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- 2012 return of 21.9% (C$ 21.5%) puts the Alpha Strategy in the top 10 Hedge Funds in Canada according to the Globe & Mail;
- 1st quartile ranking among over 1,100 Equity Hedge Funds worldwide according to the Chicago-based Hedge Fund Research group (HFRI);
- Impressive Sharpe Ratio of 3.1 with annualized volatility of 8.7% for 2012.

January 31, 2012

Formula Growth Alpha Strategy

2012 Year-end Review

Dear Investors,

2012 was a very successful year for the Alpha Strategy with a gross return of 25.7% (C$ 25.7%) and 21.9% net (C$ 21.5%) as compared to the HFRI Index return of 7.4% and the SP500 and Russell 2000, which increased by 16.0% and 16.3% respectively.

At the beginning of the year, following an extensive review of our portfolio construction methodology and risk management strategies, we set out to reduce the downside volatility of the fund while improving the risk-adjusted returns. We are very pleased to report that these strategies were quite successful in achieving their desired results as witnessed by:

- Sharpe Ratio of 3.1;
- Annualized volatility well below the stock market of 8.7% vs. 12.8% and 17.1% for the SP 500 and Russell 2000 indices;
- Low correlation to the S&P 500 and Russell 2000 of 51% and 52% respectively;
- An average net exposure of 0.5% for the year and a net beta of 0.29;
- Downside Capture of 24.8% of the SP500 and only 10.6% of the Russell 2000.

Despite the strong absolute return in 2012, we are most pleased with how the fund was able to protect investors from downside risks and drawdowns over the course of 2012. From mid-September to November the stock market fell between 8% and 11% from peak to trough, while the Alpha Fund fell only 2% during the same period. In the month of May, the stock markets fell over 6% while the Alpha fund fell only 1.5%.

The results in 2012 were a product of significant alpha generation driven by the bottom-up stock picking process that Formula Growth has perfected over the past 53 years. We were able to substantially reduce the systematic and sectorial risk factors in the portfolio through the use of Alpha Shorts, Pair Trades, Sector and Market Hedges coupled with close monitoring of stock, sector and portfolio betas as well as correlations. This maximized the fund's exposure to our firm's best investment ideas while reducing the risk of unforeseen market or sector specific drawdowns that could have impacted its performance. This Alpha generation is born out of the performance of our various investment strategies listed below:

- Alpha Longs added 28.9% on an average total gross exposure of only 57.5%;
- Alpha Shorts added 1.6% on an average total gross exposure of 14.3%;
- Pair Trades added 0.4% on an average total gross exposure of 11.5%;
- Sector and Market Hedges detracted 4.7% on a average total gross exposure of 44.3%.

We are very pleased with the performance of our Alpha Long book which, outperformed the S&P 500 on a relative basis by 1,290 bps despite being only 57.5% invested. We are even more pleased with the performance of our Alpha Short book, which added 160 bps of return, in a stock market that increased by over 16% in 2012.

It is worth noting that the return stream was broadly diversified both by individual name and by sector, speaking to the repeatability of our investment process. In 2012, 77 different positions contributed over 10bps or more to overall performance while 7 sectors contributed 100bps or more to total returns. This consistent process year in and year out, is built on the experienced nine person Formula Growth investment team that is fully devoted to stock research and idea generation.

In 2012 we further invested in our platform with the addition of a new employee; Lucy Chher, who has greatly enhanced our risk management, attribution and report capabilities. We are also in the process of expanding distribution of our fund allowing us to open up investments to a wider range of both institutional and high net worth investors.

Goals for 2013

In 2013, we hope to continue to build and improve on the successful strategy implemented in 2012. We will strive to continue to provide the best possible risk adjusted-returns to our investors. We will strive to expose them to the alpha generation capacity of our investment team while minimizing their exposure to the systematic risk of the stock market through low exposure levels, low net beta positioning and the continuously evolving portfolio risk mitigation tools we employ.

For a detailed review and attribution of our 4th quarter performance please see the following pages of this letter.

We thank all our investors for their support and we wish you all a happy, healthy and prosperous 2013.

Sincerely

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- 4th quarter results of 10.9% on an average net exposure of only 2.7%;
- Strong Sharpe Ratio of 6.4 during the quarter;
- Largest drawdown in the 4th quarter of 2.3% versus 7.4% and 8.9% for the S&P 500 and Russell 2000 respectively.

4th Quarter 2012 Results

The stock market had a mixed Q4 with the S&P 500 showing a modest decline of -0.4% while the Russell 2000 increased by 1.9%. Following a strong rally in the summer months partly due to the potential announcement of further easing from the Fed and ECB, the market spent most of Q4 worried about potential impacts of the pending tax increases and fiscal cliff negotiations. Against this backdrop the Fund had an excellent quarter, increasing by 10.9% gross (C$ 11.2%) and 8.8% net of fees (C$ 8.7%). This was achieved despite having only a 2.7% net exposure to the stock market.

The quarter was punctuated by very strong alpha generation as witnessed by our Sharpe Ratio of 6.4. We continued to control the volatility of our portfolio very well as demonstrated by the fund's volatility of 8.5% as compared to 12.6% for the S&P500 and 14.4% for the Russell 2000. The fund also demonstrated a very low correlation to the stock market of only 37.3% in Q4, as well as very low downside capture of 5.4% vs. the S&P500, which demonstrates the low risk nature of the returns being generated by the fund.

We entered the 4th quarter with a conservative posture and exposure levels of -12.3% and a net beta of 0.07. Towards the middle of October, in the midst of the dramatic selloff in the markets, we began to slowly increase our net market exposure levels which peaked at 16% on November 16th. As the market rallied strongly in late November and early December, we subsequently reduced our net exposure through the end of the year finishing at 2%.

Relative Return Analysis

	Q4			2012		
	Alpha II	S&P500	R2000	Alpha II	S&P500	R2000
Statistical Analysis						
Gross Total Return (US$)	10.9%	(0.4%)	1.9%	25.7%	16.0%	16.3%
Average Daily Return (Annualized)	56.9%	(3.3%)	7.0%	28.6%	14.4%	16.4%
Annualized Deviation of Daily Returns	8.5%	12.6%	14.4%	8.7%	12.8%	17.1%
Sharpe Ratio	6.4	(0.4)	0.3	3.1	1.0	0.8
Correlation		37.3%	40.5%		51.0%	52.2%
Up Market Analysis						
Number of Up Days	44	34	31	145	132	121
Largest Daily Gain	2.7%	2.0%	2.2%	2.7%	2.5%	2.9%
Fund % Up Capture		68.2%	41.9%		51.7%	31.3%
Down Market Analysis						
Number of Down Days	18	28	31	105	118	129
Largest Daily Loss	(1.0%)	(2.4%)	(2.6%)	(1.6%)	(2.5%)	(3.2%)
Largest Draw Down from Peak	(2.3%)	(7.4%)	(8.9%)	(6.5%)	(9.9%)	(12.9%)
Fund % Down Capture		5.4%	(9.4%)		24.8%	10.6%

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Portfolio Positioning

Market and Beta Exposure	Sep-30	Q4 Avg.	Dec-31	2012 Avg.
Gross Long	62.5%	66.3%	67.0%	64.0%
Gross Short	(74.8%)	(63.6%)	(65.1%)	(63.6%)
Net	(12.3%)	2.7%	2.0%	0.5%
Total Gross	137.3%	129.8%	132.1%	127.6%
Net Raw Beta	0.07	0.21	0.21	0.29

The average net exposure of the fund in Q4 was 2.7% with an average net beta of 0.21. Equity markets, which had rallied strongly in Q3, pulled back sharply as the market moved from excitement regarding QE3 to fears around pending tax increases and spending cuts out of Washington. The fund entered the quarter with a conservative posture increasing exposure only after the market had experienced a large 7%+ pullback from mid-October to mid-November. The fund increased exposure intra-quarter by increasing its gross long exposure through increased Alpha Longs and while reducing its gross short exposure via a reduction in our Hedges. Following the rally in late November and December, the fund reduced its exposure again via the reduction in Alpha Longs and additions of Alpha Shorts and Hedges, finishing the quarter with a net exposure of 2.0% and a net beta of 0.21.

Strategy Breakdown	Sep-30	Q4 Avg.	Dec-31	2012 Avg.
Pair Trades	19.8%	19.0%	15.9%	11.5%
Alpha Long	52.1%	55.5%	57.2%	57.5%
Alpha Short	13.7%	17.0%	21.1%	14.3%
Hedges	51.7%	38.3%	37.9%	44.3%

The Alpha Long book averaged 55.5% in the quarter. Intra-quarter, the biggest movements in the Alpha Long book occurred in the Energy and Information Technology Sectors. The Alpha Long book finished the quarter at 57.2% of gross exposure.

Alpha Short exposure averaged 17% in Q4, increasing steadily throughout the quarter from 13.7% to 21.1% on December 31st as several new short ideas were added to the portfolio in Q4.

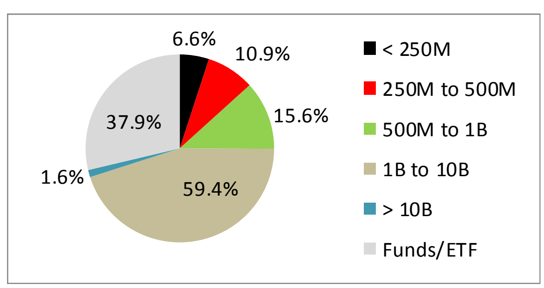
The Hedge Book averaged 38.3% of gross exposure in Q4, down from an average of 57% in Q3. We reduced our Hedges substantially following the large market decline in October and November. We subsequently increased the level of Hedges into year-end as the market rebounded strongly, finishing the quarter at 37.9%

The Pair Trading book averaged 19% of gross exposure, up from an average gross exposure of 13.4%. During the quarter, we added two new Pair Trades to the portfolio. We finished the quarter at 15.9% of gross exposure as a profitable Pair Trade was closed out towards the middle of December.

Positions (Period End) and Returns by Market Cap

	# of Longs	# of Shorts	Total	Q4	2012
< 250M	6	1	7	1.6%	3.6%
250 to 500M	5	0	5	0.1%	2.6%
500M to 1B	10	3	13	1.2%	5.2%
1B to 10B	21	19	40	6.3%	11.7%
> 10B	0	1	1	1.3%	7.3%
Funds/ETF	0	7	7	0.7%	(4.7%)
Total	**42**	**31**	**73**	**11.3%**	**25.7%**

Market Cap Breakdown (Period End)



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	Strategy Attribution				
	Q1	Q2	Q3	Q4	2012
Pair Trades	0.7%	(0.5%)	(1.9%)	2.3%	0.4%
Alpha Long	20.0%	(8.7%)	8.7%	8.2%	28.9%
Alpha Short	(0.8%)	2.5%	(0.2%)	0.1%	1.6%
Hedges	(3.7%)	1.9%	(3.6%)	0.7%	(4.7%)

Portfolio Attribution

Our return stream was again broadly distributed with 42 names contributing 10bps or more to overall fund performance. We were very pleased that all 4 or our strategies (Alpha Longs, Alpha Shorts, Pair Trades and Hedges) contributed positive return in the quarter. The Alpha Long book contributed 8.2% in the quarter on gross exposure of 55.5%. Alpha Shorts contributed .1% on gross exposure of 17%. Pair Trades added 2.3% on gross exposure of 19% while our Hedges added 0.7% on gross exposure of 38.3%.

Net Exposure

	Sep-30	Q4 Avg.	Dec-31
Energy	1.5%	3.3%	5.1%
Cons. Discr.	(8.7%)	(2.1%)	(2.1%)
Financials	3.0%	1.4%	(0.6%)
Industrials	(0.6%)	(3.2%)	(5.4%)
IT	(3.2%)	3.3%	6.3%
Cons. Staples	(0.3%)	0.4%	(2.4%)
Health Care	(0.4%)	0.8%	1.8%
Materials	(2.7%)	(0.9%)	(0.3%)
Other	(3.5%)	(1.3%)	(0.7%)

Attribution

	October	November	December	Q4	2012
Energy	(0.7%)	0.6%	3.1%	3.0%	7.7%
Cons. Discr.	1.5%	0.6%	0.9%	3.1%	6.5%
Financials	0.8%	(0.1%)	1.6%	2.3%	6.5%
Industrials	(0.1%)	(0.0%)	1.0%	0.8%	2.9%
IT	(0.2%)	0.1%	0.3%	0.1%	1.3%
Cons. Staples	0.1%	1.3%	(0.2%)	1.2%	1.3%
Health Care	(0.2%)	0.7%	0.4%	0.8%	1.0%
Materials	0.0%	(0.3%)	0.4%	0.1%	(1.1%)
Other	0.0%	(0.0%)	(0.0%)	0.0%	(0.2%)

The major contributors to 4th quarter performance were the Consumer Discretionary Sector, which added 3.1% to gross return, the Energy Sector, which added 3.0% to gross returns, the Financial Sector, which added 2.3% and the Consumer Staples Sector, which added 1.2%. No single sector lost money for the fund in the 4th quarter.

Consumer Discretionary

The Consumer Discretionary Sector was our top performing sector in Q4 with a total return of 3.1% and a total return for 2012 of 6.5%. Our net exposure averaged -2.1% for Q4, but varied throughout the quarter from -8.7% to 3.6%. We increased our view of Consumer Discretionary to neutral from negative after increased clarity around the fiscal cliff and improved consumer balance sheets, but we remain cautious regarding increased valuations following the very strong run the group enjoyed. Our top performer was Carmike Cinema (218bps) and our worst performer was Valuevision (-66bps). Valuevision's stock suffered due to exposure to Hurricane Sandy, but has recovered strongly thus far in 2013.

Energy

The Energy Sector was our 2nd best performing sector in Q4 with a total return of 3.0% and a total return for 2012 of 7.7%. Our net exposure varied between –0.6% and 6.8% in the quarter, finishing the year at 5.1%. Our exposure increased slightly during the quarter as we increased some of our Alpha Longs in the sector post meeting with management teams in October and December. Early in Q1 2013, we sit in a more neutral posture as the group has continued to trade higher and we see limited upside to oil prices. Our biggest contributor to the group in Q4 was Plains Exploration, which benefited from a takeover offer by Freeport McMoran in December and added 180bps to total return. Our worst performer was Endeavour International, which detracted 53bps, but added 89bps overall in 2012.

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Financials

The Financial Sector was our 3rd best performing sector in Q4, adding 2.3% to total return while the sector added 6.5% to the return for 2012. Our net exposure has remained relatively consistent throughout the quarter with an average net exposure of 1.4%. The Financial Sector performed reasonably well in Q4, continuing its upward trend as valuations continue to drift higher following central bank actions and an improving economic outlook. We continue to maintain a neutral posture as the group has appreciated significantly in 2012, although valuations remain cheap relative to any pre-2008 timeframe. Our top performer was Citigroup (81bps). There were no losses above 10bps in the Financial Sector for Q4.

Consumer Staples

The Consumer Staples sector was our 4th best performing sector in Q4 adding 1.2% to total return. Our net exposure in the quarter ranged from –2.5% to 3.4%, finishing the quarter at -2.4%. While we had a very neutral view towards this sector in Q4, strong stock picking punctuated by a contribution of 127bps from Green Mountain Coffee Roasters allowed us to produce positive alpha from this sector. Our worst performing name in the quarter was SunOpta which detracted 11bps from total return.

2013 Outlook

Our outlook for 2013 is a balanced view between the improving fundamental drivers of the U.S. Economy: a housing rebound, increasing energy independence, low interest rates and improving consumer balance sheets. These positives are offset by the large and increasing debt levels in Washington and Europe as well as politicians' inability and willingness to address the long term structural issues that are facing the Western Economies. A potential change of guard at the Fed in 2014 and the eventual removal of liquidity from the system is also on our radar screen.

Given the strong move higher in the stock markets in late December and early January, we currently prefer to maintain a neutral investment posture through low net exposure and net beta levels. We will add value via stock picking and only add market exposure if we see the overall risk/reward ratio to be attractive.

To all our investors, we would like to thank you for the trust and confidence you have placed in us.

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Notes & Disclaimers

- Performance figures reported represent the US$ performance of the Formula Growth Alpha II Fund L.P. (the "Fund") and are based on an investment in the Fund made on May 1, 2011, the date of the Fund's inception. Gross performance figures are presented after reduction for any investment and fund accounting related expenses, net interest, other expenses and the reinvestment of dividends, and include any gains or losses from "new issue" securities. Per the Fund's High Water Mark provisions, net performance figures take into account a 1% Management Fee and a 20% incentive allocation. Performance results for particular investors may vary from the performance stated herein as a result of, among other things, the timing of their investment(s) in the Fund, different management and incentive allocation terms and the respective investor's eligibility to participate in "new issue" securities.
- Performance attribution figures reflect summations of the respective profits and losses divided by the average of the beginning and end of month total gross Fund assets, and are not inclusive of expenses, management and incentive fees/allocations. Other income/expense items such as stock lending fees, interest income/expense, dividend income/expense, administrative fees and other portfolio related fees may or may not be included. Performance attributions should be considered approximations and are calculated to the best of our knowledge.
- Beta is calculated by Formula Growth Ltd. using the Bloomberg system and is the trailing 6 months daily returns versus the S&P 500 unadjusted (raw).
- Exposure represents the market value of all equity securities and single-equity-backed instruments (i.e. derivatives) as of the date of this statement. Exposure numbers exclude currency hedges.
- Sector and industry classifications are determined by Formula Growth Ltd. using available sources such as Bloomberg. Exposures based on these figures should be considered as approximations and are calculated to the best of our knowledge.
- Market Capitalization represents the relative market capitalization of long and short positions on a U.S. dollar adjusted basis using available sources such as Bloomberg. Exposures based on these figures should be considered as approximations and are calculated to the best of our knowledge.
- All performance figures contained herein are unaudited estimates and subject to change. Certain information contained herein may have been provided by third party sources, and, although believed to be reliable, has not been independently verified and cannot be guaranteed.
- Formula Growth Ltd. serves as the investment manager for the Fund. Investors should consult the Offering Memorandum (the "Memoranda"), which is available upon request, for more information on the investment strategy, complete disclosures and the terms and conditions relating to an investment in each Fund.
- Any investment in the Fund is speculative and involves substantial risk, including the risk of losing all or substantially all of such investment. No representation is made that the Fund will or is likely to achieve their objectives, that any investor will or is likely to achieve results comparable to the estimated performance shown, will make any profit at all or will be able to avoid incurring substantial losses. Past performance is not necessarily indicative of future results.
- Performance estimates are presented only as of the date referenced above and may have changed materially since such date.
- The Fund has monthly liquidity provisions for redemptions and subscriptions. There is no secondary market for the interests in the Fund and none is expected to develop. There are restrictions on transferring interests in the Fund. Formula Growth Ltd. has total trading authority of assets within the Fund.
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