original investment back in the form of tax savings. The tax savings from CEE, ITC and other tax deductions for several provinces is expressed as a single amount in the table below. The net cost to an investor, after deducting the tax savings, is commonly referred to as the "money at-risk" or "cash outlay." The "break-even value" represents the amount an investor must receive such that, after paying capital gains tax, the investor would recover their money at risk.

	BC	AB	ON	QC	NS
Marginal tax rate	53.5%	48%	53.53%	53.31%	54%
A. Investment	$1,000	$1,000	$1,000	$1,000	$1,000
B. **Tax Savings - CEE, ITC** & Other	**($689)**	**($632)**	**($689)**	**($722)**	**($694)**
C. Capital gains tax	$45	$41	$46	$45	$46
D. Money at-risk / Cash outlay (A + B + C)	$357	$409	$356	$324	$352
E. **Break-even value**	**$487**	**$538**	**$487**	**$441**	**$482**

CEE and ITC's are provided by mining super flow-through shares. ITC's are only available to individuals and subject to income inclusion in the following year. Investors should refer to the Offering Memorandum for a more detailed description. Figures are for illustrative purposes only and are not intended as a forecast of future events. Actual tax deductions & investment tax credits may be more or less. Tax rates & capital gains inclusion are subject to change.

Risk & Risk Management

Possible drawbacks of flow-through investments include:

- Investment loss when the value of the investments is worth less than the break-even value (see Table above);
- Tax risk if CRA reduces or denies tax deductions and credits related to an investment that does not meet qualifications; and
- Liquidity can only be realized after the LP units are converted to mutual fund shares and redeemed.

Terra LPs mitigate risk in the following ways:

- Portfolio of 25 to 30 companies significantly reduces the investment and tax risks associated with single investments;
- Expert portfolio management with strong capability in flow-through investing;
- Investment in public resource firms - no private company investments are permitted - so liquidity is maximized; and
- Quick conversion to mutual fund shares - typically 12 months earlier than competing offerings - provides liquidity sooner.

Who should consider investment in a flow-through limited partnership?

Investment in flow-through limited partnerships is most suitable for investors taxed at a high marginal tax rate who can accept the risk of investing in common shares. Flow-through shares and limited partnership funds are not eligible for RRSPs, RRIF, RESPs, and Deferred Profit Sharing Plans. However, the mutual fund shares received on conversion, may be contributed to an RRSP account which will provide further tax savings.

Flow-through limited partnerships may be suitable for the following investors:

- Individuals or corporations resident in Canada interested in reducing their current taxable income
- Individual and corporate investors with unused capital losses
- Charitable donors looking for a better alternative than cash donations
- Individuals interested in reducing Old Age Security clawbacks
- Recipients of substantial lump sums of taxable income
- Individuals or corporations resident in Canada with sufficiently large past income tax liabilities

Corporate ownership of flow-through investments

A corporation can purchase flow-through investments in order to reduce its taxes. The tax benefit to the corporation of the deductions flowed through depends on the type of income the deductions are being applied against (i.e. investment income, active business income under the small business limit or active income taxed at the general corporate rate).

A corporation may benefit from owning flow-through investments in particular if it has capital loss carry-forwards that may be used to offset the resulting capital gain arising from the sale of the investment.

If you own a corporation with capital loss carry-forwards, you may wish to purchase a Terra LP personally so you can also claim the ITC not available to corporations. After you have personally claimed the deductions and ITC, you may then transfer the flow-through investment to your corporation, on a tax-deferred basis. When the corporation sells the mutual fund shares, the corporation will realize a capital gain, which is sheltered by the corporation's capital loss carry-forwards.